STRATEGIC HUMAN RESOURCE MANAGEMENT PRACTICES AND PERFORMANCE OF SUGAR MANUFACURING FIRMS IN WESTERN KENYA

OLUOCH MERCY FLORAH*

DR. MICHAEL OTIENO NYAGOL**

RABAH, SUSAN .A.**

ABSTRACT

The study used a cross-section descriptive survey design in which 8 human resource managers in 8 sugar manufacturing firms in Western Kenya were investigated. Strategic human resource management practices were based on the key functions namely: recruitment and selection, training and development, training effectiveness and evaluation, performance-based compensation, flexible benefits, employee relations practices, consultative performance appraisal and human resource planning. The study examined the performance of the firms based on performance indicators such as quality of products, services or programmes and development of new products, services or programmes, efficiency in operations, profitability and sales growth, using Pearson product moment correlation technique. The results revealed positive correlations ranging between 0.4 and 0.7 meaning that with improvement in Strategic Human Resource Management Practices, Firm Performance also increased. Thus the findings support the universalistic perspective.

* Department of Business Studies and Economics, Ramogi Institute of Advanced Technology Kisumu, Kenya

** School of Business and Economics, Jaramogi oginga odinga University of Science & Technology, Bondo, Kenya

Introduction

The current business environment is faced with rapid changes such as globalization, liberalization, technological innovation, competition to provide innovative products and services and changing customer and investor demands (Ansoff, 1991). To survive and overcome the challenges posed by the changes, organizations need to transform from an indigenous, costly and sub-optimal operations to performance-based systems (Porter, 1985). Organizations require the utilization of complex array of resources to achieve their ultimate objectives (Armstrong, 1999). They must mobilize their human, financial and material resources in the right mix in order to achieve a competitive advantage (Storey, 1992). Of the resources needed by firms, the human resource is the most potent and central in contributing to the corporate bottom-line and effectiveness. Manufacturing organizations invest heavily in production innovations such as advanced technology, computer- controlled machine tools and statistics process control. All these require the human capital. Strategic human resource management, the backbone of management of human capital, if properly configured, provides a direct and economically significant contribution to a firm's performance (Kandula, 2006).

Strategic Human Resource Management Practices and Firm Performance

Human resource processes and activities are frequently acknowledged to play a central role in providing a direct and economically significant contribution to a firm's performance (Pfeffer, 1994). Studies show that firms that engage in strategic human resource management practices are flexible and able to react swiftly to the changing global business environment (Huselid, 1995).

The key to sustaining competitive advantage is building core competencies. Strategic human resource management has been instrumental in helping organizations discover their core competencies. According to studies conducted on High Performance Work Practices, there is a positive relationship between strategic human resource management practices and critical outcome measures of firm performance such as corporate financial performance, productivity, product and service quality and cost control (Ramsay et al, 2006). Effective design of human resource practices result in employees' skills, competencies and productivity that make them to be a reliable source of competitive advantage (Russel et al, 1995). For performance to be realized, frontline human resource managers must be involved in decision making and work practices of the organization. For successful performance, strategic human resource management must be lined vertically and horizontally in the levels of organization. Three perspectives: the universal, contingency and configurational approaches have been used to describe the link between human resource management and firm performance. According to the universal approach, bundles of human resource practices, when effectively managed, have a direct influence on firm performance (Arthur, 1994; Huselid, 1995). On the other hand, contingency approach indicates that, human resource practices, matched with competitive requirements of a firm, can enhance performance. And according to configurational approach, an organization must develop a human resource system that achieves both horizontal and vertical fit.

Sugar Manufacturing Firms in Western Kenya

As a commodity, sugar can economically be derived from two products, namely sugarcane and sugar beet. Sugarcane is cultivated in the tropical countries while sugar beet is cultivated in the temperate world. Seventy percent of world sugar is produced from cane with the biggest world producers being Brazil, India and the European Union. The aim of sugar cultivation is to produce sucrose. Apart from the core function of producing sugar, there are other by-products that are derived from sugarcane such as sugar crystals, sugar syrup, molasses, bagasse and filter scum. These form raw materials for other industries hence sugar is a strategic and multinational product (Kenya Sugar Board, 2007).

Commercial sugar plantation was introduced in Africa during the colonial period. Currently, Kenya has eight operational sugar factories in Western Kenya region: Muhoroni, Chemelili, Mumias, Nzoia, West Kenya Millers, Butali, Kibos and South Nyanza Sugar Company. Unfortunately, Miwani collapsed. The eight form the main sugar factories in Kenya. The Government of Kenya active involvement in the expansion of the sugar subsector, particularly after independence, was among others to ensure self-sufficiency with exportable surplus in sugar production. Thus the sugar industry is one of the oldest industries in Africa and has generated considerable benefits for the respective national economies in several ways (Kenya Sugar Board, 2009).

The Government of Kenya established the Kenya Sugar Board (KSB) under the ministry of Trade and Industry which provides policy and regulatory guidance, forward planning and monitors project pre-feasibility. It is also mandated to regulate, provide and promote a competitive environment in the sugar sectors, encourage research and development as well as quality assurance among others. Initially the objectives of the sugar industry were to increase the country's GDP through export, open rural industrialization development, curb rural-urban migration and increase employment, create socio-economic enhancement, improve rural infrastructure and communication system as well as attain self-sufficiency in sugar production. At that time, the objectives had more of social than economic orientation. With global trend, the latter has been given more prominence. Sugar manufacturing firms in Western Kenya have realized a number of achievements in terms of improved factory performance and reduced cost of production. They are credited for being the largest direct employers in the region given that they are labour intensive. They have provided socio-economic boost to communities in the region. The factories are involved in contributions towards social corporate responsibility, health facilities, infrastructure and environmental conservation through agro-forestry andre-afforestation. Most of the factories have improved in their targets such as payment to farmers within 30 days upon delivery. There has also been a marked improvement in the sugarcane yield per hectare. Over the last ten years, production of sugar in the country has achieved 23 percent growth, that is, in 2001, 377, 438 tons was produced while in 2010 it was 523, 052 (Kenya Sugar Board, 2009).

However between 1998 and 2001, Kenya suffered from what was perceived to be the biggest crisis when the sugar sector was characterized by near collapse as most factories were in financial crisis. The sugar companies in Western Kenya are facing major challenges such as high cost of production compared to other sugar companies in countries in the COMESA region. Other challenges include low adoption of technology and low product base. The Kenya Government has carried far-reaching policy reforms and yet challenges still exist in the sugar industry. The government indicates that it has done all it could to address the major problems and the rest of the challenge would now require a stakeholder sector- wide approach. It is against this background that strategic human resource management can be adopted by the sugar factories to help in overcoming the challenges brought about by the changing business environment in the sugar sector (Report of Task force on sugar recovery, 2002).

Statement of the problem

The sugar manufacturing firms in Western Kenya play a major role in the economy of Kenya. For instance, domestic production of sugar saves the country in excess of US$250 million in foreign exchange annually (KSB, Year Book of Statistics). Despite the efforts undertaken by the sugar firms to increase their competitiveness regionally and globally, the performance continues to face challenges such as high cost of production, inadequate research, low technology adaptation and low product base. These challenges can be overcome by the firms if they adopt strategic human resource practices. The practices can impact positively on quality, innovation, efficiency, sales and profit for the firms. Perhaps the dilemma that the firms have been facing is how to configure the practices in order to achieve success. Most studies that centre on the linkage between strategic human resource management practices and firm performance have been conducted in the United States and United Kingdom (Gerhart, 2005; Ericksen and Dyer, 2005). Previous studies done in Kenya are limited and hence a need for more evidence from the Sugar Industry to support the link between strategic human resource management practices and firm performance. Furthermore, with exception of some studies such as those conducted by Huselid and his colleagues (Huselid, 1995; Huselid et al, 1997), much of the past research has looked at a single or a few practices at a time (Becker and Gerhart, 1996). However, this approach is relevant in the exploratory phase but deficient or inappropriate considering that a single or a few human resource practices may show a spurious significant relationship with the performance. Therefore, the natural research progression taken in this study examined many strategic human resource management practices simultaneously so that their joint effect can be understood better.

Objective of the study

The objective of the study was to determine the relationship between Strategic Human Resource Management practices and Firm Performance.

Relationship between strategic human resource management practices and firm performance

Conceptual Framework

SHRM Practices

- Recruitment and selection
- Training and Development
- Employee relations or participation
- Performance appraisal
- HR planning
- Compensation and benefits

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Firm Performance

- Quality of product, services or programmes
- Development of new products, services or programmes
- Efficiency of operations
- Profitability
- Sales growth

Research Design

The study adopted a cross-sectional descriptive survey design where data was collected from all members of the population.

Data analysis

The data was analysed using SPSS. Analysis was done using descriptive statistics such as the mean, standard deviation, frequency distribution and percentages. Pearson Correlation statistical tool was used to establish the strength and significance of the relationship between strategic human resource management practices and firm performance

Relationship between Strategic Human Resource Management Practices and Organizational Performance

Relationship between strategic human resource management practices and performance was tested for strength and significance using Pearson product moment correlation technique.

Variable definitions for performance

X1 = Quality of products, services, or programs

X2 = Development of new products, services or programs

X3 = Efficiency of operations

X4 = Profitability

X5 = Sales growth

The results were presented in table 1 below.

Table 1: Results of the Correlation analysis for the relationship between Strategic Human Resource Management Practices and Organization Performance

Strategic human resource management practices	**Correlation coefficients**				
	R	R	R	r	R
	X1	X2	X3	X4	X5
Recruitment and selection	0.616	0.525	0.563	0.680	0.545
Training and development	0.695	0.673	0.505	0.591	0.581
Training effectiveness and evaluation	0.605	0.533	0.488	0.500	0.558
Performance based compensation	0.514	0.687	0.509	0.517	0.582

Flexible benefits	0.461	0.500	0.622	0.510	0.599
Employee relations practices	0.523	0.655	0.456	0.578	0.478
Consultative performance appraisal	0.583	0.672	0.570	0.584	0.524
Human resource planning	0.564	0.512	0.504	0.518	0.635
Overall correlation coefficient	**0.570**	**0.595**	**0.527**	**0.567**	**0.563**

The table above presents the results of the correlation analysis for the different aspects of strategic human resource management practices and performance. Each aspect of strategic human resource management practice was correlated with different aspects of performance namely quality of products, services, or programmes, development of new products, services or programs, efficiency of operations, profitability and sales growth. Performance aspects that had the highest correlation with aspects of strategic human resource management practices were taken to be the ones highly related to the strategic human resource management practices while those that had the lowest correlation were those that had the least relationship.

The first strategic human resource management practice was recruitment and selection. All its aspects had a positive correlation with profitability. For example, recruitment and selection had the highest correlation with profitability (r= 0.680). Recruitment and selection had the lowest correlation with development of new products, services or programmes (0.525).In the case of training and development the two components of training and development had the highest correlation of 0.695 with quality of products, services, or programs. However, this practice had the lowest correlation of 0.505 with efficiency of operations. Training effectiveness and evaluation had the highest correlation with quality of products, services or programmes indicated by 0.605. This practice has the lowest correlation with efficiency of operations shown by 0.488.

Performance-based compensation practices had the highest impact on development of new products, services or programmes. This is shown by a correlation coefficient of 0.687. However, these practices have the lowest correlation with efficiency of operations indicated by 0.509.

Flexible benefits had the highest relationship with efficiency of operations with a coefficient of 0. 622. This means that companies that have flexible benefits for their employees impact more on efficiency of operations. However flexible benefits had the lowest correlation with quality of products, services or programmes. This is indicated by a correlation coefficient of 0.461.

Employee relations practices had more impact on development of new products, services or programmes. This is shown by a coefficient of 0.655. The same practices had the lowest relationship with efficiency of operations. Consultative performance appraisal had the highest relationship with development of new products, services or programmes as indicated by a correlation of 0.672. However, this practice had the lowest relationship with sales growth as indicated by a correlation of 0.524.

Human resource planning related highly with sales growth with a coefficient of 0.635. However, the practice had the lowest relationship with efficiency of operations as shown by a correlation of 0.504.

In general, strategic human resource practices carried out by the sugar manufacturing companies had a positive relationship with performance as the Pearson correlation coefficient statistic figure was found to be 0.565; $P<0.05$; $n=8$.

Summary

From the study findings, it is evidenced that strategic human resource management practices have a positive relationship with firm performance. This shows that a firm that wants to develop a competitive advantage over its rivals should embrace these so called “best practices”.

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