A SURVEY OF RELATIONSHIP BETWEEN STRATEGIC HUMAN RESOURCE MANAGEMENT PRACTICES AND PERFORMANCE OF FIRMS QUOTED IN THE NAIROBI STOCK EXCHANGE

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Table of Contents

DECLARATION

This project is my original work and has not been submitted for a degree in nay other university.

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The project has been submitted for examination with my approval as the university supervisor

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Finally I want thank my supervisor Mr G Omondi for his intellectual support so necessary to carry out a research.

DEDICATION

To my best friend and my guardian Fr Thomas McDonald.

ABSTRACT

Our understanding of how progressive human resource management impacts on performance of a firm is still limited. Existing researches on the area is still limited by their emphasis on measuring performance using financial indicators only at the expense of a broader range of outcome variables.

The study contributes to the debate and investigates two issues regarding strategic human resource management among firms quoted in the Nairobi Stock Exchange. One is the alignment between corporate strategy and human resource strategies. Second is the relationship between human resources practices and firm performance.

Cross-section survey is used and information was gathered using closed ended questionnaire from the respondents who were the chief executive officers and heads of human resource departments. Strategic stance is measured using Miles and Snow typology and evaluated the extent to which the firm is a prospector, defender, analyzer and reactor. Firm's performance was measured using both financial and non-financial variables while human resource practices are measured using natural bundles such as recruitment and selection, employee relations, performance management, salary and benefits and training and development.

Several limitations such as use of few informants and method of self report were encountered and recommendations were made on how to overcome such limitations in future studies.

Spearman's correlation co-efficient was used to establish the relationship human resource management practices and firms performance.

The findings suggest that human resource management function in most firms quoted at the Nairobi Stock Exchange is not fully developed.

Human resource management practices are significantly related with performance. The study results provide support for the suggestion that investment in human resource management practices can subsequently help a firm perform better.

Several recommendations are made which requires management attention to make the important function human resource management to increase its contribution to the firm bottom line.

CHAPTER ONE

INTRODUCTION

1.1 Background

Strategic human resource management has been defined as aligning of human resource function of a firm with its overall strategic goals and objectives. It also means accepting human resource management function as a strategic partner in the formulation of the company's strategies as well as in the implementation of these strategies (Hendry, 1990).

There have been profound changes concerning the role human resource function in an organization as a result of realization that culture; people and processes rather than capital or technology can form the base of sustained competitive advantage within a firm (Miner, 1991). As a result it is important that a firm adopts human resource practices that make best use of its employees. Human resource function in firms has evolved from personnel management to human resource management and strategic human management (Lengnick-Hall, 1988).

Before the human resource management function in many organizations was associated primarily with offering administration linkage in areas such as negotiating in collecting bargaining agreement and administrators of policies and procedures. While historically human resource function may have had less importance role in many organizations, there have been significant improvements in recent years (Armstrong, 1992).

With the above realization comes a profound different way of looking at the role of human resource function. For the human resource function the exhortation is clear: to balance the administration and strategic role. To assume the central role means human resource department should act as business partnership and actively engage in understanding and developing this source of sustained competitive advantage (Ulrich, 1996).

According to Storey (1992), firms can gain competitive advantage in many ways and one way often overlooked is through human resource practices. He says competing using human resource practices is the most potent weapon it is often difficult for a competitor to quickly copy and he recommends that those firms in highly competitive environment to use strategic human resource practices. Other scholars are urging managers to adopt strategic human resource or progressive management to improve performance (Miner, 1995).

1.1.2 Role Strategic Human Resource Management

Strategic human resource management is the process of linking the human resource function with the strategic objective of the organization in order to improve performance. An organization human resource policies and practices must fit its environment and with its immediate business condition which it faces. The strategic role of human resource management emphasizes that employees in the organization are valuable resource representing a significant investment of organization efforts. They can be a source of competitive strength if they are managed effectively (Bauman, 1997).

Also Ulrich (1996) encourages organizations operating in a competitive environment to embrace strategic human resource management in order not only to survive but also to prosper.

There is a realization that linking human resource management to the business strategy makes firms more competitive, profitable, able to survive and grow and more adaptive to rapidly changing and unpredictable condition (Schuler, 1992).

Recent theoretical work on the resource-based view of the firm (Storey, 1992) supports the notion that human resource management may be a source of competitive advantages. He argues that resource leads to sustained competitive advantage when they are valuable, rare, inimatitable, and non-substitutable. While technology, natural resource and economies of scale can create value, resource based theory argue that these sources of value are increasingly available to almost anyone anywhere and they are easy to copy, especially when compared to human resource systems (Ulrich, 1996). As noted by Pfeffer (1994), since human performance is normally distributed, human resource meets the first two of the Storey (1991) criteria of being valuable and rare. Human resource management systems when successfully developed and engaged, they are likely to enhance the value and rareness of company's human assets (Arthur, 1994). Human resource strategies are difficult to imitate because of the path dependency and causal ambiguity (Barney, 1991) thus meeting Barney's third condition. Human resource management systems are path dependent since they consist of policies that have evolved over time. However, because such systems are unlikely to work the same way if they are removed from he context where they are operating, a competitor cannot simply buy human resource management systems in a market. Because human resource management systems are “invisible assets”, it is difficult to develop this needed understanding. Finally, it is difficult to think of a substitute for a well-developed human resource management system, thus human resource management systems also meet Storey (1991) fourth and final requirement for a resource to be a source of competitive advantage.

Though many scholars have championed the evolving strategic role of human resource, a recent survey of manufacturing firms in South Africa shows that 63%of the respondents said that human resource function is never a major part of corporate strategy. The remaining 37% said that human resource department is only involved in implementing the corporate strategy (Huselid, 1996). It is not known whether human resource function in firms operating in Kenya have strategic role and a research is required find out this. One of the reasons why human resource management departments in many firms do not play strategic role is that the functions is treated as cost centers. Human resource managers need shift their focus from thinking of human resource as a cost to minimized and embrace the idea that investment in human capital can be a significant source of value creation for shareholders (Miner, 1995, Ulrich, 1996). The truth of above assertion required to be verified empirically to gain support from top management.

1.1.1 Strategic Human Resource Management and Firm Performance

Scholars have suggested that a good fit between human resource strategies and corporate strategy of the firm lends to superior outcomes. Some researches have provided support, albeit limited, for a positive human resource -strategy alignment effect (Huselid, 1996, Storey, 1992, Guest, 1989)

The relatively weak support for the effect of the human resource-corporate alignment outcomes should not come as a surprise as it is difficult to specify what constitutes good alignment (Barney, 1995). The whole idea of fit with a certain strategy seems inappropriate for a world in which there are high levels of dynamic and unpredictable change.

In many organizations contribution by human resource function is viewed as intangible and not documented in economic terms. Due to this heads of the department face an uphill battle in their struggle for greater budget and influence in the organization. Senior executives though they claim that human resource are most valued resource during economic downswing, they are quick to cut the budget of the department whose primary responsibility is to maintain the quality of that most valuable resource (Barney, 1995).

Research on strategic human resource practices shows that there are differences between what organizations claim to and what they exactly practice. The reasons, which contribute mostly to the discrepancies, are that managers lack adequate information about the organization, lack of resource and emergent strategies (Schuler, 1992).

Firm's performance is influenced by both internal and external factors. Internal factor are management style, relations with key stakeholders market share, quality of product and services, financial and technological capabilities. External factors are state of economy, availability of resource and political conditions. Unlike external factors management is able to control the internal environment. It important for the firm to measure how well they are achieving their objectives and how different functions in a firm are contributing to the achievement of the objectives (Porter, 1985). This study is going to be carried among companies from different industries.

1.1.3 Firms registered at Nairobi Stock Exchange

The Nairobi Stock Exchange was registered in 1954 under the Societies Act and later in 1991 under Companies Act with the objective of dealing with shares, stock broking and other capital forms through a formal market with rules and regulations to govern stock broking activities of its members. There are forty- eight firms that are listed in the Nairobi stock exchange. The prominent reason for listing is to access cheap financing. Shareholders investing in these firms mainly consider profitability and growth potential of the firms. The firms are managed on the behalf of the shareholders. The separation of ownership and control raises worries that the management team may pursue objectives attractive to them but which are not necessary beneficial to the shareholders hence the need to monitor managers behavior. Shareholders usually do this through participating in decision making because they have a right to decide how the business is run. Managers in these firms have a challenge of maintaining high level of professionalism Therefore companies listed on the Nairobi stock exchange are appropriate for this study. Most firms operating in Kenya are experiencing an era of change due to structural adjustment and privatization. They are also experiencing intense competition as result of liberalization and firms at Nairobi stock exchange are not exceptional (Waweru, 1984)

It is evident that these firms have a superior management style management compared to other firms, which are not listed. From 1995 these firms these firms are performing below par hence discouraging both local people and foreigners from investing in them. This is attributed to lack qualified and motivated personnel (Mbui, 2000). The above problems can be solved through embracing strategic human resource management, which can provide performance advantage by marshalling resource that support the business strategy, and implementing the chosen strategy efficiently and effectively, utilizing the full potential of human resource to the firm's advantage and leveraging other resource such as physical assets and capital to complement and argument the human resource based advantage.

1.2 STATEMENT OF THE PROBLEM

It is now commonly accepted that adaptation of strategic human resource management influences firm's performance. This is because it helps in translating corporate strategy into human resource strategies. A firm which adopts strategic human resource management has three advantages such as, adapts to change quickly, can meet customer demand better because its customer strategies have been translated into human resource practices and achieves high financial performance through its more effective execution of strategy (Guest, 1989)

Empirical research shows that the greater the degree of competition faced by a firm the greater the propensity for the firm to engage in strategic human resource management (Huselid, 1996). Studies show that firms, which adapt strategic human resource management, have superior financial performance (MacDuffie, 1995, Kearney, 1994 Barney, 1995, Huselid, 1996).

Ulrich (1996) criticizes the view that individual human resource practices have a limited ability to realize its full competitive advantage and the measures or practices used may be inappropriate in some contexts and they are based on commercial American firms, which may be different in their operations from companies in other continents. These findings cannot therefore be generalized (Pfefer, 1994).
Also the above studies measured performance using financial indicators only. According to Kaplan and Norton (1992), adopting financial measures as a sole criterion for success is too limited. This study will adopt a stakeholder perspective, which reflects the concern to have multiple measures of performance outcome. In additional to financial measures, the study uses other indicators such as quality of service, customers goodwill, quality of employee, product innovation and firms public image.

To fill the above-identified research gap, this study focuses on the firms quoted in the Nairobi Stock Exchange to determine if in a confused and depressed economy firms can benefit as result of adapting strategic human resource management. The choice of these firms is due to their large size, market prominence and their long-term survival. Also firms quoted in the Nairobi Stock Exchange are high performing hence the need for the study. There is no study conducted in the area to show the extent of use of strategic human resource management and impact on organization performance.

Studies in Kenya on strategic human resource management shows that in spite of significant advances in human resource management in the last two decades, the human resource policies and practices of many Kenyan organizations are unsophisticated and inadequate (Waweru, 1984).

The above study was carried out when Kenyan economy was not liberalized. It has not been clear whether the organizations have upgraded human resource practices and how the status of their human resource practices are influenced by firm's strategies. Still it not clear how this has affected competitive advantage in the firms thus resulting to firms performance.

The study will analyze the degree to which companies pursue the alignment of corporate strategy and human resource practices (bundles) instead of examining the statistical relationship between human resource management practices as typically done in previous research.

The choice of firms in Kenya will enable investigation of whether the some positive performance effects of human resource management practices observed in other countries like Britain and America also hold for firms located in Kenya. The researcher shall seek to answer the following questions: -

1. Is there any alignment between corporate strategies and human resource strategies of firms quoted in the Nairobi Stock Exchange?
2. What relationship exists between human resource practices and corporate performance

1.3 OBJECTIVES OF THE STUDY

The objectives of study will be;

1. To establish the alignment between corporate strategies and human resource strategies of firms quoted in the Nairobi Stock Exchange.
2. To find out the relationship between human resource practices and corporate performance among the firms quoted in the Nairobi Stock Exchange.

1.4 SIGNIFICANCE OF THE STUDY

1. The study will be of value to the human resource managers as they will be able to assess and evaluate the human resource management according to the value it adds to the organization and using any the organization with the best strategic human resource management as a benchmark know what human resource management practices to adopt to ensure superior performance in their firms.
2. The study will act as guide to the top management on how they can add value in managing human resource
3. The study will fill the research gap for it will establish the extent of strategic human resource management practice in Kenya and its value to the firms, which have adopted them.
4. The study will add to the body of knowledge in human resource management and may stimulate further study in the area.

CHAPTER TWO
LITERATURE REVIEW.

2.1 INTRODUCTION

This chapter contains literature review and covers corporate strategy, human resource management, strategic human resource management, types of human resource management linkages, human resource strategies, contributions of strategic human resource management to firm performance, and performance of firms quoted at the Nairobi Stock Exchange,

2.2 Corporate Strategy

There are five terms frequently used in relations to strategy (Storey, 1992). These are goals, policies, strategy, strategic decisions, and programs. Goals are broad sets of values that express the underlying purpose of the organization. Policies are rules or guidelines, which express the limit within which action should occur. The strategy is the pattern that integrates an organization's major goals, policies and action into a coherent whole. According to Tyson (1995) what raises strategy above special programs and departmental plans is the way it takes into account internal competencies and shortcomings in the organization, present and anticipated changes in the external environment, expected move by competitors and frame a unique and variable posture in the light of these.

Strategic decisions determine the overall direction of an enterprise. The notion of strategic decision emphasizes the process, which go into making a strategy (Porter, 1985).

Pfeffer (1994) defines programs as the step-by-step sequence of actions necessary to achieve major objectives. These are programs undertaken with commercial objective in view.

Miles and Snow (1984) says that firms can be classified according to the strategies they are pursuing. He comes up with four classifications of defenders, prospectors, analyzers, and reactors.

According to Ulrich (1996), defenders operate in a narrow product –market domain and protect it aggressively. They achieve this with high degree of efficiency.

A defender strategy calls for centralized decision making with emphasizes on formalization and standardization of jobs and tasks. The basic strategy of a defender firm is to build human resource (Miles and Snow, 1984).

This means that defender firm typically engages in little recruiting above entry level but has extensive development programs. Moreover, the tasks are standardized, narrow and routine to achieve efficiency .As a participation of employees in decision-making is not encouraged. Defenders operate in a stable industry and protect the niche they occupy. Consequently, they do not need any elaborate human resource planning exercises. Compensation is position based and performance appraisal is process based. The role of human resource function may be maintenance of personnel file (Lengnick-Hall, 1988).

Prospectors are the opposite of defenders. They continuously search for new markets and create new goods and services and they regularly experiment with potential responses to emerging environmental trends (Ulrich, 1996). A prospector's domain is thus broad and unstable. It is in a continuous state of development. A good degree of flexibility needs to be incorporated into the technological systems to ensure a good fit with the changing domain (Zehra, 1990) Thus a prospector needs a decentralized market based design with low specialization and a lot of participation from the employees. A prospector's strategy requires much support from human resource department to be able to meet the ever-changing needs of talents/professionals. The human resource department needs to be proactive and involved in all major strategic decision making process. Prospectors seek to buy in talents. They engage in a strategy, which involve sophisticated recruitment and selection but offer limited training. Compensation practices for prospectors tend to be outcome based (Hall and Goodale, 1994) Analyzers are a hybrid of defenders and prospectors. It means they operate in a stable as well as changing markets. Their human resource practices are likely to be hybrid of defenders and prospectors. There is one unique feature of an analyst is that they need to be large enough to be able to maintain the duality in their structure and their broad domain. Reactors lack a consistent strategy. They are organizations in which top managers frequently perceive change and uncertainty occurring in their environment but are unable to respond effectively As a result of this their human resource practices are likely to lack consistency too (Hall, 1991)

2.1. Human Resource Management

Human resource management is defined as the process of accomplishing, organizational objectives by acquiring, retaining developing and properly using the human resource in an organization (Dessler, 1997). This function according to Hendry (1990) is critical to the success of any firm and should operate at three levels such as operational, managerial and strategic level.

According to Armstrong (1991), human resource management co-notates a style of approach whose touchstone is the careful nurturing of and investment in the human stock. Miner (1995) says that human resource emphasizes the calculative business-like treatment of labor within the account upon it as a resource like any other to be deployed and disposed of in an economic rational manner.

All above versions share the presumption that decisions about human resource deserve strategic attention because they start from the premise that the way human resource are managed will be of critical to the success of the business plan.

Traditionally this function was called personnel management and had relatively limited involvement in the organizations' affairs and goals. Consequently, the personnel managers were concerned with short term operational and day to day human resource needs (Armstrong, 1991).

With the growing importance of human resource management to the success of the firms, this department is playing many more roles. One of this is increased involvement in long term, strategic direction of the organization (Miner, 1995).

Evolution of Human Resource Management

Stage	Person Responsible	Primary Goals	Line Managers' Involvement	Line Managers' Reaction
I. Initiation	clerk or human administrator	To provide support for hiring paying employees and maintaining	Minimal	Indifference except when crises arise
II. Functional Growth	Human resource specialists	To develop and implement programs in recruitment, selection, training, compensation, career development etc	Minimal	Confusion about the purpose of the programs and resistance to their implementation
III. Controlled Growth	Human resource specialists	To develop and implement specialized programs within budget constraints To justify expenditures for each program	Minimal: they may provide evaluations of program effectiveness	Confusion about the purpose of the programs and frustration with their sophistication
IV. Functional integration	Human resource professionals headed by a generalist	To design and implement programs that solve organizational problems	They provide input to program design and assist in implementation	Active support
V. Full Partnership	Human resource professional headed by a are integrated	To design and implement programs that generalist with Organizational goals	They consult with human resource professionals to are integrated strategies	Incorporation of human resource activities into their jobs set goals and

SOURCE: Adapted from L. Baird and I. Meshoulam," The HRS Matrix: Managing the Human Resource Function Strategically," Human Resource Planning. 1984, 7 (1), pp, 1-2

Traditionally the results translated into human resource activities. Activities represented what people and organization do. For example the president of a bank would honor the banks department for bringing more employees on board during the previous years. In each of these cases, the results have been defined in terms of the activities. This approach is seductive because an assessment of the effectiveness, however they are incomplete knowing what human resource managers do is not enough (Pfeffer, 1994).

For human resource management to become a profession, it must develop deliverable forces that complement, not replaces the traditional activity measures (Purell, 1994). Results alone are insufficient measure of effectiveness because the method by which those results have been achieved also makes human resource professional therefore we must consider their activities as well as their results. The problem with the traditional approach has been that it is too exclusive focus on activities and consequent reflect of results (Ulrich, 1996).

Typologies of what constitutes the work that have emerged in human resource literature over the last few decades illustrate the effect of these imbalances. In the early 1990's theories about the work clustered the efforts into four categories: staffing, development, appraisal and reward management (Zehra, 1990). This framework has extended in the late 1980's and early 1990's later included organization design and communication (Armstrong, 1991). These categories, while increasing encompassing and elegant, continue to focus on activities more than on outcomes. One parameter has been introduced to redistribute attention and accountability of human resource professional to results: firm performance.

As a results of global competition, change in technology, it has been realized that the way are managed holds potential to bring competitive advantage to firms (Hall and Goodale,1998). There is a realization that in the final analysis the human resource capability and commitment which distinguishes successful organization from the rest.

It follows from above premise that decisions in respect to human resource should be made as though it was unfortunate cost to be minimized but as valued assets. The second key feature in the paradigm shift is that making of such decision in consequence is an organization matter of strategic importance. People management decisions are treated not as incidental operation matters but issue of crucial top management importance and ought to be derived explicitly from the corporate plan. Human resource is therefore seen to have long-term implications and to be integral to the core performance of the business (Pfeffer,1994).

2.2 Strategic Human Resource Management

The framework of strategic human resource management provides guidance into both descriptive and prescriptive line of questioning. The literatures in strategic long argued that the fit between business strategies and organizational characteristics is a key determinant of organization performance (Legge, 1985), while there has been problems in defining exactly what constitutes fit (Miner, 1995), the general proposition that fit is important has some empirical support and has motivated the emergence of what has become known as strategic human resource management. Tyson (1995) holds that strategic human resource management involves use of planning and seeing people of the organization as a strategic resource for achievement of competitive advantage. Strategic human resource management holds that the sets of policies and practices used to manage a firm's labor force should be considered in the context of organizational strategies. Further strategic human resource manager argues that a key criterion for evaluating the effectiveness of human resource practices should be the exact to which those practices help the organization meet its goal or the value it creates (Hendry, 1990).

Some commentators argue that human resource management is facing a crisis of identity and that a new agenda is called for (Ulrich, 1996). He argues that the new role for human resource management has four elements such as the function should work in partnership with the managers in execution of strategy, it should deliver expertise in work organization to reduce costs and improve quality, be "a champion for employees "concern is management and working to increase employee contribution and an agent of continuous transformation developing the organizational capability for change.

In order to establish the role of human resource management in any firm Storey (1992) developed a classification of human resource management role based on two considerations; does the function perform a strategic or a tactic role is the function consultative or interventionist. (Figure 2 below)

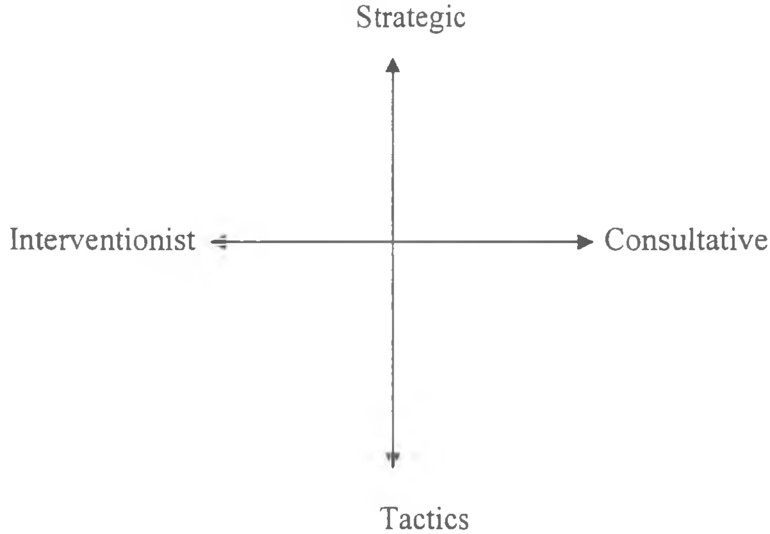


Figure 2. Source: Storey1992 Development in the human resource management.

The first pioneer welfare workers were handmaidens. Personnel management until after Second World War had a regulatory role. The inspiration of human resource manager combines strategic advisory and change management role. In this respect human resource management has indeed acquired a new emphasis and development (Barney, 1995).

The above approach has been criticized because it assumes all organizations are either engaged in a full-blown strategic human resource management or none at all (Hendrey, 1990). He suggests that in order to understand the practices, it is important to view them in terms of levels. According to him there are four levels or typologies such as administrative, one-way, two ways and integrative. All these levels depend on factors such as competition, culture, size of the firm and firm's resource (Zehra, 1990) (see figure 2 above)

Strategic approach to human resource management aims to provide a sense of direction in an often turbulent environment so that organizational and business needs can be translated into a coherent and practical policies and programs. As described by Miner (1995), the aim of strategic human resource management is to indicate the intentions and plans for utilizing human resource to achieve business objectives.

2.3 Types Of Human Resource Linkages

According to Storey (1992), there are four types of human resource linkages such as administrative linkage, one-way linkage, two-way linkage and integrated. Administration linkage refers to a situation in a firm where human resource concerns are unimportant and human resource department provides only day to-day operation support. It only develops certain programs as needed and handling the paper work and logistic aspects of the employment function. One-way Linkage is where human resource function reacts to the existing strategy and designs programs as needed to support strategies. In two-way Linkage all the three forms of strategies are present; planning, implementation and control. The only thing, which is lacking is representation when crafting the strategy or in top-level management. Integrated stage is when all levels are present. This is the full-blown strategic human resource management.

ARCHETYPES	Administrative Type	ONE WAY LINKAGE	TWO WAY LINKAGE	INTEGRATIVE
Motivation for linkage	None	Implementation failure	Senior management support	Philosophy/future growth consideration.
View of human resource	People as cost or, as in significant to business	People as flexible valuable	People as a key success factor for the business	People as key success factor and business investment in future growth
View of the human resource function	Necessary but a burden	Resource for assurance in plan implementation	Essential to business	Critical to organization.
Primary role of the human resource executive	Functional administrator	Operational – Practical human expect	Strategic partner	Integral senior management member on a formal and informal basis.
Primary role of the human resource function	Efficient Program administration	Development of human resource systems to implement business measures	Development & implementation of human resource strategy in consent with business planning.	Human resource expert with input in most business matters.
Performance criteria for human resource function	Cost minimization effective fire fighting	Effective strategy implementation,financial impact in business	Quality of human resource input into strategy formulation and implementation.	Long-term impact on organization.

SOURCE: Storey1992, Development in the management of human resource

Although this approach has been criticized of being ideal type, it is useful especially when carrying out a survey (Huselid, 1996). Bauman (1997) used the same approach to measure of human resource strategy in his studies. The above approach is also supported by Ulrich (1990) because it makes it possible to reach an account of "what is going on". He says that the main dominant approach to conceptualizing strategic human resource management is through pursuing the classificatory path-this is to define it by contrasting its feature.

2.4 Human Resource Strategies

According to (Ulrich, 1996) if capabilities represent result from human resource work, human resource professional must clarify which capabilities that matter most. Human resource professional acting as strategic partner plays a major role in creating strategic unity or integrity. As strategic partners they design human resource practices that can and should be used both create and implement strategic clarity (Miner, 1995). For employee should be hired who embodies the values and purposes of the firm. Recruitment systems should be focused on improving the quality of the individuals hired through sophisticated selection procedures designed to screen out all but the very best potential employees. Indeed, research indicates that selectivity in staffing is related to firm performance (Dessler, 1994).

Second the organization can improve the quality of current employees by providing comprehensive training and development activities after selection. Considerable evidence suggests that investment in training produces beneficent organizational outcomes (Purell, 1994). Other purposes of training are to increase level of commitment and perception of employees that the organization is a good place to work. Increased commitment can result to less turnover and absenteeism. Training for performance improvement is vital for a firm to adapt and be competitive (Miner, 1995).

Commenting on training Dessler (1994) emphasizes the importance of training need analysis .He says that without determining the need for training there is no guarantee that training will be provided for the right trainee. Another important step in the training program according to him is evaluation of training to determine whether it has achieved its purpose.

The effectiveness of skilled employees will be limited however if they are not motivated to perform their jobs. The firm and structure of an organization's human resource systems can affect restriction levels in several ways: First, organization can implement a merit pay or incentive compensation system that provides rewards to employees for meeting specific goals. A substantial body of evidence has focused on the impact of incentive compensation and performance management systems on firm performance (Dressler, 1994). In order to attract and retain the type employees the firm requires, it is necessary to offer flexible benefits. Flexible benefits imply that employees are allowed to choose and change their package at least once a year. Benefits should be reviewed regularly for the purpose of measuring their effectiveness (Armstrong, 1991). In addition, protecting employees from arbitrary treatment, though a formal grievance procedure may also motivate them to work harder because they can expect their efforts to be fairly rewarded (Maybey, 1998).

Finally the way in which a workplace is structured should affect organization performance to the degree that skilled and motivated employees are directly involved in determining what work is performed and how this work get accomplished. Employee participation systems and internal labor markets that provides an opportunity for employees to advance within a firm and team based production system are all focus of work organization that have been argued to positively affect firm performance. In addition, it has been argued that the provision of job security encourages employees to work harder (Miner, 1995).

According to Oreilley (1993) formal information sharing is important for the sake making employees maximize on their job performance. For example, the clearer an employee is about the basic goals and mission of the organization, the easier it is to direct her own job activities in that direction. Research carried on the importance of communication shows positive relationship effective communication and improvement of quality (Feather, 1981).

Hall (1994) supports the above view that information is critical as it affects attitude and motivation of employees. When employees are in good two- way communication with management, attitudes such as satisfaction are much more positive. When satisfaction is higher, several human resource benefits are realized such as absenteeism is lower, which means the costly excess staffing or temporary hiring is less necessary, turnover is lower, which means lower recruitment and training costs as well as lost work due to vacant positions. Quality and creativity are higher, as well as employees invest more in their work. Also satisfaction result in a sufficient cost savings to the organization.

Formal performance appraisal programs are one of the processes through which the organization assesses the quality of work of its employees and attempts to improve their performance. This process affects employees significantly. It affects their pride in their work and even their self-esteem, people who are committed to their work (Loche, 1984).

There are several advantages of taking performance appraisal with financial rewards. When pay is based on performance, it can be a good motivation force. This attracts entrepreneurial and achievement-oriented employees and since strong performers are paid more than marginal performers, and thus are motivated to remain, while marginal performers might be motivated to look for more employment where they can make more money. When pay is not limited to performance, weak performers tend to stay and strong performers leave. Individual tends to be more satisfied with pay if it is competitive. This improves employee quality of work life, and also aids retention. Paying for the performance is the most effective way to motivate employees. Successful development organization must be committed to the development of internal candidates. For jobs opening, the knowledge that the organization will replace from within motivates employees to develop themselves for promotion opportunities (Miner, 1995). Purell (1994) says that nothing demotivates an employee as strongly as being qualified but then passed in favor of external candidates

According to Guest (1989), in a competitive environment not all organizations succeed. Those firms that do need certain on going contribution from the human resource in the organization to remain successful such that a company's individual employees are less productive than a competitors, it will incur high costs and be unable to compete. An organization changes constantly dealing with these changes requires innovation in design of work, production, service and every other places of operation. Innovation does not come solely from research and development or management, intelligence and ideas are widely distributed among the people (the human resource) of the organization.

To be successful an organization need continually seek loyalty of employees. Without it the collective recovery is lost and the "wheel reinvented" without core of employees, however, loyalty is reciprocal. An organization cannot expect loyalty if it doesn't manifest the same to its employees.

According to Guest (1989) in order for best human resource practices to succeed there are five conditions as there must be top management backing the human resource values, shared management view that human resource are key component of corporate strategy-aligning human resource strategies with business strategy, appropriate policies must be effectively advocated and implemented by human resource management specialist who is clear about the strategy.

2.5 Contributions of Strategic Human Resource Management to Organization Performance

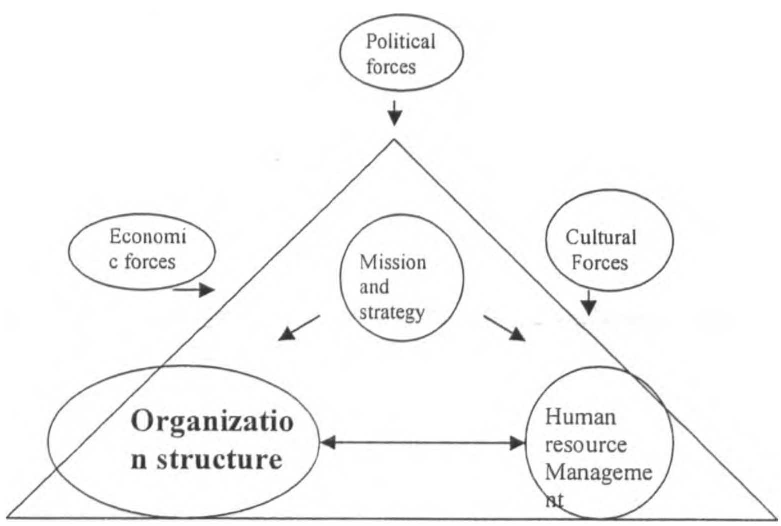
Firm's performance can be measured in many ways such as using financial indicators i.e. profit, sales volume, market share and non-financial indicators such as customers goodwill, quality service and public image. The most encompassing way is the balanced scorecard. The most important consideration when choosing a method to measure performance is objectively (Huselid, 1996).

A new emerging view from human resource literature has begun to reveal why and how human resource practices affects firm performance. In the strategy field, work traditionally falls into two parts, strategy formulation and strategy implementation. Strategy formulation focuses on positioning the firm in the market using competitive analysis strength, weakness, opportunity and threats (Barney, 1995). Strategy implementation focuses on management and organizational actions. Most recently, however, strategies theories have sought a middle ground between formulation and implementation. Theorists in strategic human resource management mention focuse on capabilities which are the missing link between strategy and actions, organizations, as distinct from the people who run them may be said to possess capabilities if those capabilities meet the following criteria such as offer integration, maintain continuity, remain stable over time, competitors cannot easily copy, create meaning for employees, delineate the organization identity in the minds of customers, employees and investors. Capability represents skills, abilities and expertise of the organization. They describe what organization can do and how they do it. They constitute collections of individual competence transformed into organization capabilities. Capabilities represent the organization's ability to use resource, to get things done and to reach goals (Schuler, 1992).

While human resource practitioners have to be concerned with implementing particular strategic plans, they should they should also be concerned with building capabilities

(Ulrich, 1996). He refers this as "competing from the inside out". Human resource practices integrate to form capabilities that help organization succeed. The successful organization are often imbued with and known for the capabilities they possess. Following this logic, capabilities become human resource results. Filling the middle ground between human resource investment and firm performance, capabilities become human resource results. For example rather than measure the number of people hired; human resource should assess the quality of those hired Also rather than measure the training activity human resource department should focus on the benefits of training (Locker, 1984).

Early interest in the matching model is evident in work of Pfeffer (1994). He emphasizes that human resource systems and organization structure should be managed in a way that is congruent with corporate strategy. Human resource management-strategy-structure follow and feed upon one another and are influenced by environmental forces. Similarly the notion of fit between external competitive strategies is central tenet of human resource model advanced by Barney (1995). Human resource management is therefore seen to be strategic by the virtue of its alignment with business strategy and its internal consistency (Pfeffer, 1994)



Source: Monks c, 2001.Designing and aligning human resource systems p55

Most existing research in human resource management considers the effects of human resource management practices on individuals and their performance; that is, it has taken a "micro" perspective on effectiveness. Schuler (1992) observes that strategic human resource management requires a shift toward a more "macro" perspective in which attention to effects of practices at the level of the organization is more salient. Strategic human resource management begins with the notion that human resource management practices are tools managers have at their disposal to achieve organizational goals. Such practices include compensation (rules governing pay and pay raises, pay levels, and wage and benefit structures), training, staffing (including workforce levels, the mix of full-time, part-time and contingent employees), hiring and selection, systems of workplace governance (including schemes for employee involvement and representation), and job design and work organization. Huselid (1996) noted that researchers may either examine the total human resource management systems (natural bundles) or develop empirically through methods such as factor analysis key dimensions of the human resource management systems. Unfortunately there is little theory specifying precisely how human resource management should be bundled together. This study will use the former method.

The human resource management practices described in diagram 4 shapes the development of employee skills and competence, and they reinforce role behaviors (Miner, 1995). The strategic human resource management perspective suggests that practices vary across firms because different strategies require different employee characteristics (Feather, 1981) related to these behaviors and competencies in order to be successful.

It is argued that strategic human resource management will pay of for any organization. Empirical support for the relationship between strategies and practices is beginning to emerge in both cross-industry (Miner, 1995), and single-industry (Hall, 1991). The human resource levels vary among

Implementation of Human Resource Management practices

PRACTICE	Non-starters Not widely adopted	Fads" Often tried but usually discontinued	Dead Letter Exist on paper but not in practice
Job Analysis: Job descriptions for all jobs should be provided.	X		
Selection and Placement: Employers should take full advantage of the whole range of sophisticated selection procedures available to ensure that the best people are hired	X		
Training and Development: Training should be widespread and based on demonstrated needs, closely integrated into the work process, and validated for effectiveness.			X
Performance Appraisal: Appraisals should be extensively used, should have trained rater, be concrete, separate feedback from Judgments on salary increases and has top management support.		X	
Wage and Salary administration: Inter-job wage differentials should be based primarily in formal job evaluation systems, which are fully communicated to employees.			X
Employee Participation: Employees should be involved in decisions affecting them to increase motivation.			X
Employee Relations Research: Organizations should maintain a continuous program of research to ascertain the effectiveness of the human resource function and test the validity of various policies.		X	

SOURCE: Adapted from "Why Human Resource Management Function Fails" Jan and Murray, California management Review, Summer 1984.

industries and according to the strategy the firm is pursing. Many authors found evidence suggesting that human resource practices have a direct effect on performance. (Guest, 1989, Legge, 1985, Lawler, 1991). However, as most of the studies have been done in the United States, there is needed to test the universality of results using samples of organization in other countries.

The choice of human resource strategy is governed by variations in organization forms (size, structure, and age), competitive pressure and stability of labor market. The diagram below represents alternative approaches to choose to optimize individual organization fit (Miner, 1995).

A Menu of human resource Practices

	Some Choices Available
Compensation	Lead, match or lag the market? On what are the raises based? Should long-term tenure be rewarded? Should there be large differentials between employees?
Training	Who should get trained? How much training should be done? What sorts of training should be done? How will training be evaluated?
Staffing	How many employees should the firm have? Should there be a mix of full and part-timers? Should contingent employees be used? Should the firm offer employment security?
Hiring and Selection	What criteria should be used to choose new hires? Should the firm promote from within?
Workplace Governance	What kinds of decisions should employees be involved in? Should employees have a formal voice in decision-making?
Work Organization	Should jobs be broadly or narrowly defined? Should there be a flat or steep hierarchy? Should workers be organized into teams

Miner1995, Human Source: Human Resource Management p 71.

2.6 Performance of Firms Quoted in the Nairobi Stock Exchange

Quotation status accords firms' one significant benefit: it promotes high standards of resource management. This is because the stock markets encourage the separation of ownership of capital from the management of capital. Managers are expected to be good agents of the owners of capital failure to which can result to consequences like forced takeover and sacking of management. Management dreads these actions and that why they have always to adopt bright business ideas when faced with serious challenges. One such challenge is that these firms despite changes in the market environment they must continue performing to win investors confidence (Waweru, 2000).

In this project I consider under what conditions this approach to human resource management might also emerge as a response to competitive pressure and how the link between human resource practices is impacting on performance in the firms registered Nairobi Stock Exchange.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter contains research methodology and covers research design, population, data collection, measurement of variables and methods of data analysis.

3.2 Research Design

The research design used in this study is the cross-sectional survey method. Data collected in one snap in time was sufficient to answer the research question.

3.3 Population

The population consists of all the companies quoted in the Nairobi Stock Exchange, as at July 2004. At this time the number of firms was 48. A census was carried out. The method was favored given the fairly small size of the population.

3.4 Data Collection

The study used both primary and secondary data. The primary data was collected using structured questionnaire. The questionnaire used was the close-ended. The questionnaire had two sections. Section one was completed by the chief executive officer himself or he can delegate this to a senior manager and contained a measure organization strategy, measure of human resource management link to overall strategy and the firm's performance. The head of human resource management function completed section two which covers data on human resource management practices.

Two sets of questionnaires were mailed to both chief executive officers and heads of human resource department together with two stamped enveloped. They were instructed to fill and return using those stamped envelopes. Thanks-cum –reminder cards were sent after two weeks. All firms responded.

The secondary data was from published sources such as the annual financial statement and the financial data available at the Nairobi Stock Exchange.

3.5.0 Measurement of Variables

3.5.1 Measurement of Firms Organization Strategy.

Strategy will be measured using Ulrich (1996) four strategy archetypes. Defenders, prospectors, analyzers and reactors. We follow procedures prescribed by Conant, mokwa and Varadarajan (1990). These authors developed a multi-item scale based on the strategic dimensions associated with the Miles and Snow (1984) typology. This method is reliable because when they did a test –retest procedure on 102 of their respondents they found it had a mean reliability of 0.69.This involved operationalization of organization using eleven close-ended questions each question has four respondent options, which characterize the four generic strategies of the Miles and Snow typology. This model is essentially based on the behavioral pattern of an organization when it responds or adapts to changes of the business environment. The model has been used in number of studies that have reported reliable results (Ulrich. 1996). The categorization of organization into strategic types will be based on majority rule in that the organization will be classified as pursuing the strategy if the number of responses options for a particular strategy is high. According to these guidelines, if there is a tie between the reactor and one or two other strategies, the organization is classified as a reactor. If there is a tie between or among non-reactor strategies, the organization is classified as an analyzer, a hybrid strategy.

3.5.2 Measurement of Firms Human Resource Strategic Level.

This strategic level was measured using the method by Storey (1995). These are administrative linkages, one-way encourage, two-way encourage and the integrative. This involves operationalization of organization human resource strategy using closed-ended questions. These questions were adopted from Schuler, (1992) 5-P model of linking corporate strategy with human resource strategy. The 5-P stand for philosophy, human resource policies, human resource programs, human resource practices and human resource processes Using the questions it was be possible to place each firm to its appropriate position.

Measure of Human Resource Strategic Level

(a). Human resource department as integral part of company planning process.
(b). Human resource activities aligned with overall corporate strategy.
(c) Human resource department has explicit statement of its mission and goals.
(d.) Human resource is accorded important role in the company.
(e). Human resource function has as much say in corporate matters as that department.
(f) Human resource activities are fully integrated with each other.
(g) The head of the human resource department participates in executive committee meeting.
(h) Human resource is treated as specialized function

3.5.3 Measure of Human Resource Practices

Human resource practices covering five major Human resource functional areas of employment relations, recruitment/selection, training and development, performance appraisal and compensation are included in the study. Thus the six sets of human resource practices form natural bundles (Tyson, 1995). The human resource practices were measured using a five-point scale ranging from 1 strongly disagree to 5 strongly agree. Similar scales have been commonly used in studies of strategic human resource management (Huselid, 1996,Schuler, 1992,Ulrich, 1999). The recruitment and selection scale includes four items; use of employment tests, performing validation studies on selection methods/instruments, providing realistic job previews and conducting structured and standardized interviews. The employee relations scale is adopted from Huselid (1996) and included three items employees are allowed to make decisions, employees are asked to participate in decisions, employees have open communication with supervisors and formal grievance procedures.

The recruitment and selection scale is made up of four items such as;

(a) When recruiting personnel for a new post, the firm always uses employment.
(b) The firm performs validation studies on selection method and instrument.
(c) You always conduct structured interviews when recruiting new employees.
(d) When hiring potential employees are often provided with a realistic job preview

The performance appraisal scale is constructed using the following two items:

(a) Supervisors discuss performance appraisal with their subordinates.

(b) Appraisal process involves consultation between the supervisor and his or her subordinates.

The employee relations scale consists six items.

(a) Employees in the firm are allowed to make decisions.

(b) Employees in the firm have open communications with the supervisors.

(c) Employees in the firm are asked to participate in decision-making.

(d) The company has a formal grievance procedure

(e) The company has a formal disciplinary procedure:

(f) The company has formal information sharing

The compensation scale is made-up of four items:

(a) Performance in the job as important in determining earning of employees.

(b) Promotion based primarily on seniority.

(c) Company has comprehensive flexible benefits scheme.

(d) Company reviews benefits regularly

Five items composed the training and development scale.

(a) Employees of company go through training programs every few years.

(b) Company has formal training programs.

(c) Training needs analysis.

(d) Cost-benefit analysis of training programs.

(e) Evaluation of training programs.

3.5.4 Measurement of Performance

This study used a performance measure composed of four – five point subjective management assessment questions. Respondents were asked how their firm is performing regarding market share, sales growth, profitability, quality of products/services, public image, product innovation and firm flexibility where 1 = poor and 5= outstanding. The measure was desirable since firms may be using different accounting systems, which may make it impossible to obtain comparable financial Information. While this method may increase measurement errors due to bias, benefits outweigh the risks in this case. Furthermore, there is precedence of using this method in a similar research (Huselid, 1996).

3.6 .0 Data Analysis

The data was analyzed using statistical package for social sciences (spss). The data was summarized using frequency tables. The analysis was done mainly using percentages, mean and standard deviation. Spearman's correlation was used to analyze the relationship between human resource practices and firm's performance.

3.7 Analysis of Variables

3.7.1 Level of Human Resource Linkage

Numerical scores were assigned. A=1B=2C=3D=4E=5. The total scores will be calculated to determine the level of linkage. The following is the guide for classification:
Firms with scores 8-15 were classified as having administration linkage
Firms with scores 16-23 were classified as having one-way linkage
Firms with scores 24-31 were classified as having two-way linkage
Firms with scores 32-40 were classified as having integrative linkage

3.7.2 Firms Performance

Numerical scores were assigned as above and were classified as follows; Firms with scores 4-7 will be classified as performing below industry average. Firms with scores 8-16 were classified as average performers.

Firms with scores 17-24 were classified as above average performers. Firms with scores 25-32 were classified as excellent performers.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 INTRODUCTION

This chapter contains data analysis, findings and discussion. The items included are classification of firms according to Miles and snow typology, analysis of strategic types according to segments, human resource practices, alignment of human resource practices with the corporate strategy, firms' performance according to strategy and relationship between human resource practices and firm performance

4.2 Organization Strategies

The firms studied are classified using Miles and snow (1978) strategic types. The classification suggests that reactor strategy is the least common used strategy six firms (12.0% of the total population) while analyzer is by far the most commonly used strategy 23 firms (48% of the total population). The rest comprises of prospectors 9 firms (19% of the total population) while the defenders are 10 firms (21% of the total population). See Table 1 below.

TABLE 1

Miles and snow strategic type	FREQUENCY	%	Cumulative %
Reactor	6	12	12
Analyzer	23	48	60
Defender	10	21	81
Prospector	9	19	100
TOTAL	48	100	

These typology of strategies has important implication for management because depending on the orientation adopted the firm can emphasize a great extent some aspects of management such as technological position, innovation and organization design which in turn will affect human resource practices and performance: 12% of the firms which have reactor strategy don't have a consistent strategic approach. Sometimes the organizations will be an early entrant; sometimes it will move into new fields only after considerable evidence of potential exists; other times they may not make services/ product/ market changes unless forced to by the external environment.

Analyzers, which consist of 48% of the firms at the Nairobi Stock Exchange, tend to follow prospectors with more cost efficient or well-conceived services. They maintain a relatively stable base of services, while at the same time moving to meet selected promising new services / market development.

19% of firms with prospector orientation make relatively frequent changes / additions to their set of services, products and activities. They seek to pioneer by being the first in new areas of services or market opportunity, even if not all these efforts prove to be highly successful. They respond rapidly to early signals of market needs and opportunities.

Defenders, which consist of 19% of the firms, maintain a position in their industry by offering a relatively stable set of product and / or services. They do not seek to be at the forefront of product or services development or in their sphere of activity, but rather seek to do the best job possible in their existing arena.

Hence we can conclude that the strategies of prospecting, reacting, defending and analyzing are not only conceptually but also empirically distinct.

4.3 **Strategic Types according to industry Segments**

All the four firms from the agriculture segment are reactors. The other two reactors come from alternative market segment, which constitutes 22% of firms in that segment. Analyzer strategy is mostly used by firms in finance and investment segment 9 out of 11(82 % of the segment). Other firms, which pursue analyzer strategy, are from industrial and allied segment 8 out of 16(50% of the segment) and 6 out of 8 firms (75% of the segment) of commercial and services. Firms pursue prospector strategy as follows; alternative market segment 7 out of 9 (78% of the segment) and finance and investment 2 out of 11 (18% of the segment). Defender strategy pursued by firms in industrial and allied segment 8 out of 16 (50% of the segment) and the rest 2 firms are from commercial and services. See Table 2 below

TABLE2.

		STRATEGIC TYPE						
SEGMENT	Reactor		Analyzer		Defender		Prospector	
	Freq	%	Freq	%	Freq	%	Freq	%
Agriculture	4	100	0	0	0	0	0	0
Alternative Market	2	22	0	0	0	0	7	78
Finance and Investment.	0	0	9	82	0	0	2	18
Industrial and Allied	0	0	8	50	8	50	0	0
Commercial and Services	0	0	6	75	2	25	0	0

One important finding to note is that some firms in same industry pursue different strategy. For example some firms in finance and investment sector some have analyzer orientation while others have prospector orientation. This may be explained by factors such as size of the firm, ownership and management styles.

4.4 Alignment between Corporate Strategies and Strategic Human Resource Strategies

The majority of firms are at one-way strategic level of alignment (18 out 48, 33%) of the total population). Majority of the firms at the above level are pursuing defender strategy. The one way level of alignment level according to Storey (1992) has the following characteristics; the primary role of the human resource function is to develop human resource systems to implement business strategy, the view people as flexible and the performance criteria for human resource function is to effectively implement strategy which has financial impact to the business. One way followed by two way level of human resource alignment (12out of 48, 25% of the total population). The main features of this type of alignment are human resource department has senior management support and is viewed as essential to business; the primary role of the function is to develop and implement human resource strategies, which is consistent with business planning. At the administrative level of alignment there are ten firms of which most of them are pursuing defender strategy (10 out of 48, 21%). The human resource function of most firms is not fully developed. However there are encouraging signs because we have eight firms at integrative level (16%) whose characteristics are human resource function is critical to organization, people are key success factor and business investment in future growth and development, is headed by an expert with input in most business matters. See Table 3.

TABLE 3 strategic types according to industry segment

STRATEGIC TYPES	Administrative	Two-way	Two Way	Integrative
REACTOR	4	2	0	0
DEFENDER	6	15	2	0
ANALYZER	0	1	8	1
PROSPECTOR	0	0	2	7
TOTAL	10	18	12	8

4.5 Strategic Human Resource Practices

The finding suggests that firms that use prospectors' strategy score the best mean in the strategic human resource practices. The firms, which have reactor orientation, score the least. Reactors grossly underutilize performance management and salary and benefits the results suggest that human resource practices vary according to corporate strategy. This contradicts the finding by Schuler (1992) that there is relative homogeneity of the practices in a geographical area. This can be explained by little government intervention in Kenya on human resource activities. See Table 4

The difference in human resource practices can be explained by the fact that prospectors are influenced to innovate in human resource practices by demand from their customers and market place, by staff who seek to develop better ways of managing people, and new technology and the need to improve workforce performance. In contrast defenders and reactors have significantly less pressure to innovate than either prospectors or analyzers. In turn analyzers are more likely to react than three groups in response to competitor initiative (Miles and Snow, 1984)

Also this difference of human resource practices can be explained by different constraints various firm encounter due to their strategic orientation. Prospectors are less constrained by cost, workforce resistance and attracting top management's attention. The more conservative, less risk adverse culture of defenders is reflected in the finding that their culture and philosophy don't emphasize the importance of people for their success. The reactors and defenders have difficulties such as identifying best human resource practices for their firms, gaining top management's attention, the need to address crises and more immediate issues, workforce resistance and the cost of making changes. The finding presented in Table 4 has important implications for organizations that seek to change their business level strategy.

TABLE 4 Human resource practices

	Strategic types							
	REACTOR		ANALYZER		DEFENDER		PROSPECTOR	
Human resource bundles	Mean	SD	Mean	SD	Mean	SD	Mean	SD
Recruitment & selection	9.3	2	12.5	1.5	6.5	1.2	18.2	.8
Employee Relations	6.5	2.5	14.6	1.8	7.9	2	15	1.8
Performance management	5.3	1.3	13.2	1.5	9.3	1.5	17.2	1.4
Salary & benefits	4.9	1.2	8.6	1	10.6	1	16.1	2.2
Training & development	15.7	4	11.7	1.5	17.3	.8	10.7	2.5
Total	41.7		60.6		50.6		77.2	

The above finding supports Miles and Snow (1994) characteristics of human resource practices for various strategies. For example, proposal that prospectors seek to buy in talent and engage in sophisticated recruitment and selection but offer limited training is supported by the fact that their mean score in recruitment and selection are the highest and their score for training and development are very low. Likewise defenders score poorly in compensation practices, performance management, recruitment and selection and scores highly in training and development. It is also evident from above results that reactors lack consistency strategy.

Table 5 Firms Performance according to strategy

	Reactor		Analyzer		Prospector		Defender	
Performance Criteria	Mean	SD	Mean	SD	Mean	SD	Mean	SD
Quality of product/service	1.95	1	4	0.6	5.5	0.9	2.5	0.8
Growth in share price	2	0.8	2.8	0.5	4.8	0.5	3	0.5
Growth in sales volume	2.2	0.3	3.2	0.6	4.3	0.6	2	0.4
Increase in profit	1.5	0.2	3.8	0.3	4	0.3	2.5	0.3
Increase in market share	2	0.9	5	0.8	5.6	1	2	0.7
Superior product innovation	2.2	0.7	2.8	0.7	5.8	0.3	3	0.2
Public image	2.8	0.3	3.8	0.5	5	0.3	3.8	0.3
Firm flexibility	2.5	0.3	3.5	0.8	4.8	0.4	2.2	1
TOTAL	17.15		28.9		39.8		21	

4.6 Firm Performance

Firms, which have excellent performance, pursue prospector strategy. Only three firms whose performance is below industry average. Firms, which pursue analyzers and defender strategies, have good performance but require improving to catch up with prospectors. Analyzers performance is above industry average. Prospectors have best performance hence other firms should use them for the purpose of bench marking(Table 5).

The finding is consistent with the findings of previous research. Prospectors are associated with excellent performance while reactors are associated with poor performance (Miles and Snow, 1984).
It has been noted that there is interaction between corporate strategy and human resource practices. There is also relationship between firms' performance and corporate strategy. This implication is important to heads of various firms as they are in charge of making strategic decisions that are concerned with firms' financial and non-financial achievements.

Table 6 classification of firms' performance

Mean scores interval	Classification	Prospector	Analyzer	Reactor	Defender
8-15	Below industry average	0	0	2	1
16-23	Average	0	8	4	9
24-31	Above industry average	2	15	0	0
32-40	Excellent	7	0	0	0
Total		9	23	6	10

4.7 Relationship Human Resource Practices and Firm Performance

Table 6 provides the zero-order correlation of human resource practices and performance. The table shows relationship between human resource practices strategies and firms performance. The table shows significant positive correlation between human resource bundles suggesting that human resource bundles are not independent of one another. Human resource practices also shows significant correlation with profit quality of product /service, increase in sales volume, firm flexibility, and increase in market share.

Recruitment bundle shows a significant correlation with quality of product/services (r= .25, p< .01), firm flexibility(r= .11, p<. 10), growth in share price(r= .22, p<0.01), increase in profit (r=. 23, p<0.01) and market share (r= .35, p<0.01). The above is supported by Dessler (1994) that a good recruitment system help affirm hire high quality personnel who play a major role in implementing firm's strategy.

Table .6

Means, standard deviations and correlations

Variables	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13
1 Recruitment and selection	11.37	1.37													
2 Employment relations	12.75	2.02	.12												
3 Performance management	11.50	1.42	.39	.36											
4 Salary and benefits	10.55	1.35	.33	.36	.47										
5 Training and development	11.35	2.2	-.09	.04	-.02	-.03									
6 Quality of products/services	3.49	0.82	.25	.42	.52	.49	-.06								
7Growth in share price	3.15	0.58.	22	.27	.31	.29	.03	.37							
8. Increase in sales volume	2.92	0.48	.20	.08	.16	.21	.08	.25	.26						
9 Increase in profit	2.95	0.29	.23	.27	.28	.41	-.04	.35	.34	.20					
10 Increase in market share	3.65	0.85	.35	.22	.28	.47	-.12	.44	.27	.36	. .51				
11Superior product innovation	3.45	0.49	-.02	.12	.08	.04	-.15	.19	.15	.05	.17	.14			
12.Public image	3.85	0.36	-.04	.15	.07	.16	.02	.05	.03	-.05	.08	.02	.26		
13.Flexibility	3.25	0.64	.11	.10	.21	.06	-.11	.13	.09	.02	.18	.14	.29	.34	

Note .Spearman's correlation co-efficient using one tailed test. Correlations more than .09 are significant at p<.01;correlations more than.12 are significant at p<.05 ; correlations more than .16 are significant at p<.01.

Performance management shows a highly positive correlation with quality of product/service (r=.52, p<.01), growth in share price (r=.31, p<.01), market share (r=.28, p<.01), share price (r=.31, p<.01),firm flexibility(r=.21, p<.01), increase in sales volume (r=.16, p<.05) and profit (r=.28, p<.01) but insignificant correlation superior product innovation and public image. Locke, (1984) explains that the connection between performance management and firm performance is that a well designed and implemented performance system makes the employees have pride in their work by boosting their self esteem and are more committed to firm's goals.

Employment relations has a positive significant correlation with quality of product/service (r=.42, p<.01), growth in share price (r=.27, p<.01), profit (r=.27, p<.01), market share (r=.22, p<.01), superior product innovation (r=.12, p<.05) and public image(r=.15, p<.05).These results agrees with Hall, (1994) that the advantages of good employment relations is that satisfaction among the employees is high, absenteeism is lowered, creativity is enhanced and this results to high quality of goods / services.

Training and development had a significant correlation with public image, but negative and significant correlation with superior product innovation. and firm flexibility.(r=-15, p<.05 and r=-.11, p<.10)

Training and development has been suggested to be a high performance human resource management practice. Generally a positive relationship has been established between employee training and firm performance. Miner, (1995) supports this view and adds that training and development is vital for affirm to adapt and be more competitive.

Salary and benefit has a significant positive correlation with quality of product/service ($r=.49$, $p<.01$), market share ($r=.47$, $p<.01$), share price($r=.29$, $p<.01$), sales volume ($r=.21$, $p<.01$) and profit ($r=.41$, $p<.01$) but has no correlation with product innovation.

Many studies have included compensation strategy as the strongest predictor of firm performance (Huselid, 1996), MacDuffie, 1995). Empirical studies on the relationship between strategic reward management and firm performance have generally provided positive results.

Results shows that human resource practices are related to performance and relationship between human resource practices vary according to performance measures. Our finding are consistent with Guest's (1997) argument that the influence of human resource practices is likely to vary from one performance indicator to the another and that multiple indicators of performance is needed in strategic human resource studies.

The significant relationship between several human resource bundles on various performance indicators is encouraging and agrees with other studies (Huselid, 1996, Schuler, 1996). On the other hand the lack of relationship between some human resource bundles for example between salary and benefit and product innovation suggests that more work is required to uncover the reason of lack of relationship.

CHAPTER FIVE

SUMMARY , CONCLUSION AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter summarizes the finding and makes conclusion on the study. It also includes the recommendations arising from the finding, the study limitations and recommendation for further research.

5.2 Summary

The study reported two important findings

1. The status of human resource departments in most firms quoted at the NSE is not fully developed and only eight firms (16%) are fully developed.
2. Human resource practices have a relationship with organizational performance: human resource practices impact on business result both financially and non-financially in the firms quoted at the Nairobi Stock Exchange.

The above results support the resource-based view that only human resource practices add value to the firm performance can provide sustainable competitive advantage. Companies need a unique set of human resource buddle to support their unique cultures and strategies. Another issue is the relationship between strategic human resource practices and corporate performance. The study findings indicate that there is a relationship and supports previous research that it affects the bottom line (Barney 1995).

The question if status of alignment of human resource function with organization strategy depends on the type of organization strategy is answered. The findings suggest the above is true and is consistent with those finding from research.

5.3 Conclusion and Recommendation

The study findings suggest that human resource management is not a particularly well-managed function in many firms quoted at the Nairobi Stock Exchange. We think that given the competitive environment firms in Kenya now face, these firms will contribute to their extinction by ignoring the role of strategic human resource management.

Investing in progressive human resource practices can clearly pay dividends in terms of corporate performance. However, the results in this paper suggest that the degree to which this is true will vary according to a range of factors. One of the factors is the strategy that the firm adopts the effectiveness of human resource policies and practices.

Coping of certain popular human resource practices that seem to work in other companies should be discouraged. Firms should have unique human resource practices that add value so as to gain sustainable competitive advantage. Companies should identify human resource practices that fit their organization strategies.

Hence human resource manager in the firms quoted at the Nairobi Stock Exchange should take Huselid (1996) advise seriously that new strategic role of human resource management describes how changing market conditions have rendered many of the traditional sources of competitive advantages such as patents, economies of scale, access of capital and market regulations less important in the current economic environment than they have been in the recent past. This does not mean that these assets are not valuable but rather in global economy that demands innovation, speed, adaptability and low cost. These assets do not differentiate firms the way used to. Instead relative more influential are the core competencies and capabilities of the employees that help to develop new products and world-class customer service and implement organizational strategy.

These assets are found in skilled motivated and adaptable workforce and in the human resource management systems that develop and sustain it. Therefore human resource management system that develops and maintains a firm strategic infrastructure should be considered as an investment. It is an essential element of the infrastructure that supports value creation process and a potential strategic lever for the organization. Human resource audit should always be carried out to establish how human resource department is fulfilling its strategic obligations

Therefore human resource management must become a strategic core competency rather than a market follower. Human resource management system that creates real value stakeholders value is not a commodity that should be benchmarked from other organizations since this might keep in the game but will not provide the intellectual capital to create a sustained competitive advantage.

Organizations should seek solutions to their competitive change need to match their human resource policies and practice with long term business strategies required to compete in the global market place, and generate employee commitment and retention over along time. Employees should be given opportunity to make decisions affecting their work and to share in the rewards of their creative efforts. Therefore if human resource policy is to contribute to bottom line areas such as recruitment, selection, training and development should be consistent, integrated and strategically focused.

Since we have seen organization can gain competitive advantage through the way they manage their employees human resource practices should be used strategically rather than opportunistically because the later approach has been overridden by the need to survive and grow in an increasing complex and volatile environment.

5.4 Limitations and Suggestions for Further Studies

We evidently had some limitations in this study. Use of few informants that is the chief executives and human resource managers and the method of self-report are susceptible to biases. We tried to overcome the problem by using independent respondent for corporate strategy and human resource practices and use of secondary data to confirm data relating to performance. However a case study is require that will allow us to see below the surface and also tap the reality of what happens which may sharply contrast with the firm rhetoric. Also it has emerged that firms tend to use different human resource management practices for managerial and non-managerial staff. One of the conclusions of the study is that future studies should follow a different route and collect separate data pertaining to different employee groups despite the additional challenges this may cause.

Also future research should develop more specific complex and in-depth questions regarding whether human resource managers have places on the board are actually involved in the development of corporate strategies from the offset, at a consultative or implementation stage, or they are consulted at all and whether the strategic integration is actually obtainable between corporate strategies and those relating to human resource issues.

This may require longitudinal research through the combination of case study, personal interview, questionnaire survey and document study.

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APPENDIX 1

Dear Sir or Madam,

This questionnaire is designed to study practices of human resource management among firms quoted in the Nairobi stock Exchange I hereby request you to respond to the questions frankly and honestly. Your response will be kept strictly confidential. A summary of the results will be made available to you.

Thank you,

Ben N Murage

QUESTIONNAIRE

(i) Name of the organization______________________________

Sector:

Agriculture ☐

Commercial ☐

Finance & Investment ☐

Industrial and allied ☐

Alternative market segment ☐

TO BE ANSWERED BY COMPANY'S CHIEF EXECUTIVE OFFICER

Strategic Type Instrument

Please read the following twenty seven questions carefully. For the first eleven questions select the answer that best describes your organization and circle the letter for that answer. For the rest 12-27 tick on the box.

1. In comparison to our competitors, the products/services which we provide to our customers are best characterized as:

(a.) Products/services which are more innovative, continually changing and broader in nature throughout the organization and marketplace.

(b.)Products/services which are fairly stable in certain units/departments and markets while innovative in other units/departments and markets.

(c).Products/services which are well focused, relatively stable and consistently defined throughout the organization and marketplace.

(d.)Products/ services which are in a state of transition, and largely based on responding to opportunities or threats from the marketplace or environment.

2. In contrast to our competitors, our organization has an image in the marketplace as a company which:

(a).Offers fewer, selective products/services which are high in quality.

(b).Adopts new ideas and innovations, but only after careful analysis.

(c)Reacts to opportunities or threats in the marketplace to maintain or enhance our position.

(d.)Has a reputation for being innovative and creative.

3. The amount of time my company spends on monitoring changes and trends in the marketplace can best be described as:

(a.)Lengthy: We are continuously monitoring the marketplace.

(b).Minimal: We really don't spend much time monitoring the marketplace.

(c).Average: We spend a reasonable amount of time monitoring the marketplace.

(d.)Sporadic: We sometimes spend a great deal of time and at other times spend little time monitoring the marketplace.

3. In comparison to our competitors, the increases or losses in demand which we have experienced are due most probably to:

(a.)Our practice of concentrating on more fully developing those markets which we currently serve.

(b).Our practice of responding to the pressures of the marketplace by taking few risks.

(c).Our practice of aggressively entering into new markets with new types of product/service offerings.

(d.)Our practice of assertively penetrating more deeply into markets we currently serve, while adopting new products/services only after a very careful review of their potential.

4. One of the most important goals in my company, in comparison to our competitors, is our dedication and commitment to:

(a).Keep costs under control.

(b).Analyze our costs and revenues carefully, to keep costs under control and to selectively generate new products/services or enter new markets.

(c) Insure that the people, resource and equipment required to develop new products/services and new markets are available and accessible.

(d.) Make sure that we guard against critical threats by taking whatever action is necessary.

5. In contrast to our competitors, the competencies (skills) which our managerial employees possess can best be characterized as:

(a.)Analytical: Their skills enable them to both identify trends and then develop new product/service offerings or markets.

(b).Specialized: Their skills are concentrated into one, or a few, specific areas.

(c.)Broad and entrepreneurial: Their skills are diverse, flexible, and enable change to be created.

(d.)Fluid: Their skills are related to the near-term demands of the marketplace.

7. The one thing that protects our organization from our competitors is that we:

(a.) Are able to carefully analyze emerging trend and adopt only those which have proven potential.

b. Are able to do a limited number of things exceptionally well.

(c.) Are able to respond to trends even though they may possess only moderate potential as they arise.

d. Are able to consistently develop new products/services and new markets.

8. More so than many of our competitors, our management staff tends to concentrate on:

(a.) Maintaining a secure financial position through cost and quality control measures.

(b) Analyzing opportunities in the marketplace and selecting only those opportunities with proven potential, while protecting a secure financial position.

(c.) Activities or business functions which most need attention given the opportunities or problems we currently confront.

(d).Developing new products/services and expanding into new markets or market segments.

9 In contrast to many of our competitors, our organization prepares for the future by:

(a) Identifying the best possible solutions to those problems or challenges which require immediate attention.

(b). Identifying trends and opportunities in the marketplace which can result in the creation of product/service offerings which are new to the industry or which reach new markets.

(c) Identifying those problems which, if solved, will maintain and then improve our current product/service offerings and market position.

(d) Identifying those trends in the industry which our competitors have proven possess long-term potential while also solving problems related to our current product/service offerings and our current customers' needs.

10. In comparison to our competitors, the structure of our organization is:

(a) Functional in nature (i.e., organized by department - marketing, accounting, personnel, etc.).

(b) Product/service or market oriented (i.e., individual units/departments have marketing or accounting responsibilities).

(c.) Primarily functional (departmental) in nature; however, a product/service or market oriented structure does exist in newer or larger product/service offering areas.

(d.) Continually changing to enable us to meet opportunities and solve problems as they arise.

11. Unlike many other similar companies, the procedures our organization uses to evaluate our performance are best described as:

(a.)Decentralized and participatory encouraging many organizational members to be involved.

(b.) Heavily oriented toward those reporting requirements which demand immediate attention.

(c). Highly centralized and primarily the responsibility of senior management.

(d).Centralized in more established product/service areas and more participatory in newer product/service areas.

To what extent do you agree with the following about human resource function in your firm please tick on the box.1= Strongly disagree 2= disagree3= Somehow agree4= Agree 5= Strongly agree

12. Human resource department has explicit statement of its mission and goals☐1☐2☐3☐4☐5

13Human resource is accorded important role in the company

☐1☐2☐3☐4☐5

14 Human resource has as much say in corporate matter as other department ☐1☐2☐3☐4☐5

15. The head of the Human resource department participates in executive committee meeting. ☐1☐2☐3☐4☐5

16. Human resource department is treated as specialized function ☐1☐2☐3☐4☐5

17. Human resource is treated as specialized function ☐1☐2☐3☐4☐5

18. Human resource concern is central and important☐1☐2☐3☐4☐5

19. Human resource are valued assets☐1☐2☐3☐4☐5

20 The company's market share continues to grow☐1☐2☐3☐4☐5

21 The profit of the firm continues to grow ☐1☐2☐3☐4☐5

22. The quality of a product/services is better than those of competitor ☐1☐2☐3☐4☐5

23 The company share price continues to appreciate☐1☐2☐3☐4☐5

24 The company product sales volume continues to grow. ☐1☐2☐3☐4☐5

25 The company has better public image than competitors☐1☐2☐3☐4☐5

26 Your firm performs better in product innovation than competitor ☐1☐2☐3☐4☐5

27 Your firm is more flexible than before☐1☐2☐3☐4☐5

TO BE ANSWERED BY HEAD OF HUMAN RESOURCE DEPARTMENT

The following questions relate to human resource practices. Please tick against the box the answer which best describes your organization practice. **1**= Strongly disagree 2= disagree3= Somehow agree4= Agree 5= Strongly agree

(1) When recruiting personnel for a new post, the firm always uses employment tests: □1□2□3□4□5

(2) The firm performs validation studies on selection method and instrument. □1□2□3□4□5

(3) You always conduct structured interviews when recruiting new employees. □1□2□3□4□5

(4) When hiring potential employees are often provided with a realistic job preview □1□2□3□4□5

(5) Employees in the firm are allowed to make decisions. □1□2□3□4□5

(6) Employees in the firm have open communications with the supervisors. □1□2□3□4□5

(7) Employees in the firm are asked to participate in decision-making. □1□2□3□4□5

(8) The company has a formal grievance procedure: □1□2□3□4□

(9) The company has a formal disciplinary procedure: □1□2□3□4□5

(10.) The company has formal information sharing: □1□2□3□4□5

(11)Supervisors discuss performance appraisal with their subordinates. □1□2□3□4□5

(12)Appraisal process involves consultation between the supervisors and the subordinates. □1□2□3□4□5

(13) Performance in the job is the most important determinant of earning□1□2□3□4□5

(14)The firm recruits more often from internal source than external sources □1□2□3□4□5

(15)The company review benefits regularly. □1□2□3□4□5

(16) Employees in the firm often go through training programs every few years. □1□2□3□4□5

(17)The company has formal training programme. □1□2□3□4□5

(18) Before engaging in training, the company does training need analysis. □1□2□3□4□5

(19) The company always do cost-benefit analysis of training programs. □1□2□3□4□5

(20) The company always evaluates training programs. □1□2□3□4□5

APPENDIX2: COMPANIES LISTED ON THE NAIROBI STOCK EXCHANGE

Agriculture

1. Unilever tea

2. Kakuzi

3. Rea Vipingo plantations Limited

4. Sasini Tea & coffee Limited

Alternative Investment Market Segment

1. A Baumann Kenya Limited

2. City Trust

3 .Eaagads

4 Express Kenya Limited

5 .Kapchorua Tea Company

6 Kenya Orchards Limited

7. Limuru tea Company

8. Standard Newspapers Group

9 Williamson Tea Kenya Limited

Commercial and Services

1. Car and General (K) Limited

2. CMC Holdings

3. Hutching Beamer Limited

4. Kenya Airways

5. Marshalls (EA) Limited

6. Nation Media Group

7. Tourism promotion Services (Management) Limited

8. Uchumi

Financial and Investment

1. Barclays Bank Kenya limited

2. CFC Bank Limited

3. Diamond Trust Bank Kenya Limited

4. Housing Finance Company of Kenya

5 ICDC Investment Company

2. Bamburi Cement Limited

3. BOC Kenya Limited

4. British American Tobacco (K) Limited

5. Carbacid Investment

6. Crown Berger Kenya Limited

7·.Dunlop Kenya Limited

8. East African Cables Limited

9. East African Portland Cement Company Limited

10. East African Breweries Limited

11. Firestone East Africa (1969) Limited

12. Kenya Oil Company Limited

13. Kenya Power &Lighting Company Limited

15. Mumias Sugar Company Limited

16. Total Kenya Limited

17. Unga limited