# HUMAN CAPITAL MANAGEMENT PRACTICES AND FIRMS PERFORMANCE: A SURVEY OF COMMERCIAL BANKS IN KENYA

BY

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# DECLARATION

This research project is my original work and has not been submitted for award of degree in any other university.

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This research project has been submitted for examination with my approval as university supervisor.

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# DEDICATION

I dedicate this research project to my husband Kirimi and our lovely daughter Sandra.

# ABSTRACT

The objective of the study was to determine the relationship between human capital management practices and performance of commercial banks in Kenya. It was carried out using a cross-sectional survey design as well as a correlational research. The study population and sample was 45 commercial banks. A total of 23 banks took part in the final survey. The primary data was generated through questionnaires whose respondents were heads of human resource departments in banks while secondary data was sought from the financial statements of banks by means of content analysis. In order to test for the relationship between HCM practices and firm performance, the Ordinary Least Squares (OLS) method was used to perform a regression analysis.

The investigation established that the most used human capital management practices were in recruitment excellence (mean of 3.83), collegial and flexible workplace (mean of 3.49) and rewards and accountability (mean of 3.32). The least used practice was communications integrity (mean of 2.45). The study also found that with the exception of communication, other human capital management practices had a positive influence on turnover growth. It is concluded that most commercial banks practice human capital management practices to an average degree. The study further concludes that human capital management practices generally have a positive influence on performance as measured by both turnover growth and return on assets. The study recommends that there is need for commercial banks in Kenya to take more measures by enhancing the human capital management practices as the scores for the practices are still low. There is also need for management to undertake serious measures that will help improve communication between top management and employees.

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# LIST OF ACRONYMS

| | |
|---|---|
| AAA | American Accounting Association |
| ATM | Automated Teller Machine |
| BSC | Balanced Scorecard |
| CBK | Central Bank of Kenya |
| CMA | Capital Markets Authority |
| GDP | Gross Domestic Product |
| GPM | General Performance Measure |
| HC | Human Capital |
| HCM | Human Capital Management |
| HR | Human Resource |
| HRA | Human Resource Accounting |
| HRM | Human Resource Management |
| IC | Intellectual Capital |
| NSSF | National Social Security Fund |
| OECD | Organization for Economic Cooperation and Development |
| OLS | Ordinary Least Squares |
| PMG | Pooled Mean Group |
| ROA | Return on Assets |
| SHRM | Strategic Human Resource Management |
| SPSS | Statistical Package for Social Sciences |
| TRS | Total Return to Shareholders |
| UK | United Kingdom |

| | |
|---|---|
| US | United States |
| VAIC | Value Added Intellectual Coefficient |

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

Recent years have witnessed an increasing interest in intellectual capital (IC) measurement, management and reporting. Intellectual capital refers to resources that determine value and competitiveness of an enterprise. According to Ax and Bjørnenak (2005), research activities in IC have focused on different issues. Organizations have different motivations as to why they focus on IC. These can be classified into two broad categories; internal and external. A review of the literature by Marr et al. (2003) identified four main internal reasons – to help organizations formulate their strategy, assess strategy execution, assist in diversification and expansion decisions, and use IC as a basis for compensation – and, one external – to communicate measures to external stakeholders. According to Kauffmann and Schneider (2004), IC can be categorized in different ways. For the purpose of this study, the focus will be on a sub-category of IC, namely human capital (HC), in line with other studies such as Abeysekera and Guthrie (2004), Stittle (2004) and Stiles and Kulvisaechana (2003). According to Abeysekera and Guthrie (2004), HC refers to a combination of factors possessed by individuals and the collective workforce of a firm. It can encompass knowledge, skills and technical ability; personal traits such as intelligence, energy, attitude, reliability, commitment; ability to learn, including aptitude, imagination and creativity; desire to share information, participate in a team and focus on the goals of the organization. It is the total useful knowledge of employees.

Human capital management (HCM) has been described by Keans (2005) as a 'paradigm shift' from the traditional approach to human resource management – a large claim. In this paper, this concept of human capital management is defined as so is its relationship to the concept of human resource management. Human capital management is concerned with obtaining, analyzing and reporting on data that informs the direction of value-adding people management, strategic investment and operational decisions at corporate level and at the level of front line management. From the words of Jackson (2007) 'Our people are our most valuable asset, yet we seldom take the time to really understand the knowledge they possess or map it to the capabilities we deliver. This statement underscores the fact that an organization's people are its most important asset because they define an organization, affect its capacity to perform, and represent the knowledge base of the organization.

### 1.1.1 The Concept of Human Capital

The concept of human capital has gained tremendous attention in today's study. Bontis (1999) defines human capital as representing the human factor in an organisation; the combined intelligence, skills and expertise that gives the organization its distinctive character. Armstrong (2006) defines human capital as all human abilities whether innate or acquired attribute, whose value can be augmented by appropriate development investment. Davenport (1999) observed that human capital consists of the intangible resources that workers provide for their employers.

Human capital can also be defined as knowledge, skills, attitudes, aptitudes, and other acquired traits contributing to production (Goode, 1959). Skills represent individual capacities contributing to production as an argument in the production function (Bowles, Gintis, and Osborne, 2001). According to Blundell, Dearden, Meghir, and Sianesi (1999), there are two main components of human capital with strong complementarity: early ability (whether acquired or innate) and skills acquired through formal education or training on the job. Human capital differs from other assets because it yields market returns only in proportion to the worker's supply of labor (Hall and Johnson, 1980). Ishikawa and Ryan (2002) suggest that it is the stock of human capital that predominantly determines the earnings of individuals. Cahuc and Zylberberg (2004) gives an extensive review of the theory of human capital.

In the opinion of Mayo (2001) the essential difference between HCM and HRM is that the former treats people as assets while the latter treats them as costs. Kearns (2005) believes that in HCM 'people are value adders, not overheads' while in HRM 'people are (treated as) a significant cost and should be managed accordingly'. The claim that in HRM employees are treated as costs is not supported by the descriptions of the concept of HRM produced by American writers such as Beer et al (1984). In one of the seminar texts on human resource management, they emphasized the need for: 'a longer-term perspective in managing people and consideration of people as potential assets rather than merely a variable cost'. Fombrun et al (1984), in the other seminar text, quite explicitly presented workers as a key resource that managers use to achieve competitive advantage for their companies. Both HRM in its proper sense and HCM as defined above treat

people as assets. William (in Oracle, 2005) argues that one cannot simply treat people as assets, because that depersonalizes them and leads to the danger that they are viewed in purely financial terms, which does little for all-important engagement.

There is more to both HRM and HCM than simply treating people as assets. Each of them also focuses on the importance of adopting an integrated and strategic approach to managing people, which is the concern of all the stakeholders in an organization, not just the people management function. The concept of HCM complements and strengthens the concept of HRM. It does not replace it. Both HCM and HRM can be regarded as vital components in the process of people management (Armstrong, 2006). In his original model, Becker (1964) distinguishes between general and specific human capital. General human capital is defined to be not only useful with the current employer but also with other potential employers. In contrast, specific human capital increases the productivity of the worker only in his current job. Empirically, it is difficult to distinguish between general and specific training. Loewenstein and Spletzer (1999) tried to overcome this problem by directly asking employers whether they assess the provided training to be general or specific. The Accounting for People Task Force Report (2003) stated that HCM involves the systematic analysis, measurement and evaluation of how people policies and practices create value. The report defined HCM as 'an approach to people management that treats it as a high level strategic issue rather than an operational matter' to be left to the HR people. The Task Force expressed the view that HCM 'has been under-exploited as a way of gaining competitive edge'.

Nalbantian *et al.* (2004) emphasize the measurement aspect of HCM. They define human capital as 'the stock of accumulated knowledge, skills, experience, creativity and other relevant workforce attributes' and suggest that human capital management involves 'putting into place the metrics to measure the value of these attributes and using that knowledge to effectively manage the organization'. HCM is defined by Kearns (2005) as 'the total development of human potential expressed as organizational value.' The author believes that 'HCM is about creating value through people' and that it is 'a people development philosophy, but the only development that means anything is that which is translated into value'. Strategic human capital management or talent management is contingent upon integration of disparate HR functions, processes, and systems. These include performance management, hiring, succession planning, compensation, learning and development, employee records and talent profiles, and workforce analysis (Bonadio, 2008).

### 1.1.2 Firms performance

According to Divenney et al., (2008) firm performance encompasses three specific areas of firm outcomes: (a) financial performance (profits, return on assets, return on investment, etc.); (b) market performance (sales, market share, etc.); and (c) shareholder return (total shareholder return, economic value added, etc.). Academically, firm performance is the ultimate dependent variable of interest for those concerned with just about any area of management: accounting is concerned with measuring performance; marketing with customer satisfaction and market share; operations management with productivity and cost of operations, organizational behavior with employee satisfaction

and structural efficiency; and finance with capital market response to all of the above. March and Sutton (1997) found that roughly 28% of articles in the Strategic Management Journal, the Academy of Management Journal and the Administrative Science Quarterly included some measure of firm performance.

Performance is so common in organizational research that it is rarely explicitly considered or justified; instead it is treated as a seemingly unquestionable assumption (Devinney et al., 2005). The multidimensionality of performance covers the many ways in which organizations can be successful; the domain of which is arguably as large as the many ways in which organizations operate and interact with their environment.

### 1.1.3 Commercial Banks in Kenya

Commercial banks are licensed and regulated under the Banking Act and Prudential Regulations issued there-under. There are currently 45 commercial banks in Kenya. Out of the 45 institutions, 33 are locally owned and 12 are foreign owned. The locally owned financial institutions comprise 3 banks with significant government shareholding and 28 privately owned commercial. The foreign owned financial institutions comprised 8 locally incorporated foreign banks and 4 branches of foreign incorporated banks. Of the 42 private banking institutions in the sector, 71% are locally owned and the remaining 29% are foreign owned (CBK, 2010).

Human resource professionals – along with all other banking executives and line managers – must adapt to the inexorable globalization of the financial services industry,

which can make it difficult to manage, evaluate, and deploy employees across business units, regions, and continents. Similarly, the ongoing consolidation trend means banks must be prepared to blend workforces from acquired companies, making sure that valued employees don't defect during periods of uncertainty. Regulatory pressures are also mounting – placing increased emphasis on risk management and driving the need for enhanced visibility, transparency, and reporting of HR processes.

They are two fundamental challenges that must be addressed by any bank that seeks to survive and prosper in the intensely competitive financial services arena: HR-related expenses must be reduced to meet profitability goals, and workforces must be equipped to provide a higher level of productivity and passion – with employees motivated and trained to handle value-adding initiatives such as personalized customer service, new-product development, and cross-selling.

## 1.2 Statement of the Problem

Rapid technological change, increasingly sophisticated customers and the importance of innovation has shifted the bases of competition for many businesses away from traditional physical and financial resources (Cuganesan, 2006). The challenge is to ensure that firms have capability to find, assimilate, compensate and retain human capital in the shape of talented individuals they need who can drive a global organization that is both responsive to its customers and the burgeoning opportunities of technology (Armstrong, 2006). The banking industry is being buffeted by a storm of trends and challenges. Customers perceive banking products and services as commodities; shareholders demand

healthy growth and fat margins; employee turnover is a persistent problem; and skilled talent is in short supply. While these challenges are faced in all corners of the banking enterprise, they have a special impact on human resource departments.

Studies on human capital management practice in the banking industry are few and those that have attempted to link human capital management practice to performance have given conflicting results (Bassanini and Scarpetta, 2001). Furthermore, most of these studies were done in different environments from Kenya and thus the results can not be generalized to Kenya. For instance, a study by Olufemi (2009) sought to gain a better understanding of the theoretical and empirical relationship between human capital development practices and some dimensions of organizational effectiveness of Nigerian banks. The only studies available on human capital practice in Kenya are those of Musyoka (2008) and Nafula (2005). However, the present study shifts focus from Musyoka (2008) on methodology and industry focus. Musyoka (2008) was based on establishing the practice of human capital management at the National Social Security Fund (NSSF). Further, the present study differs from that of Nafula (2005) on the focus as the study was done on sugar companies in Kenya. This therefore constitutes a gap that the present study sought to bridge.

## 1.3 Objectives of the Study

The objectives of this study are to:

a) Determine the human capital management practices adopted by the banking industry.

b) Establish the relationship between human capital management practices and firm performance.

## 1.4 Importance of the Study

This study will be important to various stakeholders especially the HR practitioners, the banking industry, other companies, and researchers and students of human resource as discussed below:

The HR practitioners will gain an understanding of how critical the development of human capital is to organizations and therefore recommend strategies to fast track the development of human capital as a source of competitive advantage for organizations.

The management in the banking industry will also find the results of this study useful in terms of enlightening them on the industry practice as regards human capital management. The recommendations given shall help the managers in increasing their investment in attracting and retaining the best talent in their banks.

Other companies will also find this study a useful resource by pointing out the importance of human capital in their organizations. The link between human capital management practice and performance may not necessarily be confined to the banking sector thus the results may be a pointer towards what may happen in other knowledge intensive sectors of the economy.

Lastly, the researchers as well as students of human resource management will find this study a useful guide in carrying out more research on this area and more discussions on the importance of developing human capital in organizations.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Theoretical Framework

When seeking to establish a theoretical framework on HRM and performance, it is so wide and diverse that it is really difficult to focus on a single developed theory. Thus, one line that has placed more emphasis on human resources as a source of competitive advantage is the resource-based approach, which concentrates on the technical and strategic characteristics of resources and the strategic factor markets from which they are obtained in order to explain firm heterogeneity and sustainable advantage. According to this approach, it is the rational identification and use of resources that are valuable, rare, difficult to copy, and non-substitutable which leads to enduring firm variation and supernormal profits (Barney, 1991, 1992).

It is argued that despite its important insights, the resource-based view has not looked beyond the properties of resources and resource markets to explain enduring firm heterogeneity. In particular, it has not examined the social context within which resource selection decisions are placed, for example, firm traditions, network ties, regulatory pressures, and how this context might affect sustainable firm differences, nor has it addressed the process of resource selection, that is to say, how firms actually make, and fail to make, rational resource choices in pursuit of economic rents (Ginsberg, 1994). The institutional theory examines the role of social influences and pressures when trying to design strategy in the firm. From an institutional perspective, firms operate within a social framework of norms, values, and taken-for granted assumptions about what constitutes appropriate or acceptable economic behavior. The institutional view suggests



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that the motives for human behavior extend beyond economic justification and social obligation (Zukin and DiMaggio, 1990).

Institutional theorists are especially interested in how organizational structures and processes become institutionalized over time, with institutionalized activities being understood as those actions which tend to be enduring, socially accepted, resistant to change, and not directly reliant on rewards or monitoring for their persistence (Scott, 1987). Institutional theory suggests that institutionalized activities are the result of interrelated processes at the individual, organizational, and inter-organizational levels of analysis. Thus, at the individual level, manager's norms, habits and unconscious conformity to traditions account for institutionalized activities; at the firm level, corporate culture, shared belief systems, and political processes which support given forms of management perpetuate institutionalized structures and behavior; finally, at the inter-organizational level, pressures emerging from government, industry alliances, and social expectations define socially acceptable firm conduct, whilst those social pressures common to all firms in the same sector cause firms to exhibit similar structures and activities (DiMaggio and Powell, 1983). Hence the conclusion made by Olivier (1997) that an approach that combines the resources-based view with institutional theory is capable of explaining and supporting the hypothesis that establishes a relationship between HRM and firm performance should suffice for this study.

The economic prosperity and functioning of a nation depend on its physical and human capital stock. Whereas the former has traditionally been the focus of economic research,

factors affecting the enhancement of human skills and talent are increasingly figuring in the research of social and behavioral sciences. In general terms, human capital represents the investment people make in themselves that enhance their economic productivity. The theoretical framework most responsible for the wholesome adoption of education and development policies has come to be known as human capital theory. Based upon the work of Schultz (1971), Sakamota and Powers (1995), Psacharopoulos and Woodhall (1997), human capital theory rests on the assumption that formal education is highly instrumental and even necessary to improve the production capacity of a population. In short, the human capital theorists argue that an educated population is a productive population. Human capital theory emphasizes how education increases the productivity and efficiency of workers by increasing the level of cognitive stock of economically productive human capability which is a product of innate abilities and investment in human beings. The provision of formal education is seen as a productive investment in human capital, which the proponents of the theory have considered as equally or even more equally worthwhile than that of physical capital.

According to Babalola (2003), the rationality behind investment in human capital is based on three arguments: that the new generation must be given the appropriate parts of the knowledge which has already been accumulated by previous generations; that new generation should be taught how existing knowledge should be used to develop new products, to introduce new processes and production methods and social services; and that people must be encouraged to develop entirely new ideas, products, processes and methods through creative approaches. According to Fagerlind and Saha (1997) human

capital theory provides a basic justification for large public expenditure on education both in developing and developed nations. The theory was consistent with the ideologies of democracy and liberal progression found in most Western societies. Its appeal was based upon the presumed economic return of investment in education both at the macro and micro levels. Efforts to promote investment in human capital were seen to result in rapid economic growth for society. For individuals, such investment was seen to provide returns in the form of individual economic success and achievement.

## 2.2 Human Capital Management Practices

The theory of human capital was first elaborated by economist Mincer (1970) who demonstrated that human capital investment such as training is a primary source of earnings differentials among individuals and that investment in people should serve as the underlying principle in the analysis of income distributions. Schultz (1961) proposed that human beings and their skills and knowledge are a form of capital and that human capital has been increasing at a rate greater than nonhuman or physical capital. Since then, a body of literature has examined the impact of human capital on economic growth at the macro level and on productivity at the firm level.

Chuang's (2000) analysis for Taiwan over the period 1952-1995 shows that human capital accumulation stimulates the country's export and fosters economic growth. Conducting a cross-section study of 21 OECD countries, Frantzen (2000) finds that both the level and growth rate of human capital positively affect a nation's productivity growth. Zucker, Darby and Brewer (1998) demonstrate that the intellectual human capital

of "star" scientists measured in terms of their research productivity contributed positively to the founding of U.S. biotechnology firms during the period 1976-1989.

Corvers (1997) analyzes the manufacturing sectors in seven member states of the European Union and concludes that the input of human capital, measured by the proportion of intermediate and highly-skilled workers in the workforce, is positively related to the sector's labor productivity. Other studies, using survey data about individual firm's training programs, also document a significantly positive effect of employer-provided training on business productivity (Black and Lynch, 1996). Researchers in the management field are also interested in human capital. These scholars are mainly concerned about the use of human resource practices and their impact on firm performance as well as on management decisions regarding personnel policies. They conclude that effective management of human capital creates a source of sustained competitive advantage since employee skills and commitments are key components in the value creation process (Wright and McMahan, 1992).

Studies have found that effective human resource management practices such as investments in High Performance Work System are associated with lower employee turnover, greater productivity and financial performance (Huselid, 1995; Delantey and Huselid, 1996). Using a sample of 62 stores in the retail industry, Russell, Terborg and Powers (1985) find that the percentage of sales personnel trained is highly correlated with store performance. A causal map of human capital antecedents and consequents developed by Bontis and Fitz-enz (2002) shows that human capital investment has

positive influence on the effectiveness of human capital management and firms' financial performance. Bouillon, Doran and Orazem (1995) also documented a significant and positive relationship between firm investment in specific human capital and long-run rate of returns.

The link between human capital and firm performance is convincing. However, the scope of human capital is fairly broad, encompassing many elements. Besides, firms might invest in human capital in various ways, including recruiting, training, and compensation systems. According to Bontis and Fitz-enz (2002), who used survey data of 76 senior executives from 25 companies to study the elements of effective human capital development, the dollar amount of training is the primary measure for the human capital investment construct. They also document that training investment is a leading indicator of firms' future financial performance, suggesting that the benefits of human capital investment can last for a long time.

The accounting scholars tended to explain how the contributions of employees add to the value of the firm. Brummet et al. (1968) put forth the earliest work in the area of human resource measurement, advocating the use of Human Resource Accounting (HRA) information for internal planning and control purposes. The American Accounting Association (AAA) also established committees on HRA in 1972 and 1973 and published reports on the development and issues of HRA (AAA, 1974). Thereafter, a stream of research has focused on developing methods of measuring the cost and value of human resources and attempting to provide a quantitative basis for decision-making by managers

as well as investors (Lau and Lau, 1978; Morse, 1973). In spite of high interest in the attempt to value the contribution of employees, failure to establish a valid and reliable means for measuring human capital in monetary terms led to slow and inconclusive progress in this area. The discussion of human resources measurement and the debate over accounting treatment of human capital investment ceased in the late 1970s.

Some research papers address the link between human capital and its capital market effect. Using experimental settings, Ellias (1972) and Hendricks (1976) find that stock investment decisions would be different when human resource accounting information is added to conventional financial statements. However, they did not address whether the market values this information positively. More recently, Chen et al. (2003) use the Value Added Intellectual Coefficient (VAIC) measure developed by Pulic (2000a and b) to examine the relationship between intellectual capital and corporate financial performance as well as market-to-book ratios for a sample of Taiwanese firms, and their results show that companies with higher human capital efficiency have higher market-to-book ratios and greater financial performance. However, their study uses total expenditure on employees as a proxy for firms' human capital investment, which does not distinguish the effect of various human-capital related components.

Using a sample of 58 football companies in the U.K., Amir and Livne (2005) examines whether investment in player contracts warrants capitalization required by current accounting standards in the U.K. They find that investment in football player contracts is positively associated with firms' future economic benefits for at most two years and that

the capitalized amount of this investment is positively related to firms' market values. The empirical evidence regarding the relationship between employee training and firm value is lacking primarily because of the deficiency of disclosures in public financial reports. Current accounting standards require that employee-related expenditures be expensed immediately. There is a rising debate about whether this treatment is appropriate when the importance of human capital is increasing in today's knowledge-based economy (Lev, 2001). Following prior literature, if training enhances employees' skills and competence to perform their jobs, firms that invest heavily in employee training are expected to have better financial performance, which in turn should affect market values.

Most of the literature analyzes the performance effect of human capital at the organizational level, with financial and accounting based measures of performance. Some researchers in the field of human resource management advocate a more comprehensive perspective with emphasis on performance outcomes that reflect employee attitudes and behavior, internal performance such as production output and quality, and external indicators such as sales and financial performance (Guest et al. 2000). This approach justifies the use of multiple measures of performance, both financial and non-financial, and is generally consistent with the Balanced Scorecard (BSC hereafter) concept proposed by accounting scholars Kaplan and Norton (1992 and 1993).

The BSC is a performance measurement system developed by Kaplan and Norton (1992). In additional to traditional financial measurement of performance, the BSC system

incorporates non-financial performance measurement in three dimensions—the customer perspective, the internal perspective and the learning and growth perspective. Rooted in overall organization's objectives, the BSC is intended to provide strategic measurement to focus on the firm's vision of development (Kaplan and Norton, 1993). Having various effects on multiple organizational behaviors, the BSC identifies factors that influence intangibles in a greater magnitude. Kaplan and Norton (2001) mentions that intangibles should be examined within the organizational context, since "the value-creation related to intangibles is normally achieved by their combination with other intangible or tangible assets". Accordingly, consideration of the qualitative characteristics of training will present a more comprehensive analysis of the association between market value and human capital investment.

A number of studies have provided evidence that firms that align human resource practices with organizational strategy report higher performance outcomes (Huselid, 1995; Youndt et al. 1996). If BSC is designed to link all performance metrics with organizational strategy, firms that link their training practices with these measures are expected to generate more beneficial outcomes. According to the BSC framework, an improvement in the learning and growth perspective enhances the internal process and customer perspectives, which in turn improve the financial perspective. A few empirical studies have provided evidence in support of this interrelation between non-financial and financial performance (Cohen et al. 2006).

Previous literature in general only examines the effect of BSC adoption on firms' operating performance without considering the associated capital market effect. Since the BSC is an internal management device, information about BSC usage and the various non-financial performance measures are generally not publicly available. If firms adopt and implement the BSC successfully, they will increase shareholder value through better financial performance such as revenues and profitability. Therefore, the study expects that when a firm's training practices are built into its performance measurement system consistent with the BSC framework, the effect associated with the non-financial perspectives (customer, internal process, learning and growth) will have an indirect relationship with the firm's market value, via the effect associated with the financial perspective. The following human capital management drivers are examined in this study: recruiting excellence, workplace environment, communications integrity, and rewards and accountability.

### 2.2.1 Recruiting Excellence

As regards the first driver, recruiting excellence, it is well known that the initial step in successful human capital management is to acquire the human capital necessary to support the business plan. This requires that the firm should have employees with the required skills and motivation to perform an efficient job. Here, there are two options for the firm to pursue: either to hire employees who already have the necessary skills and motivation or to provide the training necessary to help employees, whether new or current, to develop these skills. Both the theoretical and the empirical work in human resources management indicate that hiring the right employees improves firm

performance. For example, Schmidt et al. (1986) model the effects of selection procedures on firm productivity, showing that an efficient selection procedure that is very closely related to successful job performance will significantly increase average productivity when the firm has a variety of applicants and a low selection rate. In this line, Terpstra and Rozell (1993) also find that the use of best practices in staffing earns higher returns and leads to faster profit and growth.

On the other hand, the alternative to hiring employees with the necessary skills is to provide training in such a way that employees can develop the skills they lack. Given that the majority of firms do not have a single measure of training expenses; it is hard to determine the costs of informal mentoring programs or to measure the opportunity costs of lost productivity during training. As a result, the empirical evidence on the effects of training is mixed. Thus, while Bartel (1994) finds that inefficient manufacturing firms which introduce formal training programs catch up to their peers' average productivity, Black and Lynch (1996) fail to find a significant effect on productivity from training more workers. In response to these two options, this survey includes questions regarding both the firm's ability to hire employees who are already well qualified to do their jobs and on its commitment to training programs that help employees develop the necessary skills. Moreover, the study has also asked specific questions about the firm's strategy and whether the firm has a formal recruiting process to support it.

### 2.2.2 Workplace Environment

The second area of human capital management that the study examines is the workplace environment, as reflected in the corporate culture and management style. Two important aspects of the workplace environment are the degree of flexibility in work arrangements and the extent to which it encourages teamwork and cooperation in a collegial atmosphere. In this sense, there are two main paradigms of management style, which Cutcher-Gershenfeld (1991) calls control systems versus commitment systems. Control systems are very hierarchical and emphasize status distinctions. Thus, in a control system, managers direct employee actions in order to make the numbers. On the other hand, commitment systems aim to increase productivity though increased employee commitment to the firm. Furthermore, they emphasize teamwork and job security, with managers being used as coaches or mentors for employees.

### 2.2.3 Communications Integrity

The third area of human capital management the study examines is communications integrity. In his seminar work, Hayek (1945) draws the distinction between general knowledge and knowledge of the particular circumstances of time and space, that is to say, specific knowledge. The author argues that competitive markets are more efficient than centralized planning because they use more specific knowledge. Similarly, this study believes that efficient firms use more of their employees' specific knowledge, which requires multiple information flows. Thus, the firm communicates the business plan, its financial information and information related to how the employee's actions affect the customer.

Within the firm, these should be general knowledge. In the other direction, employees provide input into job design, hiring decisions, performance evaluations and their own preferences and feelings, that is satisfaction with the firm as a place to work, satisfaction with benefits or other forms of compensation. Finally, efficient firms use intranets and other technologies to make direct communication across divisions or functions within the firm easier, leveraging its specific knowledge. In the survey firms were asked about their effectiveness at promoting all the three types of communication flows.

### 2.2.4 Clear Rewards and Accountability

Finally, the fourth area of human capital management examined is clear rewards and accountability. This area involves effective performance management and pay-for performance, with it being possible to identify two facets of performance management, namely setting high performance standards and evaluating employees on the basis of whether they achieve them. One of the key issues in performance evaluations is how to make use of the information which workers have. Typically, performance reviews are carried out for an employee by his immediate superior. The disadvantage of this approach is that an individual's coworkers, both his peers and his immediate subordinates, have information about the employee which would be relevant to his evaluation. Therefore, there is a great potential benefit in employees having input in evaluating their peers and their immediate superiors. However, there are also problems with this approach. First, employees may collude and give each other good evaluations even if they do not deserve them. There is certainly a strong incentive to avoid low evaluations, even when that is

what an employee deserves, if that employee has the potential to reciprocate. Furthermore, having employees evaluate each other can lead to substantial influence costs, as employees spend more time trying to convince each other that they are doing a good job than they are actually doing.

Moreover, having employees evaluate their immediate superiors can also imply severe problems. First, the employee may not give an honest evaluation if he is afraid of reprisals, or may genuinely be reluctant to give a low score when one is deserved. In addition, it is possible that superiors may make popular, but wrong decisions in an effort to influence their evaluations. This survey asked firms about both areas of performance management. On the other hand, when a review of the theory regarding pay-for-performance is done, there is universal agreement that rewards should be higher for better performance (Blinder, 1990). This view reflects a concern over free rider problems. When compensation is the same regardless of individual performance, individuals have an incentive to shirk in their effort and free ride off the efforts of others. In part, this reflects the issue of fairness or equity. When employees work hard and the firm succeed, they should share in the benefits. It is also prudent to reward employees for good performance. Finally, it reflects the realities of the work place. Top performers are confident in their own abilities. They want to work where their rewards are based on their own performance. However, there is less agreement about the nature of these rewards: should they be cash rewards or recognition; should they be based on individual or team performance; should they be based on immediate results or on more long-term

performance measures; is there a single, best system or does the right reward system depend on the firm's strategy and its unique culture?

In response, this study has surveyed firms on both the level and shape of rewards. First, the study examined the position of the firm's pay relative to the market. Firms that pay above the market should attract the best applicants. If they use efficient selection procedures, they will be able to attract a highly skilled group of employees. The second issue is the shape of the pay system. Here, the study examined how many employees have their pay tied to performance, either their own individual performance, their division's or their entire firm's. Firms that use rewards to involve their employees in improving business performance and link their rewards to their overall strategy should achieve better results.

## 2.3 Human Capital Management and Firm Performance

There is broad agreement in the literature that the strategic approach to human resources management (HRM) involves designing and implementing a set of internally consistent policies and practices which ensure that a firm's human capital contributes to the achievement of its business objectives (Huselid and Becker, 1996; Huselid et al., 1997). Paradoxically, the empirical research that establishes a relationship between these HRM policies and firm performance is still scarce and inconclusive. Most of the work in human resource management has long been relied on cross-sectional studies and single respondent survey techniques. The author asserted that models produced so far do not discuss the impact of people management practices over individuals and the relations among employee`s outcomes and business unit or corporate results.

Simon (2007) presented a quantitative case study of a large financial services organization and explored the possible links among HR and individual and business unit levels of performance. The primary purpose of the case study was to explore the relationship between human capital, HR policies and firm performance at individual and business unit levels. To this purpose, a set of correlation and multivariate discriminant analyses were carried out using a number of general human capital variables and a set 'lagging indicators' of HR policies, using the different performance measures as dependent variables. The results of the discriminant analyses supported a SHRM model in which HR practices are not directly influencing firm performance, but rather having an impact through their combination with a pool of human capital characteristics. At the same time, some individual performance measures did not show a direct impact over unit analysis. Though being highly exploratory, the study raised a set of issues that might challenge some of the SHRM well-established statements such as the assumption of a direct, linear relationship between HR practices and business results, or the use of financial ratios as suitable indicators of the efficiency of people management practices.

The accumulation of human capital has gained a central role. Some scholars, like Lucas (1988), have postulated that human capital is an input in the production process like any other; its accumulation implies capital deepening with an associated period of accelerated growth towards a new steady state growth path of output. Drawing on the contribution of Nelson and Phelps (1966), and Aghion and Howitt, (1992) have gone forward in assuming that human capital is necessary for the discovery of new technologies and thus

its stock is permanently related to the growth rate of output. A study by Molina and Ortega (2002) sought to establish the impact of human capital resources policies on firm performance. The study formulated four hypotheses which rested on the argument that effective human capital management can lead to increased firm performance. These hypotheses were tested by using a new indicator of human capital, as well as two other measures, namely Tobin's Q and total return to shareholders (TRS). The empirical results, derived from a survey carried out in the year 2000 to senior executives working in 405 North-American firms, indicated that effective human capital management leads to higher employee satisfaction, which, in turn, implies higher customer loyalty. Moreover, the study found that this higher customer loyalty implied better firm performance in terms of both Tobin's Q and TRS.

In theory, seminar papers establishing the positive relationship between human capital and growth are Mankiw et al. (1992) and Lucas (1988). Empirically, Romer (1989) was among the first to run ad-hoc cross-country regressions with the growth rate of GDP as the dependent variable and incorporating a human capital proxy variable as one of the regressors. The author found that adult literacy is positively associated with economic growth. Since then a large body of literature has investigated various education-related determinants of economic growth. Pinning down a robust relationship between variables measuring human capital and economic growth, however, turned out to be a rather difficult endeavor (Krueger and Lindahl 2001). Often, educational variables are insignificant or even display a negative association with growth.

Bassanini and Scarpetta (2001) presented empirical estimates of human-capital augmented growth equations for a panel of 21 OECD countries over the period 1971-98. The study used an improved dataset on human capital and a novel econometric technique that reconciles growth model assumptions with the needs of panel data regressions (Pooled Mean Group, PMG). Unlike several previous studies, the results pointed to a positive and significant impact of human capital accumulation to output per capita growth. The estimated long-run effect on output of one additional year of education (about 6 per cent) was also consistent with microeconomic evidence on the private returns to schooling. The study also found a significant growth effect from the accumulation of physical capital and a speed of convergence to the steady state of around 15 per cent per year.

## 2.4 Dimensions of Performance

The definition of performance underlying the measures used in the vast majority of studies has also been a matter of debate in the past. The characterization of performance as a single-criterion construct, mostly focusing on an indicator of business results, has long been criticized as a main stumbling block to theoretical progress (Austin and Crespin, 2006). Under this assumption, researchers are bound to the search for the best possible measure of the criterion, the so-called 'general-factor' or GPM (general performance measure). Although the 'general-factor' argument has received considerable empirical support (Viswesvaran et al, 2005), it has been growingly challenged by evidence pointing at the emergence of a set of multiple components that explain the latent structure of performance (Campbell et al., 1993). This approach goes beyond the search

for 'objective' measures as criterion and focuses on the identification of further latent variables. Research along these lines has given rise to several taxonomies and holistic models of performance (Wong and Snell, 2003; Paul and Anantharaman, 2003).

Regardless of the role of performance in the equation, results achievement is obviously a must in the performance debate (Huselid et al., 2005; Bennett et al., 2006). However, there is no consensus in the literature about whether results should be considered as merely one of the multiple dimensions of performance (Scott and Einstein, 2001) or as a different variable reflecting the evaluation of the results of performance, such as productivity or efficiency (Campbell, 1993). In any case, wider strategic approaches to business, and particularly work derived from the resource-based perspective (Barney, 2001) have long claimed that the contribution of individuals to the organization goes far beyond results achievement, especially when searching for long –term added value or sustainable competitive advantage. This being the case, the concept of performance should integrate both the 'hard' (results) and the 'soft' (competency-based) types of measures in order to gain comprehensiveness.

Different authors have worked on the integration of these multiple dimensions into a comprehensive model of performance. Most of them converge in the distinction between a set of factor focusing on the task or job specifics and another one which deals with a myriad of add-ins that may show up as a function of individual traits, and that surround task performance (Austin and Crespin, 2006). Borman and Motowidlo (1993) coined the term contextual performance and defined it as a set of interpersonal and volitional

behaviors that support the social and motivational context in which organizational work is accomplished. Along this line, Scott and Einstein (2001) propose three interrelated performance dimensions: outcome-based (whenever clearly-defined goals can be set), behavior-based (observable behaviors relevant to individual work roles) and competence-based (regarding skills/knowledge shown by employees in their daily activities).

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Research Design

This study was carried out using a cross-sectional survey design as well as a correlational research. It was a cross-sectional survey because data was gathered from various commercial banks at one point in time. Thus, the cross-sectional survey design helped establish the human capital management practices adopted by various commercial banks in Nairobi. It was also a correlational research because it was concerned with assessing the relationship among the variables of the study: human capital management practices and organizational performance. Graeme and Moutinho (2008) justified the use of correlation research in determining whether a relationship exists between or among variables.

## 3.2 Population of the Study

The study targeted commercial banks in Kenya. According to the Central Bank of Kenya website (2009), there were 45 commercial banks operating in Kenya. All the 45 commercial banks formed the sample size for the study.

## 3.3 Data Collection

Data for the study was generated through the primary and secondary sources. The primary data was generated through questionnaires titled 'Research instrument on HCM practices'. The instruments were administered using drop and pick later method on participating banks to determine the impact of HCM practices on the performance of

commercial banks. The respondents to the questionnaires were the Head of Human Resources in the Commercial banks.

The questionnaires had two sections named A and B. Section A gathered data on the following features: staff strength, number of branches, and number of ATMs. The second part gathered data on HCM practice based on the following variables: recruitment excellence, collegial and flexible workplace, communications integrity, clear rewards and accountability. These items were scored on a 5-point likert scale. The instrument was measured for reliability. A reliability coefficient was 0.72 which was acceptable.

The secondary data was sought from the financial statements of banks by means of content analysis. These were obtained from the companies' premises, companies' websites and the Capital Markets Authority (CMA). The same data was also available from the Banking Survey (2010) booklet. The indicators of firm performance that were sought in this study were: the turnover growth and return on assets (ROA). A three-year average was used for these indicators in order to obtain an average performance for each of the performance indicators.

### 3.4 Data Analysis

Data was collected and checked for completeness and coded into the statistical package for social sciences (SPSS) version 17.0. In order to establish the HCM practices adopted by commercial banks, descriptive statistics especially the mean scores and standard deviations were used.

In order to test for the relationship between HCM practices and firm performance, the Ordinary Least Squares (OLS) method was used to perform a regression analysis. This was done based on the following model:

$$PERF = \alpha + \beta_1 (RECRUIT) + \beta_2 (COLLEG) + \beta_3 (COMMS) + \beta_4 (REWARD) + \mu$$

Where:

$\alpha$, $\beta$, and $\mu$ are constants

PERF = measured using turnover growth and ROA

RECRUIT = measured by the mean score on recruitment excellence

COLLEG = measured by the mean score on collegial and flexible workplace

COMMS = measured by the mean score on communications integrity

REWARD = measured by the mean score on clear rewards and accountability

Given that human capital management was not the only factor that affected firm performance, this study used several variables to control for the other factors that help to measure the creation of surplus value in an organization. These control variables were: advertising expenses to control for brand names and new products; leverage to control for financial effects; and assets to control for firm size.

# CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

## 4.1 Introduction

The study sought to determine the relationship between human capital management practices and firm performance with a specific focus on Commercial Banks in Kenya. The findings are presented here in tables and charts where necessary. Out of the 45 questionnaires administered during the data collection process, 23 were collected within the time and found usable for analysis. This shows that the response rate was 51.1%. This is a fairly acceptable response rate for the banking sector since most of the response rates for the industry in Kenya especially when questionnaires are used to collect data rarely exceed 50% mark.

## 4.2 Sample Characteristics

The demographics presented here are for the commercial banks in Kenya from 2007-2009. The results show the number of branches, the number of employees and the number of ATMs for the period.

**Table 1: Demographics**

| Year/Statistic | No. of Branches | No. of Employees | No. of ATMs |
|---|---|---|---|
| 2007 | 740 | 21,657 | 1,012 |
| 2008 | 887 | 25,491 | 1,325 |
| 2009 | 996 | 26,504 | 1,717 |

The statistics shown in Table 1 reveal that the number of bank branches have been growing from 740 in 2007 to 996 in 2009 for the banking industry in Kenya. As shown, the number of employees has also grown from 21,657 in 2007 to 26,504 in 2009. Further,

the number of ATMs has exponentially grown from 1,012 in 2007 to 1,717 in 2009. These results are also presented in Figures 1, 2 and 3 below.

**Figure 1: Number of branches**

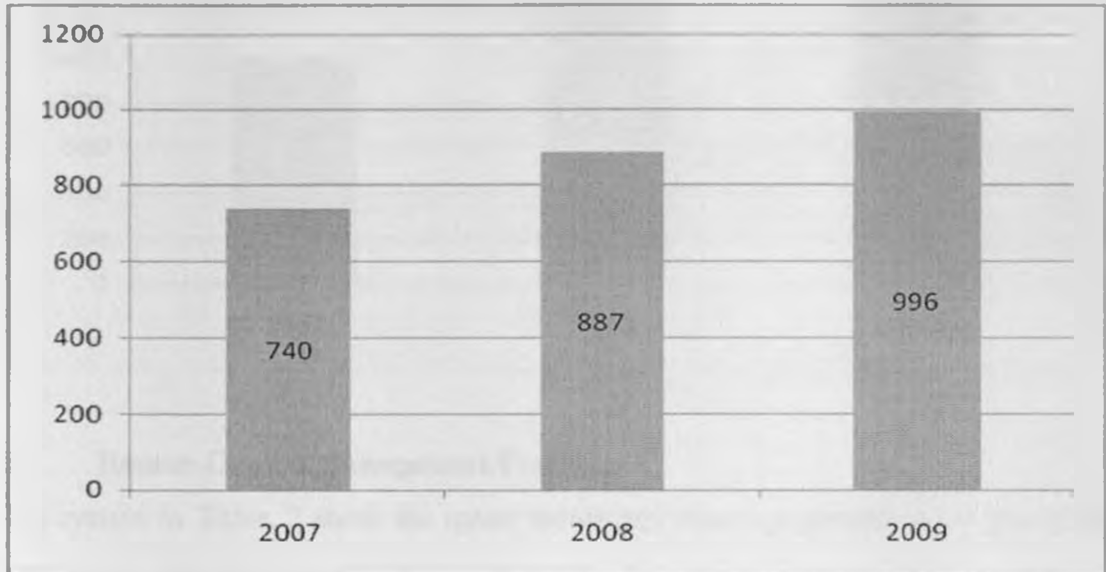
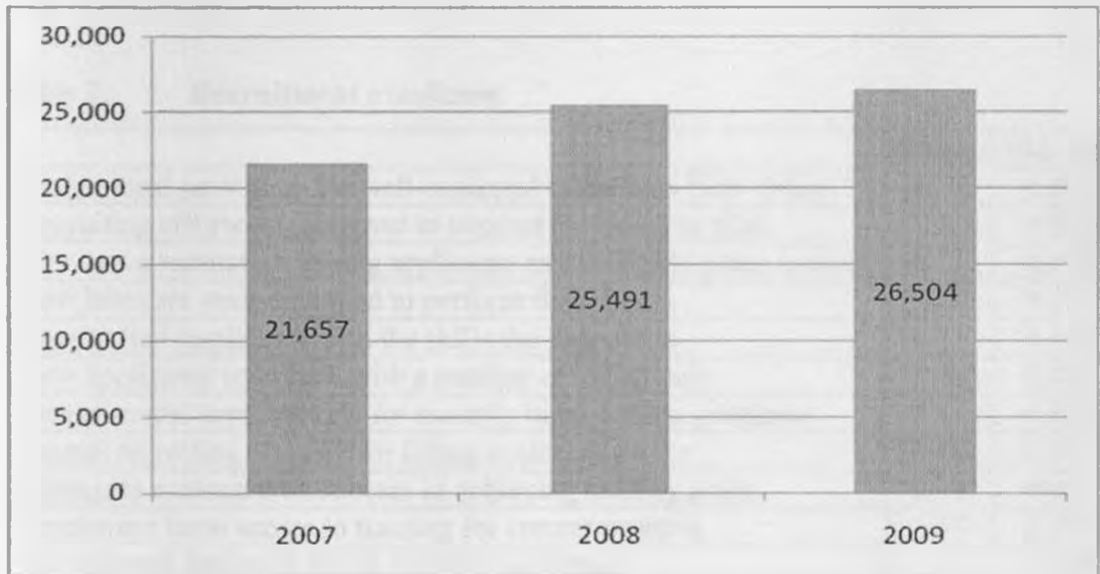



**Figure 2: Number of Employees**

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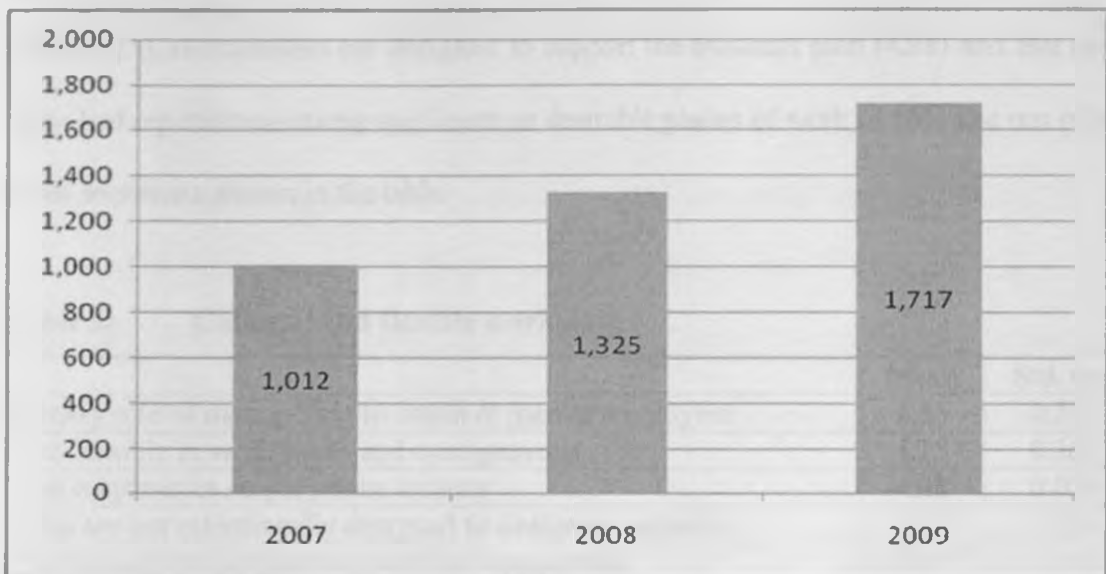
LOWER KABETE LIBRARY

**Figure 3: Number of ATMs**




## 4.3 Human Capital Management Practices

The results in Table 2 show the mean scores and standard deviations on recruitment excellence. The mean scores range from 1-5 with 1 showing 'least agreement' and 5 showing 'highest agreement' with the statements.

**Table 2: Recruitment excellence**

| | Mean | Std. dev |
|---|---|---|
| Professional new hires are well-equipped to perform their duties | 4.25 | 0.689 |
| Recruiting efforts are designed to support the business plan | 4.98 | 0.258 |
| Firm has a reputation among applicants as a desirable place to work | 4.15 | 0.145 |
| New hires are well-equipped to perform their duties | 3.25 | 0.014 |
| Easy to find applicants with the skills the firm needs | 4.11 | 0.478 |
| New applicants interview with a number of individuals | 3.68 | 0.598 |
| Lower annual turnover rate for recently hired college graduates | 3.72 | 0.874 |
| Formal recruiting strategy for filling critical positions | 4.02 | 0.045 |
| Managers evaluated on success in achieving training goals | 3.99 | 0.009 |
| Employees have access to training for current position | 3.97 | 0.578 |
| Have formal policy of hiring internal candidates | 3.38 | 0.968 |
| There is more workforce with tenure of at least 2 years | 4.47 | 0.784 |
| Training programs maintained in less favorable conditions | 3.22 | 0.241 |
| Employees have access to training for higher positions | 4.12 | 0.178 |
| More professional positions are filled internally | 2.15 | 0.624 |

Thus, it can be noted that new professional hires were well equipped to perform their tasks (4.25), recruitments are designed to support the business plan (4.98) and that most firms had reputations among applicants as desirable places of work (4.15). The rest of the mean scores are shown in the table.

**Table 3: Collegial and flexible workplace**

| | Mean | Std. dev |
|---|---|---|
| Primary role of managers is to coach & mentor employees | 4.85 | 0.247 |
| Firm flexible in work hours and arrangements | 4.25 | 0.368 |
| Firm emphasizes employment security | 4.08 | 0.058 |
| Titles are not intentionally designed to designate authority | 3.68 | 0.256 |
| Firm culture encourages teamwork & cooperation | 3.58 | 0.245 |
| Employees are more satisfied at this firm than at others | 3.57 | 0.478 |
| Employees are on a first name basis with top management | 3.04 | 0.895 |
| Perquisites do not vary with position and job level | 2.42 | 0.145 |
| Physical office space does not vary with position | 1.98 | 0.698 |

The results in Table 3 show the mean scores and standard deviations on collegial and flexible workplace. The mean scores range from 1-5 with 1 showing 'least agreement' and 5 showing 'highest agreement' with the statements. The results reveal that the respondents agreed that the primary role of managers is to coach and mentor employees (4.85), the banks were flexible in work hours and arrangements (4.25), and that the banks emphasizes employment security (4.08). The rest of the results can be observed from the table below.

**Table 4: Communications integrity**

| | Mean | Std. dev |
|---|---|---|
| Employees understand how their job affects customers | 3.85 | 0.985 |
| Firm shares business plans and goals with employees | 3.08 | 0.789 |
| Employees have input in how the work gets done | 2.47 | 0.178 |
| Firm shares financial information with employees | 2.38 | 0.241 |
| Employees give direct feedback to senior management | 2.24 | 0.478 |

| | | |
|---|---|---|
| Easy access to technologies for communication across the firm | 2.14 | 0.358 |
| Employees have input in hiring decisions | 1.05 | 0.558 |

The results in Table 4 show the mean scores and standard deviations on communications integrity. The mean scores range from 1-5 with 1 showing 'least agreement' and 5 showing 'highest agreement' with the statements. The results indicate that employees understand how their jobs affect the customers (3.85). The results also reveal that employees do not have input in hiring decisions (1.05), the employees do not have easy access to technologies for communication across the banks (2.14) and that employees don't give direct feedback to senior management (2.24). The rest of the results are shown in the table below.

**Table 5: Rewards and accountability**

| | Mean | Std. dev |
|---|---|---|
| Pay is used to engage employees in improving business performance | 4.51 | 0.269 |
| Firm terminates employees who continue to perform unacceptably | 4.15 | 0.524 |
| People skills are important to leadership position | 4.08 | 0.125 |
| Firm positions its pay above the market | 3.87 | 0.228 |
| Role of performance appraisals – set pay | 3.85 | 0.785 |
| Firm does a good job of promoting the most competent | 3.85 | 0.961 |
| More employees are eligible for stock plan programs | 3.56 | 0.398 |
| Firm does a good job helping poor performers improve | 3.25 | 0.478 |
| Employees participate in profit sharing plans based on operating unit's success | 3.12 | 0.064 |
| Top performers get significantly more pay than average performers | 3.05 | 0.114 |
| Pay is linked to firm's business strategy | 2.55 | 0.378 |
| Employees participate in profit sharing plans based on overall firm success | 2.14 | 0.541 |
| Employees have input in evaluating their peers | 1.25 | 0.147 |

The results in Table 5 show the mean scores and standard deviations on rewards and accountability. The mean scores range from 1-5 with 1 showing 'least agreement' and 5

showing 'highest agreement' with the statements. The study reveals that pay is used to engage employees in improving business performance (4.51), the banks terminate employees who continue to perform unacceptably (4.15), and that people skills are important to leadership positions (4.08). The study also reveals that employees do not have input in evaluating their peers (1.25), employees do not participate in profit sharing plans based on overall firm performance (2.14) nor is pay linked to firms' business strategy (2.55). These and other results are shown in the table.

## 4.4 Relationship between Human Capital Management and Performance

The dependent variable, performance, was measured on two fronts: turnover growth and return on assets. The independent variables were human capital management practices. The results for the relationship between performance and human capital management are shown in Table 6.

**Table 6: Turnover growth and human capital management**

| | | Recruit | College | Comm | Reward |
|---|---|---|---|---|---|
| **Turnover Growth** | Pearson Correlation, R | .102 | .023 | -.210 | .082 |
| | p-value | .644 | .918 | .335 | .710 |
| **Return on Assets** | Pearson Correlation, R | -.055 | .172 | .407 | -.081 |
| | p-value | .803 | .431 | .054 | .713 |

The Pearson correlation, R, reveals that there was a low positive correlation of 0.102 between turnover growth and recruitment excellence as a human capital management practice. The p-value was 0.644 implying that the influence of recruitment excellence on turnover growth was not significant. However, recruitment excellence was negatively correlated with return on assets (-0.055) but the relationship was not significant (p-value

= 0.803). Collegial and flexible workplace had a positive correlation with turnover growth (0.023) and also with return on assets (0.172) but these relationships were not significant (p = 0.918 and 0.431 respectively). Communications integrity was found to have a negative correlation with turnover growth (-0.210) but a positive correlation with return on assets (0.407). The p-values reveal that these correlations were not significant (0.335 and 0.054 respectively). The study also revealed that rewards and accountability were positively correlated with turnover growth (0.082) but was negatively correlated with return on assets (-0.081). These relationships were however insignificant (p = 0.710 and 0.713 respectively).

# CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Summary of Findings

The study revealed that new professional hires were well equipped to perform their tasks (4.25), recruitments were designed to support the business plan (4.98) and that most banks had reputations among applicants as desirable places of work (4.15). The results showed that the respondents agreed that the primary role of managers was to coach and mentor employees (4.85), the banks were flexible in work hours and arrangements (4.25), and that the banks emphasizes employment security (4.08). The results indicated that employees understood how their jobs affected the customers (3.85). The results also revealed that employees did not have input in hiring decisions (1.05), they did not have easy access to technologies for communication across the banks (2.14) and that they did not give direct feedback to senior management (2.24). The study further revealed that pay was used to engage employees in improving business performance (4.51), the banks terminated employees who continue to perform unacceptably (4.15), and that people skills were important to leadership positions (4.08). The study also revealed that employees did not have input in evaluating their peers (1.25), employees did not participate in profit sharing plans based on overall firm performance (2.14) nor was pay linked to firms' business strategy (2.55).

The Pearson correlation revealed that there was a low positive correlation of 0.102 between turnover growth and recruitment excellence as a human capital management practice. The study also found that recruitment excellence was negatively correlated with return on assets (-0.055). The study found that collegial and flexible workplace had a

positive correlation with turnover growth (0.023) and also with return on assets (0.172). The study revealed that communications integrity was found to have a negative correlation with turnover growth (-0.210) but a positive correlation with return on assets (0.407). The study also revealed that rewards and accountability was positively correlated with turnover growth (0.082) but was negatively correlated with return on assets (-0.081).

## 5.2 Conclusions

The study sought to determine the human capital management practices adopted by the banking industry. It was noted that the most human capital management practices were in recruitment excellence (mean of 3.83), collegial and flexible workplace (mean of 3.49) and rewards and accountability (mean of 3.32). The least used practice was communications integrity (mean of 2.45). It can therefore be concluded that most banks practice human capital management to an average degree.

The study also sought to establish the relationship between human capital management practices and firm performance. The results indicated that with the exception of communication, other human capital management practices had a positive influence on turnover growth. Further, recruitment and rewards were negatively related to return on assets while collegial and flexible workplace as well as communication had positive correlations with return on assets. It can be concluded that human capital management practices generally have a positive influence on performance as measured by both turnover growth and return on assets.

## 5.3 Recommendations

The results of the study are interesting in a number of ways but especially due to the fact that the relationship between human capital management practices had no significant influence on performance. As such, the study makes the following recommendations:

1. There is need for the banks in Kenya to take more measures by enhancing the human capital management practices as the scores for the practices are still low. This may help in improving the impact that human capital management has on performance.
2. Communication is a major problem in most of the banks. There is need for management to undertake serious measures that will help improve the communication between top management and the employees. The communication distance between top management and employees need to be reduced by employing more communication techniques. This can be done through rigorous training and workshops for managers and employees.

## 5.4 Suggestions for Further Research

The study suggests that there is need to replicate this study to other industries in Kenya in order to ascertain whether the same results can hold. This will help in enhancing the knowledge on human capital management practices in Kenya.

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# APPENDICES

## Appendix 1: Research Instrument on HCM Practices

### Section A: Demographic Data

1. How many employees does the bank have?

    ...............................................................................................

2. What is the age of the bank?

    ...............................................................................................

3. How many branches does the bank currently have?

    ...............................................................................................

4. How many ATMs does the bank currently have?

    ...............................................................................................

### Section B: Human Capital Management Practices

5. On a scale of 1-5 with 1 showing 'least agreement' and 5 showing 'highest agreement' rate the extent to which you agree with the statements in the table below as regards recruitment excellence of your bank.

| **Recruitment excellence** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| Professional new hires are well-equipped to perform their duties | | | | | |
| Recruiting efforts are designed to support the business plan | | | | | |
| Firm has a reputation among new applicants as a desirable place to work | | | | | |
| Hourly new hires are well-equipped to perform their duties | | | | | |
| Easy to find applicants with the skills the firm needs | | | | | |
| New applicants interview with a number of individuals | | | | | |
| Lower annual turnover rate for recently hired college graduates | | | | | |
| Formal recruiting strategy for filling critical positions | | | | | |
| Managers evaluated on success in achieving training goals | | | | | |
| Employees have access to training for current position | | | | | |
| Have formal policy of hiring internal candidates | | | | | |
| Percentage of workforce with tenure of at least 2 years | | | | | |
| Training programs maintained in less favorable conditions | | | | | |
| Employees have access to training for higher positions within the firm | | | | | |
| Percentage of professional positions filled internally | | | | | |

6. On a scale of 1-5 with 1 showing 'least agreement' and 5 showing 'highest agreement' rate the extent to which you agree with the statements in the table below as regards collegial and flexible workplace.

| **Collegial and flexible workplace** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| Firm flexible in work hours and arrangements | | | | | |
| Firm culture encourages teamwork & cooperation | | | | | |
| Perquisites do not vary with position and job level | | | | | |
| Employees are more satisfied at this firm than at others | | | | | |
| Employees are on a first name basis with top management | | | | | |
| Titles are not intentionally designed to designate authority | | | | | |
| Firm emphasizes employment security | | | | | |
| Physical office space does not vary with position | | | | | |
| Primary role of managers is to coach & mentor employees | | | | | |

7. On a scale of 1-5 with 1 showing 'least agreement' and 5 showing 'highest agreement' rate the extent to which you agree with the statements in the table below as regards communications integrity.

| **Communications integrity** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| Employees have easy access to technologies for communication across the firm | | | | | |
| Employees have input in hiring decisions | | | | | |
| Employees give direct feedback to senior management | | | | | |
| Firm shares financial information with employees | | | | | |
| Employees have input in how the work gets done | | | | | |
| Firm shares business plans and goals with employees | | | | | |
| Employees understand how their job effects customers | | | | | |

8. On a scale of 1-5 with 1 showing 'least agreement' and 5 showing 'highest agreement' rate the extent to which you agree with the statements in the table below as regards clear rewards and accountability.

| **Rewards and accountability** | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Percentage of employees eligible for stock plan programs | | | | | |
| Firm terminates employees who continue to perform unacceptably | | | | | |
| Firm does a good job helping poor performers improve | | | | | |
| Top performers get significantly more pay than average performers | | | | | |
| Firm positions its pay above the market | | | | | |
| Pay is used to engage employees in improving business performance | | | | | |
| Pay is linked to firm's business strategy | | | | | |
| Role of performance appraisals – set pay | | | | | |
| Percentage of employees participating in profit sharing plans based on overall firm success | | | | | |
| Firm does a good job of promoting the most competent | | | | | |
| People skills are important to leadership position | | | | | |
| Percentage of employees participating in profit sharing plans based on operating unit's success | | | | | |
| Employees have input in evaluating their peers | | | | | |

9. How do you think the bank is performing in terms of its financial performance?

Very well [ ]

Well [ ]

Average [ ]

Poor [ ]

Very poor [ ]

10. How do you think the bank is performing in terms of its market performance?

Very well [ ]

Well [ ]

Average [ ]

Poor [ ]

Very poor [ ]

11. How do you think the bank is performing in terms of its shareholder return?

Very well [ ]

Well [ ]

Average [ ]

Poor [ ]

Very poor [ ]

**End of Questionnaire**

**Thank you for participating in this survey.**

**Appendix 2: Commercial Banks**

1. Kenya Commercial Bank Ltd
2. Barclays Bank of Kenya Ltd
3. Standard Chartered Bank Ltd
4. Cooperative Bank of Kenya Ltd
5. CFC Stanbic Bank Ltd
6. Equity Bank Ltd
7. Commercial Bank of Africa Ltd
8. National Bank of Kenya Ltd
9. Citibank NA
10. Diamond Trust Bank Ltd
11. NIC Bank Ltd
12. I&M Bank Ltd
13. Prime Bank Ltd
14. Bank of Baroda Ltd
15. Savings and Loan Ltd
16. Housing Finance Company of Kenya Ltd
17. Bank of Africa Ltd
18. Bank of India
19. Imperial Bank Ltd
20. Ecobank Ltd
21. Family Bank Ltd
22. Chase Bank Ltd
23. Fina Bank Ltd
24. African Banking Corporation Ltd
25. Development Bank of Kenya Ltd
26. Gulf African Bank Ltd
27. Habib AG Zurich
28. K-Rep Bank Ltd
29. Giro Bank Ltd
30. Consolidated Bank of Kenya Ltd

31. Guardian Bank Ltd
32. Fidelity Commercial Bank Ltd
33. Victoria Commercial Bank Ltd
34. Habib Bank Limited.
35. Southern Credit Banking Corporation Ltd
36. Equatorial Commercial Bank Ltd
37. First Community Bank Ltd
38. Credit Bank Ltd
39. Trans-National Bank Ltd
40. Middle East Bank Ltd
41. Paramount Universal Bank Ltd
42. Oriental Commercial Bank Ltd
43. Dubai Bank Ltd
44. UBA Kenya Bank Ltd
45. City Finance Bank Ltd