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HUMAN RESOURCE AUDIT AND CORPORATE PERFORMANCE:
AN EMPIRICAL STUDY OF THE COMPANIES LISTED IN THE NAIROBI STOCK
EXCHANGE //

Signed

Date

18/10/2007

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D/61/P/8244/04

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This project has been submitted for examination with my approval as the University
Supervisor

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18/10/2007

Prof. K'Obonyo

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FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF
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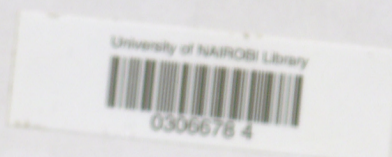
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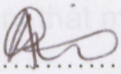
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OCTOBER 2007



DECLARATION

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

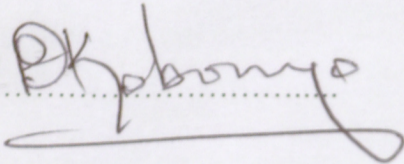
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ACKNOWLEDGEMENT

This project is dedicated to my family: My husband Ambrose Lugho, my daughter Angela Lulu Juma, my Son's Athanas Amani Juma and Mathew Fahari Lugho.

Special dedication goes to my parents for their deep love, foresight and encouragement that made me what I am today.

I am thankful to Prof. K'Obonyo, my project supervisor for his guidance, direction and patience throughout this project.

To all my course lecturers, my MBA colleagues, the library staff and the entire University of Nairobi fraternity who helped me in one way or another, I am grateful.

I wish to thank the CEO's, Senior Managers or the representatives of the Companies listed in the Nairobi Stock Exchange who gave me the valuable data for this study.

Above all, Glory and Honour be to God the Father, the Son and, the Holy Spirit. This is the work of their hands.

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I wish to thank my husband for his love, guidance, patience, understanding and support. Without his material support, residential consultations and encouragement this work would not have been accomplished. I salute our children Angela, Athanas and Mathew for their understanding and encouragement. I am grateful to my parents for laying the foundation of my academic pursuits through their guidance, wise counsel and material support.

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LIST OF ABBREVIATIONS

CEO'S

CHIEF EXECUTIVE OFFICER'S

CMA

CAPITAL MARKETS AUTHORITY

NSE

NAIROBI STOCK EXCHANGE

The purpose of the study was to determine the relationship between Corporate Performance and Human Resource Audit. The objectives were two fold, namely (i) To find out whether listed companies conduct human resources audit or not and (ii) To find out whether there is relationship between human resource audit and corporate performance. The study employed a survey design, and was carried out using structured questionnaires. The sample frame consists of all Human Resources Managers of the Companies listed at the Nairobi Stock Exchange. A stratified random sampling technique was used to select 40 firms. The response rate to the questionnaires was 84 %. The data was analyzed using both the descriptive and inferential statistical analyses. The findings were -

- (i) Most of the listed companies conduct Human Resources Audit
- (ii) The companies that conduct Human Resource Audit have recorded good corporate performance results.

From the Research, it is evident that Human Resource Audit played a significant role in the performance of firms listed on the Nairobi Stock Exchange. In conclusion, it will be very helpful if researchers and policy makers make appropriate legislative frameworks to compel firms to conduct human resource audit since it will support organization performance and spur economic growth.

ABSTRACT

The concept of Human Resource Audit and Corporate Performance is one of the most recent development in the sphere of Human Resource Management. Many Companies now make use of the concept since it has proved to be a strategic and integrated process that delivers sustained success to the organization by improving the performance of the people who work in them resulting to improved corporate performance of the companies. Despite all these, very little is known about Human Resources Audit in Kenyan situation. The contemporary workplace in organizations in Kenyan offers many challenges yet no studies have been done to find out if indeed any of the companies listed at Nairobi Stock Exchange practice Human Resource Audit or even if indeed Human Resource Audit is delivering its intended benefits for those who use it.

The purpose of this study was to determine the relationship between Corporate Performance and Human Resource Audit; The objectives were two fold, namely:(i) To find out whether listed companies conduct human resources audit or not and (ii)To find out whether there is relationship between human resource audit and corporate performance. The study employed a survey design and was carried out using structured questionnaires. The sample frame consists of all Human Resources Managers of the Companies listed at the Nairobi Stock Exchange. A stratified random sampling technique was used to select 40 firms. The response rate to the questionnaires was 84 %.The data was analyzed using both the descriptive and inferential statistical analyses. The findings were :-

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custodian banks are varied in size, this again agrees with the literature review that organizations are environment serving and dependent Hunger and Wheeler (1990) and that they have to respond either strategically or operational to environmental changes in order to survive Barton and Martin (1990) .The strategic responses practices will vary with the size of the organizations; that small banks are limited by the scarcity of resources to respond to some of the changes in the banking industry hence explaining why there are only 8 out of 52 commercial banks offering custodian banking services in Kenya as at 30th June ,2007.

CHAPTER ONE: INTRODUCTION

1.1 Background

The commercial business environment of organizations is very turbulent and dynamic due to the uncertainty nature created by the ever changing environmental factors such as political issues, social issues, cultural issues, globalization and legal constraints (Porter, 1980). Globalization refers to the tendency of firms to extend their sales, ownership and/or manufacturing to new markets abroad. More globalization means more competition, and more competition means more pressure to improve, lower costs, and make employees more productive and to find new ways of doing things better and less expensively. The success and survival of organizations depends on how well they relate with these changes and how they position themselves in the environment. With this realization, continuous analysis of the impact of the complex and dynamic existing environmental considerations ensures the organization's success in the future (Pearce and Robinson, 1997). Because of the dynamic nature of the environment, organizations need not only notice changes in their environment, but are also required to formulate strategies which match these changes in order to create a "fit" (Mitra, 2001). A strategy is the company's long term plan on how it will balance its internal strength and weaknesses with its external opportunities and threats to maintain a competitive advantage.

Human resource is one of the most significant strategies used by organizations when responding to changes in the environment. This is so because it is the people who carry out the activities in an organization that produces the end results of profitability and sustainability. Therefore, the success or failure of an organization depends on human effort, personality, desires and ambitions of the individual employees who will significantly determine the standing of the particular organization (Waweru, 1984). Human resource strategy enables employees to give in their best results thus making a firm have a competitive edge over its competitors. It is important to continuously evaluate the human resource strategy in order to

ensure that the organization survival and competitive position is maintained. One of the processes used by organizations for evaluation of human resource is known as human resource audit.

According to Gary Dessler (2005) organizations that complete a human resource audit for purposes of compliance and cost management will enjoy an improved climate and a healthier bottom line. The completion of human resource audit will also ensure that human resource practices are linked to and play a vital role in the company's strategic planning and execution. Gomes and Candy (2005) view Human Resource Audit as an important tool for creating, updating and executing Human Resource strategies and best practices that will provide long term support to the organizations bigger picture. Some of the benefits recognized by Gomes and Candy (2005) on Human Resource Auditing include the creation of a cost effective hiring system, developing new employees orientation and training programs, develop and manage employee relation/communications, adopt legal and creative personnel forms, install and implement human resource system, outline and implement recruitment and exit procedures, establish and implement key personnel policies, develop and publish employee handbook and assess the company's current and future needs.

Porter (1985 page 112) argues that business strategy is all about competition. He observes that, "Competition is specifically trying to gain competitive advantage over rivals in the market arena." Competitive strategy is the ability of an organization to meet and beat the performance of its competitor's. If an organization does not improve its performance overtime, sooner or later, it will loose its competitive advantage and eventually drop out of the market (Porter, 1985). Thus the Charles Darwin law of natural selection can be applied to business organizations to infer that only those organizations that best adapt to their environment are most likely to survive competition. The purpose of competitive strategy is to establish a profitable and sustainable position against the forces that determine industry competition. (Porter 1980)

Different studies have been done in different industries whereby researchers studied financial aspects of organizations. Musyoki, (2003) studied the relationship between quality improvement and financial performance for commercial banks and concluded that human resource has a definite role in meeting the organizations corporate strategy. Organizations are composed of people, and human resource is entrusted with the responsibility of finding the best people for the jobs so that the organization can gain a competitive advantage in the market place (Biles and Schuler, 1986). Human resource is effective only when it contributes to the firm's strategic goals leading to achieving the desired organizational corporate performance of profitability. Human resource departments can learn about the firms overall strategy through interviews with key executives, review of long range business plans, and systematic scanning of the environment to uncover changing trends. (Hooper, Catanello and Murray, 1987)

1.1.1 Human Resource Audit

The Oxford English dictionary defines auditing as "an investigation of something" which involves evaluating and testing of the effectiveness of internal controls, policies and procedures designed to help the organization meet all its objectives. Auditing provides a high level control function by measuring and evaluating the effectiveness of other internal controls, policies and procedures (Whittington and Panny, 1995). Human Resource Audit is a logical review of the workings of the Human Resource Department which involves the review of all major areas such as human resource planning, job analysis, recruitment of workers, compensation, selection and training, orientation, benefits, compliance, human resource information system, safety/OSHA, Affirmative Action/EEO/Diversity and employment in terms of current laws and application (Berry, 1967). The major aim of human resource audit is to examine policies, practices and strategies of an organization to establish their effectiveness. And like financial audit, which seeks to uncover inaccuracies, the human resource audit helps a firm identify best practices that are relevant to the business organizational culture and more importantly practices which are of value to the firm's bottom line. (<http://www.skillnet-resources.com/audit.html>.)

According to Biles and Schuler (1986), Human Resource Audit is a quality control check on the Human Resource activities in a division or a company in order to determine how well the activities supports the organization's overall strategy. As such, it serves to create a more professional image of the department in the eyes of both management and the employees. It can help clarify the department's role and lead to greater uniformity in practices across geographically scattered and decentralized human resources functions typical of large firms. The most important contribution to the organization and its employees is that it can correct problems and ensure compliance with a variety of local laws and the strategic plans of the concerned organization.

Human resource audit involves managers and the team of people whom they share responsibility with and consist of a holistic approach because it covers every aspect of the organization (Armstrong 2001). He argues that everything that people do at work at any level contributes to achieving the overall purpose of the organization. Human resources audits are carried out in the same manner as financial audits; designating a team of experts who are likely to have the requisite functional experiences in one or more areas, although based on another location. The best place to start the Human Resource Audit is on the basis of past audit reports, or on the basis of functions carried out by the department, the controls in place and the policies and procedures followed by each case. The audit team will seek to identify who is responsible for each activity, determine the objectives of each activity, review the policies and procedures used, sample the available records to find out if the policies and procedures are being followed, prepare an audit report commending proper objectives, policies and procedures, and follow an action plan to correct errors in objectives, policies and procedures and follow up on the action plan at a later stage to see if the problems found through the audit have been solved (Berry, 1967).

1.1.2 Performance

Performance management is of course about results. But what is meant by that word? It is important to clarify what it means because if performance cannot be defined you can't measure or manage it. It has been pointed out by Bates and Holton (1995) that: 'performance is a multi-dimensional construct, the measurement of which varies depending on a variety of factors.' They also state that it is important to determine whether the measurement objective is to assess performance outcomes or behaviour. There are different views on what performance is. It can be regarded as simply the record of outcomes achieved. On an individual basis, it is a record of the person's accomplishments. Kane (1996) argues that performance is something that the person leaves behind and that exists as part from the purpose. Bernadine et al (1995) are concerned that 'performance should be defined as the outcomes of work because they provide the strongest linkage to the strategic goals of the organization, customer satisfaction and economic contributions.' The Oxford English Dictionary defines performance as: 'The accomplishment, execution, carrying out, working out of anything ordered or undertaken.' This refers to outputs/outcomes (accomplishment) but also states that performance is about doing the work as well as being about the results achieved. Performance could therefore be regarded as behaviour of the way in which organizations, teams and individuals get work done. Campbell (1990) believes that: performance is behaviour and should be distinguished from the outcomes because they can be contaminated by systems factors. A more comprehensive view of performance is achieved if it is defined as embracing both behaviour and outcomes. This is well put by Brumbach (1988).

Performance means both behaviours and results. Behaviours emanate from the performance and transform performance from abstraction to action. Not just the instruments for results, behaviours are also outcomes in their own right – the product or mental and physical effort applied to tasks – and can be judged apart from results.

This definition of performance leads to the conclusion that when managing the performance of teams and individuals both inputs (behavior) and outputs (results) need to be considered. This is the so-called 'mixed model' (Hartle, 1995) of performance management, which covers competency levels and achievements as well as objective setting, and review. The focus on managerial compliance is to find out how well the managers in other departments comply with human resources policies and procedures. The audit should preferably uncover instances where managers have ignored or abused policies and violated laws. In ensuring compliance, the human resource department will earn the respect of operating managers if it seeks their views relating to human resource needs in the respective areas. Acting on these discussions will increase its contribution to the organization objectives, while also being seen as being more responsive to departmental needs.

It is one thing to argue that human resource can help create competitive advantage; the real question is; "can human resource have a measurable impact on a company's bottom line?" There is evidence that the answer is yes. The United States Government, for instance, found that using personnel screening test to select high potential computer programmers saved millions of dollars per year. For many firms, instituting tough headcount control is the first line of attack in lowering labour cost. Human resource generally plays a major role in planning and implementing corporate downsizing, and in maintaining the morale of the remaining employees. A study by human resources consulting firm Watson Wyatt worldwide of Bethesda, Maryland, found that significant improvements in key human resources management practices correlated with significant increases in market value in the 405 publicly traded firms studied. We can't draw any conclusion regarding cause and effect. However, significantly improving recruiting practices was linked to a 10% increase in market value while establishing clear rewards and accountability was associated with a 9.2% market value rise.

Employee behavior is especially important in service firms and retail stores. For example if your customer is confronted by a sales person who is not tactful, prepared to discuss the different products of your firm, all your other efforts of

advertising campaigns and redecorated stores, will go to waste. Successful firms depend on employees attitudes and motivation and on human resource management. Human resource practices such as providing orientation and facilitating employees career improved performances. Many firms today know they need employees to work "as if they own the company". At Toyota Motor manufacturing in Georgetown, Kentucky, employee commitment helps explain the firms superior performance and product quality. Researchers have tried to link human resource and performance ,for instance Toyota instituted a human resource system that cultivates commitment. For example, Toyota has programs that guarantee fair treatment of employees grievances and disciplinary concerns. It also has programs that help ensure employees can use all their skills at work, such as career-oriented performance appraisal procedures and extensive training and development opportunities.

1.1.3 Human Resource Audit and Performance

Human resource audit is a logical review of the workings of the human resource department. For the audit to be comprehensive, it must review all the major areas, such as human resource planning, job analysis, compensation and administration, affirmative action, recruitment, selection, training and orientation, career development, performance appraisals and labour management relations (Berry, 1967). Human resource has a definite role in meeting the organization's corporate strategy. Organizations are composed of people and the human resources department is entrusted with the responsibility of finding the best people for the tasks at hand so that the organization can gain a competitive advantage in the market place. The understanding of the organizations corporate strategy can boost the organization's performance through planning, staffing, compensation employee relations and other human resource activities. (Hooper, Catanello and M.0ercy, 1987).

Human resource audit contributes significantly to the performance of a firm through the identification and addressing of employees goals, aspirations, likes and dislikes and their feelings which considerably influence their work performance. The very

success of an organization or its failure for that matter, is dependent upon the human effort, and the personality, desires and ambitions of the individual's employees will determine significantly the standing of the particular organizations (Waweru, 1984). A human resource audit evaluates the human resource activities in an organization with a view of assessing their effectiveness and efficiency. It is done with a view to improve those activities, uncover shortcomings and address the deficiencies so that firms can perform better. (Biles and Schuler, 1986).

1.1.4 Public Companies

Companies that are large in size in terms of turnover are perceived by the customers and other stakeholders to be profitable, successful and powerful. (Heinz et al 1999). Large size may make such companies establish a positive relationship with the society in winning the support of the community. For instance, retaining its workforce for a long period. The companies themselves also want to retain such positions which are not only prestigious but also advantageous (Herreman et al 1993).

The number of companies listed and quoted at the Nairobi Stock Exchange (NSE) were 53 as of 31st December 2006 (NSE Handbook 2006). Being public companies, the companies are expected to adhere to the governance structures of publicly quoted companies, respond to global changes through the adoption of new strategies of achieving shareholder value which include human resource auditing. The listed companies are involved in activities ranging from manufacturing, mining, sisal growing, investing, media, petroleum, transmission and distribution of electricity, air transport, brewing, insurance products, mortgage, plantation of tea and coffee. The Nairobi Stock Exchange companies are divided into two segments, main investment market segment which consist of the actively trading companies and alternative investment market segment consisting of not actively trading companies. The main investment market segments consist of four sectors namely agriculture, commercial and services, financials and investments and industrial and allied. Pearce and Robinson (2002) argues that even if an organization has no outstanding competences and capabilities, they don't shut down but managers

instead must tailor their strategies to fit the organizations resources and capabilities. Therefore human resource managers in these organizations need to ensure that the work force is strategic in order to meet the firm's objectives by performing superbly.

Although Human Resource Audit plays a very important role in the evaluation of human resource and corporate performance of organizations, there is very little research that has been done on the relationship between Human Resource

1.1 Problem Statement

The question of Human Resource Audit cannot be ignored by Human Resource Managers of companies listed on the Nairobi Stock Exchange as failure to embrace it will have direct impact on the companies market share and profitability. To ensure their survival, small and large organizations must generate suitable competitive strategies not only to enable them remain afloat but also to achieve sustainable growth and profitability. Despite having the physical infrastructure in place, such as systems and buildings, organization cannot achieve much without human resources. Acquiring and retaining the right workforce is a major concern for every Chief Executive Officer (C.E.O.) of any organization. This concern calls for continuous critical evaluation of human resources of the organization to ensure their retention and optimum utilization in order to enable the organization achieve its desired corporate performance goals. One of the methods used to continuously monitor human resource in an organization is human resource audit.

Several studies have been done in Kenya focusing on human resources. In a study of the diversity management practices applied by commercial banks in Kenya, Oluoch (2006) concluded that there is no single way of treating employees, as each one will have their own personal needs, value and beliefs and the notion that best practices that will be helpful in a theoretical setting will not provide all the answers in reality. Mutuku (2003) found out that majority of the management have an understanding of the diversity in the workplace and are aware about its benefits. Such diversity includes the area of teamwork, productivity, motivation, creativity and staff turnover. A study by Amimo (2003) on companies quoted at the Nairobi Stock Exchange concluded that companies that have implemented performance management had a positive impact on the organizational performance. In a study of the relationship between quality improvement and financial performance for commercial banks, Musyoki, (2003) concluded that commercial banks that lay

emphasis on quality improvement have shown an improved financial performance compared to commercial banks that have not embraced quality improvement.

Although Human Resource Audit plays a very important role in the evaluation of human resource capacity and corporate performance of organizations, there is very little research that has been done on the relationship between Human Resource Audit and Corporate Performance hence the need to carry out this study. Human Resource Audit enables organizations maintain their competitive edge by enhancing employee's commitment that is voluntary (Derek Torrington et al, 2005). High mobility of employees has been witnessed among the companies. Due to cut throat competition and strategies, competent employees have found themselves being wooed from one company to another. In order to cope with competition, companies have engaged in attracting competent employees to fill the human resource needs. This makes Human Resource Audit a key area for Human Resource Managers to reverse this trend.

The proposed study therefore seeks to provide answers to the research question "what is the relationship between Human Resources Audit and Corporate Performance?"

1.3 Objective of the study

To determine the relationship between Corporate Performance and Human Resource Audit; Specifically for Kenyan Listed Companies.

1.3.1 Specific objectives of the study

- i) To find out whether listed companies conduct human resources audit
- ii) To find out whether there is relationship between human resource audit and corporate performance

Hypothesis: Firms that practice Human Resources Audit have a better performance than firms that do not practice it.

1.4 Importance of the study

The potential audiences to this study include Researchers and Policy Makers, Investors, Financial Analysts Academicians and organizations.

Researchers and policy makers in areas of development, finance, economics e.t.c to make appropriate legislative framework for spurring economic growth using information on the significance of human resource audit to the firms performance.

The study will help investors to be at a position to make decisions on which company to invest in if the said investor prefers dividends payments to capital gains. Those who trade buy and sale on shares will prefer companies that practice Human Resource Audit.

The Research will be used by Financial Analysts in that they will have more information and advise their clients accordingly.

To academicians, the study would add to the body of knowledge in the Human Resource discipline and forms a basis for further research.

The study will be of importance to the management of public companies in helping them have an in depth understanding of Human Resource Audit, the linkage between Human Resource Audit and organizational performance.

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2.1 Human Resource Management

A company that Practices Human Resource Audit is demonstrating that hiring the right people for the right jobs and motivating, appraising and developing them affects the firms overall performance and gives it a competitive edge over the other firms. Human resource can be defined as the human capital of a firm. The human capital refers to the knowledge, education , training, skills and expertise of firm's workers and nowadays human resource is more important than it has ever been before. Dessler (2003) argues that Human Resource Management is the process of acquiring training, appraising, an compensating employees, and attending to their labour relations, health and safety, and fairness concerns. The basis of management is getting the people for the business to make things happen in a productive way so that the business prospers and the people thrive. An organization should always tailor its human resource audit process to suit its needs in order for it to be effective and meaningful.

Golden and Rananujam (1985) proposed four types of linkages between human resources management and the strategic planning process; Administrative linkage whereby their is a linkage between human resource management and strategic planning. In this case the human resource department plays the traditional role of personnel role. It provides day to day operations support and is primarily involved in handling the paperwork. Companies having integrative linkage between strategic planning and the human resource function show a frequent and dynamic interaction both formal and informal. The senior human resource executive is viewed as a true strategic business partner with other senior executives.

Schuler (1992) proposed the 5-p model, linking strategic business needs with strategic human resource management activities. The five 'P's; stand for human resource philosophy, human resource policies, human resource programmes, human resource practices and human resource process. The author noted that strategic human resource management consists of all activities affecting the

behavior of individuals in their efforts to formulate and implement the strategic needs of the business. Its important to identify strategic business needs then analyze them systematically for their impact on human resource management activities including human resource philosophy, policies, programmer, practices and processes.

The term human resource audit has been used differently by different authors to Truss and Gratton (1994) reviewed the major models of human resource management and identified five key aspects. These are; external environment, overall strategy of the organization, the internal organization (structural, cultural, politics and psychological factors), human resource strategy and individual human resource practices and outcomes (motivation, satisfaction, performance and commitment of employees). One unique feature of the model is that it explicitly recognizes the important distinction between human resource strategies and realized human resource practices which have been ignored in most models.

Miles and Snow (1984) pointed out that the human resource management practices must be tailored to the demand of the business strategy. They noted that successful firms display a consistent strategy supported by complementary organizational structure and management processes. They suggested that strategies pursued by companies can be classified broadly into four types: defenders, prospectors, analysers and reactors. Defenders are characterized as building human resource, prospectors as acquiring resources and analysers frequently have to "buy" as well as "make" key human resource. The study will put more emphasis on companies that pursue the defender strategy. These firms would emphasize training programmes and internal promotion (building human resource). In another influential work in the micro-stream, Schuler and Jackson (1987) provided a detailed treatment of the three competitive strategies (innovation, quality enhancement and cost reduction) and the required role behaviour. They argued that, it is more useful to think about what is needed from an employee who works with other employees in a social environment . Thus empirical studies are very much needed to test the validity of the above theoretical frameworks.

2.2 Human Resources Audit

The Oxford English dictionary defines auditing as “an investigation of something” which involves evaluating and testing of the effectiveness of internal controls, policies and procedures designed to help the organization meet all its objectives. The term human resource audit has been used differently by different authors to discuss various issues. Auditing provides high level of control functions by measuring and evaluating the effectiveness of other internal control policies and procedures (Whittington and Panny, 1995). The institute of internal auditors (IIA) defines auditing as “an independent appraisal activity within an organization to examine and evaluate its activities as service to the organization.” According to Biles and Schuler (1986), Human Resource Audit is a quality control check on the Human Resource activities in a division or company as to how well the activities support the organization overall strategy. As such, it serves to create a more professional image of the department in the eyes of both management and the employees. It can help clarify the departments role and lead to greater uniformity in practices across geographically scattered and decentralized Human Resources function typically of large organizations. The contribution of human resources audit to the organization and its employees is that it can correct problems and ensure compliance with a variety of local laws and the strategic plans of the organization concerned.

Berry, (1967) states that Human Resource Audit is a logical review of the workings of the Human Resource Department. He argues that for the audit to be comprehensive it must review all the major areas, such as Human Resource planning, job analysis, recruiting workers compensation, selection and training, orientation, benefits, compliance, Human resource information system, safety/OSHA, Affirmative Action/EEO/Diversity and employment all these are looked at in terms of current laws and application. This determines if a firm is legal, illegal or not upto current professional standards in each of the functional areas (<http://www.hrsage.com/hraudit.htm>) .In essence, human resource audit should be a shared process between managers and the teams they manage. Armstrong (2001) indicates that organizations should continuously engage in strategic processes to

sustain success to the organization by improving performance of the people who work for these firms. It calls for loyalty and commitment, which can be realized if employees are treated well.

Human resource audit is also defined as the systematic assessment of the organization Human Resource service excellence. It involves evaluating each of the firms Human Resources activities to identify an extensive checklist approach and compliance issues that the firms need to address for its organization benefits.

2.3 The Human Audit

Dessler (2003) argues that managing resourceful humans requires a constant balancing between meeting the human aspirations of the people and meeting the strategic and financial needs of the business. Auditing of a human resource department is a systematic process that involves two steps: It involves gathering information to determine compliance, effectiveness, costs and efficiencies and it also involves evaluating the information and preparing two written reports with an action based on exposures, priorities and a timeline for instituting changes. (MacDuffic, 1995)

Like a financial audit, Human Resource Audit must be comprehensive in order to be effective. The audit review includes but is not limited to: The infrastructure required to carry out the audit effectively; Compliance with relevant labour employment laws in Kenya and internationally; Recruitment and selection processes; Employment related tests; Performance evaluation processes; Job descriptions and job specification; Benefit costs; Time-keeping and pay practices; Record keeping and posting requirement; Training and development; Technology. The best place to start the Human Resource audit is on the basis of past audit reports or on the basis of functions carried out by the department, the controls in place and the policies and procedures followed in each case

The focus on managerial compliance is to find out how well the managers in other departments comply with human resources policies and procedures. The audit should preferably uncover instances where managers have ignored or abused policies and violated laws. Compliance with laws is especially important, as the government would hold the company responsible. In ensuring compliance, the Human Resource Department improves its image, value and contributions to the company. Conversely, the Human Resource Department will earn the respect of operating managers if it seeks their views relating to human resource needs in their respective areas. Acting on this discussion will increase its contribution to the organizations objectives while also being seen as being, more responsible to the departmental needs. (Berry, 1967)

The audit team uses a combination of several information gathering tools to collect data about the firm's human resources activities. These tools include interviews, surveys, historical analysis, external information, human resource experiments and international audits. Each tool provides partial insights into the firm's activities. By using these tools skillfully, the audit team can get an insight into the effectiveness of the organizations human resources (Whether and Davis, 2003). Some of the tools for collecting data on Human resource audit are as follows: -

2.3.1 Interviews

According to Dessler (2003), interviews are potentially uncomfortable, since few people like to receive-or give-negative feedback. Adequate preparation and effective implementation are therefore essential. He argues that employees should be given notice to prepare, gather questions and comments. The time and place should be chosen. The interview should be done in a private place where you be interrupted by phone calls or visitors. Interviews of employees and managers often provide audit teams with a powerful tool for collecting information about Human Resources activities and identifying areas that need improvement. Interviews can be conducted on both sides to determine the reasons for problems like turnover or absenteeism. Comments and criticism from interviewee can help pinpoint

perceptions and causes that will then form the basis for connective action. Suggestions by interviewees may reveal ways of better dealing with the issues. Where criticisms are valid, change should be made. Where the human resources department is correct however, employees may have to be educated and trained by explaining the reasons for the procedures in place that are a cause for concern.

Exit interviews are conducted with departing employees to learn their views and experience with the organization. Questions asked along these lines are reviewed later to find out if there is a major cause for turnover, absenteeism, dissatisfaction etc. the Human resource department must take an active interest in exit interviews – some employees may be reluctant to criticize and speak their mind. Reasons must be studied to determine if trends exist among divisions, departments or managers. Employees or managers leaving an organization are often willing to genuinely share information and experiences only where the exit is properly handled and the information properly collected. Employees rarely give accurate information in exit interviews unless anonymity and confidentiality are ensured. No one would like to “burn her bridges” since one day she may require a recommendation from the company she left. Exit interviews have shortcomings. They are too little too late. In addition to exit interviews, firms should also run stay interviews. Organizations need periodic one-on-one interviews with selected workers regarding employment. The key question should be; what can we do to keep you? Running exit interviews is such a waste of time unless we do make use of the feedback. (Nation, 2007, July 6)

2.3.2 Others Sources of Data

Historical Data is past information about a company, used to help forecast the company's future; for example, historical price/earning ratio, revenue and revenue growth, earning and earning growth. This can be analyzed to reveal important trends in organizations in different industries.

The human resource department can use questionnaire to broaden the scope of the research. Questionnaires may lead to more candid answers than face to face interviews. Some organizations collect information via questionnaire through a

series of tick boxes with some room for qualitative answers. The questionnaire format has the advantage of gathering data in a more systematic way which can make subsequent analysis easier. However the standardization of questions may reduce the amount of probing and self-completed questionnaire may suffer from low response rate. (IRS, 2002) According to Beardwell (1992) questionnaire can provide information about why people are leaving but do not necessarily get to the root of the problem. For example, someone might say that they are leaving to a job with better pay but this does not show what led the person to start looking for another job in the first place.

External Information can also be helpful in giving the audit team a perspective against which the firm's activities can be judged. Such information can be available from various public and private agencies and government departments. Examples include wages and salary surveys, employee turnover rates, workforce projections, future employment opportunities, and accident rates by professions that can serve as benchmarks for comparison purposes.

Field Experiment is another tool available to human resource audit especially in evaluating new programs and trends on which there is no available data for comparison purpose. In using the field experiment, the human resources audit team compares one experimental group with a control group, under realistic conditions. Such experimentation is usually employed in researching on absenteeism, turnover, compensation, job safety program; the audit team may implement a safety training program to half the supervisor (the experimental group). The other group (control group) contains supervision that has not been given this training. Audits of International Organizations, These are more complex. Such complexity is due to differences in laws, languages, cultures, traditional practices and expectations. There is a tendency for the audit team to use the standards and experiences from their home countries as a benchmark against which the evaluation is conducted. The auditors must make allowances for variations in standards and laws followed in the host country.

2.4 Corporate Performance

There is an assumption that before it is able to plan and manage individual performance the organization will have made significant steps in identifying the performance required of the organization as a whole. In most cases this will involve a mission statement so that performance is seen within the context of an overriding theme. Evan and Thompson (1992) found that performance management organization were more likely than others to have an organizational statement and communicate this to employees. The investigations to date have had a dual purpose, the first being to seek to establish a link between people management practices and organizational performance. In other words, does the way people are managed affect the bottom line? The second one follows logically from this, and is: If the answer to the first question is yes, then which particular policies and practices result in high performance? A variety of different definitions of performance have been used in studies. These ranges from bottom line financial performance (profitability), through productivity measures, to measurement of outcomes such as wastage, quality and labour turnover (which are sometimes referred to as internal performance outcomes).

In the UK the Sheffield Enterprise programme (Patterson et al. 1997) has studied 100 manufacturing organizations over 10 years (1991 to 2001) and use statistical techniques to identify which factors affect profitability and productivity. It has been reported that aspects of culture, supervisory support, concern for employee responsibility, and training were all important variables in relation to organizational performance. Currently the focus is on commitment in mediating the impact of human resource policies and practices on business performance. Commitment has been described as: Attitudinal commitment-that is, loyalty and support for the organization, strength of identification with the organization (Porter 1985), a belief in its values and goals and a readiness to put in effort for the organization. Behavioural commitment is to remain with the company and continue to pursue its objective. Walton (1985) notes that commitment is thought to result in better quality, lower turnover, a great capacity for innovation and more flexible employees.

Measuring performance

On the basis of what gets measured gets done, it is critical that the organization selects the most useful measure of performance for the organization as a whole and for the individuals within it. Single measures are unlikely to be sufficiently Robust Kaplan and Norton (1992) argues convincingly that the mix of measures which an organization should use to assess its performance should be based around four different perspective: Financial measures such as sales growth,profit,cash flow and increased market share. Customer measures-that is, the customer perspective, which looks at, for example, delivery time, service quality, product quality. Internal business measures cycle time, productivity, and procedures and follow up on the Employee skills,labour turnover, innovation and learning perspective-including such elements as ability to innovate and improve.

Establishing rationale for human resource audit among firms in Kenya still remains an important but unstudied issue. This research sorts to address this field of Human Resource Management.Mutaviri(2002) notes that to succeed, an organization should have the ability to create or identify those opportunities that it is best qualified to exploit . Amimo (2004) studied performance management in firms listed at the Nairobi stock exchange and found profitability as the most dominant than human resource involvement. Organizations are composed of people, and Human Resource is entrusted with the responsibility of finding the best people for the jobs so that the organization can gain a competitive advantage in the market place (Biles and Schuler, 1986).Good HR practices enable companies to respond faster to new products and technological innovations and competitors moves. For example,downsizing,empowering employees, and organizing around teams-all HR jobs aim to improve communication and make it easier for employees to make decisions.

Human resource has a definite role in meeting the organizations corporate strategy. Over the last 10 years, there have been many changes in the Kenyan economy. These changes include changes in IT, governance, taxes, liberalization and

globalization. All these have made firms face a lot of challenges. Therefore, for firms to be on the competitive edge they have had to refocus on their activities so as to survive in this turbulent environment so as to make a profits. Competitive is rife in all industries. The human resources department is therefore key in ensuring it carries out best practices so as to retain its workforce. The Human Resource is entrusted with the responsibility of finding the best people for the jobs so that an organization can compete favorably in the market . According to Berry, (1967) the audit team will seek to identify who is responsible for each activity, determine the objective of each activity, and review the policies and procedures to find out if the policies and procedures are being followed. The purpose of an audit is to develop an action plan to correct errors in the objectives, policies and procedures and follow up on the action plan at a later stage, to see if it solved the problems found throughout the audit.

2.5 Human Resource Audit and Corporate Performance

Corporate performance management is a concept introduced by Gartner research in 2001, which means "all the processes, methodologics, metrics and systems needed to measure and manage the performance of an organization.

Henderson (1989:143) argues that Darwin is probably a better guide to business competition than economist are " as he recognized that markets are rarely static and indeed likened competition to a process of natural selection, where only the fittest survive. Darwin noted that more individual species are born than can survive. Hence his famous theory of "survival for the fittest". To survive and thrive firms must engage in best practices. Beardwell et al (2004) argues that organization needs to consider how the human resource function can create value: it is quite common in organization to reduce costs through human resources such as reduction in head count and the introduction of flexible working practices but is also important to consider how they might increase revenue. Thompson (2001), argues that the potential value of outputs must be maximized by ensuring that they fully meet the needs of the customers for whom the product or services is intended. According to

Hamel and Prahad(2002) productivity and performance can be improved gaining the same output from fewer resources (rightsizing) and achieving more output from given resources (leveraging). Human resources should ask themselves the following questions; which employee provides the greatest potential to differentiate a firm from its competitors?

According to Gary Dessler (2005) auditing is also of benefit to organizations in that it improves employee communication and ensures that human resources department is accessible ,develops an objective method of grading jobs, with new ranges that are competitive, getting honest feedback from employees and allowing the company to develop an action plan and finally identifying opportunities to outsource areas within human resources tat offer more value to the company. To achieve their strategic objective organization must ensure that they have the right number of managers, with right skills and available at the right time. A core element of human resource planning is the assessment of existing managerial stock and where necessary, the replenishing of the stock through recruitment of new .A managerial audit is normally arrived out of utilizing information from sources such as assessment centers, performances appraisal, personal files and discussion with bosses to reveal the skills available to meet forecast demand managers, managerial audit

Golden and Ranaujam (1985) proposal on administrative linkage between human resource management and strategic planning provides one way of linking human resource audit with corporate performance. When looking at performance indicators such as turnover, profits, returns to shareholders this entire can attributed to value addition by people. In Schuler (1992) proposed model for linking strategic business needs with strategic human resource management activities, he emphasized the need to identify strategic business needs then analyze them systematically for their impact on human resource management activities including human resource philosophy, policies, programme, practices and processes.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

The research design used in this study is the survey method. This method is preferred because it allows for generalization of research findings.

3.2 Population of Study

The population of interest consists of all the companies quoted in the Nairobi Stock Exchange (Appendix 1). These companies were 56 in number as at 30th June 2007. (NSE Handbook, 2006). The Nairobi Stock Exchange categorizes the population of firms into two segments called the main market segment and the alternative market segment. The main market segment consists actively trading companies and is divided into sectors of agriculture, commercial and services, finance and Investment and industrial and allied. The alternative market segment consists of companies that are not actively trading from the four sectors of the main market segment.

3.3 Sample size and sample selection

The sample frame consists of all human resources managers of the companies listed at the Nairobi Stock Exchange. A stratified random sampling technique was used to select 40 firms. Even though according to Daniel and Torrel (1978), 30 units are usually considered a reasonable size. Therefore, 40 firms was used because many times there is lack of response from some companies. The respondents from the 40 companies was human resource managers.

The sample of 40 firms was selected proportionately from the five categories i.e. the four sectors of the main market segment and the alternative market segment unless those listed are not enough to meet the required number. If a category has less than less than 5 firms, all the five will be selected to ensure adequate representation.

3.4 Data collection

The study used both primary and secondary data. The primary data was collected through a structured questionnaire administered on a drop and pick basis. The questionnaire has a mix of questions. The close ended questions are presented on 5 point Likert type scales. The questionnaire is divided into 3 sections A, B and C. Section A is directed at data on the firm's and respondent's profile. Section B and C are directed to Human Resource Audit and firm's performance, respectively. The secondary data will be from published sources such as the annual performance data available at the stock exchange. The secondary data will be on price per share and return on Assets.

3.4 Data analysis

The data will be checked for accuracy and completeness, coding errors and omissions. The analysis will be done mainly using descriptive statistics such as means, standard deviations, frequencies as well as percentages. The chi-square test will be used to establish the statistical significance of each sector.

CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION

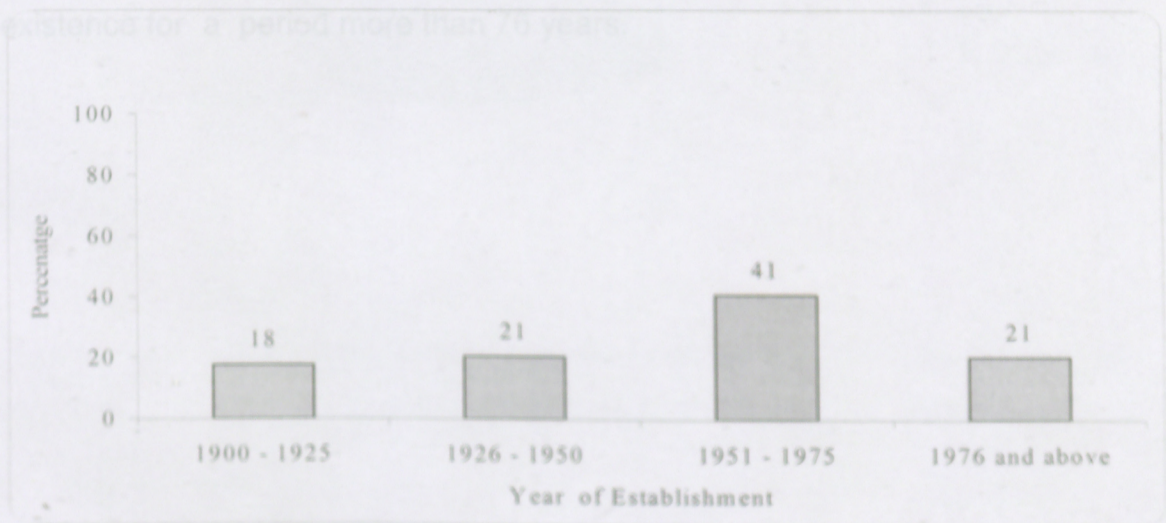
4.1 Introduction

This chapter presents the results of the data analysis. The data from the completed questionnaires were summarized and tabulated in the form of percentages, frequencies and mean scores. Standard deviations were computed for selected data to enhance comparison and interpretation. Out of 56 companies listed at the Nairobi Stock Exchanges as at 30th June 2007, 40 were targeted for the study. Out of the 40 companies listed at the Nairobi stock Exchange, thirty four (34) companies responded which constituted 85 % of the sample. The response rate of 85 % is considered sufficient to yield meaningful statistical analysis. Further the response rate of 85% indicated that the respondents were eager for their views to be known on the relationship between Corporate Performance and Human Resource Audit.

4.2 General information about the company

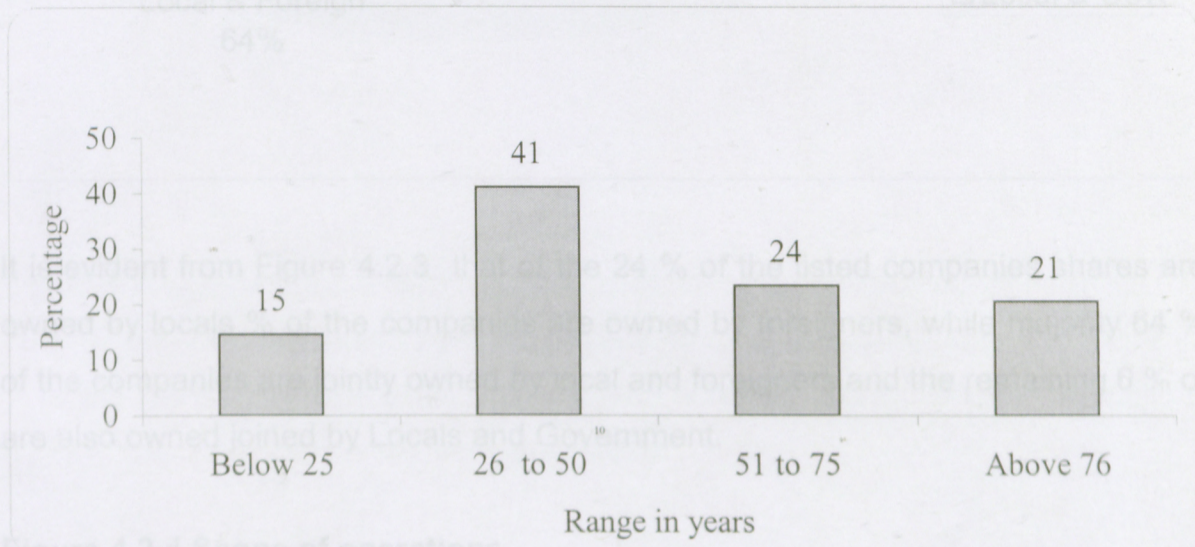
This part will analyze general information regarding the company contained in Part 1 of the questionnaire.

4.2.1 Profile of the Listed Companies.



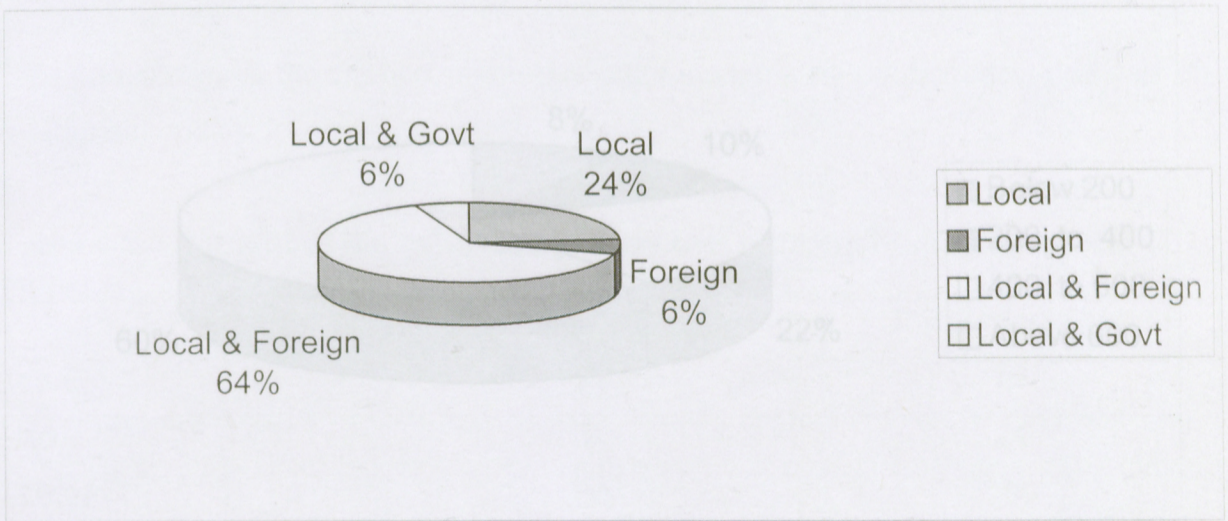
From Figure 4.2.1 above it can be seen that 18 % of the listed companies were established between the period 1900 and 1925, 21 % of the companies were established between the period 1926 and 1950, majority of the companies (41 %) were established between the period 1951 and 1975 and 21 % of the companies were established above the year 1976.

Figure 4.2.2 Number of years the companies have been in existence



As shown in Figure 4.2.2 15 % of the listed companies have been in existence ranging from the period 0 to 25 years, majority of the companies (41 %) have been in existence for a period ranging the period 26 to 50 years, while 24 % have been in existence between the period 51 to 75 years and while 21 have been in existence for a period more than 76 years.

4.2.3 Ownership composition



It is evident from Figure 4.2.3 that of the 24 % of the listed companies shares are owned by locals % of the companies are owned by foreigners, while majority 64 % of the companies are jointly owned by local and foreigners and the remaining 6 % of are also owned joined by Locals and Government.

Figure 4.2.4 Scope of operations

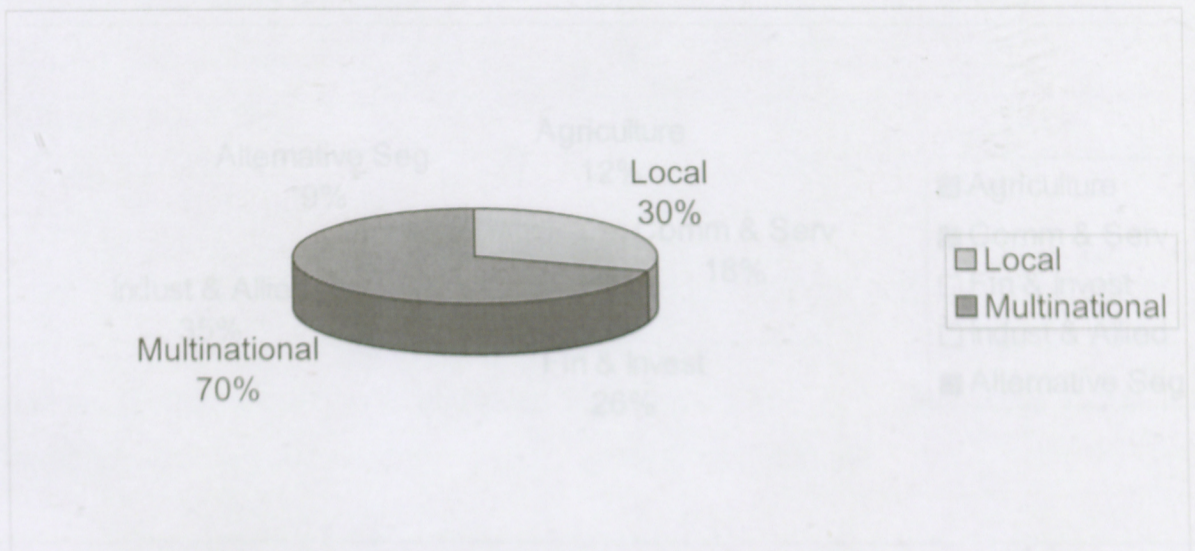


Figure 4.2.4 shows that 70 % of the listed companies shareholding are owned by multinationals while 30 % of the companies shareholding are owned by locals.

Figure 4.2.5 Organizational Size

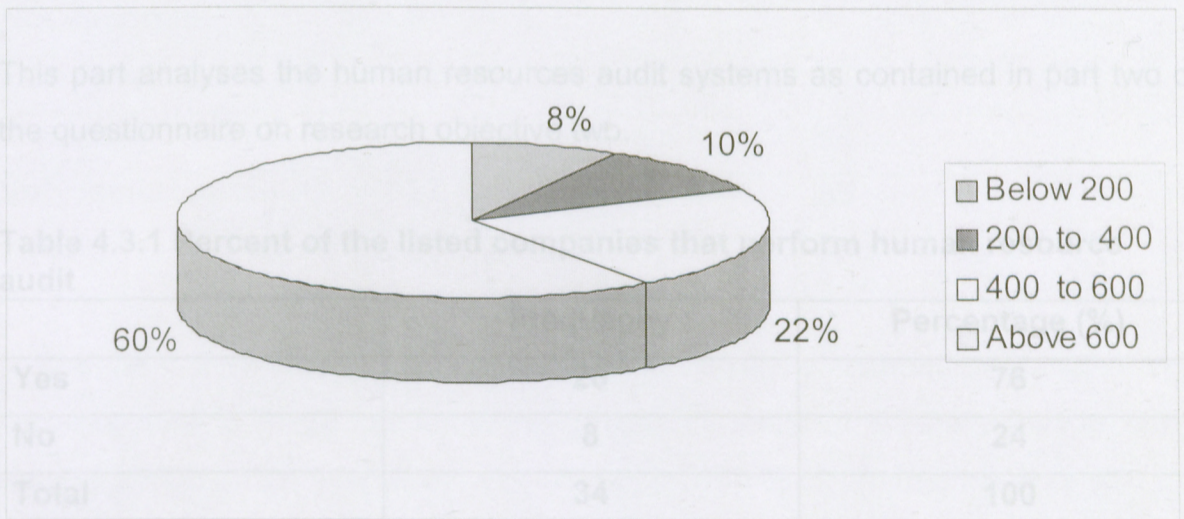


Figure 4.2.5 shows that 8 % of the listed companies employees range between 0 to 200, 10% of the companies have employees ranging between 200 to 400, while 22 % of the companies have employees ranging between 400 to 600 and the majority 60 % of the companies employees above 600.

Figure 4.2.6 Response by Sector

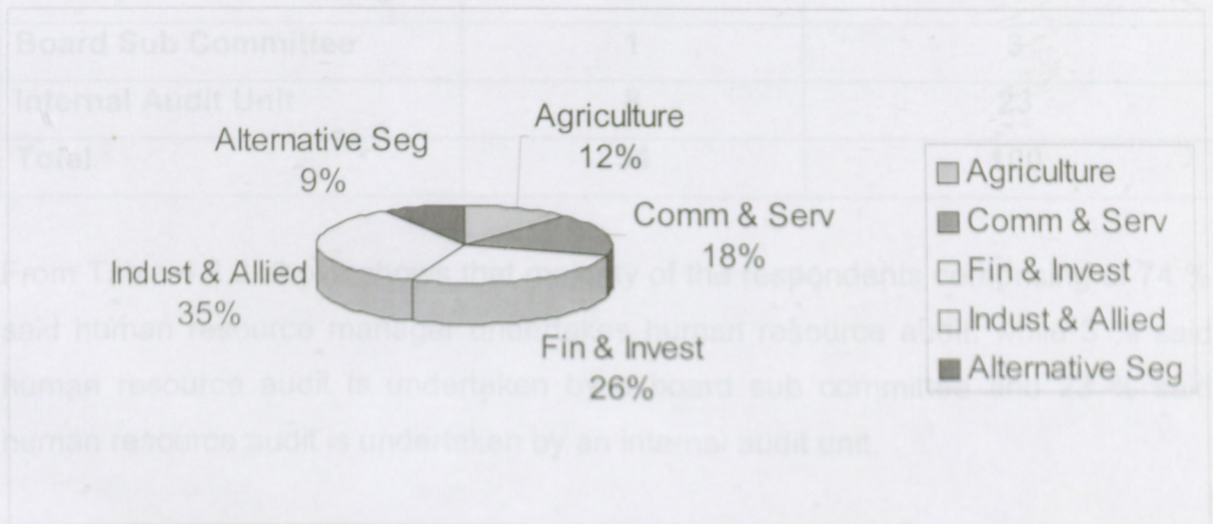


Figure 4.2.5 shows that 12 % of the respondents were from the agricultural sector, while 18 % were from the commercial & services sector, 26 % were from finance & investment sector, while majority 35 % of the respondents were from Industrial & Allied and 9 % were from the alternative market segment sector.

4.3 Human Resource Audit System

This part analyses the human resources audit systems as contained in part two of the questionnaire on research objective two.

Table 4.3.1 Percent of the listed companies that perform human resource audit

	Frequency	Percentage (%)
Yes	26	76
No	8	24
Total	34	100

Table 4.3.1 shows that 76 % of the respondents said they conduct human resources audit while 24 % of the respondents said they do not conduct human resource audit in their companies.

Table 4.3.2 Person responsible for implementation of human resource audit

	Frequency	Percentage (%)
Human Resource Manager	25	74
Board Sub Committee	1	3
Internal Audit Unit	8	23
Total	34	100

From Table 4.3.2 above shows that majority of the respondents comprising of 74 % said human resource manager undertakes human resource audit, while 3 % said human resource audit is undertaken by a board sub committee and 23 % said human resource audit is undertaken by an internal audit unit.

Table 4.3.3 Importance of human resource auditing to the companies

	Frequency	Percentage
Not important	0	
Fairly important	4	11
Important	8	24
Very important	22	65
Total	34	100

It is evident from Table 4.3.3 above that 11 % of the respondents said human resource audit is fairly important to the companies, while 24 % said human resource audit is important to companies and the majority 65 % of the respondents said it is very important.

Table 4.3.4.Frequency of Human Resource Audit

	Frequency	Percentage
Quarterly	0	
Semi Annual	4	12
Annual	30	88
After 2 years	0	
Total	34	100

As shown in 4.3.4 above 12 % of the respondents said they conduct human resource audit semi annual while majority of the respondents 88 % said they conduct human resources audit annually.

Table 4.3.5 Evidence of selected Human Resource Audit Practices

	N	Mean	Std.Dev
To what extent is the human resource audit process clear and formalized?	34	4.03	0.96
To what extent has the attitude of employees towards the tasks they perform improved with Human Resource Audit?	34	3.60	0.78
To what extent has the employees' performance increased since the introduction of Human Resource Audit?	34	3.85	0.66

Table 4.3.4 above shows that human resource audit process is clear and formalized with a mean of 4.03 out of a possible maximum of 5.0, attitude of employees towards the tasks they perform improved with the introduction of human resource audit with a mean of 3.6 out of a possible maximum of 5.0 and employees performance increased since the introduction of human resource audit with a mean of 3.85 out of a possible maximum of 5.0. The standard deviation of less than 1.00 indicates less variability of responses.

4.4 : Human Resource Audit and Corporate Performance

This part analyses the relationship between human resources audit and corporate performance as contained in part two of the questionnaire on research objective two.

Table 4.4.1: Benefits of Human Resource Audit

	Percentage		
	N	Mean	Std.Dev
Consistent increase in the organization turnover	34	3.40	0.75
Stable annual growth of net profit	34	3.82	0.80
Annual dividend payment to shareholders and capital appreciation of the company shares prices at the NSE	34	3.68	1.10
To what extent has the financial performance of your firm improved since the introduction of Human Resource Audit?	34	4	0.60

In table 4.4.1 above, we see that net profit, dividend payment to shareholders and capital appreciation and financial performance of listed companies improved with the introduction of human resource audit by 76% of the respondents confirmed with high means averaging 4.00 . Organization turnover all had means approximating 3.00 with standard deviation exceeding 1.00 corresponding with high variability of the responses.

Table 4.4.2 Contribution of the Human Resource Audit to performance

	FREQ.	%
YES	26	76
NO	8	24
TOTAL	34	100

Table 4.4.2 above shows that 76 % of the respondents said human resource audit contributes to the companies corporate performance while 24 % of the respondents said human resource audit does not contribute to corporate performance.

Table 4.4.3 Rating of performance improvement attributable to human resource audit

	Frequency	Percentage
Very Poor		
Poor		
Good	4	11
Very Good	8	24
Excellent	22	65
Total	24	100

Table 4.4.3 above shows that 11 % of the respondents said good performance of the companies is attributed to the introduction of human resource audit, while 24 % the respondents said very good and the majority 65 % said human resource audit has contributed to excellent results

CHAPTER FIVE: SUMMARY, DISCUSSIONS AND CONCLUSIONS

5.1 Introduction

This study gives a summary as well as the conclusions gathered from analysis of data. Findings have been summarized alongside the objectives of the study. Conclusions have been drawn from the study and the recommendations for action are also given. The study was a survey of companies listed on the Nairobi Stock Exchange. The main objective of the research was to assess the effects of Human Resource Audit on the performance of these firms. Primary data was collected using a questionnaire that was distributed using the "drop and pick later" method to the respective respondents.

5.2 Summary, Discussions and Conclusions

The aim of this study was to determine the relationship between Human Resource Audit and the corporate performance of listed companies at the Nairobi Stock Exchange. The indicators used to measure corporate performance were net profit and turnover. From the data analysis it was established that majority of the firms were owned by both local and foreign investors and had operated in the country for more than 25 years and had staff establishment of above 600. From the analysis, all the companies which have foreigners in the management conducted human resource audit. The presence of foreign investors and companies which have multinational links, ensure transfer of management skills from their parent companies such as human resources.

The study found out that there is cut throat competition among firms, and for firms to remain relevant there is need to play it safe and one way of doing this is to have an effective human resource in place. Hence Human Resource Audit has become part and parcel of these firms. Human Resource Audit is an old idea constantly being revitalized by organizations and new practitioners throughout the world. Since these firms are always in the limelight, they strive hard to improve performance and post profits so as to attract customers and sustain the stockholders and gain confidence

from the stakeholders. To a large extent, the respondents felt that since the inception of Human Resource Audit, their firms have recorded tremendous performance in terms of turnover and net profit. The human resource audit process has enabled the firms to have the right people at the right place. This has led to competency at task performance. Competence leads to efficiency which automatically saves on costs. Most firms have a functioning Human Resource department which handles Human Resource Audit. Most firms conduct auditing annual with key decision about staff being within the first quarter of the year. These findings clearly show the significance of Auditing. On the other hand, most of the respondents to a moderate extent felt the need for firms to make the employees treat Human Resource Audit positively. This was concluded from the responses given by the Human Resource Managers and the Internal Audit teams. Most of them cited resistance to change as a major problem when trying to carry out Auditing. The respondents felt that other factors that derail this process were lack of cooperation from the senior management lack of a functional and independent Human Resource department, lack of time and a times, lack of funds to carry out this exercise.

According to Robertson et al (1992), the job of a manager in the workplace is to get things done through employees. To do this, the manager should be able to motivate his juniors. But that is easier said than done. Motivation is a complex phenomenon since it touches on several disciplines. In spite of enormous research, motivation is not clearly understood. To understand motivation one must understand human nature itself. The respondents felt that job security is an important factor hence the need to have the right people so as to reduce cases of dismissals or poor performance. The respondents also felt that having the right workforce in place leads to workers getting committed to their work. They sort of "own" the firm. A consistent Human Resource Audit helps identify gaps that need to be filled. For instance, there are several emerging issues like information technology (IT), affirmative action, safety at work, and HIV & Aids all of which require firms to train the staff. This is costly to firms as it means setting a side a budget for Human Resource Auditing. Respondents cited using following methods in carrying out

auditing; interviews, field experiment, historical data, questionnaire, external information and Audits of international Organization.

Once the audit has been concluded, the HR audit team leader will compile the findings, concerns and recommendations of the audit team into an HR Audit Report. This report is a comprehensive definition of the HR activities and includes both commendations for effective practices that are less expensive. Recognition of both good and bad practices is more balanced and makes room for wider acceptance of the report. The respondents felt that Human Resource has a definite role in meeting the organizations corporate strategy. According to (Biles and Schuler,1986) people is a key factor in any Organization because they make things happen, and the Human Resource is entrusted with the responsibility of finding the best people for the jobs so that the organization can gain competitive advantage in the market place. The respondents felt that to a large extent, the HR audit report may address separately the concerns of the line managers, the functional managers and the overall HR head. For line managers, the report summarizes the HR objectives, responsibilities and duties. People problems are also highlighted, and poor management practices revealed.

5.4 Suggestion for further Research

From this Research, it is evident that most respondents felt Human Resource Audit plays a significant role in the performance of firms listed on the Nairobi Stock Exchange. They felt that through Audit, the HR head will get an overall view of the performance of his/her department and it's standing in the organization. An Audit contains a summary of all the information given to the operating managers and staff specialists. The HR head also gets a feedback about the attitudes of operating managers and employees about the department's benefits and services, review of the departmental objectives and plans to achieve them, HR problems and their implications, recommendations for needed changes and the priority for their implementation. Respondents to a large extent felt that employee actions like turnover, absenteeism and unionism are more likely to occur when their needs are not being met. Respondents were of the opinion that the HR department can be

judged by its ability to meet the employees needs while at the same time, serving the interests of the organization.

Human Resource Audit plays a very important role in the any organization, with the The firm's management should fully support the auditing process at all levels in the organization. The HR department should be left to independently carry out this activity when it's necessary for the firm because of the turbulent nature of the Business environment. The 'best practice" approach which is often used with turnover, absence, salary, data and staffing levels. It helps detect areas where improvement is needed in an Organization.

The Government should lead this process by conducting annual review of the civil servants so as to be able to make of employees. This will also help in aligning the civil servants to deliver the government goals

5.3 Limitations of the study

The study was carried out with the help of predetermined questions. This would have limited the respondents from freely expressing their views. The study involved HR managers, had the employees of these firms been involved the results would be different. The study did not consider demographic factors such as work experience and education, which may also have an effect on the results.

5.4 Suggestion for further Research

The study recommends further research could be conducted to determine the responses of employees at various levels and chief executive officers, this is so because they play a major role in the firms performance. The study will bring insights in the field of Human Resource Audit. Typically speaking ,the scope of the HR audit extends beyond the activities of the HR department. The success of the workings of the HR department depends both on how well it performs and how well others carry out programs in the organization.

5.5 Suggestions for policy and practices

Human Resource Audit plays a very important role in the any organization, with the challenges placed on the Kenya Government for creation of five hundred thousand jobs per annum a clear way of documented the jobs created and required is unnecessary. It would therefore be beneficial for the country if the Government of Kenya and the private sectors would put in place policies that make it mandatory for the Government and companies to conduct human resource audit and submit returns to the Central Bureau of Statistics. The Government should lead this process by conducting annual review of the civil servants so as to be able to make informed decision on the status of employees. This will also help in aligning the civil servants to deliver the government goals.

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Dear Sir/Madam,

RE: RESEARCH PROJECT

I am a student of Masters in Business Administration at the University of Nairobi. One of the requirements for competition is that a research project must be undertaken; as such I am undertaking a project "entitled", The relationship between human resource audit and firm performances: A survey of companies quoted in the Nairobi Stock Exchange.

I have chosen your company as one of those quoted in the Nairobi stock exchange. I am therefore kindly requesting you to fill in the given questionnaire, which will be treated confidentially and used for academic purposes only.

Your cooperation will be greatly appreciated.

Yours faithfully,

OLUKO M-AGNES

APPENDIX 1: INTRODUCTION LETTER TO THE RESPONDENTS

Part one: Bio Data

1. Name of respondent _____

University of Nairobi, _____

Faculty of Commerce (MBA PROGRAMME) _____

P.O. BOX 30197, _____

NAIROBI

Dear Sir/Madam,

RE: RESEARCH PROJECT

I am a student of Masters in Business Administration at the University of Nairobi. One of the requirements for competition is that a research project must be undertaken; as such I am undertaking a project "entitled". The relationship between human resource audit and firm performances: A survey of companies quoted in the Nairobi Stock Exchange.

I have chosen your company as one of those quoted in the Nairobi stock exchange. I am therefore kindly requesting you to fill in the given questionnaire, which will be treated confidentially and used for academic purposes only.

Your cooperation will be greatly appreciated.

Yours faithfully,

OLIKO M. AGNES

APPENDIX 2: QUESTIONNAIRE

Part one: Bio Data

1. Name of respondent : _____
2. Respondent job title in the organization: _____
3. Name of the organization: _____
4. Year when the organization was established _____
5. Ownership of the organization (Please tick applicable box)
 - (a) Foreign owned ()
 - (b) Locally owned ()
 - (c) Partly locally and Foreign owned ()
 - (d) Partly government and local owned ()
 - (e) Fully Government owned ()
6. Please tick the Nairobi Stock Exchange sector to which you belong

Agriculture	()
Commerce and services	()
Finance and investment	()
Industrial and Allied	()
Alternative investment market system	()
7. Please tick the size of your organization in terms of employees?

Below 200	()
Between 200 to 400	()
Between 401 to 600	()
Above 600	()
8. How long has your organization been in existence

Less than 25 years	()
26 years and 50 years	()
51 to 75 years	()
More than 76 years	()
9. In which of the following category does your organization belong

Local	()	Multinational	()
-------	--------	---------------	--------

Part two: Human Resource Audit System

1. Does your organization perform human resource audit

Yes () which No ()

2. Who is responsible for the implementation of the Human Resource Audit system?

1. To a great extent

2. To a less extent

3. To Human Resources Manager () Board Sub Committee ()

4. To Internal Audit Unit ()

5. To a very great extent

3. How important is Human Resource Audit to your organization ?

Not important at all () Fairly important ()

Important () Very important ()

4. How frequent is Human Resource auditing done?

Quarterly () Semi Annual ()

Annual () After 2 years ()

Indicate the extent to which each of the following applies to your organization. Rate them on scale of 1 to 5, where (1 to 5) has the following meaning :-

1. To a lesser extent

2. To a less extent

3. To a moderate extent

4. To a great extent

5. To a very great extent

	Item	1	2	3	4	5
5	To what extent is the human resource audit process clear and formalized?					
6	To what extent has the attitude of employees towards the tasks they perform improved with Human Resource Audit?					
7	To what extent has the employees' performance increased since the introduction of Human Resource Audit?					

Part three : Human Resource Audit and Corporate Performance

Indicate the extent to which each of the following applies to your organization for the last five years. Rate them on scale of 1 to 5, where (1 to 5) has the following meaning :-

1. To a lesser extent
2. To a less extent
3. To a moderate extent
4. To a great extent
5. To a very great extent

	Item	1	2	3	4	5
1	Consistent increase in the organization turnover					
2	Stable annual growth of net profit					
3	Annual dividend payment to shareholders and capital appreciation of the company shares prices at the Nairobi Stock Exchange					
4	To what extent has the financial performance of your firm improved since the introduction of Human Resource Audit?					

5. In your opinion do thing Human Resource Audit contributed to the performance of the firm?

Yes () No ()

6. How would you rate the improvement of your organization performance since the inception of Human Resource Audit?

Poor () Good () Fair () Best ()

6. Please indicate, in order of priority, major problems faced by the implements human resource audit in your organization

8. Please propose solutions to the problems experienced in 20 above

9. Please provide any other information you consider useful concerning human resource audit and corporate performance

Company		2002	2003	2004	2005	2006
		(KSh)	(KSh)	(KSh)	(KSh)	(KSh)
Tea	Turnover (000)	2,291,250	3,375,375	4,000,000	4,000,000	5,000,000
Tea	Net Profit	124,029	62,254	369,945	67,503	52,096
Tea	Share prices 31.12.06	54.00	66.00	90.00	90.00	80.00
Tea	Dividend per share	0.00	0.00	1.00	0.00	0.00
Tea	Share prices 30.09.05	14.65	14.65	40.00	43.25	42.25
Tea	Turnover (000)	1,092,100	1,435,388	1,424,503	1,110,348	1,399,194
Tea	Net Profit	7,993	(11,795)	83,733	(79,767)	133,051
Tea	Dividend per share	0.00	0.00	1.00	0.00	0.00
Tea	Share prices 30.09.05	14.65	14.65	40.00	43.25	42.25
Tea	Turnover (000)	965,830	720,210	973,409	1,104,383	1,161,207
Tea	Net Profit	24,509	3,225	122,695	124,452	112,576
Tea	Dividend per share	0.25	0.40	0.50	0.50	0.50
Tea	Share prices 30.09.05	2.55	5.16	8.50	20.50	25.00
Tea	Turnover (000)	848,445	886,171	1,038,538	931,557	1,388,955
Tea	Net Profit	(6,540)	(67,224)	771,162	(208,594)	256,738
Tea	Dividend per share	0.50	0.50	2.50	0	1.00
Tea	Share prices 30.09.05	13.20	17.30	20.50	32.50	56.00
Commercial and Services						
Commercial and Services	Turnover (000)	436,741	489,308	629,100	1,061,742	1,244,403
Commercial and Services	Net Profit	7,451	60,875	36,544	163,345	135,556
Commercial and Services	Dividend per share	0	0.67	0.67	0.67	0.67
Commercial and Services	Share prices 30.09.05	10.00	66.00	16.00	20.00	45.25
Commercial and Services	Turnover (000)	4,562,390	4,493,092	6,048,231	6,819,706	7,352,984
Commercial and Services	Net Profit	152,780	176,988	262,952	374,967	424,245
Commercial and Services	Dividend per share	1.00	1.00	1.00	1.00	1.50
Commercial and Services	Share prices 30.09.05	17.25	66.00	66.00	47.25	118.00
Commercial and Services	Turnover (000)	25,166,000	27,461,000	36,421,000	41,335,000	52,804,000
Commercial and Services	Net Profit	599,000	400,000	1,302,000	1,020,000	4,820,000
Commercial and Services	Dividend per share	0.50	0.50	0.75	1.25	1.75
Commercial and Services	Share prices 31.03.06	7.50	6.75	5.40	34.05	106.000

APPENDIX 3: POPULATION

ALL THE COMPANIES QUOTED IN THE NAIROBI STOCK EXCHANGE

MAIN INVESTMENT SEGMENTS						
Agriculture Sector						
Company		2002	2003	2004	2005	2006
		(KSHS)	(KSHS)	(KSHS)	(KSHS)	(KSHS)
Unilever Tea Kenya Limited	Turnover ('000')	4,251,285	3,975,876	4,656,109	4,678,738	4,244,832
	Net Profit	124,029	62,254	360,946	67,603	52,096
	Dividend per share	2.50	6.00	8.00	2.00	2.00
	Share prices 31.12.06	54.00	66.00	90.50	90.50	80.00
Kakuzi Ltd	Turnover ('000')	1,082,190	1,435,388	1,424,503	1,110,348	1,399,194
	Net Profit	7,593	(11,795)	83,733	(73,767)	133,051
	Dividend per share	0.00	0.00	1.00	0.00	0.00
	Share prices 31.12.06	14.65	14.65	40.00	48.25	42.25
Rea Vipingo Ltd	Turnover ('000')	665,830	720,210	873,408	1,104,363	1,181,207
	Net Profit	24,809	3,225	128,666	124,462	112,576
	Dividend per share	0.25	0.40	0.80	0.80	0.80
	Share prices 30.09.06	2.55	5.15	9.50	20.50	25.50
Sasini Tea and coffee Ltd	Turnover ('000')	848,445	858,171	1,039,639	931,567	1,268,959
	Net Profit	(6,940)	(67,224)	771,162	(386,594)	236,738
	Dividend per share	0.50	0.00	2.50	0	1.00
	Share prices 30.09.06	13.20	17.30	20.50	32.50	55.00
Commercial and Services						
Car and General Ltd	Turnover ('000')	436,741	489,308	629,100	1,061,742	1,244,403
	Net Profit	7,451	60,679	36,544	193,945	135,656
	Dividend per share	0	0.67	0.67	0.67	0.67
	Share prices 30.09.06	10.00	68.00	15.00	29.00	45.25
CMC Holdings	Turnover ('000')	4,552,390	4,493,092	6,048,231	6,810,705	7,362,964
	Net Profit	152,780	176,988	262,962	339,987	434,248
	Dividend per share	1.00	1.00	1.00	1.50	2.30
	Share prices 30.09.06	17.25	68.00	55.00	47.25	119.00
Kenya Airways	Turnover ('000')	25,165,000	27,461,000	30,421,000	41,333,000	52,804,000
	Net Profit	869,000	400,000	1,302,000	3,020,000	4,829,000
	Dividend per share	0.60	0.50	0.75	1.25	1.75
	Share prices 31.03.06	7.85	5.75	9.60	24.00	105.000

Marshall's Ltd Company Kenya	EA	Turnover ('000')	1,424,543	1,652,221	1,273,874	1,261,640	1,304,988
		Net Profit	29,251	22,045	22,256	42,498	44,700
		Dividend per share	-	0	0	0	1.00
		Share prices 31.03.06	18.3	6.05	17.50	15.00	15.00
Nation Group Company Ltd	Media	Turnover ('000')	4,103,400	4,469,100	4,866,200	5,597,100	6,339,200
		Net Profit	403,800	602,800	641,400	716,200	783,200
		Dividend per share	2.50	5.00	6.00	6.00	12.00
		Share prices 31.12. 06	84.00	191.00	170.00	190.00	313.00
Scangroup Limited Company		Turnover ('000')					829,574
		Net Profit					195,526
		Dividend per share					0.83
		Share prices 31.12. 06					24.75
Standard Group Limited Bank Ltd		Turnover ('000')	1,321,611	1,510,214	1,762,993	1,987,670	2,964,610
		Net Profit	-	(49,463)	77,790	66,408	153,383
		Dividend per share	-	0	0	0	0
		Share prices 31.12. 06	9.40	39.75	43.50	40.25	66.50
TPS LTD	Several Of Kenya Ltd	Turnover ('000')	1,450,158	1,217,130	1,672,490	3,059,477	3,264,006
		Net Profit	105,889	25,077	130,526	22,945	332,660
		Dividend per share	1.10	1.10	1.10	0.40	1.25
		Share prices 31.12. 06	19.00	27.25	47.25	81.00	86.50
Finance and Investment							
Barclays Bank of Kenya Ltd		Turnover ('000')	2,550,000	4,790,000	5,391,000	5,427,000	6,475,000
		Net Profit	1,783,000	3,367,000	3,694,000	3,729,000	4,492,000
		Dividend per share	9.00	14.00	14.00	14.00	1.65
		Share prices 31.12. 06	101.00	280.00	200.00	263.00	77.00
CFC Bank Company Ltd		Turnover ('000')	323,093	529,966	880,896	865,879	1,366,912
		Net Profit	224,725	415,108	665,454	552,491	940,140
		Dividend per share	0.67	0.84	0.84	0.84	1.75
		Share prices 31.12. 06	9.20	33.00	58.00	75.00	89.00
Diamond Trust Bank		Turnover ('000')	112,799	204,106	240,235	426,614	705,954
		Net Profit	75,525	139,241	163,998	294,598	487,830
		Dividend per share	0.60	0.70	0.70	0.70	1.00
		Share prices 31.12. 06	10.00	28.00	28.00	32.25	72.50
Equity Bank Limited		Turnover ('000')					1,102,873
		Net Profit					753,366
		Dividend per share					2.00
		Share prices 31.12. 06					139.00

Housing Finance Company Of Kenya	Turnover ('000')	95,318	98,011	87,856	90,488	141,236
	Net Profit	55,851	51,847	59,976	58,799	101,049
	Dividend per share	0	0	0	0	0
	Share prices 31.12. 06	5.20	12.05	8.50	13.95	48.00
ICDC Investment Company Ltd	Turnover ('000')	153,975	221,028	354,570	239,786	403,742
	Net Profit	246,522	159,149	241,350	295,234	606,598
	Dividend per share	2.00	2.20	3.00	3.00	4.00
	Share prices 30.06.06	19.00	51.00	67.00	66.50	99.50
Jubilee Insurance Company	Turnover ('000')	213,413	305,664	358,882	470,726	664,687
	Net Profit	164,442	212,761	276,586	546,336	559,515
	Dividend per share	1.75	2.25	2.50	4.00	4.25
	Share prices 31.12. 06	15.50	50.00	58.00	83.00	323
Kenya Commercial Bank Ltd	Turnover ('000')	(4,178,557)	750,151	1,073,467	1,947,608	3,166,753
	Net Profit	(3,000,639)	485,520	787,051	1,326,027	2,431,878
	Dividend per share	0.00	1.00	2.00	4.00	6.00
	Share prices 31.12. 06	17.00	54.00	64.00	113.00	241.00
National Of Bank Of Kenya Ltd	Turnover ('000')	390,142	491,902	743,478	859,161	934,177
	Net Profit	198,758	403,899	382,611	598,544	624,496
	Dividend per share	-	0.00	0.00	0.00	0.00
	Share prices 31.12. 06	3.65	13.35	18.90	28.75	58.00
National Industrial Credit Bank Ltd	Turnover ('000')	340,224	359,301	372,556	403,010	677,072
	Net Profit	229,135	242,592	261,356	275,648	458,004
	Dividend per share	2.00	2.25	2.40	2.50	2.70
	Share prices 31.12. 06	19.70	45.50	50.00	50.00	102
Pan African Insurance Company Ltd	Turnover ('000')	(6,452)	(68,776)	91,007	175,345	94,266
	Net Profit	(15,614)	(23,440)	93,811	176,605	94,266
	Dividend per share	-	0	1.00	1.200	1.44
	Share prices 31.12. 06	7.00	23.5	21.00	40.00	91.5
Standard Chartered Bank Ltd	Turnover ('000')	3,212,008	4,009,954	2,690,985	3,512,681	3,810,427
	Net Profit	2,206,127	2,788,717	1,832,647	2,452,174	2,634,300
	Dividend per share	8.25	8.50	6.50	7.50	8.50
	Share prices 31.12. 06	62.00	191.00	122.00	139.00	205.00
Industrial and Allied						
Athi River Mining	Turnover ('000')	1,126,385	1,240,388	1,639,508	2,208,724	2,605,032
	Net Profit	57,390	97,106	116,718	199,504	264,557
	Dividend per share	0.4	0.5	0	0.75	1.00
	Share prices 31.12. 06	4.70	21.25	15.00	39.50	83.00

Bamburi cement Limited	Turnover ('000')	10,073,000	10,411,000	12,284,000	15,045,000	16,723,000
	Net Profit	1,228,000	1,067,000	1,718,000	2,155,000	2,614,000
	Dividend per share	3.50	2.80	6.12	5.30	5.50
	Share prices 31.12. 06	43.75	126.00	95.00	140.00	215.00
BOC Kenya Ltd	Turnover ('000')	697,505	728,7230	830,675	987,138	1,109,584
	Net Profit	105,491	152,619	160,117	207,446	225,940
	Dividend per share	4.35	4.35	4.50	5.50	11.30
	Share prices 30.09.06	26.75	99.50	137.00	145.00	160.00
British American Tobacco Limited	Turnover ('000')	9,422,530	9,446,056	9,865,047	11,192,080	12,669,489
	Net Profit	823,120	1,140,021	1,210,194	1,382,038	1,201,422
	Dividend per share	9.00	12.50	16.50	12.50	12.00
	Share prices 31.12. 06	54.00	276.00	200.00	204.00	197.00
Crown Berger Kenya Limited	Turnover ('000')	1,090,626	1,157,585	1,225,506	1,442,439	1,689,630
	Net Profit	55,442	59,166	50,900	34,418	63,772
	Dividend per share	1.50	1.50	0	1.00	1.50
	Share prices 31.12. 06	7.00	35.50	28.00	35.00	43.75
Olympia Capital Holdings Limited	Turnover ('000')	263,232	274,450	291,887	291,225	396,760
	Net Profit	5,051	9,233	22,921	11,443	14,800
	Dividend per share	0	0	0	0	0
	Share prices 31.12. 06	5.00	17.35	15.85	16.00	31.00
EA Breweries Ltd	Turnover ('000')	27,734,679	28,918,151	30,076,665	34,677,779	37,449,324
	Net Profit	2,319,915	1,500,008	3,849,058	4,769,912	5,392,488
	Dividend per share	11.50	15.00	18.00	4.50	5.90
	Share prices 30.06.06	82.50	226.00	445.00	149.00	139.00
E.A Cables	Turnover ('000')	388,008	428,430	825,316	1,162,041	2,040,533
	Net Profit	(5,946)	9,365	123,661	212,939	284,635
	Dividend per share	0.50	1.00	3.50	5.00	0.7
	Share prices 31.12. 06	9.20	13.65	51.00	137	48
E. A. Portland Cement Company Ltd	Turnover ('000')	3,207,060	3,842,138	4,166,289	5,363,196	6,180,715
	Net Profit	123,179	226,143	(269,177)	607,872	411,793
	Dividend per share	1.50	1.75	1.75	2.50	2.60
	Share prices 30.06.06	12.50	46.25	47.5	97.00	132.00
Eveready E. A. Ltd	Turnover ('000')					2,029,462
	Net Profit					165,566
	Dividend per share					0.60
	Share prices 31.12. 06					17.95

Sameer Africa Limited	Turnover ('000')	2,736,539	2,538,316	3,270,254	3,359,010	3,171,049
	Net Profit	231,407	157,194	275,171	204,678	(22,288)
	Dividend per share	1.00	0.50	1.00	0.50	0.00
	Share prices 31.12. 06	8.70	11.90	12.50	21.50	24.25
Kenya Oil Co. Ltd	Turnover ('000')	13,317,933	16,658,516	34,478,830	41,744,973	46,381,292
	Net Profit	441,460	468,745	838,484	915,878	842,947
	Dividend per share	9.50	10.50	2.00	2.25	2.25
	Share prices 31.12. 06	81.00	272.00	50.5	126	103
Kenya Power and Lighting Co LTD	Turnover ('000')	27,353,043	19,185,376	20,302,734	21,755,274	22,493,912
	Net Profit	(1,879,553)	(3,051,355)	457,807	1,270,273	1,644,231
	Dividend per share	0	-	0	1.50	1.50
	Share prices 30.06.06	8.65	32.00	88.50	111.00	169.00
Mumias Sugar Co.	Turnover ('000')	7,847,233	7,628,937	9,792,503	10,080,174	11,657,540
	Net Profit	65,116	(215,608)	791,451	1,289,930	1,526,615
	Dividend per share	0.10	0.00	1.10	1.50	1.75
	Share prices 30.06.06	2.50	3.40	9.05	24.50	62.00
Kenya Electricity Generating Company.	Turnover ('000')					14,300,060
	Net Profit					3,768,933
	Dividend per share					0.55
	Share prices 30.06.06					39.25
Unga Group Ltd	Turnover ('000')	5,500,307	5,702,613	6,305,387	7,558,509	7,305,958
	Net Profit	(56,813)	(27,046)	(101,949)	72,542	36,839
	Dividend per share	0.00	0.00	0.00	0.00	0.00
	Share prices 31.12. 06	4.10	12.05	14.50	19.40	17.95
Total Kenya Ltd	Turnover ('000')	16,291,258	22,393,229	37,628,109	40,547,538	38,052,875
	Net Profit	360,201	514,963	577,007	531,561	486,078
	Dividend per share	1.70	2.50	2.50	2.50	2.50
	Share prices 31.12. 06	22.75	39.75	94.50	41.00	34.75
Alternative Investment Market Segments						
A Bauman and Co Ltd	Turnover ('000')	112,749	110,092	107,685	101,431	104,397
	Net Profit	(48,092)	(2,406)	(10,543)	(128,590)	(42,318)
	Dividend per share	-	-	-	0	0
	Share prices 31.03.06	9.00	5.50	8.25	8.50	13
City trust Ltd	Turnover ('000')	9,077	9,060	13,523	14,669	16,650
	Net Profit	5,351	6,908	11,018	12,700	16,591

	Dividend per share	2.00	2.25	6.25	2.75	3.10
	Share prices 31.07.06	17.50	21.00	30.00	57.00	58.5
EAAGADS Ltd	Turnover ('000')	64,378	82,037	48,852	34,940	64,116
	Net Profit	947	3,861	(4,273)	(1,434)	6,802
	Dividend per share	0.50	0.50	-	0	1.25
	Share prices 31.03.06	20.50	19.00	15.95	17.00	17.00
Express Kenya Ltd	Turnover ('000')	3,984,859	3,964,581	1,762,203	1,055,414	822,487
	Net Profit	(56,007)	(68,151)	4,610	53,930	66,329
	Dividend per share	-	0	0	0	0.40
	Share prices 31.12. 06	6.80	9.00	7.80	13.80	24.25
Kapchorua Tea Co Ltd	Turnover ('000')	383,334	413,673	416,059	571,853	462,749
	Net Profit	(13,830)	34,811	38,643	26,089	(9,793)
	Dividend per share	0.50	3.75	3.75	5.00	0.50
	Share prices 31.03.06	137.00	137.00	100.00	100.00	150.00
Kenya Orchards	Turnover ('000')					
	Net Profit					
	Dividend per share					
	Share prices 31.12. 06					
Limuru Tea Co Ltd	Turnover ('000')	47,654	57,491	56,277	37,203	51,036
	Net Profit	2,077	8,047	9,659	(3,159)	4,829
	Dividend per share	3.00	10.00	15.00	5.00	10.00
	Share prices 31.12. 06	394.00	160.00	355.00	347.00	350.00
Williamson Tea Kenya Ltd	Turnover ('000')	1,010,236	837,958	855,610	1,198,588	985,059
	Net Profit	(26,922)	64,354	80,421	88,231	(55,048)
	Dividend per share	0.50	3.75	3.75	5.00	0.50
	Share prices 31.03.06	51.00	70.00	80.00	119.00	94.50