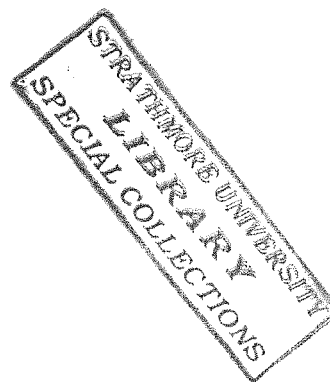


THE INFLUENCE OF HUMAN RESOURCE MANAGEMENT PRACTICES ON FIRM
PERFORMANCE IN THE KENYAN BANKING INDUSTRY

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Submitted in partial fulfillment of the requirements for the Degree of Master
of Commerce at Strathmore University

Strathmore University
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June, 2011

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6.

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DEDICATION

I dedicate this work to my family for their understanding and support during the study period.

ACKNOWLEDGEMENT

I wish to express my appreciation to my beloved family their understanding and their invaluable material and emotional support to concentrate on this research.

I would also like to express my sincere thanks to the supervisor for having agreed to supervise this research paper and her patience in reading the drafts, without which the research would not have been a reality.

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ABSTRACT

Over the last decade, much research has been conducted in the field of human resource management (HRM) and its associations with firm performance. For firms to survive in a global economy in the new millennium, they need to exploit all the available resources as a means of achieving competitive advantage. One resource recognized as providing a source of competitive advantage is the human resources of the firm.

The main objective of this study was to establish the influence of human resource management practices on performance of banks in Kenya. The specific objective of this study was to; establish the effect of selection and recruitment on performance; to gauge the effect of training and development on firm performance, to determine the effect of performance appraisal and compensation management on firm performance

The research used a descriptive quantitative approach. The target population of this study was all the 43 banks in Kenya. Piloting was carried out to test the validity and reliability of the instrument (questionnaire). The researcher perused the completed research instruments and document analysis recording sheets. Quantitative data collected using questionnaires was analyzed by the use of descriptive statistics using SPSS (Statistical Package for Social Sciences) and was presented through percentages, means and frequencies.

The findings show that recruitment and selection is effective but is done less often in the banks and that the application of the right practices in recruitment and selection enhances organizational performance. The study also found out that training and development alongside performance appraisals also affect performance of the commercial banks. On the same note, the study established that *reward* compensation affect the performance in the banks. The findings revealed that the banks had performance appraisal systems and were effective. The developmental purpose of performance appraisal is more productive in influencing organizational performance. Finally, the study established that for a remarkable firm performance, constant fixed salaries are better than higher ones, and irregular hourly rates and bonuses should be distributed to all employees who have helped the organization achieve goals.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

According to Pfeffer (1994), the increasing pressures from the rapid changes that are occurring in the business environment have led to a variety of responses among industrial organizations. Globalization of production and markets, the rate of technological innovation and fluctuation in consumer demand are among the factors that have increased the dynamism of the competitive environment to which organizations must respond. Over the last decade, much research has been conducted in the field of human resource management (HRM) and its associations with firm performance. Prior studies have found substantial positive evidence for statistical associations between HRM practices and improved firm performance. For firms to survive in a global economy in the new millennium, they need to exploit all the available resources as a means of achieving competitive advantage, (Lado & Wilson, 1994).

One resource recognized as providing a source of competitive advantage is the human resources of the firm. In support of this, many scholars have reiterated that the increasing interest in human resources is due to the assumptions that employees and the way they are managed are critical to the success of a firm (Kamoche & Mueller, 1996). Kamoche & Mueller, 1996 asserts that an effective and competitive human resource is the key to the strength of organizations in facing the challenges of business today. Hence, the importance of having a competitive human resource is synonymous with the success of today's organizations because an efficient and effective human resource will produce quality and productive individuals that can eventually minimize the problems that are related to human resource such as job dissatisfaction, absenteeism, or turnover of employees.

1.1.1 Human Resource Management Practices

Katou and Budhwar (2007) group HRM practices into two HRM systems, namely the HRM system aiming at attracting and developing human resources, and those aiming at retaining human resources. Among the HRM practices aimed at attracting and developing employees are

recruitment and selection, training and development; and those aimed at retaining employees are performance appraisals and reward and compensation systems.

Such activities have been linked to organizational competitiveness, increased productivity, higher quality of work life and greater profitability (Cascio, 1992, Schuler and Jackson 1996). Consequently, many researchers link the Human capital with organizational performance through the HRM practices (recruitment and selection, training and development, performance appraisal and reward and compensation) (Cascio, 1992, Schuler and Jackson 1996). This assumption is shared by Katou and Budhwar (2007) who are of the opinion that human resource are capable of contributing to organization performance

However, some studies (Guest, 1997) show that it is important to examine HRM practices in as many settings as possible to justify these results. Consequently, it is worth establishing the effect of HRM practices on organization performance in a developing country, such as Kenya, as opposed to developed countries. Aycan et al., (2007) assert that the major differentiating factors between developed countries and developing countries which have an impact on HRM are contextual. Among the factors are economic, political, historical environments, and sociocultural characteristics of the workplace and society.

1.1.2 The Banking Industry in Kenya

The Kenyan banking industry is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted. The Kenya banking system is supervised by the Central Bank of Kenya (CBK). The CBK is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. As at December 2008 there were forty six banking and non bank institutions, fifteen micro finance institutions and one hundred and nine foreign exchange bureaus (Central Bank of Kenya Annual report, 2005).

The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banking sector's interest's. The KBA serves as a forum to address issues affecting members. The Banking sector in Kenya has continued to grow in assets, deposits, profitability

and products offering. The growth has been mainly underpinned by; an industry wide branch network expansion strategy both in Kenya and in the East African community region and automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional 'off-the-shelf banking products. Players in this sector have experienced increased competition over the last few years resulting from increased innovations.

Commercial banks in Kenya are significant for role they play in the growth of the economy. The banks are involved in financing developmental projects; development of industrial and agricultural sectors; transference of money; overcoming the problem of unemployment and encouraging young entrepreneurs. This makes the banking industry an area of interest for research.

Almost every commercial bank financial institution in Kenya has a HRM department whose role is to ensure highly managed workforce in enhancement of overall performance. The HRM departments are involved in various functions in a day's job and thus a highly effective team and appropriate manpower to runs. Corporate goals in the most of the banks are translated into viable realities and profits which are achieved through human element who play their due role in achieving the desired results.

Like many other organized sectors, the Kenyan banking industry has multi layer manpower for its various requirements of professionals and support staff. Some of the smart banks in Kenya have realized the need of performance appraisals, proper recruitment and selection practices, and have also taken steps to keep their work force motivated through proper encouragement like rewards alongside putting into place training and development programmes.

1.2 Problem Statement

Prior studies (Katou and Budhwar, 2007) have found substantial positive evidence for statistical associations between HRM practices and improved firm performance. For firms to survive in a global economy, they need to exploit all the available human resources as a means of achieving competitive advantage. Human capital, such as skills, ability and motivation, must be aligned with the needs of the organization to improve performance (Pickles et al, 1999).

The banking has become a complex activity within the financial market linked directly and indirectly with an over-all national growth and its impact as an integral part of regional segment of a global banking environment thereby requiring proper HRM practices (recruitment and selection, training and development, remuneration and performance appraisal management practices) be put in place to enhance performance.

Most of the studies in HRM practices and organizational performance have been conducted in the West such as on the domestic operations of US firms, with a smaller number of studies carried out in developing countries (Guest and Hoq, 1992). Numerous studies have shown a positive relationship between HRM practices and organizational performance. However, some studies (Guest, 1997) show that it is important to examine HRM practices in as many settings as possible to justify these results. Budhwar (2007) assert that the major differentiating factors between developed countries and developing countries which have an impact on HRM are contextual. Among the factors are economic, political, historical environments, and sociocultural characteristics of the workplace and society. Consequently, it is worth establishing the effect of HRM practices on organization performance in a developing country, such as Kenya, as opposed to developed countries. Previous studies in Kenya are quite limited in investigating this phenomenon.

Furthermore, despite the abundance of studies in the West which revealed the positive effects of HRM practices on a firm's performance (Droge and Vickery, 1999), so far there is no consistent agreement on what to measure in regards to organizational performance (Becker and Gerhart, 1996). It is in this light that this study seeks to fill the gap on the influence of human resource management practices on firm performance in the Kenyan banking industry.

1.3 Research Objectives

The main objective of this study was to establish the influence of human resource management practices on performance of banks in Kenya.

1.3.1 Specific Objectives

The study sought to achieve the following specific objectives:

- i. To establish the effect of selection and recruitment on performance
- ii. To gauge the effect of training and development on firm performance
- iii. To determine the effect of performance appraisal on firm performance
- iv. To establish the effect of compensation management on performance

1.4 Research Questions

The study was guided by the following research questions;

- i. What are effects of selection and recruitment on performance?
- ii. What are effects of training and development on firm performance?
- iii. What are effects of performance appraisal on firm performance?
- iv. What are effects of Reward /compensation management on performance?

1.5 Justification

This research and its findings are considered important to provide insight into the various HRM practices needed to successfully perform in the banking sector in Kenya. In terms of theoretical significance, this study proposes to fill the gap in the body of knowledge in the practices of HRM in Kenyan banking firms. The aim of human resource practices is to provide a future direction, that is, to manage people in an organization in terms of the long-term planning of human resource management by aligning it with an organization's overall goal. Hence, the role it plays is of essence to a firm's performance success. Apart from physical, financial technological and intangible resources possessed by an organization, human resource is a major contributor to the organization's overall performance and overall success. The study is thus a major contribution to the Kenyan banks and their management in enlightening them on the relationship between human resource management practices and firm performance as relates to the banking industry.

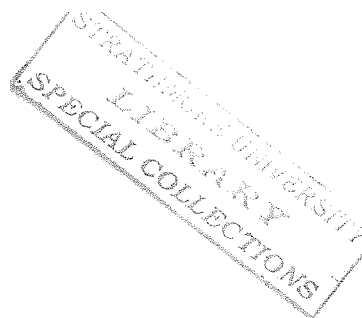
The study would also benefit other organizations for it would provide a foundation for their understanding of human resource management practices alongside making of the relevant policies regarding employees well being.

The study would acts as a source of reference material for future researchers on other related topics in human resource; it would also help other academicians who undertake the same topic in

their studies. The study also highlights other important relationships that require further research; this may be in the areas of relationships between human resource management practices and firm' s performance

1.6 Scope of the Study

The study is on the effect of human resource management practices on firm performance in the banking industry in Kenya. Currently, there are 43 registered commercial banks in Kenya and all the banks were to be included in the study .The researcher believed that this approach would provide adequate population for the study and therefore give reliable results and findings.



CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the related literature on the subject under study presented by various researchers, scholars, analysts and authors. The materials are drawn from several sources which are closely related to the theme and the objectives of the study.

2.2 HRM Practices and Firm Performance

Over the last decade, much research has been conducted in the field of human resource management (HRM) and its associations with firm performance. Prior studies have found substantial positive evidence for statistical associations between HRM practices and improved firm performance (Dessler, 2003). Human resource management (HRM) practices involve all management decisions and practices that directly affect the people, or human resources, who work for the organization. Previous studies indicate essential HRM practices, as workforce planning (Matthis & Jackson, 2004); job analysis (Cascio, 2006; Dessler, 2003); training and development (Kundo, 2003); recruitment and selection (Kulik, 2004); compensation and reward (Milkovich & Newmen, 1999); performance appraisal; career management; human resource information system; quality of work life, personnel diversity and employees attitude surveys (Armstrong, 2005) affect the performance of a firm. Similarly, Becker and Huselid (1998), Boselie (2002) and Guest (1997) assert that HRM practices affect organizational performance.

Recent studies (Katou and Budhwar, 2006) have identified four essential HRM practices namely; recruitment and selection, training and development, performance appraisal and compensation and reward. Huselid, Jackson and Schuler, (1997) argue that the four HRM practices or the "traditional practices" are generally preferred by managers to produce quality performance. Daud (2006) also supports the use of the four traditional HRM practices to evaluate the organizational performance.

Bjorkrnan and Budhwar, (2007) highlight the significant predictor of business performance. In this connection, researchers have used financial and non financial metrics to measure organizational performance. The financial measures include profit, sales, and market share. Non-

financial measures include productivity, quality, efficiency, and the attitudinal and behavioral measures such as commitment, intention to quit, and satisfaction (Dyer & Reeves, 1995). This study intends to establish the link between HRM practices (recruitment and selection, training and development, performance appraisal, and reward and compensation) and performance of organizations in the Kenyan banking industry.

2.2.1 Selection Recruitment and Firm Performance

Delany and Huselid, (1996) defined recruitment as, a process to discover the sources of manpower to meet the requirements of the staffing schedule and to employ effective measures for attracting that manpower in adequate numbers to facilitate effective selection of an efficient workforce. It is the process of searching for prospective employees and stimulating them to apply for jobs in the organization. Recruitment is a linking function' i.e joining together those with jobs to fill and those seeking jobs. It is a 'joining process' in that it tries to bring together job seekers and employer with a view to encourage the former to apply for a job with the latter. According to Myloni et al. (2004), recruitment and selection primarily aims at attracting maximum number of highly talented applicants and selecting the best in order to achieve competitiveness in the firm. The process entails concerted efforts by management to ensure implementation enduring success of organizational goals, Delany and Huselid (1996) established that practicing an effective recruitment and selection process has positive relationship with organizational performance. Effective selection system based on modern and need-based tests is essential to affect desirable selection. However, considerable resources are needed to ensure the effectiveness of these selection tests (Pfeffer, 1995).

A major issue in the recruitment and selection of staff has been concerned with the process of identifying relevant qualities that are required of existing and potential applicants that will enable an appropriate match to occur between person and job. The tool traditionally used to identify these qualities has been job analysis. Job analysis can be categorized into task oriented and person oriented methodologies (Myloni, 2004). Task oriented methodologies generate a list of the activities that are required of the jobholder as derived from research of the job. Recent developments such as flexibility, teamwork, and multi-skilling also limit the usefulness of such task-oriented approaches.

In order to attract the right people for the right jobs and for an enhanced organizational performance, Pfeffer, (1995) asserts that, an organization must communicate the position in such a way that job seekers respond. To be cost effective, the recruitment process should attract qualified applicants and provide enough information for unqualified persons to self-select themselves out. Management has to attract more candidates in order to increase the selection ratio so that the most suitable candidate can be selected out of the total candidates available. Recruitment is positive as it aims at increasing the number of applicants and selection is somewhat negative as it selects the suitable candidates in which process; the unsuitable candidates are automatically eliminated. Under the circumstances prevailing on the relationship between selection/recruitment and firm performance, it is worth establishing the effect of such HRM practices on firm performance in Kenya, (Bae, Chen & Lawler, 1998).

2.2.2 Training/development and Firm Performance

Training and development for performance is a subsystem of an organization that emanate from two independent yet interdependent words training and development. Training is often interpreted as the activity when an expert and learner work together to effectively transfer information from the expert to the learner (to enhance a learner's knowledge, attitudes or skills) so the learner can better perform a current task or job. Training activity is both focused upon, and evaluated against, the job that an individual currently holds (Learner, 1986). Development is often viewed as a broad, ongoing multi-faceted set of activities (training activities among them) to bring someone or an organization up to another threshold of performance.

Training and development enables people to acquire new knowledge, learn new skills and perform tasks better. Training designs summarize all that is required in training to enable the trainee, upon completion, to perform efficiently. "Training focuses on learning the skills, knowledge, and attitudes required to initially perform a job or task or to improve upon the performance of a current job or task, while development activities are not job related, but concentrate on broadening the employee's horizons" (Nadler and Wiggs, 1986) all of which can affect performance. Training focuses on the current job, while development concentrates on providing activities to help employees expand their current knowledge and to allow for growth.

Types of development opportunities include mentoring (the passing on of knowledge by a more experienced, possibly older person, to a less experienced one, through enabling a better understanding, providing guidance and support, career counseling (process of making a effective correlation between the internal psychology of a candidate with the external factors of employability and courses.), management and supervisory development, and job training (Cherrington, 1995). Changing business environment necessitates that learning organizations should spend on training and development of employees to enhance organizational ability to positively respond to the dynamic environment, (Jarventaus, 2007).

Cherrington, (1995) suggests that some of the benefits of training include: (1) orienting and informing employees, (2) developing desired skills, (3) preventing accidents through safety training, (4) supplying professional and technical education, and (5) providing supervisory training and executive education. Some of the benefits are reducing the learning time for new hires, teaching employees how to use new or updated technology, decreasing the number and cost of accidents, providing better customer service, improving quality and quantity of productivity.

Bartel (1994) demonstrates that training has a positive influence on organizational performance. At the same time the knowledge, skills and expertise obtained through training and development are very important conditions of empowering staff to act and deal with customers based on that skill or knowledge, (Drucker, 1989). Simply, knowledge of the job content and context will enable service employees to solve customers' problems and answer customers' questions promptly saving time and effort for the customer, the manager and themselves. Knowledge is currently being touted as the basis of future competitiveness, (Swan et al., 2000). What is new about attitudes to knowledge today is the recognition of the need to harness, manage and use it like any other asset. An important goal of knowledge and knowledge renewal achieved through training and development (Spreitzer, 1995) and Goodale and Koemer, 1997) relate knowledge, skill and expertise to self-efficacy (the perception of confidence in one's ability to perform well). Thus, knowledge increases an employee's confidence in their decisions and more importantly in serving their customers. However, while knowledge and expertise have been heavily researched and many articles and books have tackled the issue, still there is a lack in empirically exploring

the relationship between these constructs and the empowerment of customer-contact employees. This leads to the development of the first proposition.

For example, investments in training programs made by low productivity companies have resulted in productivity growth large enough to reach the labor productivity levels of comparable businesses. Similarly Russell, Terborg and Powers (1985) have shown a strong positive relation between percentage of trained employees and performance. However, some authors (Jurich, 2001) argue that training is an expensive item. It is in this light that this study intends to establish the effect of training on performance of firms in the Kenyan Banking Industry.

2.2.3 Performance Appraisal and Firm Performance

Appraisal is the judgment of an employee's performance in a job, based on considerations other than productivity alone. Cherrington (1995) illustrates how performance appraisals serve several purposes, including: guiding human resource actions such as hiring, firing, and promoting; rewarding employees through bonuses, promotions, and so on; providing feedback and noting areas of improvement; identifying training and development needs in order to improve the individual's performance on the job; and providing job related data useful in human resource planning. When building the performance measures (Otley 1987) some basic questions need to be answered; what are the dimensions of performance that the organisation is seeking to encourage? How are appropriate standards to be set? What rewards and/or penalties are to be associated with achievement of targets. Setting of appropriate standards once the actual dimensions and performance measures have been established involves consideration of who sets the standards, at what levels the standards are set and whether the standards facilitate comparison across business units (Drury, 2004).

Appraisal, according to Smith (2000), involves the identification of cause and effect relationships on which employment and labor policies are based or can be based and are a routine process that organizations use to evaluate their employees. It is a systematic assessment that is as objective as possible of an ongoing program or policy, its design, implementation and results. Its aim is to appraise the relevance and fulfillment of objectives, efficiency, effectiveness, impact and sustainability.

Performance standards, actual dimensions and performance measures need to be agreed upon by the management and the employees in a university because the conventional performance "tools" namely schemes of work and records of work are only a "top dressing" which can only work if an employee is committed and motivated to do the work. Employees and the management team should collectively formulate performance agreements and plans as working documents incorporating provision for new demands and new situations as they arise. (Landy & Far, 1980) asserts that the objectives should be amended while work and personal development plans are updated. Performance and work should be integrated and everyone should be encouraged to learn from the successes, challenges and problems inherent in their everyday work.

Bdemardin and Russel, (1993) argued that wider communication of performance appraisal policies within organizational is essential to make employees clear about their specific role expected as contribution in organizational performance. Lee and Lee (2007) found that effective performance appraisal system improves productivity, and quality. Sang (2005) also established that a comprehensive, fair and customers' focused performance appraisal system improves business performance. Similarly, Rahman (2006) found that comprehensive performance appraisal enhance employees' commitment which enhances their performance.

Murphy and Cleveland, (1995) believe that performance appraisals can help organizations in four ways. First, they can enhance the quality of organizational decisions, ranging from promotions, layoffs, compensation and transfers. Second, they can enhance the quality of individual decisions, ranging from career choices to decisions about where to direct one's time and effort. Third, they provide a set of tools for organizational diagnosis and development. Finally, performance appraisals can affect employees' views of and attachment to their organization. Performance appraisal is a tool of management that can lead to better communication, motivation and feedback (Stivers and Joyce, 2000).

These studies have been carried out in developed countries and therefore we cannot conclude that the results will be similar in a developing country like Kenya. It is in this light that this study aims at gauging the effects of performance appraisal systems in a developing country like Kenya specifically in the banking industry

2.2.4 Reward /compensation and Firm Performance

Reward management is about how people are rewarded in accordance with their value to an organisation. It is concerned with both financial and non-financial rewards. An employee reward system consist of an organisation integrated policies, processes and practices for rewarding it's employees in accordance with their contribution, skill and competence and their market worth. Cole (2002), concurs that employers seeking staff that are rare or want to achieve fairness in pay in relation to effort, responsibility and other factors find that monetary incentives are needed to encourage employees to put extra effort. A reward system expresses what the organization values and is prepared to pay for. It is governed by the need to reward the right things to get the right message across about what is important. It is a well established principle that salary assessments should occur well after performance and reviews have been completed (Guest and Peccei, 1994). Compensation should be legal and ethical, adequate, motivating, fair and equitable, costeffective, and able to provide employment security (Cherrington, 1995). Compensation includes all forms of monetary return s and allied services provided to employees (Milkovich & Newman, 1999).

A comprehensive compensation mix augmented by an effective system of disbursement plays an effective role in attracting the best candidates, shaping employees, behavior and performance outcome, and facilitates retention of talents. Application of competencies enhances performance and improves effectiveness. Mathis and Jackson (2004) argued that a balanced, fair and competitive compensation and reward system affect the retention of employees and thus positively affect firm performance. A valence-based reward philosophy act as the driver or individual and team performance (Dreher & Dougherty, 2005). Strong evidence exists in literature about the positive and significant relationship of compensation and rewards on employees behavior and organizational performance. Chiu et al., (2002) stated that compensation and rewards significantly affects organizational outcome. Jyothi and Venkatesh (2006) found that competency-based pay and rewards improves quality of products and services, improves employees' behavior, and reduces accidents rates in the organization, thereby making strong contribution toward organizational performance. A study done by Chiu et al. concluded that an effective compensation and reward system increases sales, reduce staff turnover, and improve firms' performance. Armstrong (2002) asserts that the aim of reward management is to support

the attainment of the organisation strategic and short term objectives by helping to ensure it has skilled, competent, committed, and well motivated work force it needs. Reward systems vary (Mathis & Jackson, 2004) and they affect performance differently. This study intends to establish the effect of the reward systems practised in the Kenyan banking industry on performance of Banks in Kenya

2.3 Firm Performance

Organizational performance is a method of measuring the success of the organization to ensure that it achieves its goals usually in terms of profitability and growth, (Dreikorn, 1995). Guest (2001) reckons that as organizations link the maximization of performance with HRM practices, the HRM practices can enhance organizational image, interpersonal relations and commitment to the organization.

The success of an organization is gauged from several indicators both qualitative and quantitative (Fry et al., 1998). These include financial performance and non-financial performance. Performance measures may be cost-oriented or non-cost oriented and can be internal or external. Hence, performance measures may be categorized as shown below:

Table 1.1: Measures of firm performance

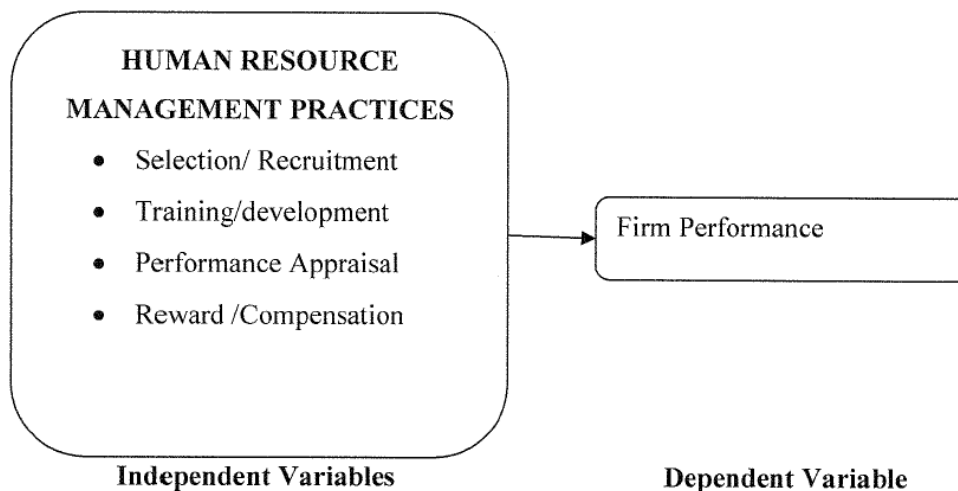
Cost oriented measures (Objective)	Non cost oriented measures (subjective)
Net profit	Product quality
Return on assets	Market share
Return on equity	Image
Annual sales growth	Interpersonal relations

Source, Author 2010

Although organizational performance is the most extensively used dependent variable in organizational research, it still remains vague and loosely defined (Rogers & Wright, 1998). Performance has been traditionally conceptualized in terms of financial measures; but so me scholars have proposed a broader performance construct that i ncorporate s non-financial measures including among others market share, product quality, and company image.

Financial measures of performance are criticized for lacking neutrality (Emmanuel et al., 1990); and encouraging short-termism (Wilson & Chau, 1993). Most management practices built around financial measures bear little relation to a company's progress in achieving long-term objectives. Financial measures are also criticized for lacking balance (Kaplan & Norton, 1996) because they are more concerned with physical assets and ignore, for instance, perspectives of customers, and internal business processes. Furthermore, where reports are dominated by financial measures, performance evaluation is weakened by the inherent limitations of financial information, succinctly expressed by Dixon et al (1990) who suggest that the measures are typically too irrelevant due to the accounting period delay and too summarised due to the length of the accounting period. The use of non-financial measures; market share, product quality, and company image are typically more preferred (Dixon et al 1990).

2.4 Conceptual Framework



Source; Author 2011

Figure 2.4.1 Conceptual framework linking the HRM practices and firm performance

This study produced a conceptual model linking the HRM practices (recruitment/selection; training/development; appraisal; and compensation/rewards). Studies show that HRM practices influence organization performance (Matthis & Jackson, 2004; Cascio, 2006; Dessler, 2003; Kundo, 2003; Kulik, 2004; Milkovich & Newmen, 1999).

2.5 Research Gap

This study was on influence of human resource management practices on performance of banks in Kenya. The study has therefore considered the effect of some of the major HRM practices on performance of commercial banks in Kenya. These factors were recruitment and selection, training and development, performance appraisal management and reward and compensation. A research gap therefore exists in that other practices of HRM and their effects on organizational performance can be studied. Their effects should also incorporate upcoming local and international organizations.

2.6 Chapter Summary

Chapter two has focused on the effect of HRM practices on firm performance. It also looked, specifically, at some of the measures used by firms to evaluate performance. The chapter also presents the conceptual framework which was built up by use of the dependent variable (firm performance) and the independent variables (selection, recruitment, training/development, performance appraisal and reward/compensation).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This study sought to find out the link between human resource management practices and organization performance in the Kenyan Banking industry. The chapter therefore describes the methods that were used in collection or gathering of data pertinent in answering the research questions. The chapter comprises the following sub- topics; research design, target population, research instruments, data collection procedures and data analysis procedures.

3.2 Research Design

The research used a descriptive quantitative approach. A descriptive survey is a process of collecting data from the members of a population in order to determine the current status of the subject under study with respect to one or more variables. The major emphasis of a descriptive study is to determine the frequency of occurrence or the extent to which variables are related (Mugenda and Mugenda, 1999).

According to Donald and Pamela (1998), a descriptive study is concerned with finding out the what, where and how of a phenomenon. Descriptive research design was chosen because it enabled the researcher to generalise the findings to a larger population. According to Mugenda and Mugenda (1999) it is important and appropriate to use data where subjects are observed in either natural set ups without manipulating the environment. It can be used when collecting information about people's attitudes and opinions. It is an efficient way to obtain information needed to describe the attitudes, opinions and views of the bank institutions management staff on the factors affecting strategy implementation.

3.3 Target Population

Target population in statistics is the specific population about which information is desired. According to Ngechu (2004), a population is a well defined set of people, services, elements, and events, group of things or households that are being investigated. This definition ensures that population of interest is homogeneous. Population studies are more representative because

every one has equal chance to be included in the final sample that is drawn according to Mugenda and Mugenda (1999).

The target population of this study was all the 43 commercial banks in Kenya. The researcher gathered information from respective headquarters within Nairobi (See Appendix III). The unit of analysis was the specialist HR managers.

3.5 Data Collection Tool

The study used primary data which targeted the HR managers of the banks under study. The questionnaires were completed by key decision makers involved in the human resource management. BeH, (1993) notes that use of questionnaire ensures that confidentiality is upheld, saves on time, it is very easy to administer. The questionnaires included structured and unstructured questions and were administered through drop and pick method to respondents who were HR managers of the banks. The structured questions were used in an effort to conserve time and money as well as to facilitate in easier analysis as they are in immediate usable form; while the unstructured questions were used so as to encourage the respondent to give an in-depth and felt response without feeling held back in revealing of any information. The questions elicited detailed information on the influence of human resource management practices being applied on performance.

3.6 Data Collection Procedure

The researcher administered the research instruments individually to the staff upon authority. While exercising care and control to ensure all questionnaires issued to the respondents are received, the researcher maintained a register of questionnaires, which were administered and those which were received.

Wiersma (1985) goes further to say that piloting is important as it helps the researcher to identify misunderstanding, ambiguities and useless or inadequate items. Therefore, the researcher was able to get rid of unclear items on the research instrument for the final study.

Piloting was carried out to test the validity and reliability of the instruments. Validity indicates the degree to which the instrument measures the constructs under investigation (Mugenda and



Mugenda, 1999). Validity was achieved by pre-testing the instrument to be used to identify and change any ambiguous, awkward, or offensive questions and technique as emphasized by Cooper and Schindler (2003). Reliability on the other hand refers to a measure of the degree to which research instruments yield consistent results (Mugenda & Mugenda, 2003). In this study, reliability was ensured by pre-testing the questionnaire with a selected sample of four respondents who were randomly picked from Equity bank limited. The findings of the pilot study were not included in the final findings.

3.7 Data Analysis and Reporting

The researcher perused the completed research instruments and document analysis recording sheets. Quantitative data collected using questionnaires was analyzed by the use of descriptive statistics using SPSS (Statistical Package for Social Sciences) and presented through percentages, means and frequencies. The information was displayed by use of tables and in prose-form. Content analysis and excel sheet figure were used to analyze secondary data and the open ended questions in the data collection too¹. According to Baulcomb, (2003), content analysis uses a set of categorization for making valid and replicable inferences from data to their context. This offered a systematic and qualitative description of the objectives of the study.

In addition, the researcher conducted a multiple regression analysis so as to determine the relationship between organizational performance and the variables of the study. The regression equation that will guide the study will be ($Y = 130 + J31X1 + J32X2 + J33X3 + J34X4 + E$):

Whereby Y = organizational performance

X_1 = Recruitment and Selection

X_2 = Training / Development

X_3 = Performance Appraisal

X_4 = Reward /compensation and Firm Performance

and 130 131 132 133 and 134 are the regression equation coefficients for each of the variables discussed.

3.8 Chapter Summary

This chapter explained a summary of the research design that was adopted by the study alongside the target population. The research used a descriptive quantitative approach and the target population of this study was all the 43 banks in Kenya. The study used primary data which targeted the HR managers of all the commercial banks in Kenya. The researcher administered the research instruments individually to the staff upon authority. The chapter also explains how piloting was carried out to test the validity and reliability of the research tool (questionnaire). Finally, the chapter closes by explaining how data from the field could be analyzed and presented.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter presents the analysis of study findings on the influence of human resource management practices on firm performance in the Kenyan banking industry. The research targeted all the 43 banks in Kenya. The data collection instruments, which were questionnaires, were distributed to respondents through hand delivery in the banks. However, out of the 43 questionnaires sent, only 36 questionnaires were sent back fully completed making a response percent of 83.7%.

4.2 Demographic Information

This section provides information related to the employees of the organisation.

The study required the respondents to indicate their gender. According to the findings shown in the figure 4.1 below, majority of the respondents were male as shown by 66.7% while females were 33.4% of the respondents. This is an indication that most of the employees/staff in the banks were male.

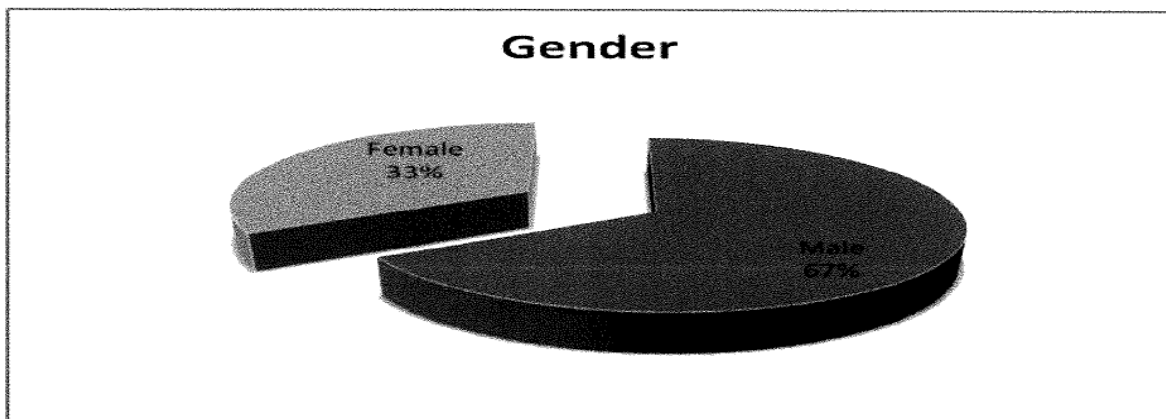


Figure 4.1: Gender of the Respondents

The study also required the respondents to indicate the bracket in to which their age fell. According to the findings shown by figure 4.2 below, the study found that the most of the respondents were between 35-40 years (30.6%), 22.2% were aged between 25-30 years, 16.7% were aged between 31-34 years, 13.9% were aged between 41-44 yrs, 11.1% were aged between 18-24 years while 5.6% were over 51 years. This is shown

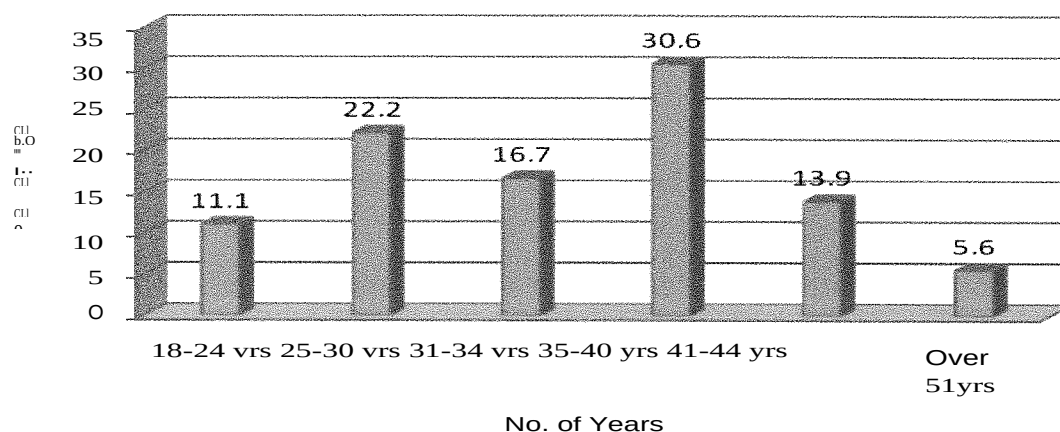


Figure 4.2: Age Bracket of the Respondents

The study sought to establish the duration the respondents had worked in their respective banking institutions; as shown in the table 4.2 below. According to the findings shown in the table 4.2 above, majority of the respondents as shown by a figure of (30.6%) had worked for their institutions for 6-10 years, 27.8% for less than 2 years, 22.2% for 2-5 years while 19.4 % had worked in their organizations for 11 years and more.

Table 4.2: Working duration **in** the organization

	Frequency (n=36)	Percentage (%)
Less than 2yrs	10	27.8
2-5yrs	8	22.2
6-10yrs	11	30.6
11 yrs and more	7	19.4
Total	36	100.0

The study also sought to establish the respondents' highest level of education; According to the findings (table 4.3), the study found out that most of respondents had a bachelors degree as shown by 44.4% of the respondents, 22.2% had masters, 13.9% had either a diploma or a higher national diploma as their highest level of education while 5.6% of the respondents had a certificate. This implies that majority of the respondents had at least a first degree and could give relevant information on the subject matter.

Table 4.3: Respondents' highest level of education

	Frequency (n=36)	Percentage (%)
Certificate	2	5.6
Diploma	5	13.9
Higher National Diploma	5	13.9
Bachelors Degree	16	44.4
Masters	8	22.2
Total	36	100.0

4.3 Organization Information

This section gives us a summary of information pertaining to the organization.

Concerning organizational information, the study required the respondents to indicate the number of years the organization has been in operation. From the study 38.9% of the organization had been in existence for over 30 years, 33.3% for 11-20 years, 13.9% for less than 5 years, 11.1 % for between 6-10 years while only 2.8% were in operation for a period between 20 and 30 years. This indicates that, majority of the organizations had been in operation for more than 10 years and therefore were familiar with the banking industry in Kenya therefore giving reliable information as sought by the study (see figure 4.3 below)

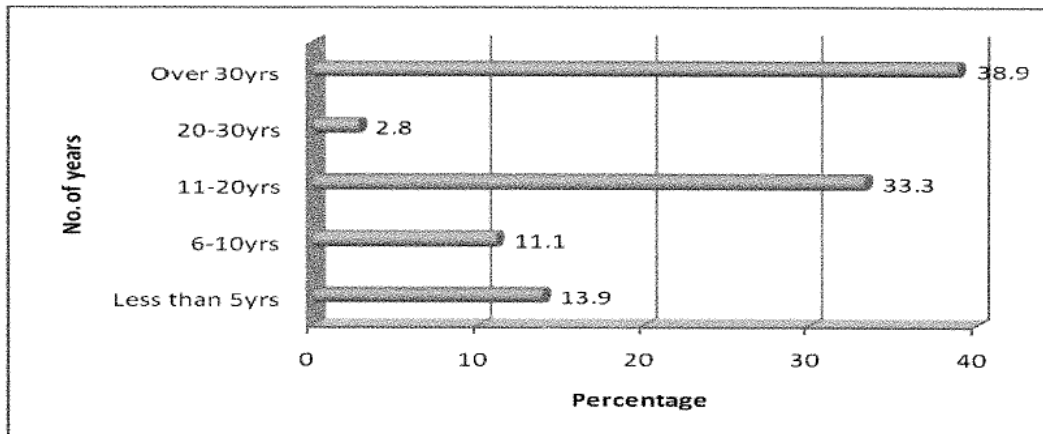


Figure 4.3: Number of years the organization has been operational

The study further sought to establish the size of the organization in terms of the current number of employees; According to the findings shown in the table 4.4 above, most of the banks had between 401-600 employees, 25% had over 600 employees, 11.1 % had either 100-200 employees or 201-400 employees. Those that had below 99 employees were 8.3% as show in table 4.4 below.

Table 4.4: Organization's Size

	Frequency (n=36)	Percentage (%)
Below 99	3	8.3
100-200	4	11.1
201-400	4	11.1
401-600	16	44.4
Above 600	9	25.0
Total	36	100.0

The respondents were also required to indicate the ownership status of the various banks they were working for; According to study findings shown in the figure 4.4 below, majority of the banks are wholly locally owned as shown by 61 %, 28% are joint ventures while 11.1 % of the commercial banks are wholly foreign owned.

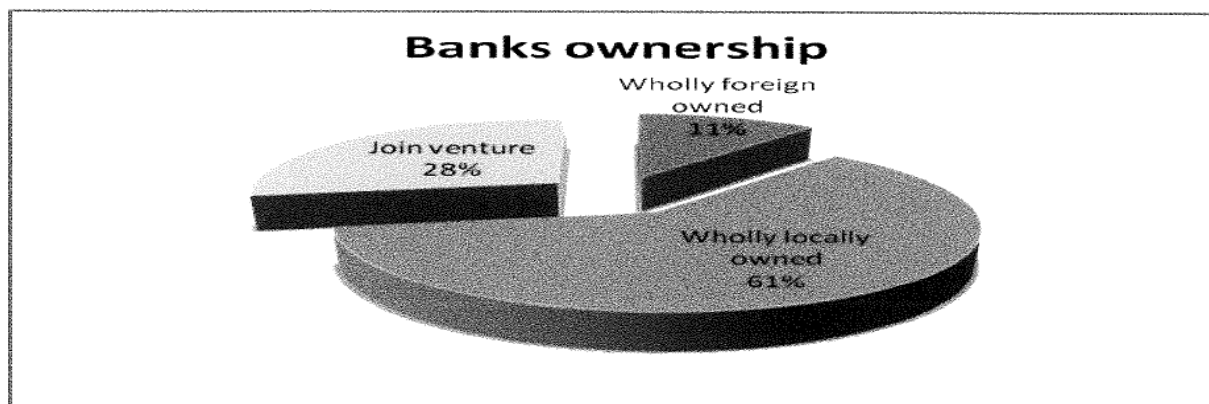


Figure 4.4: Ownership Status of the Organization

The respondents were required to indicate the target markets for the organization; According to the study findings indicated in table 4.5 below, majority of the banks (63.9%) targeted mainly local markets, 33.3% targeted both foreign and local markets while 2.8% of the registered commercial banks targeted foreign markets. This depicts that majority of the banks targets local market

Table 4.5: Target Market of the Organization

	Frequency (n=36)	Percentage (%)
Mainly foreign	1	2.8
Mainly local	23	63.9
Both foreign and local	12	33.3
Total	36	100.0

4.4 Selection Recruitment and Firm Performance

This section gives us a summery of the relation between selection and recruitment to performance.

The study expected the respondents to indicate the frequency of recruitment and selection in their respective banks. According to the data finding as recorded in the table 4.6 below, majority of the banks of the as shown by 46.3%, did recruitment and selection less often, 36.1 % did it often while 16.7% of the registered commercial banks did recruitment and selection most often.

Table 4.6: Frequency of Recruitment and Selection

	Frequency (n=36)	Percentage (%)
Most often	6	16.7
Often	13	36.1
Less often	17	46.3
Total	36	100.0

The figure 4.5 below presents the data findings on the effectiveness of recruitment and selection process in the commercial banks in Kenya. From the study findings majority of the respondent as shown by 58.3% stated that the recruitment and selection process in their banks was effective, 27.8% stated that it was very effective, while 8.3% and 5.6% were of the opinion that the recruitment and selection process in their banks was less effective and not effective at all respectively

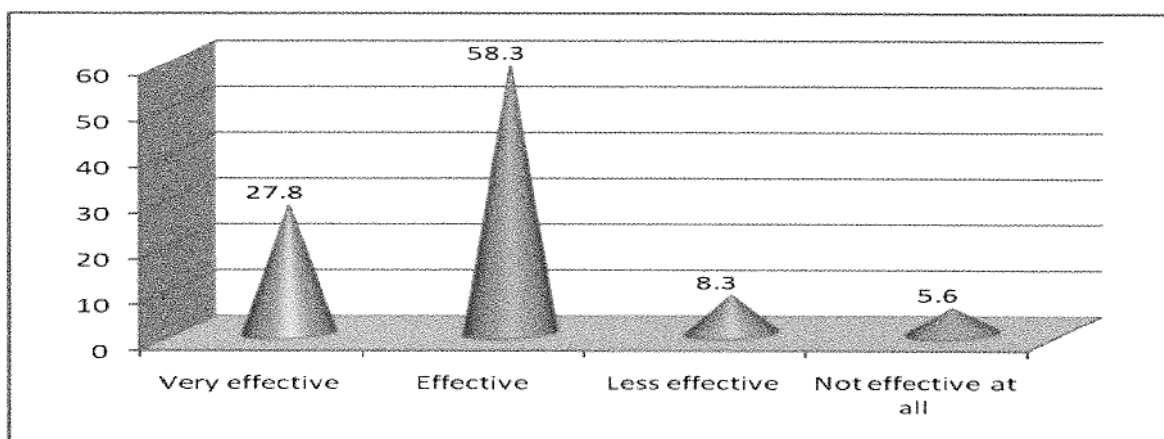


Figure 4.5: Effectiveness of the recruitment and selection process in the organization

The study required the respondents to indicate their level of agreement with the statements related to recruitment and selection as shown in table 4.7 below; According to the findings, majority of the respondents as shown by a mean score of 2.0000 agreed to some extent that selection for manual and physical skills is not based on job description and job specification. They also agreed to a moderate extent, (as shown by a mean score of 2.639) that vacant higher technical and problem solving positions are exclusively filled from outside the company. Other respondents as shown by a mean score of 2.7778 were in agreement that the job of the workforce is subjected to formal job analysis (in the context, job analysis is the study of the duties and responsibilities that comprise job content). On the same level of agreement as shown by a mean score of 2.8889, other respondents were in agreement that job performance is highly emphasized as a condition for internal selection. Still on the same level of agreement as shown by the mean scores of 2.9444 and 2.9722 respectively respondents were in agreement that recruitment and

selection in the organization aims at attracting maximum number of highly talented applicants and vacant managerial and higher technical positions are exclusively filled from within. A mean core of 3.5556 indicated that respondents agreed to a little extent that heavy recruitment occurs at entry level (recruitment from outside the organization) while the mean score of 4.5000 indicated that respondents strongly disagreed that the recruitment and selection process of getting highly qualified personnel is aimed at increasing organizational competitiveness and hence performance.

Table 4.7: Respondents level of agreement to statement related to recruitment and selection processes

Statement	Mean
Heavy recruitment occurs at entry level (recruitment from outside the organization)	3.5556
recruitment and selection in the organization aims at attracting maximum number of highly talented applicants	2.9444
The recruitment and selection process of getting highly qualified personnel is aimed at increasing organizational competitiveness and hence performance	4.5000
Vacant higher technical and problem solving positions are exclusively filled from outside the company	2.6389
The job of the workforce is subjected to formal job analysis (in the context , job analysis is the study of the duties and responsibilities that comprise job content)	2.7778
Selection for manual and physical skills is not based on job description and job specification.	2.0000
Vacant managerial and higher technical positions are exclusively filled from within.	2.9722
Job performance is highly emphasized as a condition for internal selection	2.8889
Average	3.035

Scale used for the table above:

Statement	1 To a great extent	2 To some extent	3 Moderate extent	4 To a small extent	5 Not at all
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4.5 Training / Development and Firm Performance

This section provide the relationship that exists between Training ad development and performance.

The study wanted to establish whether the banks they were currently working for offered training. On this question, all the respondents stated that their respective banking institutions offered training.

The study again required the respondents to rate the effectiveness of the training offered in the commercial banks. According to the results indicated in the table 4.8 below, majority of the respondents 50% stated that training in their banks was very effective, 27.8% said that it was effective, 19.4% stated that it was not effective at all, an insignificant number (2.8%) were of the opinion that training in their institutions was less effective.

Table 4.8: Effectiveness of Training Offered

	Frequency (n=36)	Percentage (%)
Very effective	18	50.0
Effective	10	27.8
Less effective	1	2.8
Not effective at all	7	19.4
Total	36	100.0

The study further sought to find out the respondents level of agreement with statements related to training and development. The data finding is as presented in table 4.9 above. The respondents were in agreement with the statements that the organization made use of formal training through training programmes as shown by a mean score of 1.97222, training evaluations based on performance were of ten conducted as shown by a mean score of 2.4167, management development and decision making was linked to both individual and organizational needs as shown by a mean score of 2.5000 and that training efforts were limited and informal as shown by a mean score of 2.5556. They were neutral on statement that the form of training offered includes mentoring, career counseling, management and supervisory development, and job training as

shown by a mean score of 2.6111. There was socialization of new employees (staff orientation) as shown by a mean score of 2.6389, the quality of training and development was highly linked to the overall organization performance as shown by a mean score of 2.6667, management development was aimed at management succession as shown by a mean score of 2.7500, the form of training and the processes enables people to acquire new knowledge, learn new skills and perform tasks better as shown by a mean score of 2.8333, and that without training employee performance cannot be achieved as shown by a mean score of 2.9722

Table 4.9: Level of agreement with statements related to training and development

Statement	Mean
The organization makes use of formal training through training programmes	1.9722
There is socialization of new employees (staff orientation)	2.6389
The form of training and the processes enables people to acquire new knowledge, learn new skills and perform tasks better.	2.8333
Management development and decision making is linked to both individual and organizational needs	2.5000
Management development is aimed at management succession	2.7500
Training efforts are limited and informal	2.5556
The form of training offered includes mentoring, career counseling, management and supervisory development, and job training	2.6111
The quality of training and development is highly linked to the overall organization performance.	2.6667
Training evaluations based on performance are often conducted	2.4167
Without training employee performance cannot be achieved	2.9722
Average	2.592

Scale used for the table above:

Statement	1 To a great extent	2 To some extent	3 Moderate extent	4 To a small extent	5 Not at all
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On the question of the extent to which training and development affect the performance in the respondents' banks, the figure 4.6 below shows that, majority of the respondents as shown by a figure of 52.8%, were of the opinion that training and development affect the performance of the commercial banks to a very great extent, 19.4% stated that it affected performance to a great extent, 8.3% said it affected it to either to moderate extent or to a little extent while 11.1 said that training and development did not affect performance of the banks under investigation.

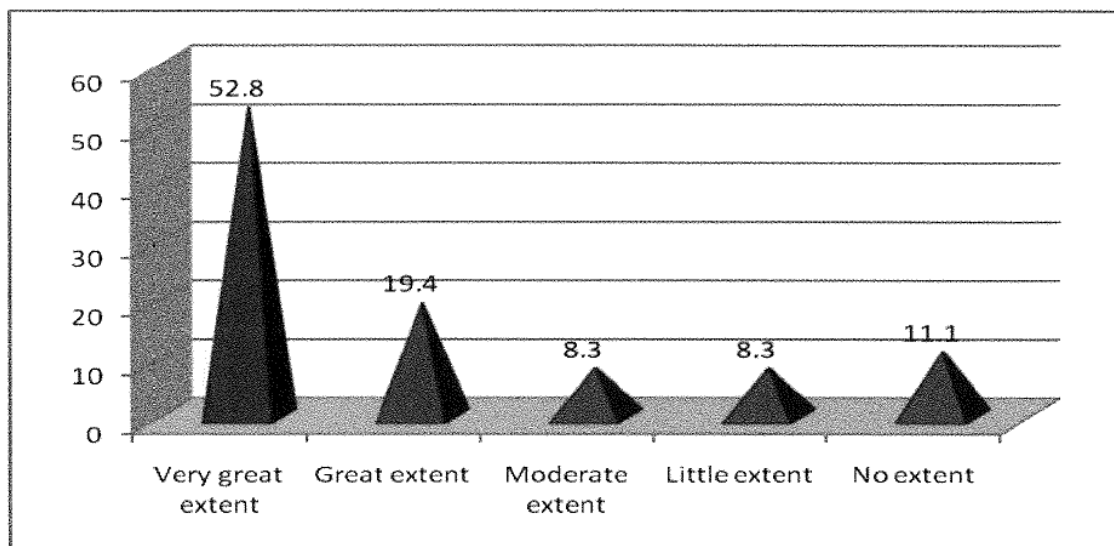


Figure 4.6: Extent to which training and development affect the performance of your organization

4.6 Performance Appraisal and Firm Performance

This section gives us the relationship that exists between performance appraisal and firm performance

The study aimed at finding out whether the banks under investigation had performance appraisal systems. According to the findings presented in the figure 4.7 below, majority of the banks (55.6%) had performance appraisal systems in place while 44.4% stated that their banks did not have performance appraisal systems in place.

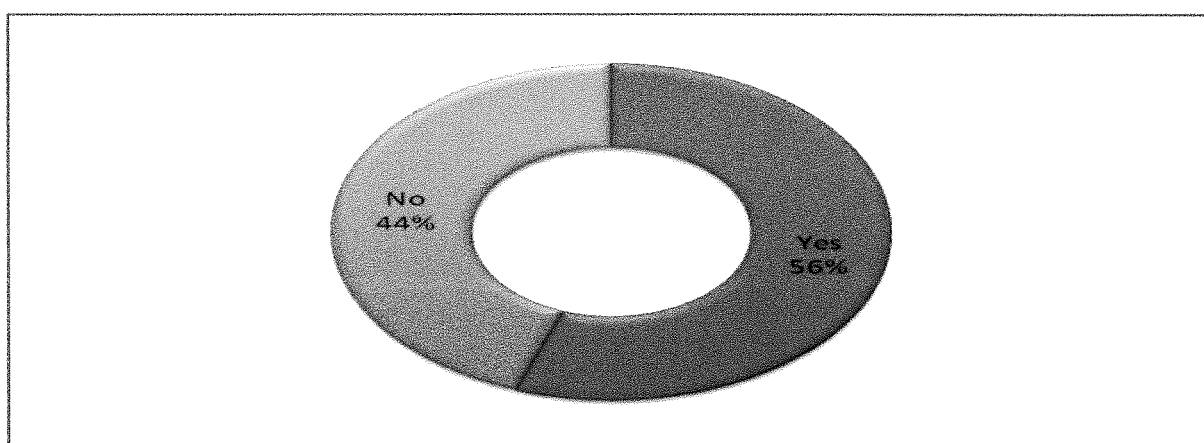


Figure 4.7: Whether the organization have performance appraisal system s

The study further sought to find out the effectiveness of the performance appraisal systems applied in the various commercial banks in Kenya; According to the results indicated in the table 4.10 below, majority of the respondents as shown by 52.8% stated that their performance appraisal systems was effective, 41.7% said that it was very effective while 5.6% were of the opinion that performance appraisal systems in their commercial banks were less effective.

Table 4.10: Effectiveness of the performance appraisal systems in your organization

	Frequency (n=36)	Percentage (%)
Very effective	15	41.7
Effective	19	52.8
Less effective	2	5.6
Total	36	100.0

The respondents were also required to indicate their level of agreement with the statements in the table 4.11 below. On the level of agreement with statements related to performance appraisals, the findings are as shown in the table 4.11 above whereby respondents were in agreement with the statements that appraisees are inclined to believe that appraisals results should be linked directly to reward outcomes- and were suspicious and disappointed when told this was not the case and that the aim of performance appraisals is to help determine reward outcomes (pay increases, bonuses and promotions) as shown by a mean of 2.4167. Appraisal results were used to identify the poor performers, who may require some form of counseling and that the developmental purpose of performance appraisal was more productive in influencing organizational performance as shown by a mean of 2.5278 and that performance appraisal was a vital means to offer promotion, recognition, and career development as shown by a mean of 2.5556. They were neutral on statements that staff development did not depend on employee appraisals as shown by a mean of 2.6389, performance appraisal was based on demonstrated achievement on performance objectives as shown by a mean of 2.6667 and that performance appraisals assisted were instrumental in identifying ways to help individuals improve their current positions and prepare for future opportunities as shown by a mean of 3.2778.

Table 4.11: Level of agreement with statements related to performance appraisals

Statement	Mean
The aim of performance appraisals is to help determine reward outcomes(pay increases, bonuses and promotions)	2.4167
Staff development does not depend on employee appraisals	2.6389
Performances appraisals assist are instrumental in identifying ways to help individuals improve their current positions and prepare for future opportunities	3.2778
Appraisal results are used to identify the poor performers, who may require some form of counseling	2.5278
Appraisees are inclined to believe that appraisals results should be linked directly to reward outcomes- and are suspicious and disappointed when told this is not the case	2.4167
Performance appraisal is based on demonstrated achievement on performance objectives	2.6667
Performance appraisal is a vital means to offer promotion, recognition, and career development	2.5556
The developmental purpose of performance appraisal is more productive In influencing organizational performance.	2.5278
Average	2.629

Scale used on the table above:

Statement	1 To a great extent	2 To some extent	3 Moderate extent	4 To a small extent	5 Not at all
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On the extent to which performance appraisals affected performance in the banks, most of the respondents as shown by 30.6% expressed that performance appraisals affected performance to a very great extent, 27.8% to a great extent, 22.2% to a little extent, 16.7% to a moderate extent; while 2.8% said that appraisals affect performance to no extent.

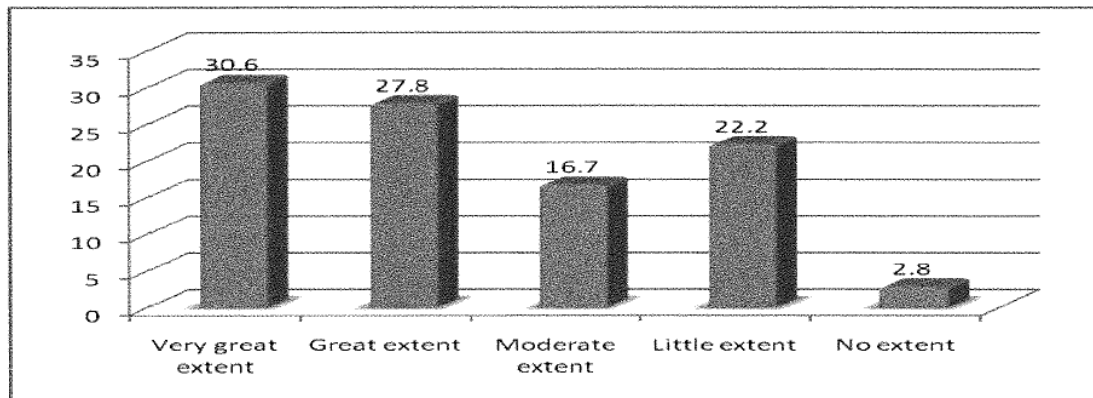


Figure 4.8: Extent to which performance appraisals affect the performance of your organization

4.7 Reward /Compensation and Firm Performance

This section provides information showing the relationship that exists between reward and compensation and firm performance

The study required the respondents to indicate their level of agreement with statements related to reward and compensation. According to the findings(see table 4.12 below), respondents were in agreement with the statement that for a remarkable firm performance constant fixed salaries were better than higher salaries; but irregular hourly rates as shown by a mean score of 2.1944, bonuses should be distributed to all employees who have helped the organization achieve goals as shown by a mean score of 2.3889. the respondents were also in agreement with the statement that a comprehensive compensation mix augmented by an effective system of disbursement played an effective role in attracting the best candidates, shaping employees, behavior and performance outcome, and facilitates retention of talents as shown by a mean score of 2.5000. Further, they were in agreement with statement that that employee reward system consist of an organization integrated policies, processes and practices for rewarding it's employees in accordance with their contribution, skill and competence and their market worth as shown by a mean score of 2.5278 and that compensation and rewards significantly affects organizational outcome as shown by a mean score of 2.5833. The respondents were neutral on statement that fairness of the pay structure within an organization was based on individual input as shown by a mean score of 2.6389 and the same salary and wage should be paid to every employee in a given job so long as an employee as shown by a mean score of 2.7222. They were also neutral on statement that compensation is based on individuals knowledge and skills; that is; employees should be paid for what they can do or talents, which they have (that can be used successfully to a variety of tasks and situations) as shown by a mean score of 2.7778 and that employees prefer to be paid a salary that marches what similar organizations pay their employees in the same position s as shown by a mean score of 2.8333

Table 4.12: Level of agreement with statements related to reward and compensation

Statement	Mean
Constant fixed salaries are better than higher ones, but irregular hourly rates	2.1944
Bonuses should be distributed to all employees who have helped the organization achieve goals	2.3889
Compensation is based on individuals knowledge and skills; that is; employees should be paid for what they can do or talents, which they have(that can be used successfully to a variety of tasks and situations)	2.7778
Employee reward system consist of an organisation integrated policies, processes and practices for rewarding it's employees in accordance with their contribution, skill and competence and their market worth.	2.5278
The same salary and wage should be paid to every employee in a given job so long as an employee	2.7222
Fairness of the pay structure within an organization is based on individual input	2.6389
Employees prefer to be paid a salary that marches what similar organizations pay their employees in the same positions	2.8333
Compensation and rewards significantly affects organizational outcome	2.5833
A comprehensive compensation rmx augmented by an effective system of disbursement plays an effective role in attracting the best candidates, shaping employees, behavior and performance outcome, and facilitates retention oftalents.	2.5000
Average	2.574

Scale used on the table above:

Statement	1 To a great extent	2 To some extent	3 Moderate extent	4 To a small extent	5 Not at all
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The study further sought to find out the extent to which rewardl compensation affected the performance in the banks. Most of the respondent stated that rewardl compensation affect the performance in the banks to a very great extent, 30.6% to a great extent, 13.9% stated that it affects to a little extent, 11.1 % were of the opinion that it affects to no extent while 2.8% stated that rewardl compensation affect the performance in the banks to moderate extent. Table 4.13 gives a summery of the findings.

Table 4.13: Extent to which rewardl compensation affect the performance of the organization

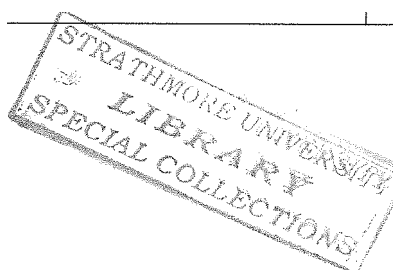
	Frequency (n=36)	Percentage (%)
Very great extent	15	41.7
Great extent	11	30.6
Moderate extent	1	2.8
Little extent	5	13.9
No extent	4	11.1
Total	36	100.0

4.8 Organizational Performance

Finally, the study also aimed at finding out the respondents' level of agreement with statements related to performance the banks. The results are as presented in table 4.13 below. The respondents were in agreement with the statements that individuals derive satisfaction from interpersonal relations in this organization as shown by a mean score of 2.3333 and that these organizations products are of superior quality when compared to those of competitors as shown by a mean score of 2.3611. They were neutral on statements that the organization performance was normally indicated by increased return on interest every consecutive year in the last five years as shown by a mean score of 2.6111. They were also neutral on statement organization had established a good image in the industry and that return on assets (ROA) of the organization had been remarkable over the last five years and net profit had been remarkable over the last five years of its operation as shown by a mean score of 2.6667. Further they were neutral on the statement that the organization had an established market share compared to the competitors as shown by a mean score of 2.7500.

Table 4.14: Level of agreement with statements related to performance of the organization

Statement	Mean
These organizations products are of superior quality when compared to those of competitors	2.3611
The organization has an established market share compared to the competitors	2.7500
This organization has established a good image in the industry	2.6667
Individual derive satisfaction from interpersonal relations in this organization	2.3333
Return on assets (ROA) of the organization has been remarkable over the last five years	2.6667
The organization performance is normally indicated by increased return on interest every consecutive year in the last five years.	2.6111
Net profit has been remarkable over the last five years of its operation	2.6667
Average	2.579



Scale used on the table above and below:

Statement	1 To a great extent	2 To some extent	3 Moderate extent	4 To a small extent	5 Not at all
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From the results presented above, the study established that reward compensation had the greatest effect on performance as shown by a mean of 2.574, followed by training / development as shown by a mean of 2.592, then performance appraisal as shown by a mean of 2.629 and finally selection recruitment as shown by a mean of 3.035.

Table 4.15: Summary of the descriptive statistics

	Mean
Selection Recruitment	3.035
Training / Development	2.592
Performance Appraisal	2.629
Reward Compensation	2.574

4.9 Regression Analysis

Further, the researcher conducted a regression analysis to establish the relationship between the variables. The results are as shown in the table 4.16 and 4.17 below;

Table 4.16: Coefficient of Determination (R²)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.919(a)	.845	.814	.46316

Source: Researcher, 2011

Predictors: (Constant), selectionl recruitment, training / development, performance appraisal and reward Icompensation).

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (performance) that is explained by all the four independent variables (selectionl recruitment, training/development, performance appraisal and reward Icompensation). The four independent variables that were studied, explain only 84.5% of the performance as represented by the R². This therefore means the four independent variables contribute about 84.5% to the performance while other factors not studied in this research contributes 15.5% of the performance.

Table 4.17: Multiple Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.005	0.311		4.285	0.000
	Selectionl Recruitment	0.336	0.164	0.193	0.876	0.032
	Training / Development	0.236	0.0481	0.0327	0.4069	0.023
	Performance Appraisal	0.268	0.0714	0.2325	2.7736	0.032
	Reward ICompensation	0.157	0.0501	0.0484	0.5759	0.010

Source: Researcher, 2011

The researcher conducted a multiple regression analysis so as to determine the relationship between the performance and the four variables. The regression equation ($Y = PO + P_1X_1 + P_2X_2 + P_3X_3 + P_4X_4$) will be:

$$Y = 1.005 + 0.336X_1 + 0.236X_2 + 0.268X_3 + 0.157X_4$$

According to the regression equation established, taking all factors (selectionl recruitment, training / development, performance appraisal and reward Icompensation) constant at zero, the performance of the banks will be 1.005. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in selectionl recruitment will lead to a 0.336 increase in performance. A unit increase in training / development will lead to a 0.236 increase in performance; a unit increase in performance appraisal will lead to a 0.268 increase in performance while a unit increase in reward Icompensation will lead to a 0.157 increase in performance.

At 5% level of significance and 95% level of confidence, Reward ICompensation had a significant level of 0.010 Training / Development had 0.012 level of significance while

Performance Appraisal had a significant level of 0.032 equivalent to that of Selection/ Recruitment which was 0.032. Hence the most significant factor in affecting performance was Reward /Compensation

4.10 Chapter Summary

A summary of the results of data analysis conducted on all banks in Kenya on the influence of human resource management practices on firm performance in the Kenyan banking industry. report of the analysis of the results of the study is summarized as below. The recruitment and selection is done less often in the banks but when it was done it was found to be effective and training and development affects the performance of the banks to a very great extent. Performance appraisals also affect performance to a great extent. It was also found that rewardl compensation affect the performance in the banks.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS 5.1

Introduction

This chapter presents the summary of the research findings on the influence of human resource management practices on firm performance in the Kenyan banking industry, conclusions and recommendations are drawn there to. The chapter is hence structured into summary of findings, conclusions, recommendations and area for further research.

5.2 Discussion of Findings

This section provides a summary of the findings and it discusses the results. These are done in line with the study objective.

5.2.1 Selection Recruitment and Firm Performance

According to the study, recruitment and selection is done less often in the banks and that the processes in their banks were effective. This indicates that the effectiveness of the recruitment and selection decreases the number of times the processes have to be carried out hence enhancing organizational performance. Majority of the respondents also agreed to some extent that selection for manual and physical skills is not based on job description and job specification.

They also agreed to a moderate extent that vacant higher technical and problem solving positions are exclusively filled from outside the company. This indicates that with the right recruitment and selection processes, the individual's performance is notable hence no needed of filling the vacant positions exclusively from outside. The application of the right practices in recruitment and selection enhances organizational performance.

The findings concur with (Cascio, 1992) and Schuler and Jackson, 1996 who state that human capital contribute to organizational performance through the HRM practices (recruitment and selection, training and development, performance appraisal and reward and compensation. They have the opinion that human resource is capable of contributing to organization performance.

5.2.2 Training / Development and Firm Performance

On training, the study found out that banking institution in Kenya offers training and that this training is very effective. It was also found out that the organization makes use of formal training through training programmes, training evaluations based on performance are often conducted, management development and decision making is linked to both individual and organizational needs and that training efforts are limited and informal. Training and development affects the performance of the banks to a very great extent as shown by the study. This is inline with Kundo, 2003, who was of the opinion that training and development is an essential HRM practices and that it affect organizational performance. Changing business environment necessitates that learning organizations should spend on training and development of employees to enhance organizational ability to positively respond to the dynamic environment, (Jarventaus, 2007).

5.2.3 Performance Appraisal and Firm Performance

According to the findings, majority of the banks had performance appraisal systems and these systems were effective. Bernardin and Russell, (1993) argued that wider communication of performance appraisal policies within organization is essential to make employees clear about their specific role expected as contribution in organizational performance. It has also been shown by the study that, appraisees are inclined to believe that appraisals results should be linked directly to reward outcomes- and are suspicious and disappointed when told this is not the case and that the aim of performance appraisals is to help determine reward outcomes (pay increases, bonuses and promotions), appraisal results are used to identify the poor performers, who may require some form of counseling. According to Otley 1987, when building the performance measures some basic questions need to be answered; what are the dimensions of performance that the organisation is seeking to encourage? What rewards and/or penalties are to be associated with achievement of targets. The developmental purpose of performance appraisal is more productive in influencing organizational performance and that performance appraisal is a vital means to offer promotion, recognition, and career development. According to the study, appraisals affect organizations performance to a great extent. This is in line with Sang (2005) who established that a comprehensive, fair and customers' focused performance appraisal system improves business performance. Similarly, Rahman (2006) found that comprehensive performance appraisal enhance employees' commitment thereby enhancing performance.

5.2.4 Reward ICompensation and Firm Performance

On the question on reward and compensation, the study found out that, for a remarkable firm performance, constant fixed salaries are better than high, and irregular hourly rates and bonuses should be distributed to all employees who have helped the organization achieve goals. This concurs Cole (2002) who stated that an employee reward system consist of an organisation integrated policies, processes and practices for rewarding it's employees in accordance with their contribution, skill and competence and their market worth. A comprehensive compensation mix augmented by an effective system of disbursement plays an effective role in attracting the best candidates and shaping employees, behavior and performance outcome, and facilitates retention of talents, employee reward system consist of an organisation integrated policies, processes and practices for rewarding it's employees in accordance with their contribution, skill and competence and their market worth and that compensation and rewards significantly affects organizational outcome. This concurs to Guest and Peccei, 1994 finding that salary assessments should occur well after performance and reviews have been completed. Rewardl compensation affect the performance in the banks at least to a great extent. Mathis and Jackson (2004) argued that a balanced, fair and competitive compensation and reward system affect the retention of employees and thus positively affect firm performance.

5.2.5 Organizational Performance

The study has also shown that, individual derive satisfaction from interpersonal relations in this organization and that these organizations products are of superior quality when compared to those of competitors. Youndt et al., 1996 suggest asking managers to assess their own firm's performance relative to others in the same industry or sector as a way of establishing organisational performance. Good interpersonal relations in an organization is a key as witnessed in the banks for it improves perspectives of customers, and internai business processes and thus improving on the performance of the organisation (Kaplan & Norton, 1996).

5.3 Conclusion

The study sought to establish the effect of selection and recruitment on performance. To this objective the study has concluded that recruitment and selection affected performance in the banks. This is a process of getting highly qualified personnel is aimed at increasing organizational competitiveness and hence performance. It was carried out less often in the banks but when it was done the study has revealed that it was effective.

The study also sought to gauge the effect of training and development on firms' performance. To this objective the study has concluded that training and development affects the performance of the banks to a very great extent. All the banks in Kenya offer training to the employees which is according to the study is effective. The banks offer training evaluations based on performance and management development and decision making is linked to both individual and organizational needs and that training efforts are limited and informal.

The study has also concluded that performance appraisals affect performance to a great extent. Majority of the banks had performance appraisal systems, the developmental purpose of performance appraisal is more productive in influencing organizational performance and that performance appraisal is a vital means to offer promotion, recognition, and career development. On reward and compensation, the study has concluded that, reward and compensation affect the performance in the banks to a great extent. A comprehensive compensation mix augmented by an effective system of disbursement plays an effective role in attracting the best candidates, shaping employees, behavior and performance outcome, and facilitates retention of talents and that compensation and rewards significantly affects organizational outcome.

5.4 Recommendations

The study recommends that the banks should endeavor to recruit qualified and skilled personnel to enhance their performance and thus the organizations'. It also recommends that the banks should prioritize recruitment from within the organization to retain talent and expertise.

To sharpen the employees' skill to perform their duties, the banks should constantly train their employees to enable people to acquire new knowledge, learn new skills and perform tasks better. This study therefore recommends that commercial banks should fully embrace the training and development of its employees as this has been found to have a great impact on the performance. Commercial banks should also ensure that it adopts the best training methods so as the training can be effective and yield results in as far as performance is concerned. The training offered should be job specific to enable the employee gain job specific skills and tactics to improve their performance.

The study recommends the bank should employ constant fixed salaries as opposed to irregular hourly rates to motivate its employees towards enhanced performance. To motivate the employees, the banks should also provide financial rewards as well as non financial rewards. Outstanding performance by the employees should not go unrewarded; this goes a long way to motivating the employees for repeated outstanding performance.

The management in the banks should encourage innovation by the employees to be able to design new products that enhances competitive advantage of the banks as well as creating good image upon its customers.

The study further recommends that managerial positions should not be exclusively filled from within. Outside expertise is also recommended to add more skills to the organization that may enhance performance.

The study recommends that banks should put more focus on training and development issues as well as reward and compensation systems. These have proved to be the ones that employees respond to well when it comes to determining their performance and further the overall performance of the banks

5.5 Limitations of the Study

The researcher encountered various limitations that were likely to hinder access to information sought by the study. The researcher encountered problems of time as the research was being undertaken in a short period with limited time for doing a wider research.

The respondents approached were reluctant in giving information fearing that the information they give might be used to intimidate them or print a negative image about the institution. The researcher handled the problem by carrying an introduction letter from the University and assured the respondents that the information they gave was to be treated confidentially and it was to be used purely for academic purpose.

5.6 Areas for Further Research

This study has reviewed on the influence of human resource management practices on performance of banks in Kenya. The same study should be carried out in other firms to find out if the same results would be obtained. This study was carried out in Kenya thus should also be carried out all over the world in commercial banks to find out if the same results would be obtained. The effect of other factors on firm/organizational performance should also be established.

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APPENDICES

APPENDIX I: Operational definition of the Key Variables

HRM Practices	Operational definition	Questions
Selection and recruitment	Selectivity in recruitment Selection of manual and physical skills Selection of technical skills Selection for problem solving skills	Objective 1 SECTION C
Training and development	Comprehensiveness Policies and procedural training Training for technical skills Training for problem solving skills	Objective 2 SECTION D
Performance appraisal	Performance appraisal Development focus Results based appraisal Behavior based appraisal	Objective 3 SECTION E
Compensation and reward	Hourly pay Salary Skill based pay Individual incentives Group incentives Individual equity External equity	Objective 4 SECTION F

Organizational performance	Image Subjective indicator: Perception of firms image compared to the competitors	SECTION G
Non financial measures	Interpersonal relations Subjective indicator: The degree to which the individual derives satisfaction from interpersonal relations Product quality Subjective indicator Extent to which organizations products are perceived to be of superior quality when compared to those of competitors	
Financial measures	Return on interest, Return on assets, Net Profit and Return on equity Indicators: Comparison of financial statements: The organizations yearly Return on interest, return on assets, Net profit and Return on equity as compared to its competitors.	SECTION G

APPENDIX 11: QUESTIONNAIRE

SECTION A: DEMOGRAPHIC INFORMATION Tick

where **appropriate**

1. Gender: Male [] Female []

2. Your age bracket (Tick whichever appropriate)

18 -24 Years [] 25 - 30 Years []

31 - 34 years [] 35 - 40 years []

41 - 44 years [] 45 - 50 years []

Over 51 years []

3. What is your designation

4. For how long have you served in organization?

Less than 2 years

2 - 5 years

6 - 10 years

11 years and more

5. What is your highest level of education?

Secondary school level
Certificate
Diploma
Higher National Diploma
Bachelors Degree
Masters
PhD Degree

SECTION B: ORGANIZATION INFORMATION

9. Please indicate the name of your organization

10. What is the age of the organization you work for (number of years it has been in operation since it was established)? Please tick

Less than 5 years ☐ 6- 10 years ☐ 11-20 years ☐ 20- 30
years ☐ Over 30 years ☐

8. What is the size of your organization (Total number of permanent employees)?

Below 99 employees ☐ 100- 200 ☐
201- 400 ☐ 401- 600 ☐
Above 600 ☐

9. What is the ownership status of the organization?

Wholly foreign owned ☐
Wholly locally owned ☐
Joint venture ☐
Any other form (.....)

10. What is the target market of the organization in percentage?

Mainly foreign ☐
Mainly local ☐
Both foreign and local ☐

SECTION C: SELECTIONI RECRUITMENT AND FIRM PERFORMANCE 11. How

often is recruitment and selection conducted in your organization?

Most often { Often {} Less often {

12. How effective is the recruitment and selection process in your organization?

Very effective Not {} Effective {} Less effective {} { }

effective at all

13. To what extent do you agree or disagree with the following statements related to recruitment and selection processes in your organization? Rate where 1 is to a great extent and 5 is to no extent.

Statement	1 To a great extent	2 To some extent	3 Moderate extent	4 To a small extent	5 Not at all
Heavy recruitment occurs at entry level (recruitment from outside the organization)					
recruitment and selection in the organization aims at attracting maximum number of highly talented applicants					
The recruitment and selection process of getting highly qualified personnel is aimed at increasing organizational competitiveness and hence performance					
Vacant higher technical and problem solving positions are exclusively filled from outside the company					
The job of the workforce is subjected to formal job analysis (in the context, job analysis is the study of the duties and responsibilities that comprise job content)					
Selection for manual and physical skills is not based on job description and job specification.					

Vacant managerial and higher technical positions are exclusively filled from within.
--

Job performance is highly emphasized as a condition for internal selection
--

SECTION D: TRAINING / DEVELOPMENT AND FIRM PERFORMANCE 14. a) Does

11. your organization offer training aimed at improving employee "17.1112""", ""

Yes { } No { }

b) If yes, how effective is the training offered?

Very effective { } Effective { } Less effective { } Not

effective at all { }

15. To what extent do you agree with the following statements related to training and development in your organization? Rate where 1 is to a great extent and 5 is to no extent.

Statement	1 To a great extent	2 To some extent	3 Not sure	4 To a small extent	5 Not at all
The organization makes use of formal training through training programmes					
There is socialization of new employees (staff orientation)					
The form of training and the processes enables people to acquire new knowledge, learn new skills and perform tasks better.					
Management development and decision making is linked to both individual and organizational needs					
Management development is aimed at management succession					
Training efforts are limited and informal					
The form of training offered includes mentoring, career counseling, management and supervisory development, and job training					
The quality of training and development is highly linked to the overall organization					

performance.

Training evaluations based on performance are often conducted

Without training employee performance cannot be achieved

16. Generally, to what extent does training and development affect the performance of your organization?

Very great extent { }

Little extent { }

Great extent { }

Moderate extent { }

No extent { }

SECTION E: PERFORMANCE APPRAISAL AND FIRM PERFORMANCE 17. Does

the organization have performance appraisal systems?

Yes {} No {}

18. How effective are the performance appraisal system s in your organization?

Very effective {} Effective {} Less effective {} Not

effective at all { }

19. To what extent do you agree with the following statements related to performance appraisals? Rate where 1 is to a great extent and 5 is to no extent.

Statement	1 To a great extent	2 To some extent	3 Not sure	4 To a small extent	5 Not at all
The aim of performance appraisals is to help determine reward outcomes(p _a increases, bonuses and promotions)					
Staff development does not depend on employee appraisals					
Performances appraisals assist are instrumental in identifying ways to help individuals improve their current positions and prepare for future opportunities.					
Appraisal results are used to identify the poor performers, who may require some form of counseling					
Appraisees are inclined to believe that appraisals results should be linked directly to reward outcomes- and are suspicious and disappointed when told this is not the case					
Performance appraisal is based on demonstrated achievement on performance					

objectives
Performance appraisal is a vital means to offer promotion, recognition, and career development
The developmental purpose of performance appraisal is more productive In influencing organizational performance.

20. To what extent do performance appraisals affect the performance of your organization?

Very great extent { } Great extent { } Moderate extent { }
 Little extent { } No extent { }

SECTION F: REWARD /COMPENSATION AND FIRM PERFORMANCE

21. To what extent do you agree with the following statements related to reward and compensation? Rate where 1 is to a great extent and 5 is to no extent.

Statement	1 To a great extent	2 To some extent	3 Not sure	4 To a small extent	5 Not at all
Constant fixed salaries are better than high, but irregular hourly rates					
Bonuses should be distributed to all employees who have helped the organization achieve goals					
Compensation is based on individuals knowledge and skills; that is; employees should be paid for what they can do or talents, which they have(that can be used successfully to a variety of tasks and situations)					
Employee reward system consist of an organisation integrated policies, processes and practices for rewarding it's employees in accordance with their contribution, skill and competence and their market worth.					
The same salary and wage should be paid to every employee in a given job so long as an employee					
Fairness of the pay structure within an organization is base don individual input					
Employees prefer to be paid a salary that marches what similar organizations pay their employees in the same positions					
Compensation and rewards significantly affects organizational outcome					

A comprehensive compensation rmx augmented by an effective system of disbursement plays an effective role **in** artracting the best candidates, shaping employees, behavior and performance outcome, and facilitates retention of talents.

22. To what extent do *rewardl* compensation affect the performance of your organization?

Very great extent { }	Great extent { }	Moderate extent { }
Little extent { }	No extent { }	

SECTION G: ORGANIZATIONAL PERFORMANCE

23. State the extent to which the following statements are true as regards the performance of your organization? Rate where 1 is to a great extent and 5 is to no extent.

Statement	1 To a great extent	2 To some extent	3 Not sure	4 To a small extent	5 Not at all
These organizations products are of superior quality when compared to those of competitors					
The organization has an established market share compared to the competitors					
This organization has established a good image in the industry					
Individual derive satisfaction from interpersonal relations in this organization					
The organization performance is normally indicated by increased return on interest every consecutive year in the last five years.					
Net profit has been remarkable over the last five years of its operation					

Becker and Huselid (1998)

APPENDIX III: List of Registered Commercial Banks in Kenya

- | | |
|--------------------------------------|--------------------------------|
| 1. ABC Bank (Kenya) | 23. Guardian Bank |
| 2. Bank of Africa | 24. Gulf African Bank |
| 3. Bank of Baroda | 25. Habib Bank |
| 4. Bank of India | 26. Habib Bank AG Zuri ch |
| 5. Barclays Bank | 27. I&M Bank group |
| 6. Chase Bank (Kenya) | 28. I&M Bank Limited |
| 7. Citibank | 29. Imperial Bank Kenya |
| 8. Commercial Bank of Africa | 30. Jamii Bora Bank |
| 9. Consolidated Bank of Kenya | 31. Kenya Commercial Bank |
| 10. Cooperative Bank of Kenya | 32. K-Rep Bank |
| 11. Credit Bank | 33. Middle East Bank Kenya |
| 12. Development Bank of Kenya | 34. National Bank of Kenya |
| 13. Diamond Trust Bank | 35. NIC Bank |
| 14. Dubai Bank Kenya | 36. Oriental Commercial Bank |
| 15. Ecobank | 37. Paramount Universal Bank |
| 16. Equatorial Commercial Bank | 38. Prime Bank (Kenya) |
| 17. Equity Bank | 39. CFC Stanbic Bank |
| 18. Family Bank | 40. Standard Chartered Bank |
| 19. Fidelity Commercial Bank Limited | 41. Trans National Bank Kenya |
| 20. Fina Bank | 42. United Bank for Africa [2] |
| 21. First Community Bank | 43. Victoria Commercial Bank |
| 22. Giro Commercial Bank | |

Source, Author, 2011

APPENDIX IV: Pilot Study Findings

The researcher conducted a pilot study whereby four respondents were randomly picked from Equity bank limited. The main aim of the pilot study was to assess validity and reliability of the instruments. The response rate was 100% since all the four questionnaires distributed were fully answered and corrected. The pilot study got responses from three male respondents (3) and one female respondent.

The main findings of the study were that with the application of the right practices in recruitment and selection organizational performance is ensured.

The findings also showed that training and development affects the performance of the banks to a very great extent.

The pilot study also showed that wider communication of performance appraisal policies within organizational is essential to make employees clear about their specific role expected as contribution in organizational performance.

As for reward and compensation, the pilot study found out that, for a remarkable firm performance, constant fixed salaries are better than higher ones.

