HUMAN CAPITAL MANAGEMENT PRACTICES ADOPTED BY THE NATIONAL SOCIAL SECURITY FUND

BY

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DECLARATION

This Management Research Project is my original work and has not been submitted for award of a degree in any other University or Institution of Higher Learning.

Signed ....

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Date......23/10/08..................

This Management Research Project has been submitted for examination with my approval as the University Supervisor.

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ABSTRACT

The study was carried out with the objective of determining the extent to which N.S.S.F has adopted HCM practices. The HCM practices which were explored include Resourcing, Retention and Flexibility Strategies, Talent Management, Learning and Development, Management Succession Planning, Performance and Reward Management Strategies. The researcher used case study design, where the target population was determined to be ninety eight (98) management staff in the Human Resource and Administration department. A sample of forty eight (48) officers was selected. Of these, eight senior officers were selected on basis of their status and positions in the Human Resource and Administration department, while the rest were selected through stratified sampling technique.

Data collection instruments used in the study are interview guide and questionnaire. However, some substantial amount of data was collected through documentary analysis. A response rate of 82.5% was achieved on questionnaires, while six (6) of the eight (8) senior officers sampled for interview were interviewed. Both content and quantitative analysis were used to analyze data which was then presented in frequency tables, bar graphs, percentages, rank ordering, mean scores and standard deviation.

Overall, the findings of the study indicate that the organization has implemented HCM practices, but to a negligible extent. Some of the HCM practices adopted by the organization include, enhancing the organization's capacity through staff training and development; setting of clear performance standards, explaining its mission, vision, and values to employees, outsourcing of non core activities, and flexibility of staff mortgage (TPS) and car loan schemes. However, the rest of the practices have either not been adopted or are adopted to a negligible extent.

Practices such as provision of career opportunities to employees, reward and recognition, effective communication, execution of equitable pay, enhancement of group cohesion, provision of effective job designs, efficient recruitment and selection procedures, flexible working hours, multi-skilling of employees, execution of differentiation strategy on training and development, and also on compensation policy, flexibility of staff retirement benefits, medical, and educational assistance schemes, aligning of human capital planning with the overall corporate strategy, forecasting of supply and demand of employees, placement/deployment of employees in the right jobs, and human capital measurement, have all been adopted to a negligible extent.

Recommendations made for action by the N.S.S.F Management touch on the above practices which have been implemented to a negligible extent. For instance, they should implement a differentiated compensation policy where pay is related to performance rather than job grade and tenure, improve on human capital measurement by considering other human capital elements for measurement, align human capital planning with the overall corporate goals and objectives, forecast on supply and demand of employees to anticipate the potential problem of surpluses and deficits, provide career opportunities to employees and deploy them appropriately in areas where they can contribute their best to the organization.

Further research needs to be carried out particularly in the area of human capital measurement for there is not much literature available on it.

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DEDICATION

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List of Abbreviations

HCM – Human Capital Management

HR – Human Resources

ROI – Return on Investments

'A' Positions – Core Positions

'C' Positions – Support Positions

'A' Employees – High Performing Employees

'B' Employees – Employees with the potential of becoming 'A' employees

'C' Employees – Poor Performing Employees

The Fund – The National Social Security Fund

N.S.S.F – National Social Security Fund

T.P.S- Tenant Purchase Scheme

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Today's business environment is extremely complex and turbulent hence the race by businesses to gain and sustain competitive advantage. Digital age technology is rapidly changing where and how business is done and has created a new digital economy. As a result, new economy innovators have developed new business models, strategies and processes to try and cope with the changes. These new concepts have undoubtedly affected businesses on a global scale. Human capital must, therefore, be managed and deployed differently in the digital economy. The pressure for profitability, to decrease the cost of production and increase revenues, fuels the need to leverage all of the sources of capital a company can access including human capital.

For global market acceleration, businesses must respond to customer needs faster than ever with value-based products and services, while they struggle to maintain competitive advantage. By early 2000, there was growing awareness that it is people and the inspiration, knowledge, and creativity they bring to an organization which creates competitive advantage.

Barney (1991) proposes that sustainable competitive advantage is attained when a firm has a human resource pool that cannot be imitated or substituted by its rivals. Boxall (1996) refers to this situation as one that confers "human capital advantage". Attracting superior talent and then stimulating employees to perform at peak levels has become absolutely necessary and is what competitive organizations are working to achieve.

According to Jackson and Schuler (2000), a firm has competitive advantage when all or part of the market prefers the firm's products and/ or services. The key to gaining competitive advantage is the willingness and ability of employees to share their knowledge, skills and attitudes in work processes.

The resource-based view of a firm provides the necessary impetus to research in the strategic human capital management field. Scholars in this area argue that the human resource satisfies four conditions necessary to achieve sustainable competitive advantage: human resource is valuable, rare, and imperfectly imitable and has no substitute. Competitors can easily duplicate competitive advantage obtained via better technology and products, they suggest, but it is hard to duplicate competitive advantage gained through better management of people. Such scholars include Pfeffer (1994) and Lado and Wilson (1994).

The Human Capital Management practices explored in this study pertain to Resourcing strategy, Retention strategies, Flexibility strategies, Talent Management, Learning and Development, Succession Management Planning, Performance, and Reward Management strategies.

1.2 Background of N.S.S.F

The National Social Security Fund was established in 1965 by an Act of Parliament, Cap 258 laws of Kenya as a department in the Ministry of labour. The principal objective of the Fund was to provide workers who were not covered by the civil service pension scheme, or other pension schemes approved by the Minister for Labour, with some form of financial support on retirement.

In 1988, the Fund was converted into a parastatal under the management of the Board of Trustee with the Managing Trustee as the Chief Executive.

The mission of the Fund is to provide basic social security and welfare support to workers. The focus of NSSF or its core business is security in retirement (old age) as well as against such contingencies as death, employment injury, sickness and disability. However, the successful accomplishment of this noble mission will depend on the human capital management practices that are in place at the N.S.S.F. Benefits payable to claimants (products) include:-

i. Age Benefit – payable at age 55 years to a retired member.
ii. Survivors Benefit – payable to survivors of a deceased member.
iii. Invalidity Benefit – payable to members who retire on medical grounds.
iv. Withdrawal Benefit – payable at age 50 years to members who opt for early retirement or are retrenched or dismissed from employment.
v. Emigration Benefit – payable to a member who wishes to migrate from Kenya to another country.

There is also the funeral grant which is paid to survivors of a deceased member to defray funeral expenses.

The funding of the scheme is by way of contribution by both employer and employee. The current contribution level is up to a maximum of Kshs. 400.00 per month; half of which comes from the employer and the other half from the employee. However, workers are also allowed to contribute voluntarily.

The benefits paid include compound interest accrued to a member's account over the years except for the funeral grant. The fund at the moment has a membership of 1.5 million active members and a cumulative membership of 3.0 million members who have been registered since its inception in 1966.

The fund has a total workforce of 1780 employees out of whom 500 are in management cadre and 1230 in the union (Kenya Union of Commercial Food and Allied Workers – KUCFAW). The employees are spread all over the country where the fund has its branches. Future plans are underway to widen the membership coverage and level of benefits to meet the society's ever changing expectations for the present and future generations.

1.3 Statement of the Problem

In today's knowledge based-economy, brains have replaced brawn as the primary source of corporate wealth creation. As such, success or failure of any organization is dependent on the quality defined by knowledge, skills and abilities (KSA) and organizational fit of its employees - the human capital. Other things being equal, human capital is an important and often difficult-to-duplicate source of competitive advantage. Capelli and Singh (1992) propose that competitive advantage arises from firm-specific valuable resources that are difficult to imitate.

In the new economy, human capital is the foundation of value creation in an organization. According to Kaplan and Norton (1996), up to 85% of an organization's value is based on intangible assets. This presents an interesting dilemma: the asset which is most important is the least understood, least prone to measurement and, hence, least susceptible to management.

Most people use HCM interchangeably with HRM. They regard HCM as HR with a new name. Merritt (2007) points out that HCM is not properly defined. 'We can define it, shape it, and bring it into creation - if we shift gears faster and think big'. The Accounting for People Task Force Report (2003) expressed the new view that HCM 'has been under-exploited as a way of gaining 'competitive edge'.

Some critics dismiss HCM as a fad, the latest buzzword. They recall when 'benchmarking' was all the rage; and before that 'quality circles'; and before that 'management by objective' and so forth. To them it is just a matter of time and the flavour will be gone. (http://sunfeatures.com/columns/2003/01-01-03 - 14th May, 2008).

The National Social Security Fund has not been performing to the expectations of its stakeholders. For instance, in the performance ratings for Ministries and Parastatals, released in May 2008, NSSF emerged position 105 of the 166 Parastatals, reflecting a major drop from the previous year's rating where it emerged position 66. This study has underscored the role of human capital management in improving organizational performance. It sought to determine human capital management practices at N.S.S.F, the extent to which the organization has adopted the practices, the challenges it faces, if any, in implementing the practices and the possible strategies that can be put in place to address these challenges.

Much of the available published literature on human capital management is published in the developed countries. In Kenya, very few researches have focused on this area hence a knowledge gap does exist. Nafula (2005) conducted a survey on human capital practices among sugar companies in Kenya, with an objective of determining the extent to which the sugar companies had implemented these practices. Her findings were that 40.6% of the sugar companies practised human capital management to a large extent, 12.5% to a moderate extent and 46.9% did not practice human capital management.

Previous case studies on the N.S.S.F focused on other different areas such as Strategic Responses to Changes in the Pension Industry (Njeru, 2006), Job Satisfaction among Employees at the N.S.S.F (Nyaga, 2007) and Challenges that Middle Level Managers Face in Implementing Corporate Strategies (Manyarky, 2006). None of these studies have focused on human capital management, hence the existence of a knowledge gap. This study has tried to bridge that knowledge gap.

1.4 Objective of the Study

The objective of the study was to determine the extent to which N.S.S.F has adopted human capital management practices.

1.5 Significance of the Study

The findings of this study will be of benefit to various stakeholders as shown below:-

a) Management of N.S.S.F

The findings of the study will help the Management at N.S.S.F in formulating policies regarding people management at the work place.

b) Managers of other organizations

The findings of the study will help managers to understand why HR strategies should be people-oriented and how the strategies can be used to achieve sustainable competitive advantage.

c) Employees

Information on human capital will help employees come up with new framework for improving their individual contribution at work place and heighten the sense of their strategic value in the organization. They will learn how to get the most out of work by managing their jobs and careers in a value-optimizing context.

d) Scholars and Researchers

The findings of the study will contribute to the body of knowledge for utilization by scholars and researchers.

CHAPTER TWO

LITERATURE REVIEW

2.1 The Concept of Human Capital

The term "Human Capital" was originated by Schultz (1961) who elaborated the concept in 1981 by regarding all human abilities to be either innate or acquired. He goes further to say that attributes which are valuable and can be augmented by appropriate investment are human capital. Human capital is defined by Rogers and Sue (2004) as a collection of human resources that an organization has; which form potential for realization of their objectives. It is the collective sum of the attributes of human resources, their life experiences, knowledge, inventiveness, energy and enthusiasm that they choose to invest in their work. This is the human brain power, which over time transforms other resources and opportunities.

Human capital can be described as one of the three factors that make up intellectual capital, the other two being organizational and social capital. Human capital refers to the stock of productive skills and technical knowledge embodied in labour. Many early economic theories refer to it simply as labour, one of the three factors of production, and consider it to be fungible resource-homogeneous and easily interchangeable (http://en.wikipedia.org/wiki/humancapital – 28th April, 2008)

In business, the amount of resources supplied by the owner(s) is called capital. All the resources owned by the business are called assets. These could be machinery, cash and bank accounts among others. This implies that when owners of a business have supplied all the resources, the capital will be equal to the value of their assets (Wood & Sangster, 2002) In view of the above concept, human capital is also an asset to an organization; the only difference being that it is not provided by owners of the business, but by the people who own the human capital themselves, the employees. The capital (asset) in employees is in form of their skills and knowledge which they apply to the organization.

According to Huselid *et al* (2005) Human capital implies an asset with a flow of benefits that are greater than the costs of the asset. To most people, capital means assets that yield income so that when using the term 'Human Capital', it means the value added by the workforce. From the perspective of the firm, human capital will provide the greatest value when those benefits take the form of workforce behaviours that execute strategy.

The term 'human capital' therefore represents the sum total of a workforce's skills, knowledge and experience and is a critical source of value for a company when managed properly.

Nalbantian *et al* (2004) define human capital as "the stock of accumulated knowledge, skills, experience, creativity and other relevant workforce attributes." Bontis *et al* (1999) hold that human capital represents the human factor in an organization; the combined intelligence, skills and expertise that give an organization its distinctive character. He goes further to say that the human elements of an organization are those that are capable of learning, changing, innovating and providing the creative thrust which if properly motivated can ensure the long-term survival of the organization.

Management consultant, Crawford (1991) equates capital with the owners and thus suggesting that human capital consists of skilled educated people who own the assets (capital) that they wilfully invest in their work. With liberalized economies, and a great deal of shifts in the labour markets, employees are gaining more power in negotiating for their terms of employment. They are behaving more like free agent owners of investable capital, that is, their skills, knowledge and even talent and it is upon them to invest it optimally for the benefit of the organization.

Scarborough and Elias (2002) believe that: "The concept of human capital is most usefully viewed as a bridging concept – that is, it defines the link between HR practices and business performance in terms of assets rather than business processes." They point out that human capital is to a large extent "non-standardized, tactic, dynamic, context dependent and embodied in people." These characteristics make it difficult to evaluate human capital bearing in mind that the "features of human capital that are so crucial to firm performance are the flexibility and creativity of individuals, their ability to develop skills over time and to respond in a motivated way to different contexts." It is indeed the knowledge, skills and abilities of individuals that create/ add value, which is why the focus has to be on means of attracting, retaining, developing, and maintaining the human capital they represent.

The concept of the critical value of human capital as a prime economic driver continues to gain wide recognition through particularly the publication of a book by Becker (1993) aptly entitled "human Capital". He says that an employee's personality, appearance, reputation and credentials are also values in human capital as they aid in gaining competitive advantage.

Davenport (1999) comments that people possess innate abilities, behaviours and personal energy and these elements make up the human capital they bring to their work. And it is they, not their employers, who own this capital and decide when, how and where they will contribute it. In other words, they can make choices. Work is a two-way exchange of value, not a one-way exploitation of an asset by its owner.

The choices they make include how much discretionary behaviour they are prepared to exercise in carrying out their role. (Discretionary behaviour refers to the discretion people can exercise at work about the way they do their job and the amount of effort, care, innovation and productive behaviour they display). They can also choose whether or not to remain with the organization.

2.2 Perspectives of Human Capital

Blessings and White (1994) argue that, when workers are equated to assets, it likens them to equipment yet people bring ingenuity, creativity and initiative to their organizations. They deserve more respect and value than the equipment or any other asset. People are active beings, unlike equipment and other assets which are passive, can be bought, sold and replaced at the whim of their owners. People are actively in control over their working lives. The labour markets are free and thus workers show declining propensity to remain with one organization. This increasing velocity carries with it a wake up call to employers to provide powerful incentives and motivate their workers.

Philosopher and humanist Gasser (1948) suggests that Management should think of employees as investors in a business, paying in human capital and expecting a return on their investment. Viewing workers as assets has become a dominant theme at the workplace in the late twentieth century, in some ways it is a worthy status for employees, because people are the engine that drives processes at the workplace.

However, in other ways the 'asset' metaphor falls short of fully expressing the true value of employees. Thus in human capital management, a better metaphor, 'investor' is instead used. Workers act as investors by amassing their personal capital, that is, dexterity and skill and deploying it to the best advantage. The people's innate abilities, their behaviours, energies and time, make up human capital. Therefore, workers and not the organization own this capital. They place their investable capital where it can earn them the highest return. This can be referred to as 'return on investment' (ROI).

The notion of a worker as an investor rather than an asset emphasizes that the link between the employees and the organization does not depend on ownership, paternalism or blind loyalty, but they are bound together by the willingness to provide benefits to each other. The relationship is that of mutual benefit, with neither party elevated at the expense of the other.

2.3 Other Related Concepts

(i) Intellectual Capital

The concept of human capital is associated with the overarching concept of intellectual capital which is defined as the stocks and flows of knowledge available to an organization. These can be regarded as the intangible resources associated with people who, together with tangible resources (money and physical assets), comprise the market or total value of a business. Bontis (1998) defines intangible resources as the factors other than financial and physical assets that contribute to the value – generating processes of a firm and are under its control.

(ii) Social Capital

Social capital is another element of intellectual capital. It consists of the knowledge derived from networks of relationships within and outside the organization. Putnam (1996) defines the concept of social capital as "the features of social life – networks, norms and trust - that enable participants to act together more effectively to pursue shared objectives". The World Bank (2000) defines social capital as the institutions, relationships and norms that shape the quality and quantity of a society's social interactions. Social capital is not just the sum of the institutions that underpin a society – it is the glue that holds them together.

(iii) Organizational Capital

Organizational capital is the capital owned by the organization, patents, copyrights, institutionalized knowledge possessed by the organization, which is stored in databases, manuals etc. (Youndt 2000). It is often called structural Capital (Edvinson and Malone, 1997), but the term "Organizational Capital" is preferred by Youndt because, he argues, it conveys more clearly that this is the knowledge that the organization actually owns.

2.4 Drivers of Human Capital Investment

What really drives employees to invest their skills, knowledge, talent, and efforts are the returns they expect from their capital investments (ROI). According to Blessings and White (1994) the ROI include financial compensation like base salary at market average, performance based pay and intrinsic job fulfilment elements like access to the latest technology, exposure to Senior Management, involvement in big deals, opportunity to run important projects, among others. Also growth opportunities like training opportunities and assignment to key teams, recognition through company awards, opportunity to present papers at professional conferences, control over discretionary funds, among others and other benefits like standard health and welfare benefits, education assistance, car loans and mortgages, sabbatical leave among others.

2.5 Human Capital Management

Human Capital Management (HCM) has been described as a 'paradigm shift' from the traditional approach to human resource management (Kearns, 2005b). Human Capital Management is the process of acquiring, optimizing and retaining the best talent by implementing processes and systems matched to the organization's underlying business objectives. HCM is about getting an alignment between strategy, people and HR practices (Ingham, 2006). The term is used to describe an organization's multi-disciplined approach to optimizing the capabilities and performance of its employees. HCM is, therefore, not an HR function. It is a critical new set of business skills for leaders through out the organization (http://www.humancapitalinstitute.org/hci - 6th May, 2008)

HCM is concerned with obtaining, analyzing and reporting on data that informs the direction of value-adding people management, strategic investment and operational decisions at corporate level and at the level of front line management.

According to Armstrong (2006) the defining characteristic of HCM is the use of metrics to guide an approach to managing people that regards them as assets. He emphasizes that competitive advantage is achieved by strategic investment of those assets through employee engagement and retention, talent management and learning and development programmes.

However, there is more to HCM than metrics. HCM focuses the attention of an organization's leadership team on the strategies it should adopt to increase the added value they obtain from people. It identifies those aspects of people management that demonstrably have the greatest bearing on business performance. It clarifies the returns that can be obtained in terms of increased profitability, productivity and overall effectiveness arising from the deployment, development and engagement of the people the organization needs to achieve its goals.

HCM points the way to achieving human capital advantage by highlighting where and how investments in people generate the highest returns. It ensures that HRM policies and practices are developed to attain this end. These policies include knowledge management, resourcing, talent management, performance management, learning and development programmes, and reward and recognition processes.

Accounting for People Task Force Report (2003) stated that HCM involves the systematic analysis, measurement and evaluation of how people policies and practices create value for an organization. The report defined HCM as 'an approach to people management that treats it as a high level strategic issue rather than an operational matter to be left to the HR people'.

HCM plays a critical role in managing an organization's most important asset, its people. The quality and performance of people is what sets an organization apart in an intensely competitive market. As with all assets management programmes, HCM needs to be strategic not reactive. HCM is critical to an organization's long term survival and, therefore, mistakes in managing human capital are just as costly as in all other asset accounts. Conversely, when the assets are managed wisely, the organization's bottom line is positively impacted. Amortizing investment in employees should, therefore, top an organization's priority.

While HCM should maintain a pulse on morale and employee satisfaction, it also entails analyzing organization's benefits and compensation programmes for competitiveness, designing an organizational structure that maximizes resources, and a performance management system that reflects individual contribution (http://www.hrvaluegroup.com/files/hrvgtaft/1/file/newsletter - 29th April, 2008)

In recent years there has been a dramatic shift in the way labour is pooled across the globe. The influences of technology and growth have effectively caused industry leaders to have to change their focus from the brute force of labour to the actual quality of the workers available through out the world. This has produced a shift in tactics for those who manage human resources. Instead of gathering up workers in a huge net and sending them to respective places of work, it is now necessary to nurture the working population by educating them and developing their technological skills so that they will be able to contribute to the needs of the enterprises they work for. HCM is focused on the right kind of people to get the job done. Indeed the theory behind HCM is first and foremost the transformation of a worker into a resource that is competitive and potentially profitable to the organization

Huselid *et al* (2005) proposes that organizations should consider making targeted investments in specific human capital approaches in light of three fundamental ideas that firstly, the approaches should help the organization attract, develop, retain, and deploy the best talent and then elicit the best talent for mission accomplishment. Secondly, the approaches should have clearly defined, well documented, transparent, and consistently applied criteria for making these investments. Thirdly, decisions regarding these investments should be based largely on the expected improvement in organizational results.

Boudreau and Ramstad (2007) argue that HCM goes beyond the merely reactive mind-set of planning and budgeting for headcount, hiring and retaining talent. It takes a strategic approach to talent management by asking savvier questions which include but not limited to the following:-

- Do we know where our pivotal talent is in the organization?
- Do we invest differently in our most pivotal talent or do we use the 'peanut-butter approach, spreading investments evenly across the entire organization?

- Where does our business strategy require that our talent be better than our rivals'?
- If we changed our strategic goals, which of our talent pools would have to change the most?

Addressing the above issues effectively would enable an organization achieve a competitive edge against its rivals.

2.6 Differences between Human Capital Management and Human Resource Management

The basis for HCM and HRM is the same but HCM has more science in it to ensure robustness of action and it includes areas like evaluation of people management which is the more strategic part. Essentially the difference is one of philosophy. HCM is organizationally focused, proactive and outcome driven. Much of current HR is still focused and known by its input activities and centres on the HR function (http://www.hrvaluegroup.com/2008 - 29th April, 2008)

The essential difference between HCM and HRM according to Mayo (2001) is that the former treats people as assets while the latter treats them as costs. In HRM, 'the HR team is seen as a support service to the line'. It is a business function that performs a distinct and separate role from other functions (Kearns, 2005b). In HRM, there is no attempt to use a software database to measure the bottom-line effect of employees' performance and reward them according to their personal attributes and contribution to the achievement of organizational goals, as is the case with HCM. Human capital management is focused on return on investment (ROI) of the workforce to the employer. It is 'holistic, organization-wide and systems-based' (http://sunfeatures.com/columns/2003/10-01-03 - 14th May, 2008).

HCM draws its energy from people, their individual strengths, interests and motivations, which, aligned with long-term business strategy, can increasingly provide the main basis for differentiation and competitive advantage.

Beer *et al* (1984) differ with the claim that in HRM employees are treated as costs. They emphasized the need for a long term perspective in managing people and consideration of people as potential asset rather than merely a variable cost. Storey (1989) argues that 'HRM is an approach to labour management which treats labour as a valued asset rather than a variable cost and which consequently counsels investment in the labour resource through training and development and through measures designed to attract and retain a committed workforce'. He argues further that HRM is a distinctive approach to employment management that seeks to obtain competitive advantage through the strategic deployment of highly committed and capable workforce, using an integrated array of cultural, structural and personnel techniques Storey (1995)

In view of the foregoing, both HRM and HCM treat people as assets. However, there is more to both HRM and HCM than simply treating people as assets. Each of them focuses on the importance of adopting an integral and strategic approach to managing people, which is the concern of all stakeholders in an organization, not just HR function. According to Armstrong (2006), the concept of HCM complements and strengthens the concept of HRM. It does not replace it.

HCM reinforces or adds to the concept of HRM in the following ways:-

- It draws attention to the importance of what Kearns (2005b) refers to as 'management through measurement', the aim being to establish a clear line of sight between HR interventions and organizational success;
- Strengthens the HRM belief that people are assets rather than costs;

- Focuses attention on the need to base HRM strategies and processes on the requirement to create value through people and thus further the achievement of organizational goals;
- Reinforces the need to be strategic;
- Emphasizes the role of HR specialists as business partners;
- Provides guidance on what to measure and how to measure;
- Underlines the importance of using the measurements to prove that superior people management is delivering superior results and to indicate the direction in which HR strategy needs to go.

Both HCM and HRM, therefore, can be regarded as vital components in the process of people management.

2.7 Resourcing Strategy

The strategic capability of a firm depends on its resource capability in the shape of people who are capable of ensuring that the firm achieves sustainable competitive advantage over its rivals. These people will have a wider and deeper range of skills and will behave in ways that will maximize their contribution. The organization attracts such people by being the "employer of choice". It retains them by providing better opportunities and rewards than others and by developing a positive psychological contract that increases commitment and creates mutual trust. Furthermore, the organization deploys its people in ways that maximize the added value they supply (Armstrong, 2006).

The components of employee resourcing strategy include human capital planning, resourcing plans, retention strategy, flexibility strategy and talent management strategy.

2.7.1 Strategic Human Capital Planning

This is the process for ensuring that the human capital requirements of an organization are identified and plans are made for satisfying those requirements (Bulla and Scott, 1994). It is a decision making process that combines three important activities: -

(1) Identifying and acquiring the right number of people with proper skills.

(2) Motivating them to achieve high performance, and

(3) Creating interactive links between business objectives and people – planning activities. (Quinn Mills, 1983).

However the notion of human capital planning has its own limitations. Research conducted by Cowling and Waters (1990) indicated, that the only formal and regular activities carried out by respondents were the identification of future training needs, analysis of training costs and analysis of productivity. Less than half produced formal labour supply and demand forecasts, and less than 20 per cent formally monitored human capital planning practices.

Summarizing the above given problem Taylor (1998) comments that: "It would seem that employers, quite simply, prefer to wait until their view of the future environment clears sufficiently for them to see the whole picture before committing resources in preparation for its arrival. The perception is that the more complex and turbulent the environment, the more important it is to wait and see before acting". However, it is important that some attempt be made to broadly determine future human capital requirements as a basis for strategic planning activities.

2.7.2 Resourcing Plans

According to Armstrong (2006), the analysis of future requirements will indicate what steps need to be taken to appoint people from within the organization and what learning and development programmes should be planned. The analysis will also establish how many people will need to be recruited in the absence of qualified employees within the organization. Ideally, internal resourcing should be based on data already available about skills potential. This should have been provided by regular audits and the analysis of the outcomes of performance management reviews.

External resourcing requirements can be met by developing a recruitment strategy. The aims of this strategy would be first to make the organization "the employer of choice" in its particular field. Secondly, the strategy should plan the best methods of defining precisely what is needed in terms of skills and competencies. Finally, the strategy should be concerned with planning the use of the most effective methods of obtaining the number and type of people required.

Some of the steps to be followed with regard to external resourcing include analyzing the factors affecting competitive resourcing such as the pay and total benefits package; career opportunities; opportunity to use existing skills or to acquire new skills; the opportunity to use the latest technology and equipment; opportunities for learning and development and access to high level training; a responsible and intrinsically rewarding job; a belief that what the organization is doing is worthwhile; the reputation of the organization as an employer; the opportunity the job will provide to further the individuals career, for example, the scope to achieve and have achievements recognized, an increase in employability or a respected company name to put on a Curriculum Vitae.

Alternative strategies for satisfying human capital requirements need to be considered. These include outsourcing; re-engineering, increased flexibility; skills training; multi-skilling and downsizing.

External resourcing strategy should explore methods not only of recruiting the number of people required but also of finding people who have the necessary skills and experience, who are likely to deliver the required sort of behaviour and who will fit into the organizations culture readily. These processes and techniques will include the use of skills analysis; competency mapping; the internet for recruitment; biodata; structured interviews; psychometric testing and assessment centres.

2.7.3 Retention Strategy

Retention strategies in HCM aim to ensure that key people stay with the organization and that wasteful and expensive levels of employee turnover are reduced. They will be based on an analysis of why people stay and why people leave. This can be done through attitude surveys and exit interviews respectively. The retention plan should address each of the areas in which lack of commitment and dissatisfaction can arise. These areas include pay, job design, performance, learning and development, career development, commitment, lack of group cohesion, dissatisfaction and conflict with managers and supervision, recruitment and selection; promotion and over-marketing (Capelli, 2000).

Problems arise because of uncompetitive, inequitable or unfair pay systems. Reviewing pay levels on the basis of market surveys; introducing job evaluation or improving an existing scheme to provide for equitable grading decision, ensuring that employees understand the link between performance and reward; reviewing performance related pay schemes to ensure that they operate fairly, adapting payment-by-results system to ensure that employees are not penalized when they are engaged only on short runs; tailoring benefits to individual requirements and preference; involving employees in developing and operating job evaluation and contingent pay systems are some of the possible actions that can be taken to address pay related problems (Torrington *et al* 2005).

On job design, dissatisfaction arises if jobs are unrewarding in themselves. In HCM, jobs should be designed to maximize skill variety, task significance, autonomy and feedback, and they should provide opportunities for learning and growth.

Employees can be demotivated if they are unclear about their responsibilities or performance standards, are uninformed about how well they are doing, or feel that their performance assessments are unfair. Some of the solutions include expressing performance requirements in terms of hard but attainable goals; getting employees and managers to agree on those goals and the steps required to achieve them; encouraging managers to praise employees for good performance and also getting them to provide regular, informative and easily interpreted feedback, training managers in performance review technique such as counselling, briefing employees on how the performance management system works and obtaining feedback from them on how it has been applied.

Resignations and turnover can increase if people are not given adequate opportunities for learning and development, or feel that demands are being made upon them that they cannot reasonably be expected to fulfil without proper training, learning programmes and training schemes should equip employees with the competence and confidence to achieve expected performance standards; enhance existing skills and competencies; ensure that new employees quickly acquire and learn the basic skills and knowledge needed to make a good start in their jobs; increase employability, inside and outside the organization.

Dissatisfaction with career prospects is a major cause of turnover. To a certain extent, this has to be accepted especially in today's flatter organizations where promotion prospects are more limited. However, to maintain a stable core workforce in this situation, employers should still plan to provide career opportunities by providing employees with wider experience; introducing more systematic procedures for identifying potential such as assessment or development centres; encouraging promotion from within; developing more equitable promotion procedures; providing advice and guidance on career paths.

On the other hand, commitment can be increased by explaining the organizations mission, values and strategies and encouraging employees to discuss and comment on them; communicating with employees in a timely and candid manner, with the emphasis on face to face communications through such means as briefing groups; constantly seeking and taking into account the view of people at work; providing opportunities for employees to contribute their ideas on improving work systems; introducing organization and job changes only after consultation and discussion (IRS, 2000a).

Lack of group cohesion can make employees feel isolated and unhappy. Steps should be taken to tackle this problem through teamwork and team building, rewarding people for working effectively as members of teams and developing teamwork skills.

Dissatisfaction and conflict with Managers and supervision is a common reason for resignations. The feeling that management in general, or individual Managers and team-leaders in particular, are not providing the leadership they should, or are treating people unfairly or are bullying their staff. Selecting Managers and team leaders with well-developed leadership qualities; training them in leadership skills and in methods of resolving conflict and dealing with grievances; introducing better procedures for handling grievances and disciplinary problems and training everyone in how to use them are some of the remedies to the problem.

Rapid turnover can result simply from poor selection or promotion decisions. It is essential to ensure that selection and promotion procedures match the capacities of individuals to the demands of the work they have to do.

Over-marketing or creating unrealistic expectations about career development opportunities, tailored training programmes, increasing employability and varied and interesting work, if not matched with reality, lead directly to dissatisfaction and early resignation. A realistic job preview is the remedy to this problem. Organizations practising human capital management should forge full disclosure deals with potential employees. This preview gives a candidate a clear idea of what to expect on joining the organization (Torrington *et al*, 2005).

2.7.4 Flexibility Strategy

The aims of the flexibility strategy should be to develop a "flexible firm" (Atkinson, 1984) by providing for greater operational and role flexibility. As companies, industries and whole economies restructure, employment contract must change to reflect new realities that ensure an acceptable exchange (Rousseau, 1996). Some of the strategies to be implemented include numerical flexibility through part-time arrangements, job sharing, delayed recruitment, outsourcing, sub-contracting and short-term contracts. They will also include functional flexibility through multi-skilling, to increase the ability of employees to switch jobs or carry out any of the tasks that have to be undertaken by their team. These changes will come with a lot of resistance from the affected employees. To avoid such situations, which may result in litigations, HCM emphasizes that workers should be informed about expected contract changes in the uncertain future, however difficult it is to predict the future.

Organizations should provide legitimate and validated reasons for expected changes in employment contracts.

2.7.5 Talent Management

As a concept, talent management came to the fore when the phrase "the war for talent" emerged in 1990s. Talent Management Strategies deal with the processes required to ensure that the organization attracts, retains, motivates and develops the talented people it needs. (Armstrong, 2006) There is nothing new about the various processes that add up to talent management. What is different in HCM with regard to talent management is the development of a more coherent view as to how these processes would mesh together with an overall objective – to acquire and nurture talent wherever it is and wherever it is needed by using a number of interdependent policies and practices.

Talent Management according to Boudreau and Ramstad (2007) is an approach that enables firms to understand the strategic nature of their employee base and to build value through the way they handle people.

Some of the components of Talent Management include developing the organization as an "employer of choice"; using selection and recruitment procedures that ensure good-quality people are recruited, designing jobs and developing roles that give people opportunities to apply and grow their skills and provide them with autonomy, interest and challenge; providing talented staff with opportunities for career development and growth; providing scope for achieving a reasonable balance between working in the organization and life outside work; developing a positive psychological contract; developing the leadership qualities of line managers; recognizing those with talent by rewarding excellent, enterprise and achievements; conducting talent audits that identify those with potential and those who might leave the organization; introducing management succession planning procedures that identify the talent available to meet future requirements and indicate what management development activities are required (Armstrong, 2006).

2.8 Learning and Development Strategy

Learning and development strategies ensure that the organization has the talented and skilled people it needs and that individuals are given the opportunity to enhance their knowledge and skills and levels of competence. This is a mechanism through which workers understand and control their environments. Competence involves the proper application of skills, knowledge, talent, effort and time in trying to achieve organizational objectives (Kolb, 1984).

The key elements of human capital development are learning, training, development and education. Learning is defined by Bass and Vaughan (1996) as "relatively permanent change in behaviour that occurs as a result of practice or experience". Kolb (1984) describes it as the major process of human adaptation. On the other hand, training is the planned and systematic modification of behaviour through learning events, programmes and instructions that enable individuals to achieve the levels of knowledge, skills and competence needed to carry out their work effectively. It is one of the several responses any organization can undertake to promote learning (Reynolds *et al* 2002). Development is the growth or realization of a person's ability and potential through the provision of learning and educational experiences. Education is the development of the knowledge, values and understanding required in all aspects of life rather than the knowledge and skills relating to particular areas of activity (Armstrong, 2006).

Although development of human capital is business led, its strategies should take into account individual aspiration and needs. The objective is to enhance resource capability in accordance with the belief that a firm's human capital is the major source of competitive advantage.

Competence affects human capital investment in two ways. Firstly, workers with growing competence have more human capital to invest which in turn results to higher returns that is beneficial to both workers and the organization. Secondly, opportunities to continuously improve on the competencies are catalysts of effective human capital investment. When professional skills and experience are improved, it enhances their competence levels and results in better decision making; which improves and sustains growth in pursuit of organizational goals.

To ensure effective competence development, organizations have historically ventured into learning initiatives so as to improve on the capabilities of their employees.

Education builds human capital the way fertilizer grows plants. More education implies more human capital to invest and potentially great return on investments. In the knowledge intensive world, those with more of the right human capital should command higher compensation. Organizations should develop an environment that supports continuous learning and invest in training and professional development programs (EQW Survey, 1995). They should provide employees with a supportive learning environment where learning capabilities can be discovered and applied, for example, peer networks, supportive polices and systems, and 'protected' time for learning. They should use coaching techniques to draw out the talents of others by encouraging employees to identify options and seek their own solutions to problems. They should encourage networks, guide employees through their work challenges and align systems to vision by getting rid of bureaucratic systems that produce problems rather than facilitate work.

A study conducted by researchers at the Newton Mass Centre for Workforce Development (1998) indicates that organizations can increase the tendency for people to be personally and, internally motivated to learn by selecting employees who seem to be internally motivated to learn. They found out that high achievers and self-starters were more likely to seek out opportunities to develop and grow within the organization. The researchers confide that assessment of learning and teaching abilities and behaviours should be a focus in the hiring process.

The interview process should describe how the organization fosters learning and growth interventions so as to capitalize on the candidates' competencies. In organizations where learning is an integral part of their culture, workers tend to appreciate the value of learning and they incorporate it into their behaviours.

2.8.1 Training and Returns

Training commands a sizeable portion of an organizations budget in regard with trainers' fee, facilities and other overheads. Classic Human Capital Theory states that firms should pay for the development of skills and knowledge that directly benefit them. Resources are scarce and ultimately, training budgets are tied with constraints. Organizations should therefore offer training if it is needed by the workers to help them achieve organizational objectives. According to Flamholtz and Lacey (1981), training expenses are investments in human capital in the sense that someone will earn a return on them. In the case of general training, it is usually the employee who earns the returns. Conversely, returns from specific training may accrue mainly to the employer.

Therefore, if training helps the organization to achieve its objectives then the organization should pay for it. If it only helps the worker develop their general skills and knowledge, let the worker use their own time and money.

2.8.2 Differentiation in Training

Designing and implementing effective training and development systems are challenging to organizations because they involve costs that are borne in the present but whose benefits accrue in the future. Organizations that do not differentiate their employees end up absorbing costs and fail to recognize the benefits in their training ventures.

In viewing training of employees as investment, it is more appropriate to consider where the firm might best invest their scarce resources to obtain the greatest returns in terms of strategic success. (Lynch and Black, 1996). In HCM, training differentiation results into development investments that are targeted at 'A' players and 'B' players with 'A' potential; this implies that the training should be targeted at 'A' employees and 'A' positions that enhance competitive advantage. 'C' players would receive few, if any, development resources. However, if the organization has adequate resources to cater for all employees' educational needs, it would be prudent to bring 'B' and 'C' players on board and develop them into 'A' players.

Emphasis on this differentiation comes in the wake of the paradox in organizations training ventures where the organizations provide the training budget with a bias for the better educated workers, managers and professionals unlike the less educated ones; yet these less educated employees may have a higher strategic value to the organization than those who are highly educated. It is for this reason that HCM classifies employees in 'A' positions as strategic for the organization to meet its objectives, regardless of their educational standards and tenure. Since 'A' positions may have in them employees of 'C' performance it is important that training interventions be directed at the 'A' positions and 'A' employees (Marshall and Tucker, 1992).

2.8.3 Balance between Formal and Social Learning

Organizations generally show a bias in clear and growing dedication to building human capital through organization-sponsored training. They give more prominence to structured training either on the job or at schools and technical institutes. Yet, through informal interactions, individuals learn a lot from their peers. These informal programs include rotational assignments, periodic consultants with senior managers, team working and mentoring relationships with other employees (Marshal & Tucker, 1992). The trainers could practice ethnography by possibly moving in cohabiting and observing the trainees so that they can identify knowledge and skills that could help other workers do things even better (Rousseau, 1996).

Employees share a common drive to increase their competence through an autonomous approach while doing their jobs because they are able to choose what they need and what they learn. Their learning efforts are focused and relevant to their immediate requirements; unlike in the formal training where the relevance of the material is likely to vary among individuals. Workers through their social interactions define how they will gain the knowledge they need and they take initiative to learn. By discovering personal meaning and making individual choices in uncertain situations, people are able to learn how to gain control of the situations (Langer, 1997).

Organizations should encourage the use of judgement and knowledge formed through interaction among themselves and their customers. Social interaction between individuals, groups and organizations is fundamental to original knowledge creation (Nonaka, 1994). Workers have to be encouraged into these interactions so as to deal with problems realistically. They may make a few mistakes, but they will learn faster then they would by staring at the board.

Fostering informal learning requires a lot of teamwork with clear and objective goals and sufficient resources and time. The teams would have diverse perspectives and the climate should be supportive, tolerant and cooperative and they must have authority to decide outcomes. These offer a better learning environment than any classroom simulation. People form communities of practice where they collaborate, confer and share information. They do this not because the organization training chart puts them in the same boat, but because they need each other to get the job done (Galagan, 1993).

The Social Learning Theory may explain that individuals know each other at work and thus they have formed a community that spoke the same language and shared common experiences. According to Darrouzet (1995), teams and their collaborative work practices have a lot to do with a group's performance in terms of learning and work. Given this social context, learning intertwines more with workplace practice. Learning is social, and can be acquired from peer interaction and not merely from instructors. Identifying with peers encourages members to work harder to protect their identity, they cooperate with each other thereby increasing effort that results to better performance. Workers are active participants, human capital owners who need to control their learning processes, (Centre for Work Force Development, 1998). However, this does not imply that organizations do away with formal training.

Classroom learning also has its place in most human capital building strategies, as it is a requirement to pass the explicit knowledge like procedures, rules and skills, work processes among others. These should however be well coordinated with informal learning to optimize learning. HCM advocates for a clear balance between formal and informal learning mechanisms. Corporate Management can realize huge gains on the money it spends on formal training by improving the relationship between training and informal learning (Stamps, 1998).

2.8.4 Management Succession Planning

Management succession planning refers to the identification and development of potential successors in an organization. It is development oriented rather than simply replacing staff. The key in succession planning is to create a match between the organization's future needs and the aspirations of individual employees. Management Succession planning aims at ensuring that, as far as possible suitable candidates are available to fill vacancies created by promotion, retirement, death, resignation and transfer and any new positions that may be established in future. It comprises of the following important steps:-

- Recruitment and Staffing - recruit superior and right people
- Training and Development - train employees to develop their knowledge, skills and abilities
- Performance and Compensation Management - prepare employees for advancement or promotion into ever more challenging roles (http://www.successionplanning101.com - 16th July, 2008).

A well developed succession planning process increases the retention of superior employees because they recognize that time, attention and skill development is being invested in them for the purpose of career development. When talented employees are challenged and rewarded, their need to seek opportunities elsewhere is eliminated.

Developing leadership talent is a long-term investment and a working succession system results in having more than one good person available for a key job. Real success requires choices between two or more qualified people. In order to have a choice, there is need to identify who is ready now and what it will take to make others ready when need arises. (http://www.successfactors.com/info/en/succession-management/source=MSN - 16th July, 2008).

2.9 Strategies for Managing Performance

Managing performance is a continuing responsibility for managers and team leaders and is not achieved by once-a-year performance appraisal meeting. Central to understanding management interest in performance is understanding the subtle change in attitudes, for not only is performance rewarded, performance is also a reward. The long-standing motivational ideas of job enlargement, job enrichment and so forth, become more cogent when those at work are able to look for satisfaction of their needs not only in the job, but also in their performance at the job (Torrington *et al* 2005).

2.9.1 Performance Management Concerns

Performance management strategy is basically concerned with Performance improvement in order to achieve organizational, team and individual effectiveness. Organizations, as stated by Lawson (1995), have to get the right things done successfully.

Secondly, performance management strategy is concerned with Employee development. Performance improvement is not achievable unless there are effective processes of continuous development. This addresses the core competences of the organization and the capabilities of individuals and teams.

Thirdly, performance management strategy is concerned with satisfying the needs and expectations of all the organization's stakeholders - owners, management, employees, customers, suppliers and the general public. Performance management should respect the needs of individuals and teams as well as those of the organizations, although it must be recognized that they will not always coincide.

Finally, performance management strategy is concerned with communication and involvement. It aims to create a climate in which a continuing dialogue between managers and members of their teams takes place to define expectations and share information on the organizations mission, value and objectives. Performance management strategy aims to provide the means through which better results can be obtained from the organization, teams and individuals by understanding and managing performance within an agreed framework of planned goals, standards and competence requirements (Armstrong, 2006).

2.9.2 HCM Practices and Organizational Performance

Some researchers such as McDuffie (1995) argue that the performance effects of Human Capital Policies and Practices are multiplicative rather than additive and this is often termed as the 'buddles' approach. In other words, a particular set of mutually reinforcing practices is likely to have more impact on performance than applying one or just some of these in isolation. Pfeffer (1998) identifies seven critical people-management policies: emphasizing employment security; recruiting the "right" people; extensive use of self-managed teams and decentralization; high wages solidly linked to organization performance; high spending on training; reducing status differentials; and sharing information; and he suggests that these policies will benefit every organization.

In the UK, the Sheffield Enterprise Programme (Petterson et. al, 1997) studied 100 manufacturing organizations over ten (10) years (1991 – 2001) and used statistical techniques to identify factors affecting profitability and productivity. They reported that aspects of culture, supervisory support, and concern for employee welfare, employee responsibility and training were all important variables in relation to organizational performance. Also in the UK, Wood and de Menezes (1998) identified a buddle of Human Capital Policies and Practices which they term high-commitment management and these comprise recruitment and selection processes geared to selecting flexible and highly committed individuals, processes which reward commitment and training by promotion and job security; and the use of direct communication and teamwork.

However, Guest (2000), Hall (2002) and Purcell (1999) carried out further studies on the link between human capital practices and organizational performance, leading to a conclusion that it is the way policies are implemented and the role of the line managers which are critical. They also acknowledge that it is difficult to disentangle the performance effect of human capital practices from the performance impact of changing environmental circumstances such as technological changes.

2.9.3 Major Performance Initiatives

Performance research to date focuses much on the individual, but organizations also need to develop their capability as a whole (Caulkin, 2001). There are three levels of initiatives depending on the primary focus of the organization (See Appendix V) through which an organization can develop its capability.

This brings us to the concern that too many initiatives in the same organization will give conflicting messages to employees, particularly when they are introduced by different parts of the business. For example, there may be contradictions between the messages of total quality management ("right first time") and those of the learning organization type of approach ("it's okay to make mistakes as long as you learn from them") – Torrington *et al*, 2005.

2.9.4 Getting the Measures Right

On the basis of what gets measured gets done, it is critical that an organization selects the most useful measure of performance for the organizations as a whole and for the individuals within it. Single measures are unlikely to be sufficiently robust. Kaplan and Norton (1996) argue convincingly that the mix of measures which an organization should use to assess its performance should be based around four different perspectives: -

- Financial Measures – such as sales growth, profits, cash flow and increased market share.
- Customer Measures – that is, the customer perspective, which looks at, for example, delivery time, service quality, product quality.
- Internal business measures – cycle time, productivity, employee skills, labour turnover.
- Innovation and learning perspective – including such elements as ability to innovate and improve.

The focus must be on what is achieved: results are what count.

2.10 Reward Management Strategy

Differentiation in rewards is core in HCM. Not all employees are equal and not all jobs are equal, therefore, rewarding an employee who for whatever reason does not add value in an organization is a waste (Davenport and Prusak, 1998). The focus in HCM is on equity, not equality. Equity means that those who contribute more will receive more; equality means that all employees will be treated equally. The current economic environment is shifting the norm from one of equality to equity. The deal depends on a particular individual's role and their performance in an organization. For this differentiation to occur, management should firstly recognize and accept that some positions and some employees in the organization have more important influence in the execution of strategy than others (Nulty, 1995).

There is no rule of thumb for this because firms vary in strategies and they do not include scientific methods of job evaluation that rationalize the value of jobs in one organization in comparison with the value of jobs in another organization. There is no market equivalent for the strategic value of a job because of the unique ways in which different jobs contribute to a firm's strategic success.

Designing and implementing a differentiated workforce strategy requires that an organization concentrate on human capital that uniquely contribute to firm's strategy. Job evaluation develops an internally consistent set of job values across the job market in a particular industry. Job evaluation is independent of a particular firm's strategy and thus a particular position may have a lower value in the job market but internally, according to organizations strengths, the position will be most important in driving their strategy. In human capital terms, it is these internal, organizations specific differences that should be looked into when rewarding employees, and not the job market indicators (Huselid *et al*, 2005)

2.10.1 Differentiation by Position

Many organizations use homogeneous reward systems that attempt to influence workers' behaviours in a similar way. HCM emphasizes that those positions that are of a higher strategic value to the organization should be highly rewarded than any other. By rewarding all jobs more or less equally, the organization under motivates employees in high return 'A' positions. 'A' potions are those jobs that are more strategic and more direct because of their influence on organizations competitive advantage unlike the 'C' positions that are less strategic and less direct because they are less linked to organization's strategy.

Decisions on which jobs will take the 'A' positions will depend on how critical the job is to the firm's competitive advantage. 'A' positions will be unique to each organization and therefore they should be identified and rightly rewarded. For example, 'A' positions in a pharmaceutical manufacturing company could be those of biochemists in Research and Development. As a result, this position is critical for the firm's competitive advantage. In a hospital, the 'A' positions will be those of the doctors and nurses who provide valuable service to their patients. In a university setting, 'A' positions could be those of the teaching fraternity who nurture the students. Therefore, 'A' positions in all organizations should be identified and be highly rewarded than 'C' positions. This will motivate the employees in the 'A' positions, increasing their commitment and effort to helping the organizations achieve their strategies. With the achievement of strategy, both parties shall attain their return on investments in the long run (Huselid *et al*, 2005).

2.10.2 Differentiation by Performance

Schuler (1992) says that there is a link between levels of performance and pay; however, the point should be that, the pay should have clear business logic on how it drives performance. Therefore, a high performance culture requires that high performers, 'A' employees and low performers, 'C' employees be identified and both levels of performance be managed effectively. The historical development in the human resource profession is that they treat employees the same, with similar manner of access to rewards and promotional opportunities (Bossidy *et al* 2002).

In implementing a differentiated compensation policy, pay should vary with performance rather than level and tenure. When tenure is emphasized, employees who perform better than others will be discouraged, as their efforts are not recognized. Their subsequent turnover is simply considered an administrative cost and management is not held accountable for the loss of the 'A' employees. 'A' employees make disproportionate contribution to the success of an organization's strategy through better performance. So it is entirely appropriate for an organization to identify them, reward them and motivate them.

The differentiation will shape and link employee's behaviour to performance and help them know what is expected of them and how they are doing, so they can improve. If not, the result is that, the high performing employees become under motivated and are more likely to leave because their compensation is not commensurate to their contributions, while the less productive workers are over compensated and less likely to leave. Over time, this leads to a decline in overall workforce performance and a decline in the effectiveness of strategy execution. Eventually, the underperformance increases the need for lay offs of under performing groups that could be avoided if these performance differentials were handled appropriately in the first place (Smart, 1999).

Organizations that develop 'A' players contribute more value to the firm as when they contribute profits. Finding and encouraging 'A' players will help the firm meet their strategic goals over time. These 'A' players should be identified encouraged and rewarded. Ultimately, the goal is to have an organization where 'A' employees populate all of the 'A' positions. Equally important is that 'C' employees be removed from 'A' positions because their under performance can do significant damage to the execution of strategy (Huselid *et al.*, 2005)

2.10.3 Cafeteria System and Compensation

In terms of compensation, HCM also emphasizes that organizations make individual deals with individual workers each of who bring different kinds of human capital to invest. The deals should allow workers to choose from an array of benefits (ROI) that is offered by an organization. People are different and with varied needs therefore a single standard benefit system could be unsatisfactory (Brinburg and Castell, 1982).

An organization may offer benefits like health plans, retirement plans, social security, educational assistance, mortgages, car loans and other employee services among others. These services will be generally offered to all the employees across the board. However, a worker may prefer to trade some of the benefits for a high proportion of another benefit. For example, a young worker may prefer to have more of the mortgages and car loans at lower interest rates so that he can accumulate some wealth. An older worker may already have a car and a house, so he may prefer to have more financial and informational assistance with the transition to retirement, social security, and educational assistance for his children and opportunities for wealth accumulation. With these varied needs between workers, organizations should create flexibilities to allow for these differences. Organizations should try and understand the choices workers want and their strategic value. However, the costs of delivery of the choices should also be looked into as compared to the value added to the offer selected return on investments choices that optimize the human capital (Heneman *et al,* 1998).

2.11 Challenges of HCM

Of all the factors that create competitive advantage that management can directly influence, or the extent to which a firm can generate a workforce with the culture, mindset, competencies and strategic behaviours needed to execute strategy is sometimes the most difficult to make a reality. Executing a differentiated strategy for the jobs, workforce, rewards, and training and development systems is quite a challenge to management. It requires great wisdom to identify and separate the strategic value creating elements from the operational elements. Again, most managers would be uncomfortable to initiate a differentiated strategy that is counter culture and tell some employees that their jobs are less strategic than those of others (Huselid *et al*, 2005).

Workers may resist attempts to implement some of the differentiated strategies. For example, as regards pay based on performance, high performers would generally embrace it, while low performers will be opposed to it. This may introduce disturbances, courting endless negotiations and administrative hassles (Pfeffer and Sutton, 2000).

In HCM, there is a great need for flexibility in the compensation systems, however, the compensation and benefits plans come under legal, tax and moral constraints that restrict organizations to attain such flexibilities. Jobs are graded through policies that detail payment grades without considering individual employee differences. Most pay policies use the grading system whereby employees rise through the ranks in tenure, and the longer they work, the higher their pay and position. It may be difficult for organizations to implement performance related pay and to negate the use of tenure in promotion of employees. Given such limitations, organizations are thus limited to provide homogeneous compensation and benefits to their employees (Brinburg and Castell, 1982).

In the last decade or so, there has been a significant shift in the way human resource and staffing for various work positions is handled. Much of that shift has been to 'go global' in order to reduce overhead and cutting staff costs. The impact of the growth of technology and the easy access that people in all parts of the world have to the internet has dramatically changed the landscape of HCM.

With the growth of technological solution tools and the resulting access to workers from around the globe, leaders in virtually all industries have been changing the way they recruit and train their employees. Human Capital has expanded in terms of where employees are physically located, as well as the type of training that is required to adequately prepare them for their roles. In this sense, the HR responsibilities have been challenged and are in a constant state of change in order to meet the new standards and demands of global asset management, which includes a global workforce. Attracting, developing and retaining skilled workforce are, therefore, among the toughest of challenges and highest of expenses for most organizations.

Today, HCM is often much more about nurturing the workforce and empowering them with technological tools of the trade, as opposed to simply sending them off to work in settings such as cubicles, factory lines or agricultural fields. With the ever-changing technology that more and more workers rely on, there is a much greater demand to be sure that they have the ongoing training needed, as well as support from a technology advisor, to continue to perform their tasks efficiently and effectively.

In addition, to the challenge related to simply trying to keep employees trained and up to speed on the most current and important technology, another aspect that can make HR Management taxing and stressful is the global factor. There are now many HR Managers who have employees located in all corners of the world. This brings up issues of language, cultural differences, both in communication and also in terms of expectations, and co-ordination of 'virtue meetings', given the fact that members of a work team can be located in many different time zones.

Another factor is simply hands-on management. When employees are located in a workgroup in a common facility, it is quite simple to know and be aware of how many productive employees there are. However, when people are spread across the globe in settings which are often independent to each and every worker, it can be more difficult to quickly assess who is pulling their weight and where there are problems. As a result, managing employees often includes relying on 'electronic metrics' which can report precise activities of each employee.

With the right software to oversee a workforce that is working 'virtually' via internet connections from their homes or remote offices, those responsible for HR management actually have access to detailed reports that provide information about remote employee activity. Such software gives HR personnel the management knowledge of productivity as well as allowing them to see how well individuals are performing and where attention needs to be given for additional training or correction.

There are many obvious benefits as well to having employees in place in various parts of the world. One of the biggest and most important benefits to many companies is being able to get away with paying less for the same work. At the same time, there are also additional costs that stem from the challenges of adequate Human Capital Management that eats into some of those savings because of the challenges that must be overcome when a workforce is spread out in many parts of the world (http://ezinearticle.com/humancapitalmanagementchallenges - 17th June 2008)

2.12 Human Capital Measurement

The most successful organizations today and in the foreseeable future will be those that are able to measure the business impact of their investment in people-whether that investment is employee recruiting, performance management, skills development or benefits administration. (www.accenture.com/NR/rdonlyres/C7A64117-DF28-44E5-9151-D6DE4C2845F6/O/ideas-measurement - 21st July 2008)

According to Becker *et al* (2001), the most potent action HR managers can take to ensure their strategic contribution is to develop a measurement system that convincingly showcases HR'S impact on business performance. They must understand how the firm creates value and how to measure the value creation process.

Human capital measurement provides the tools, including the required information and a decision-support framework, to answer key value optimization questions:-

- What human capital activities are important to the operating and financial performance of the organization?
- What is the value that specific investments in human capital programs and activities contribute to bottom-line results? For example, in areas such as rewards and recognition, benefits, training and development, and recruiting and staffing.
- How can investments in human capital programs and activities be optimized to deliver a higher level of business performance?

(http://www.traverseconsulting.com/human-capital.html - 21st July, 2008)

2.12.1 Reasons for the Interest in Measurement

According to Armstrong (2006) the recognized importance of achieving human capital advantage has led to an interest in the development of methods of measuring that capital for the following reasons:-

- Human capital constitutes a key element of the market worth of a company. A research study conducted in 2003 (CFO Research Studies) estimated that the value of human capital represented over 36 per cent of total revenue in a typical organization.
- People in organizations add value and there is a case for assessing this value to provide a basis for human capital planning and for monitoring the effectiveness and impact of human capital policies and practices.
- The process of identifying measures and collecting and analysing information relating to them will focus the attention of the organization on what needs to be done to find, keep, develop and make the best use of human capital.
- Measurements can be used to monitor progress in achieving strategic human capital goals and generally to evaluate the effectiveness of human capital practices
- One cannot manage unless they measure.

2.12.2 Caution about Measurement.

Leadbeater (2000) observed that measuring can 'result in cumbersome inventories which allow managers to manipulate perceptions of intangible values to the detriment of investors. The fact is that too few of these measures are focused on the way companies create value and make money'. The Institute of Employment Studies (Hartley, 2005) emphasized that reporting on human capital is not simply about measurement. Measures on their own such as those resulting from benchmarking are not enough; they must be clearly linked to business performance. Scarborough and Elias (2002) concluded from their investigations that the specific set of measures or metrics organizations reported were less important than the process of measuring and the uses for the information gathered.

2.12.3 Measurement Elements

The Council for Excellence in Management and Leadership (2002) report listed the following measurement elements. (See Appendix IV)

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Research Design

The word design in this context refers to the approach which the researcher adopted in collection and analysis of data. A case study design was used in conducting this study. The researcher chose this design because an in depth investigation was necessary to fully determine the extent to which N.S.S.F has adopted human capital management practices.

3.2 Population of the Study

The researcher found it necessary to choose the target population since the organization (study unit) is large and not everyone could have been interviewed or requested to respond to questionnaires. The population of interest consisted of all Management staff (SF3 – SF10) in the Human Resource and Administration Department , who are eighty seven (98) as shown below:-

Grade (SF)	Population Size	Percentage (%)
SF 3	1	1.02%
SF 4	3	3.06%
SF 5	4	4.08%
SF 6	10	10.2%
SF 7	15	15.3%
SF 8	22	22.4%
SF 9	16	16.3%
SF 10	27	28.5%
TOTALS	**98**	**100%**

3.3 Sample Size and Sampling Procedure

In this study, eight interviewees were sampled on basis of their status and positions in the Human Resource and Administration Department. These are the Human Resources and Administration Manager, Deputy Manager (Human Resource Services), Deputy Manager (Administrative Services), Deputy Manager (Procurement Services), Assistant Manager (Human Resource Services), Assistant Manager (Administrative Services), Assistant Manager (Procurement Services) and Assistant Manager (Training & Pensions).

In addition, forty officers or forty five percent (45%) of staff in each grade from SF6 – SF10, in the department were selected through stratified sampling technique as respondents. The technique was found to be appropriate for this study because the target population was heterogeneous and, therefore, needed to be divided into relatively homogeneous groups (strata).

The sample size was comprised of forty eight (48) respondents as tabulated below:-

Grade (SF)	Population Size	Sample Size (100% SF 3 - 5) (45% SF 6 - 10)
SF 3	1	1
SF 4	3	3
SF 5	4	4
SF 6	10	4
SF 7	15	7
SF 8	22	10
SF 9	16	7
SF 10	27	12
TOTALS	**98**	**48**

This represents 48.9% of the target population. The sample was considered to be representative enough of the population, in consonance with Tuckman's (1998) assertion that a sample size of 25% (i.e. quarter of the population) and above is representative and adequate for collecting reliable information, which is free from bias, provided that consideration is made on the distinct characteristics of the population.

3.4 Data Collection

The researcher collected primary data using both interview guide and semi-structured questionnaire. A substantial amount of data was also collected through documentary analysis. Six Senior managers in the department were interviewed whereas thirty three officers in the grades SF6-SF10 responded to questionnaires. A Linkert scale with both nominal and ordinal measurement values was used on the questionnaire. The questionnaire was divided into two sections, the first being on respondents' biodata, and the second on the extent of implementation of human capital management practices. The interview guide contained questions on human capital management practices, challenges of human capital management the organization was facing and ways in which the challenges were being addressed by the Management. The questionnaires were administered by the researcher.

3.5 Data Analysis and Presentation

To increase and ensure accuracy and precision, the raw data was edited, coded, entered into the computer and screened. Coding was achieved by assigning each response a number, categorizing them and converting the data into numerical codes representing the attributes. The data was then analyzed by use of both content analysis and descriptive statistics. Statistical package for Social Sciences (SPSS) was used to analyze the data and to present it in frequency tables, bar graphs, percentages, rank ordering, mean scores and standard deviation.

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter presents data analysis and findings of the study. The analysis was guided by the research objective presented in chapter one. This chapter is divided into four sections: Introduction, Overview of the analysis, Extent of implementation of human capital management practices, and Challenges of human capital management.

4.2 Overview of the Analysis.

This section presents the response rate, the length of service and the levels of education of the respondents.

4.2.1 Response Rate

Questionnaires were administered to forty (40) respondents and a response rate of 82.5% (33 respondents) was achieved, which is considered to be adequate for purposes of this analysis. In addition, six out of eight senior managers who were sampled for interview availed themselves and were interviewed. A tabulation of the questionnaires distributed and returned per grade is presented in the table given below:-

Table 4.2.1 Number of questionnaires distributed and returned

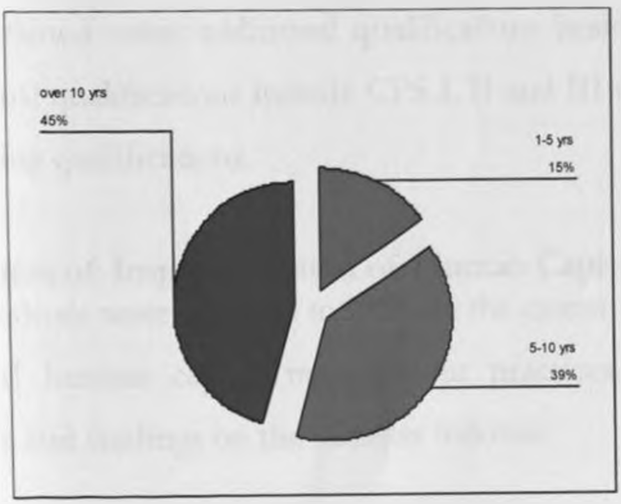
Grade	No. distributed	No. returned	% returned
SF6	4	3	75
SF7	7	5	71
SF8	10	8	80
SF9	7	6	86
SF10	12	11	92
Totals	**40**	**33**	**82.5**

Table 4.2.1 shows a response rate of 82.5% which is relatively a high response rate. This could probably be attributed to the self administration method of data collection which was adopted in this study.

4.2.2 Length of Service in the Organisation

Respondents were asked to indicate their length of service in the organization. The findings are as shown below:-

Pie chart 4.2.2 Length of service



Pie chart 4.2.2 shows that 15 (45.5%) respondents have served the organisation for over 10 years, 13 (39.4%) respondents for 5-10 years and 5 (15.2%) respondents for 1-5 years.

4.2.3 Highest Level of Education of Respondents

Respondents were asked to indicate their highest level of education. The findings are as shown below:-

Table 4.2.3 Level of Education

Level of Education	Frequency	Percentage
Degree and above	28	84.8
Diploma	5	15.2
Totals	**33**	**100.0**

Table 4.2.3 shows that 28 (84.8%) respondents have attained degree level and above while 5 (15.2%) have attained diploma level. In addition, 31 (93.9%) have attained other additional qualifications besides degree and diploma. The additional qualifications include CPS I, II and III as well as public relations and marketing qualifications.

4.3 Extent of Implementation of Human Capital Management Practices.

Respondents were required to indicate the extent to which the organization has adopted human capital management practices. This section presents the analysis and findings on the same as follows:-

4.3.1 Attracting Talented People to the Organisation

All the 33 (100%) respondents indicated that the organisation has attracted talented people. The extent to which this has been achieved is as shown below:-

Table 4.3.1 Extent of Attracting Talented People

Extent	Frequency	Percentage
Not at all	3	9.0
Negligible extent	6	18.0
Moderate extent	21	64.0
Great extent	2	6.0
Very great extent	1	3.0
Total	33	100.0

Table 4.3.1 shows that the organisation has attracted talented people, but to a moderate extent.

4.3.2 Recruiting the Right Number of Talented Workforce

Respondents were asked to indicate the extent to which the organization had recruited the right number of talented workforce. The findings are as shown below:-

Table 4.3.2 Extent of recruiting the right number of talented workforce

Extent	Frequency	Percentage
Not at all	1	3.0
Negligible extent	2	6.0
Moderate extent	28	84.8
Great extent	1	3.0
Very large extent	1	3.0
Total	33	100

Table 4.3.2 shows that the organisation has recruited the right number of talented work force, but to a moderate extent.

4.3.3 Implementation of Retention Strategies

The researcher sought to establish the extent to which the organization had embraced retention strategies in human capital planning. The findings are as shown below:-

Table 4.3.3 Extent of Implementation of Retention Strategies

	Extent, Mean, Standard deviation and Rank							
etention rategies	1	2	3	4	5	Mean	Std. deviation	Rank
xplaining the ganisation's ission, vision id values to nployees.	NIL	2 (6%)	8 (24%)	23 (70%)	NIL	3.64	0.60	1st
quipping nployees with ompetences	NIL	2 (6%)	13 (39%)	18 (55%)	NIL	3.48	0.62	2nd
etting clear erformance andards	1 (3%)	1 (3%)	23 (70%)	8 (24%)	NIL	3.15	0.62	3rd
Execution of quitable pay	1 (3%)	25 (76%)	5 (15%)	2 (6%)	NIL	2.24	0.61	4th
Effective communication channels	1 (3%)	28 (85%)	4 (12%)	NIL	NIL	2.09	0.38	5th
Reward and recognition practices	1 (3%)	30 (91%)	1 (3%)	1 (3%)	NIL	2.06	0.43	6th
Provision of career opportunities	2 (6%)	30 (91%)	1 (3%)	NIL	NIL	1.97	0.30	7th

Table 4.3.3 shows that the organization has, to a great extent made its mission, vision, and values known to its employees. This practice ranks first with a mean score of 3.64. It is followed by the practice of equipping employees with competences required to achieve expected performance standards, which has a

mean score of 3.48. Next was the practice of setting clear performance standards, which has been implemented to a moderate extent, with a mean score of 3.15. The rest of the practices, that is, execution of equitable pay systems, effective communication channels, reward and recognition practices and provision of career opportunities to employees, were all shown to have been implemented to a negligible extent. They have mean scores of 2.24, 2.09, 2.06 and 1.97, respectively.

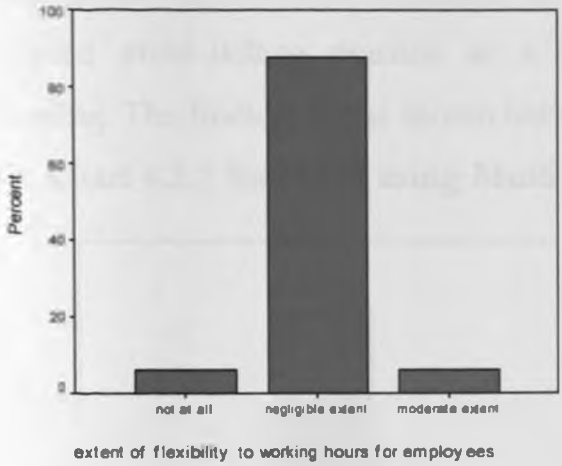
4.3.4 Practices that the Organisation needs to implement to Retain Talented People

Respondents were asked to give their opinion on the practices the organisation needs to implement, so as to be able to retain talented people. The findings show that some of the practices the organization should implement are to provide career opportunities to staff, recognise good performance and extra-ordinary achievements by employees, improve on group cohesion through teamwork, implement performance related pay system, design jobs that maximise on skill variety, autonomy and feedback, formulate fair promotion policy/procedure, recruit employees from within the organization, reduce length of time taken in recruitment process and avoid politics while recruiting employees.

4.3.5Flexibility of working hours for Employees

Respondents were asked to indicate the extent to which the organization had adopted flexibility of working hours as a strategy in human capital planning. The findings are graphically presented as follows:-

Bar chart 4.3.5 Extent of Flexibility of Working hours

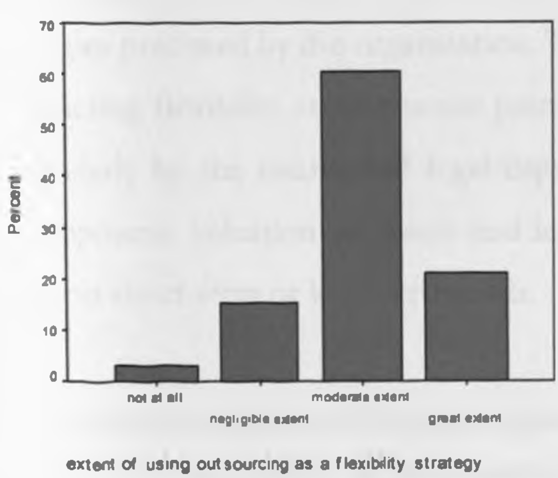


Bar chart 4.3.5 shows that the organisation has adopted flexibility of working hours for employees, but to a negligible extent.

4.3.6 Outsourcing as a Flexibility Strategy

The researcher sought to determine the extent to which the organisation has implemented outsourcing as a flexibility strategy in human capital planning. The findings are as shown below:-

Bar chart 4.3.6 Extent of using outsourcing as a Flexibility Strategy

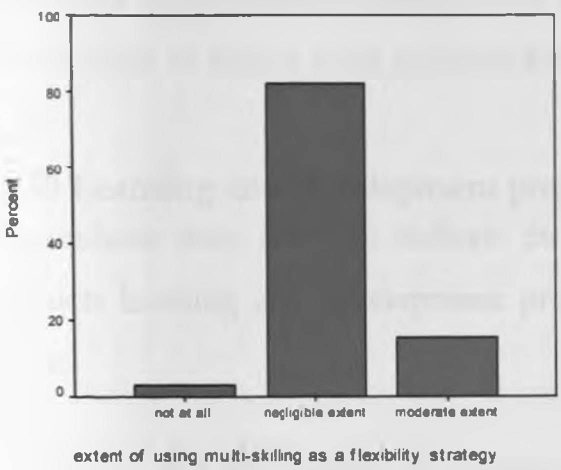


Bar chart 4.3.6 shows that the organization has embraced outsourcing strategy to a moderate extent.

4.3.7 Multi- skilling as a Flexibility Strategy

Respondents were asked to indicate the extent to which the organization has adopted multi-skilling practice as a flexibility strategy in human capital planning. The findings are as shown below:-

Bar Chart 4.3.7 Extent of using Multi- skilling Strategy



Bar Chart 4.3.7 indicates that the organisation has adopted multi-skilling as a flexibility strategy, but to a negligible extent.

4.3.8 Other Numerical and Functional Flexibility Strategies Practiced by the Organisation

Respondents were asked to give other numerical and functional flexibility strategies practised by the organisation. The findings show that contracting/sub contracting flexibility strategies are practised by the organization. This is done particularly by the estates and legal departments where services such as estate development, valuation of assets and legal services are contracted. It is either done on short-term or long-term basis.

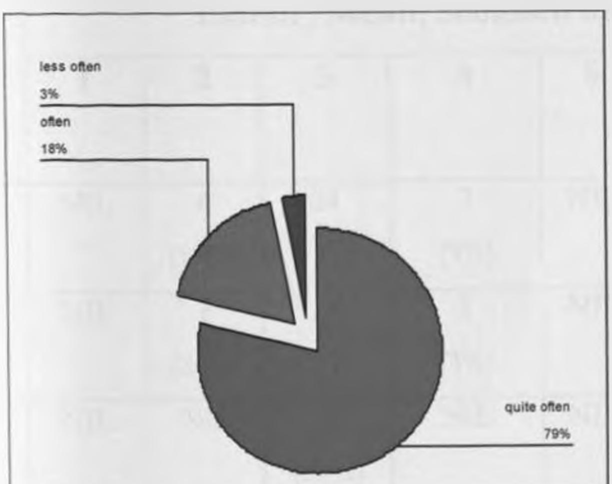
4.3.9 Action to improve Human Capital Planning

Respondents were asked to recommend actions which the organisation needs to take to improve on human capital planning. Their responses were that the organization needs to align human capital planning with its overall corporate strategic goals and objectives, conduct periodic forecasting of demand and supply of human capital to avoid having deficits or surpluses of human capital, improve on the human resource management information system (HRMIS) or introduce a new one to enhance efficiency in human capital planning, outsource non-core activities, deploy/place employees in right jobs as per qualifications, practice competence based recruitment, reduce the length of time taken in recruitment process, and increase flexibility practices especially multi-skilling to reduce costs associated with human capital planning.

4.3.10 Learning and Development programmes

Respondents were asked to indicate the frequency at which the organization conducts learning and development programmes. The findings are indicated below:-

Pie chart 4.3.10 extent of conducting learning and development programmes



Pie chart 4.3.10 show that the organisation conducts learning and development programmes quite often.

4.3.11 Educational Support Facility Provided by the Organisation.

Respondents were asked to state the educational support facilities provided by the organization. The findings indicate that the organisation provides library facility, refund of tuition and examination fee to an extent of 30 % of the expenses on satisfactory completion of studies. In addition, the organisation sometimes promotes employees who pursue further studies to satisfactory completion.

4.3.12 Extent to which Learning and Development Practices are based on the Aspects given below:-

Respondents were asked to indicate the extent to which learning and development practices were influenced by aspects such as employee's performance, their position (core/ support), need for teamwork, coaching needs, need for job rotation and mentoring. The findings are illustrated below:-

Table 4.3.12 Extent to which learning and development practices are based on aspects given below:-

	Extent , Mean, Standard deviation and Rank							
Aspects	**1**	**2**	**3**	**4**	**5**	**Mean**	**Std. deviation**	**Rank**
Need for teamwork	NIL	6 (18%)	24 (73%)	3 (9%)	NIL	2.91	0.52	1st
Coaching needs	NIL	8 (24%)	24 (73%)	1 (3%)	NIL	2.79	0.48	2nd
Need for job rotation	NIL	NIL	22 (67%)	NIL	NIL	2.67	0.48	3rd
Need for mentoring	1 (3%)	20 (61%)	12 (36%)	NIL	NIL	2.33	0.54	4th
Employee's position	27 (82%)	5 (15%)	NIL	1 (3%)	NIL	1.24	0.61	5th
Employee's performance	29 (88%)	3 (9%)	1 (3%)	NIL	NIL	1.15	0.44	6th

Table 4.3.12 shows that Learning and development practices are neither based on employee's performance nor their positions (core/ support) but on the organization's needs such as need for teamwork, coaching and job rotation.

4.3.13 Management Succession Planning

Respondents were required to indicate whether the organisation practises management succession planning and the duration of the plan. All the 33 (100%) respondents indicated that the organisation practises management succession planning. The planning period was shown to be two years. The findings also show factors that influence management succession planning. These are experience, skills, ethnic background and political influence.

4.3.14 Extent to which Compensation Policies and Practices are based on the Aspects given below:-

Respondents were required to indicate the extent to which compensation policies and practices are based on employee's performance, their positions (core/ support) and grade. The findings are as given below:-

Table 4.3.14 Extent to which Compensation Policies and Practices are based on Aspects given below: -

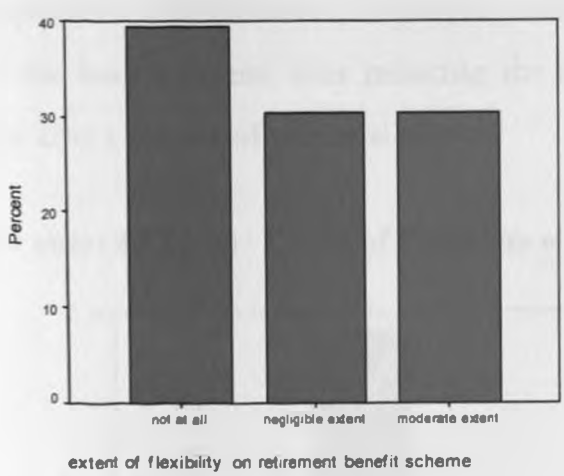
	Extent , Mean, Standard deviation and Rank							
Aspects	**1**	**2**	**3**	**4**	**5**	**Mean**	**Std. deviation**	**Rank**
Employee's Job Grade	NIL	NIL	1 (3%)	2 (6%)	30 (91%)	4.88	0.17	1st
CBA	NIL	NIL	28 (85%)	3 (9%)	2 (6%)	3.21	0.51	2nd
Employee's Position	29 (88%)	2 (6%)	1 (3%)	1 (3%)	NIL	1.21	0.79	3rd
Employee's Performance	30 (91%)	2 (6%)	1 (3%)	NIL	NIL	1.12	0.42	4th

Table 4.3.14 shows that compensation policies and practices are based on employee's grade, and Collective Bargaining Agreement (CBA), which have mean scores of 4.88 and 3.21, respectively. Documentary analysis revealed that over sixty eight percent (68%) of the total workforce is unionised. Their terms and conditions of service are, therefore, agreed upon through collective bargaining between the Union and Management.

4.3.15 Extent of Flexibility of Employees' Benefits Schemes

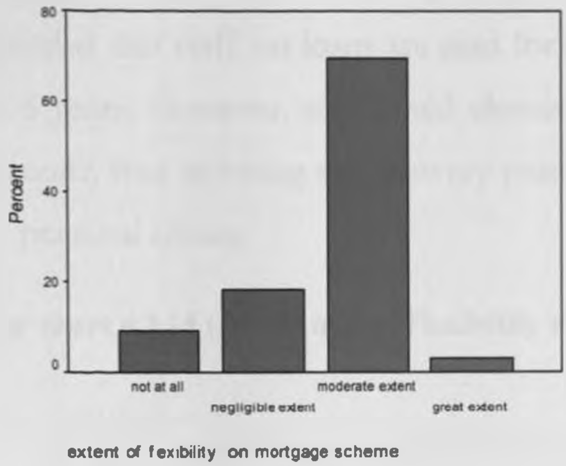
Respondents were required to show the extent of flexibility of retirement benefits scheme, mortgage scheme, car-loan scheme, medical benefits scheme, and educational assistance scheme. The findings are as shown below:-

Bar chart 4.3.15 (a) - Extent of flexibility of Retirement Benefits Scheme



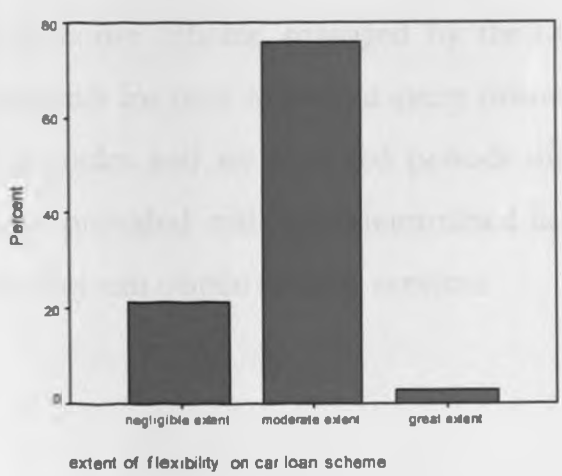
Bar chart 4.3.15 a) shows that the staff retirement benefits scheme is flexible only to a negligible extent. Documentary analysis showed that staff could choose to increase their contributions to the Pension Scheme voluntarily, above the mandatory minimum level of 5% of their basic salary.

Bar chart 4.3.15 (b) - Extent of Flexibility of Mortgage Scheme



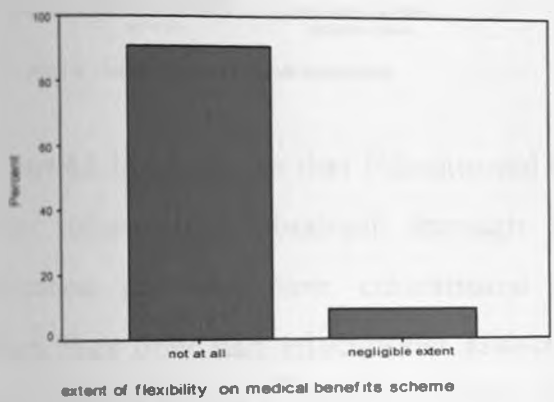
Bar chart 4.3.15 (b), shows that the Staff Mortgage Scheme is flexible, but to a moderate extent. Documentary analysis revealed that staff pay for houses at an interest rate of 5%, up to a maximum period of 20 years, depending on the employee's age. However, employees could choose to increase the recovery rate of the loan amount, thus reducing the recovery period. Taking a house loan was also a matter of personal choice.

Bar chart 4.3.15 (c) - Extent of Flexibility of Car Loan Scheme



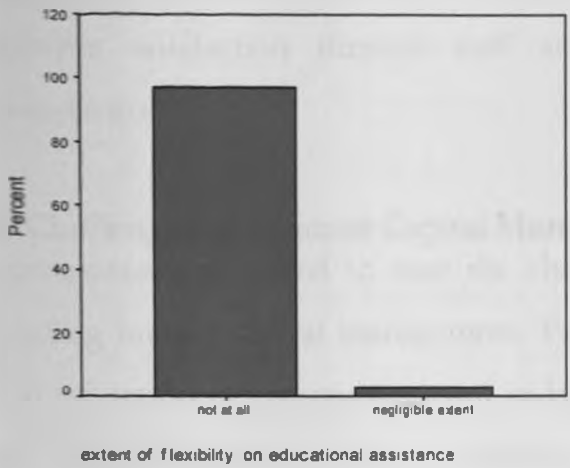
Bar chart 4.3.15 (c), shows that car loan scheme is flexible but to a moderate extent. Information obtained through interviews and documentary analysis revealed that staff car loans are paid for at an interest rate of 5% over a period of 6 years. However, staff could choose to increase recovery rate of the loan amount, thus reducing the recovery period. Taking a car loan was also a matter of personal choice.

Bar chart 4.3.15 (d) - Extent of Flexibility of Medical Benefits Scheme



Bar chart 4.3.15 (d), shows that staff medical benefits scheme is not flexible at all. Further information obtained through documentary analysis revealed that it is an in-house scheme, managed by the organization, where staff have fixed entitlements for out/ in-patient every financial year. The entitlements are based on job grades and are reviewed periodically, alongside other allowances. Staff are also provided with a predetermined list of recognized hospitals/ doctors where they can obtain medical services.

Bar chart 4.3.15 (e) - Extent of Flexibility of Educational Assistance Scheme



Bar chart 4.3.15 (e) shows that Educational Assistance Scheme was not flexible. Further information obtained through the interviews revealed that the organization did not have educational assistance scheme for dependent children; they only had educational assistance for staff that opted to pursue further studies, where a refund of 30% of tuition and examination fees was paid on successful completion of their course. Other form of assistance was through provision of library facilities.

4.3.16 a) Performance Measurement

Respondents were asked to indicate whether the organization carries out performance measurement and the tools used. The findings show that 33 (100%) respondents indicated that the organization carries out performance measurement through performance contracting. Performance Appraisal form is used as a tool for the measurement.

4.3.16 b) Human Capital Elements Measured by the Organization

Respondents were required to state the human capital elements which the organization measures. Findings indicate that the organization only measures employee satisfaction through staff surveys, in addition to performance measurement.

4.4. Challenges of Human Capital Management

Interviewees were asked to state the challenges which the organization faces regarding human capital management. Findings revealed that about one third (1/3) of employees in management cadre were due to retire in the next five years. This was seen to be a challenge because it would lead to loss of leadership and institutional knowledge, if not properly addressed. The hiring process was lengthy and characterised by political influence. This has locked out some of the best talents available in the country. Having the right people doing the right jobs at the right time was also seen to be a challenge. This was due to lack of proper placement/deployment of staff which is very demoralizing to staff.

Lack of adequate number of staff to perform core activities was also a challenge. This was due to lack of forecasting of supply and demand of employees, which led to shortage of staff in Customer Service Department. Generating a workforce with result-oriented culture was yet another challenge. Moreover, executing differentiation strategy in compensation, training and development policies has also been a great challenge. Consequently, the pay which is perceived to be equal for all employees in same grade was not equitable. This is because it is not commensurate to employees' performance or their contribution towards the achievement of organizational goals and objectives. Hiring of competitive employees is also hampered by the poor public image the organization suffers from, and uncompetitive salaries in some critical occupations such as Information Technology.

4.4.1 How Management is addressing the Challenges

The interviewees were asked to explain what the Management was doing to address the challenges given in 4.4. The findings are that the Management has formulated Management Succession Planning Policy, which is meant to provide guidance in the process of management Succession planning. The Management has also implemented major performance initiatives such as Total Quality Management (TQM), ISO standards, Customer-care orientation and performance contracting. In addition, the Management has designed a new performance appraisal system and formulated rewards and sanctions policy. They have also developed a customer service charter, internal communication policy, and career progression guidelines for employees. In addition, staff remuneration package and benefits have been revealed upwards. The Management is committed to creating a positive public image of the organization. This is being done through the media and other initiatives such as participation in agricultural shows, and assisting the socially disadvantaged through charitable organizations and other relevant bodies.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

This section summarizes the discussion of the findings presented in Chapter Four. The objective of the study was to determine the extent to which N.S.S.F has adopted Human Capital Management practices. Through the findings, the researcher has adequately established the Human Capital Management practices implemented by the organization, the extent to which these practices are implemented, the challenges the organization faces in implementing the practices, and the strategies being put in place to address these challenges.

The findings revealed that the organization has been able to attract, recruit and retain talented workforce to a moderate extent. Some of the retention strategies in which the organization scored highly include, explaining its mission, vision and values to its employees, equipping them with competencies required to achieve the organizational goals, and setting of clear performance standards for employees. However, the organization was rated very lowly on retention strategies such as provision of career opportunities to employees, reward and recognition practices, effective communication channels and execution of equitable pay, whose implementation is to a negligible extent only.

It was also rated very lowly on flexibility strategies for human capital planning, such as, flexibility of working hours and multi-skilling of employees, whose implementation, according to Atkinson, 1994, could facilitate greater operational and role flexibility in the organization. However, the findings indicate that the organization has implemented outsourcing strategy to a moderate extent, where services such as security, cleaning, and provision of tea for staff have been outsourced.

The findings further indicate that the organization conducts training and development programmes quite often, with a view to enhancing its resource capacity. This is consistent with literature review that a firm's human capital is the major source of competitive advantage. However, there is lack of differentiation in training and development of staff, as these programmes are neither based on employees' performance nor their positions (core/ support). They are instead driven by the organizational needs. According to Marshall and Tucker, 1992, training and development programmes should be targeted at employees in strategic positions such as core positions and who perform well, because of their ability to enhance the organization's competitive advantage.

The organization was found to be practising management succession planning through identification and development of potential successors as indicated by 33 (100%) respondents. The practice is a new development in the organization, which was necessitated by the need to address the challenge posed by the one third (1/3) of staff in management cadre who are due to retire in the next five years.

The findings further indicate that the organization's compensation policies and practices are neither based on employees' performance nor their positions (core/ support). They are to a large extent based on employees' job grades, their tenure, and collective bargaining agreement (CBA). Documentary analysis revealed that over sixty eight percent (68%) of the employees are unionized. Their terms and conditions of service are, therefore, agreed upon through collective bargaining between the union and Management.

These findings are contrary to the literature review which lays a lot of emphasis on differentiated compensation policy in HCM. Schuler, 1992 asserts that there should be a link between levels of performance and pay; the pay should have clear business logic on how it drives performance and should vary with performance rather than job grade or tenure. The pay should focus on equity and not equality as not all positions/ employees are equal in terms of their contribution towards the achievement of organizational goals. Some positions and some employees have more important influence in the execution of strategy than others (Nulty, 1995). They, therefore, need to be compensated more.

The findings indicate that the staff retirement benefits scheme, medical scheme and educational assistance scheme are not flexible; they do not allow for employee preference and/or trade off. However, there is flexibility on mortgage (TPS) and car loan schemes, but to a moderate extent. HCM emphasises on flexibility of benefits schemes to allow for employee's preference according to their prioritized needs.

On Human Capital Measurements, the organization was not highly rated by the respondents. This is because the only human capital elements that are measured by the organization are employees' performance and their satisfaction. Performance Measurement is done through Performance Contracting using Performance Appraisal Form as a tool for measurement. Performance appraisals are done only once in a year, contrary to the literature review which emphasizes on a continuous performance management process and use of a balanced scorecard as a tool for measurement. Employees' satisfaction on the other hand, is measured through staff surveys which are periodically conducted to determine the level of satisfaction.

In summary, the challenges faced by the organization in implementing HCM practices were found to be the forthcoming retirement wave, lengthy hiring process which is characterized by political influence, having the right people doing the right things at the right time, developing of result-oriented culture, executing differentiation strategy in compensation, and in training and development of staff, poor public image and uncompetitive salaries in some critical occupations such as Information Technology.

The Management, in response to the above given challenges have initiated Management Succession Planning in the organization, implemented major performance initiatives such as TQM, ISO standards, Customer-care orientation and Performance Contracting. They have designed a new Performance Appraisal System and formulated Rewards and Sanctions Policy. They have also developed a Customer Service Charter, Internal Communication Policy, a Human Resource Management Information System, and Career Progression Guidelines for employees. Staff remuneration package and benefits have also been reviewed upwards. In addition, the Management is striving to create a positive public image of the organization through the media, and by assisting the socially disadvantaged people through charitable organizations and other initiatives.

5.2 Conclusion

In this study, the researcher has reached the conclusion that the organization has implemented HCM practices, but to a negligible extent. Although the organization has implemented some of the HCM practices which include, enhancing the organization's capacity through staff training and development; setting of clear performance standards, explaining the mission, vision, and values to employees, outsourcing of non core activities, flexibility of staff mortgage (TPS) and car loan schemes, all to a moderate extent, a lot of HCM practices have not been adopted.

The practices that have not been implemented or have only been implemented to a negligible extent include, provision of career opportunities to employees, reward and recognition practices, effective communication, execution of equitable pay, enhancement of group cohesion, effective job designs, efficient recruitment and selection procedures, flexible working hours, multi-skilling of employees, execution of differentiation strategy on training and development, and also on compensation policy, flexibility of staff retirement benefits, medical, and educational assistance schemes, aligning of human capital planning with the overall corporate strategy, forecasting of supply and demand of employees, placement/ deployment of employees in the right jobs, and human capital measurement which is the defining characteristic of HCM.

5.3 Recommendations

The researcher has made recommendations for action by the N.S.S.F Management and for further studies as presented below:-

5.3.1 Recommendations for Action by Management

The N.S.S.F management should implement a differentiated compensation policy where pay is related to performance rather than job grade and tenure. This will shape and link employees' behaviour to performance and help them know what is expected of them and how they are doing, so they can improve. It will also provide clear business logic on how pay drives performance.

The Management should improve on human capital measurement by considering other human capital elements such as training investment, employee turnover, and employee understanding of strategy, for measurement. A balanced score card should be used as a tool to measure performance for the organization as a whole, as opposed to performance appraisal form.

They should align human capital planning with the overall corporate goals and objectives. They should also practise forecasting of supply and demand of employees to anticipate the potential problem of surpluses and deficits. They should improve on multi-skilling of employees as an alternative strategy for satisfying human capital requirements.

Training and development programmes should first and foremost be targeted at employees in strategic positions such as the core positions, and to employees who perform well, since they have the ability to enhance the organization's competitive advantage. The Management should also motivate staff by providing them with career opportunities, rewarding and recognizing their exemplary performance and achievements, enhancing group cohesion, and designing jobs that maximize on skill variety, autonomy and feedback.

The Management should implement efficient recruitment and selection procedures and avoid political influence during recruitment process. They should implement strategies such as flexible working hours of employees for operational flexibility in the organization. Staff retirement benefits, medical and educational assistance schemes should be made flexible to allow for employee preference and trade off of the benefits.

5.3.2 Recommendation for Further Studies

Further research needs to be carried out particularly in the area of Human Capital Measurement for there is not much literature available on it.

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APPENDIX I

INTRODUCTORY LETTER TO RESPONDENTS

Alice Musyoka,
School of Business,
University of Nairobi,
P.O. Box 30197,
NAIROBI.

Dear Sir/ Madam.

RE: **SURVEY ON HUMAN CAPITAL MANAGEMENT PRACTICES**

I am a student pursuing a Master of Business Administration (MBA) degree at the University of Nairobi. I am carrying out a research project on human capital management practices in Parastatal bodies, a case of the National Social Security Fund. This is in partial fulfilment of the requirements for the award of master in Business Administration degree of the University of Nairobi.

You have been selected to participate in this study by providing the required information. Kindly provide the information by filling in the attached questionnaire.

This exercise is strictly for academic purposes and any information obtained from you will be treated with confidentiality.

Thank you in advance.

Yours Faithfully,

Alice Musyoka,
MBA Student, U.o.N

Mr. S. N. M. Nzuve,
Supervisor,
School of Business,
University of Nairobi.

APPENDIX II
QUESTIONNAIRE

This research is undertaken in partial fulfilment of the requirements for the award of an MBA degree of the University of Nairobi. The questionnaire is divided into four sections. Section I requires you to fill in your Biodata. Section II requires you to answer questions on Human Capital Management and section III requires you to respond to questions on Human Capital Measurements and finally section IV is on challenges of Human Capital Management.

SECTION I
RESPONDENT'S BIODATA

Please answer the following questions or tick (✓) where appropriate.

1. Name ____ (Optional)
2. Job Title ____
3. Department ____
4. Length of Service in the Organization.

   [ ] 10 years and above

   [ ] 5 – 10 years

   [ ] 1 – 5 years

   [ ] Less than a year

5. Highest Education Level.

   [ ] Degree and above

   [ ] Diploma

   [ ] A - Level

   [ ] O - Level

   [ ] Any Other (Please specify) ____________________

SECTION II
EXTENT OF IMPLEMENTATION OF HUMAN CAPITAL MANAGEMENT PRACTICES

Please tick (✓) the appropriate answers to the following questions:-

6. a) Has your organization attracted talented people?

   b) If yes, indicate the extent to which this practice is implemented.
   Use a scale of 1-5, where **1=Not at all. 2=Negligible Extent. 3=Moderate Extent. 4=Great Extent** and **5=To a very Great Extent.**

   1 2 3 4 5
   [ ] [ ] [ ] [ ] [ ]

7. a) Does your organization recruit the right number of talented workforce?

   b) If yes, indicate the extent to which this practice is implemented.
   Use a scale of 1-5, where **1=Not at all. 2=Negligible Extent. 3=Moderate Extent. 4=Great Extent** and **5=To a very Great Extent.**

   1 2 3 4 5
   [ ] [ ] [ ] [ ] [ ]

8. Using a scale of 1-5, where **1=Not at all. 2=Negligible Extent. 3=Moderate Extent. 4=Great Extent** and **5=To a very Great Extent**, indicate the extent to which the following retention strategies are implemented by the Management of your organization.

Retention Strategies	5	4	3	2	1
i) Execution of equitable pay systems					
ii) Explaining the organization's mission, vision and values to employees.					
iii) Provision of career opportunities to the employees					
iv) Effective communication channels					
v) Rewards and recognition practices					
vi) Setting clear performance standards					
vii) Equipping employees with competencies required to achieve expected performance standards.					

9. In your opinion, what practices does your organization need to implement in order to retain talented people?

   ....

   ....

10. a) Does your organization allow flexibility with regard to working hours for employees?

Yes [ ]   No [ ]

b) If yes, indicate the extent to which it is practised.
Use a scale of 1-5, where **1=Not at all. 2=Negligible Extent. 3=Moderate Extent. 4=Great Extent** and **5=To a very Great Extent.**

1	2	3	4	5
[ ]	[ ]	[ ]	[ ]	[ ]

11. a) Does your organization practise outsourcing as a flexibility strategy in Human Capital Planning?

Yes [ ]   No [ ]

b) If yes, indicate the extent to which it is practised.
Use a scale of 1-5, where **1=Not at all. 2=Negligible Extent. 3=Moderate Extent. 4=Great Extent** and **5=To a very Great Extent.**

1	2	3	4	5
[ ]	[ ]	[ ]	[ ]	[ ]

12. a) Does your organization practise multi-skilling as a flexibility strategy in Human Capital Planning?

Yes [ ]   No [ ]

b) If yes, indicate the extent to which it is practised.
Use a scale of 1-5, where **1=Not at all. 2=Negligible Extent. 3=Moderate Extent. 4=Great Extent** and **5=To a very Great Extent.**

1	2	3	4	5
[ ]	[ ]	[ ]	[ ]	[ ]

13. List any other numerical and functional flexibility strategies practised by your organization.

....

....

....

14. What would you recommend to your organization as a step towards improvement of Human Capital Planning?

....

....

....

15. a) Does your organization conduct learning and development programmes?

Yes [ ]   No [ ]

b) If yes, how often?

Quite often [ ]   Often [ ]   Less often [ ]

16. a) Does your organization have educational support facility?

Yes [ ]   No [ ]

b) If yes, how is it done?

By paying part of the fees for its employees who want to pursue further studies [ ]
By giving leave days to its employees [ ]
Promoting its employees after successful completion of their course [ ]
Others (Please specify) ....
....

17. Using a scale of 1-5, where **1=Not at all**, **2=Negligible Extent**, **3=Moderate Extent**, **4=Great Extent** and **5=To a very Great Extent**, indicate the extent to which learning and staff development practices are based on consideration of the aspects listed on the scale below.

Aspect	5	4	3	2	1
i) Employee's Performance					
ii) Employee's Position (Core/ Support)					
iii) Coaching Needs					
iv) Need for teamwork					
v) Need for Job rotation					
vi) Need for Mentoring					

18. a) Does your organization practise Management Succession Planning?

Yes [ ]   No [ ]

b) If yes, within what duration? Please tick appropriate.

1–2 years [ ]   3–4 years [ ]   5 years and above [ ]

c) Which factors influence Management Succession Planning in your organization? Please tick if applicable.

Age [ ] Experience [ ] Political Influence [ ] Social Status [ ]
Gender [ ] Skills [ ] Ethnic Background [ ] Shareholder's interests [ ]
Others (please specify)
....
....

19. Using a scale of 1-5, where **1=Not at all, 2=Negligible Extent, 3=Moderate Extent, 4=Great Extent** and **5=To a very Great Extent**, indicate the extent to which compensation policies and practices in your organization are based on the aspects listed on the scale below.

Item	**5**	**4**	**3**	**2**	**1**
i) Employee's Job Grade					
ii) Collective Bargaining Agreement					
iii) Employee's Position (Core/ Support)					
iv) Employee's Performance					

20. Use a scale of 1-5, where **1=Not at all, 2=Negligible Extent, 3=Moderate Extent, 4=Great Extent** and **5=To a very Great Extent** to indicate the extent of flexibility e.g. allowing for trade-off of the benefits, if applicable.

Benefit	**5**	**4**	**3**	**2**	**1**
i) Retirement Benefits Scheme					
ii) Mortgage Scheme					
iii) Car Loan Scheme					
iv) Medical Benefits Scheme					
v) Educational Assistance Scheme					

21. a) Does your organization measure Performance?

Yes [ ]   No [ ]

b) If yes, which tools are used?

Balanced Score card [ ]
Performance Appraisal Form [ ]
Others (Please Specify) ....
....

c) What Human Capital elements does your organization measure? e.g., Employee turn-over.

i) ....
ii)...
iii) ....

Thank You **for your time.**

APPENDIX III

INTERVIEW GUIDE FOR KEY INFORMANTS AT THE NATIONAL SOCIAL SECURITY FUND

HUMAN CAPITAL MANAGEMENT PRACTICES ADOPTED BY N.S.S.F

1. Has your organization attracted talented people over the years? If yes, to what extent have they been recruited into the organization?
2. What retention practices does your organization have in place?
3. In your opinion, what Retention Practices does your organization need to implement in order to enhance its Retention Capability?
4. Does your organization practise the following Numerical and Functional Flexibility Strategies? If yes, to what extent?
    i) Flexible working hours for employees
    ii) Outsourcing
    iii) Multi-skilling of employees
    iv) Contracting/ sub-contracting
5. What other flexibility strategies do you think the organization should implement?
6. What would you recommend to your organization as a step towards improvement of Human Capital Planning?
7. Does your organization conduct learning and development programmes? If yes, how often?
8. Does your organization offer any assistance towards employees' self-development? If yes, please explain how this is done.
9. What factors influence Learning and Development programmes in your organization?
10. Does your organization practise Management Succession Planning? If yes, what is the duration of the planning period?

11. Do the following factors influence Management Succession Planning in your organization? Please explain.
    i) Age
    ii) Experience
    iii) Employee competencies
    iv) Political Influence
    v) Ethnic background
12. Does your organization have compensation policy? If yes, please explain the extent to which the policy is based on the following aspects:-
    i) Employee's Job Grade
    ii) Collective Bargaining Agreement
    iii) Employee Position (Core/ support)
    iv) Employee's performance
13. What benefits does your organization offer to its employees?
14. Do the benefits allow for flexibility e.g., employee preference and/ or trade-off? If yes, what is the extent of flexibility of these benefits
15. Does your organization measure performance? If yes, what tools are used in the measurement?
16. What other Human Capital elements does your organization measure?
17. What challenges does your organization face in implementing Human Capital Management practices?
18. How is the N.S.S.F Management addressing these challenges?

<u>Thank You for your time</u>

Appendix IV

Measurement Elements - Chapter 2.12.3 refers.

The following are the measurement elements as given by The Council for Excellence in Management and Leadership (2002) report:-

A. ***Morale***

1. Absenteeism.
2. Accidents.
3. Employee turnover.
4. Director and manager turnover.
5. Employee satisfaction (staff survey measure).
6. Motivation Sickness.

B. ***Motivation***

1. Appraisal-completion rates
2. Percent of employees for who documented annual appraisal has been agreed.
3. Percent of jobs for which objectives have been documented.
4. Percent of jobs for which job descriptions exist.
5. Employee understanding of strategy (staff survey measure).
6. Employee retention
7. Director and manager retention
8. Working hours

C. ***Investment***

1. Benchmarked remuneration levels.
2. Directors and managers' salaries.
3. Training investment.

D. ***Long-term development***

1. Current management and leadership capability.
2. Potential management and leadership capability.
3. Management and leadership skill gaps.
4. Per cent of job holders for whom a development plan has been agreed.
5. Per cent of jobs for which competencies have been audited.
6. Training days.

E. ***External perception***

1. Job applications vis-à-vis vacancies.
2. Job offers vis-à-vis job acceptances.

APPENDIX V

Major Performance Initiatives for Organizations – Chapter 2.9.3 refers.

According to Torrington *et al*, 2005, the three levels of initiatives depending on the primary focus of the organization are as shown below.

Organizational Focus

- Learning organization
- Knowledge management
- Organizational development
- Investors in people
- Total Quality Management (TQM)
- Performance culture
- Lean production
- Business Process Re-engineering (BPR)
- Just in time (JIT)
- Standards: e.g. ISO9000
- Customer Care Orientation

Individual Focus

- Performance Management
- Performance related pay
- Self development/continuous development
- Empowerment

Team Focus

- High performance teams
- Cross functional teams
- Self-regulating teams