

**A SURVEY OF THE RELATIONSHIP BETWEEN HUMAN RESOURCE
MANAGEMENT PRACTICES AND PERFORMANCE OF SMALL SCALE
MANUFACTURING FIRMS IN NAIROBI'S INDUSTRIAL AREA - KENYA**

**BY
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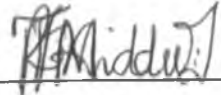
A Management Research Project Submitted in Partial Fulfillment of the Requirements for
the Degree of Master of Business Administration [MBA], School Of Business, University
of Nairobi

2009

DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the School of Business, University of Nairobi in Kenya for academic credit.

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DEDICATION

To the most important people in my life: my lovely husband and daughters Sharon, Ivy and Michelle for the moral support they gave towards my education.

ACKNOWLEDGEMENT

It would have not been possible for me to write this research project if it were not for the support, encouragement and guidance of many people.

Although it is not possible to name all of them, first, my sincere appreciation is expressed to my patient and understanding supervisor, Prof. Peter K'obonyo and moderator George Omondi for their objective criticisms and friendly guidance throughout the entire period of proposal writing, research process to the final report writing. Secondly, I thank all managers of all the small scale manufacturing firms operating in Nairobi industrial area Kenya for providing the necessary information which assisted in writing the research project. I am grateful to my family members for their consolation, support and encouragement he gave me in the course of the study. I cannot forget my brother Edwin for the support he gave me in the printing of this document

Without hesitating to commend my family which supported me both financially, morally and encouragement to go through the rough long way of coming up with he result of the study. I also cannot forget my colleagues Mercy Mwatia and Richard Oyier, for their friendly support and encouragement towards this study.

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ABSTRACT

The topic of the research project was a survey of the relationship between human resource management practices and performance of small scale manufacturing firms in Nairobi's industrial area -Kenya. The main objective of the study was to establish the relationship between human resource management practices and the performance of small scale manufacturing firms in Nairobi. The survey intended to benefit the government, the small scale firms operating in Nairobi's industrial area in Kenya and future researchers. The research questions were systematically generated from the objectives. In the data analysis, descriptive statistics and factor analysis were used to help draw comparisons and conclusions based on the results. It was assumed in the data analysis that the results obtained were quite representative for the general population considering that the sampled size.

The conclusions of the study are based on the research questions leading to the main purpose of the study. First, the following best practices form the small scale manufacturing firms' human resources management best practices: The management conducts cost - benefit analysis to assess the effectiveness of the training program; employees' promotion is based on the length of stay at the enterprise; the enterprise has a heavy reliance on team structure for disseminating information (team briefing), structuring work, (team working) and problem solving; job design is something management consciously does in order to provide jobs that have a considerable level of intrinsic satisfaction. Secondly, the human resources management best practices can be broken into three components: recruitment practices and policies which include based recruitment more on aptitude and trainability rather than formal paper qualifications; employee involvement in decision making which include assessment and payment systems based merit pay and profit sharing where promotion is based on the length of stay at the enterprise; and lastly employees training and performance which includes employees' promotion is based on performance, systematic analysis to determine the needs for training programs. Thirdly, the small scale manufacturing firms' performance compared with that of their competitors over the past three years resulting from human resources management best practices has been characterized with the following:

improved quality of products, enhanced development of new products, increased ability to attract and retain essential employees, high-performing members of the work force, increased overall performance, improved relations between management and other employees; and that among employees in general. Lastly, HRM practices can help improve a firm's performance. Indeed business strategies and HRM policies interact according to organizational context in determining business performance.

CHAPTER ONE: INTRODUCTION

1.1 Background

Recent developments such as globalization, intense competition, rapid advances in technology and shorter product cycles have substantially transformed the environment in which businesses operate. As a result, over the last 25 years or so, a number of debates have taken place in the field of human resource management (HRM) such as the difference between personnel management and HRM (Schuler and Jackson, 2005; Wright, Snell, and Dyer, 2005); the strategic nature of HRM (Martin-Alcazar, Romero-Fernandez, and Sanchez-Gardley, 2005; Schuler and Jackson, 2005); HRM as a source of competitive advantage (Chan, Shaffer, and Snape, 2004; Delery, 1998); and the extent to which HRM can help to improve the firm's performance (Paauwe, 2004; Paauwe and Boselie, 2005; Schuler and Jackson, 1999, 2005).

In relation to the last debate, three perspectives emerge from the existing literature - universalistic, contingency, and configurational (Guest, 1997; Hoque, 1999). The universalistic perspective posits the "best practice bundle" of HR practices, implying that business strategies and HRM policies are mutually independent in determining business performance (Arthur, 1994; Brewster, 1999; Claus, 2003; Huselid, 1995; Ichniowski, Shaw, and Prenzushi, 1997; Pfeffer, 1994). The contingency perspective emphasizes the fit between business strategy and HRM policies and strategies, implying that business strategies are followed by HRM policies in determining business performance (Gomez-Mejia and Balkin, 1992; Huselid, 1995; Schuler and Jackson, 1987; Youndt, Snell, Dean, and Lepak, 1996). The configurational perspective posits a simultaneous internal and external fit between a firm's external environment, business strategy, and HR strategy, implying that business strategies and HRM policies interact according to organizational context in determining business performance (Arthur, 1994; Delery and Doty, 1996; Guest and Hoque, 1994; Huselid and Becker, 1996; Ichniowski et al., 1997).

This study utilized the universalistic model in the form of individual HRM policies and practices by focusing on the relationship between individual HRM policies (best practices) and the performance of small scale manufacturing firms in Nairobi's industrial area (K).

practices) and the performance of small scale manufacturing firms in Nairobi's industrial area (K).

1.1.1 HRM Practices and Firm Performance

The identification of the specific HRM policies is central to HRM theory (Weber and Kabst, 2004). No organization works in a vacuum, organizational and environmental forces relate to both the adoption of HRM policies and organizational performance (Delaney and Huselid, 1996). Specifically, theoretical frameworks such as the Human Capital Theory, which created assumptions that the HRM policies that develop skills, knowledge, and abilities have a positive effect on performance (Rumberger, 1987), have been proposed to support the universalistic perspective. The HRM policies (best practices) that have an effect on a firm's performance (that is cost reduction, customer service, distribution channels, quality enhancement, brand image, innovation, improvement of goods and wide range of products) include the recruitment, selection, separation, flexible work arrangements, training, monitoring training, careers, work design, performance appraisal, job evaluation, compensation, promotion, incentives, benefits, participation, involvement, communication and lastly, health and safety (Paauwe and Boselie, 2005).

It is accepted that HRM activities may affect organizational performance either directly or indirectly through HRM outcomes. However, the obvious question that arises is which HRM activities (policies and/or practices) are important to be included in a model that links HRM with organizational performance? Doty and Delery (1997) argue that there are countless combinations of HR practices that result in identical organizational outcomes. Becker and Gerhart (1996) believe that much research has been focused solely on HR practices, although there is little agreement as to the exact HR practices that make up a coherent HRM system, but it may be equally important to focus on HRM policies. Marchington and Grugulis (2000, p. 1114) stress that "lists of HR practices are developed on the basis of looking at what other researchers have used or by constructing groupings of practices on the basis of factor analysis, and then attempting to impose some theoretical justification for this *ex post facto*."

Similarly, Paauwe and Boselie (2005, p. 987) indicate “that a number of practices and policies are simply implemented due to legislation, collective bargaining agreement, fashion, imitation out of uncertainty, the selling capabilities of HR consultants and the wish to contribute to feelings and expectations of fairness/equity.” Huselid (1995) argues that it makes sense to assess systems of HR practices rather than focus on individual practices, because the firm’s performance is enhanced by systems of practices that support each other and reinforce on employee contributions to organizational performance.

1.1.2 The Small Scale Manufacturing Firms in Kenya

There is no straight forward definition of small firms. Several variables such as total assets employed, number of people employed and sales turnover are generally considered (Dorothy Mc Cormick and Perdesen 1996). This view is shared by Robert E Nelison when he argues that there are no lower limits to the size of a small enterprise. For the purpose of this paper, “Small Manufacturing Enterprises was used in the broadest sense of the term. It included modern enterprises of up to 20 people, family businesses engaging 3 or 4 family members, and cottage industries. This cut off point has been taken arbitrarily to differentiate the Small Manufacturing Enterprises from the larger ones.

Until the early 1960’s, many economists viewed the continued existence of small-scale industries in less developed countries as justified by scarcity of capital and administrative experience. It was often argued that with economic growth, the small, traditional type of enterprise would, in one sector after another, be superseded by modern forms of large-scale production. In order to ensure an orderly transition, small industries were seen to deserve support, but mainly in sectors where modern methods could not be immediately applied (House, 1981).

In the mid-1960s a new approach to Small to Medium-Scale Enterprise (SME) development began to emerge due to several factors. First, there was growing concern over low employment elasticity of modern large-scale production. It was claimed that even with more optimal policies, this form of industrial organization was unable to

absorb a significant proportion of the rapidly expanding labor force (Cherney et al., 1974; ILO, 1973). Second, there was widespread recognition that the benefits of economic growth were not being fairly distributed, and that the use of large-scale, capital intensive techniques was partly to blame (McCormick, 1988; Cherney et al., 1974).

Third, empirical studies revealed that the causes of poverty were not confined to unemployment, and that most of the poor were employed in a large variety of small-scale production (Noormohamed, 1985). This suggests a new role for small industries, in what has come to be labeled "the urban informal sector". Small, labor intensive industries were seen not only to increase employment, but also to increase the living standards of the poor. They were also thought to be capable of providing a new dynamic of economic growth. The new objective was not just to stop to retreat, but to promote the small-scale sector (House, 1981; Schmitz, 1982; Giamartino, 1991).

This change in approach was accompanied by a shift of focus towards a "rurally orientated smallholder" (ROSH) industrialization strategy, well articulated in Kilby (1975), Child (1976), House (1978), Noormohamed (1985), and Olofin (1990), among others. Thus, they argue that assigning such an important role to the small scale manufacturing firms would not work. Besides, for the strategy to produce an optimal effect on the well-being of the people, the social environment has to be considered something the firms may not be willing to do.

The focus therefore on small scale manufacturing firms based on: first, the little progress that has been achieved, judging by the performance of the informal sector, despite government efforts in Kenya to promote informal sector activity. Secondly, most previous studies throughout Africa treat the informal sector as essentially homogeneous in its characteristics (Morris and Pitt 1995; Bewayo 1995; Ekpenyong and Nyong 1992). Lastly, recent research suggests that government policy should be more narrowly targeted to subsectors within address the need for more specific information about small-scale manufacturers in Kenya.

1.2 Statement of the Problem

The organizational process that corresponds to the so-called universalistic model of HRM refers to the cases where business strategies and HRM policies are mutually independent in determining business performance (Arthur 1994; Delaney and Huselid, 1996; Huselid, 1995; Huselid et al., 1997; Ichniowski et al., 1997; MacDuffie, 1995; Pfeffer, 1994, 1998). Thus, there is a gap and very little documentation in respect of a set of “best” HRM policies for organizations, which when implemented will improve business performance.

Human resources management practices and business financing particularly in terms of Start-up costs and capital for continued operation have often been cited as the greatest problem for small scale manufacturing business development and performance in Kenya. As noted in the background, despite the Kenyan government efforts to promote small scale manufacturing and informal sector activity, not much progress seems to have been achieved, judging by the performance of the small scale manufacturing firms. Hence, there is therefore need for study to be carried out to depict the effect of human resource management policies and practices on the performance of small scale manufacturing firms in Nairobi

A number of studies have been done on the relationship between HR practices and organizational effectiveness, including the work on staffing (Terpstra and Rozell, 1993), promotion systems (Ferris et al., 1998), goal setting (Terpstra and Rozell, 1993), training (Bartel, 1994; Russell, Terborg, and Powers, 1985), compensation (Banker, Lee, Potter, and Srinivasan, 1996; Gerhart and Milkovich, 1990), early retirement programs (Davidson, 1996), and work teams (Banker, Field, Schroeder, and Sinha, 1996). Other researchers followed a systems view in efforts to link either HRM systems (Arthur, 1994; Huselid, 1995; Huselid and Becker, 1996; Huselid et al., 1997) to organizational effectiveness measures. There are very few studies that have analyzed the relationship between HR practices and a firm’s performance (Delaney and Huselid, 1996; Delery and Doty, 1996) or shareholder value (Abowd, Milkovich, and Hannon, 1990).

A study carried out by Huselid and Becker (1996); found a direct effect of HRM policies on organizational performance. Implicitly accepting the arguments of Huselid and Becker (1996), who argue that a causal relationship exists between HRM practices and organizational performance, and of Delery and Doty (1996), who further assume that the relationship between HRM policies and organizational performance is linear, thus implying that there is no synergic interdependence of the different HRM policies; but the effect of the HRM policies on organizational performance is additive (Becker and Gerhart, 1996).

Although a number of studies had been done on the relationship between HRM practices and firm performance, the researcher did not find any study on the relationship between the HRM practices and firm's performance in Kenya. The study seems to have established HRM practices that can be applied across the board. However, the researcher noted with a lot of concern that these studies cannot be applicable to Kenya since Kenya is a developing country. The developing and developed countries differ in terms of culture, managerial practices and even business environment. The proposed study was an attempt to fill the gap in knowledge arising from lack of studies in the Kenyan business environment particularly the small enterprise manufacturing sector.

1.3 Objective of the Study

The objective of this study was to establish the relationship between human resource management practices and the performance of small scale manufacturing firms in Nairobi

1.4 Research Hypothesis

It can be hypothesized as below:

H₀: There is no relationship between HRM practices and performance of small scale manufacturing firms in Nairobi

H_A: There is a relationship between HRM practices and performance of small scale manufacturing firms in Nairobi

1.5 Significance of the Study

Findings from this study will benefit the following groups:

- i. **Academics:** Findings from this research will assist academicians in broadening of the syllabus with respect to the human resource management policies/practices and performance of firms hence providing a deeper understanding. The findings may as well attract other researchers to venture into the human resource management policies/practices and performance of firms that have not been studied in the African context. The available literature is full of case studies from the west, which as pointed out by Aosa (1992), cannot be replicated without amendments for organizations operating in Africa.
- ii. **Small Scale Manufacturing Firms in Nairobi:** The findings of this study will help the small scale manufacturing firms' managers and other decision – makers with an insight into the benefits of the human resource management policies/practices and performance of firms in service delivery. The study intends to establish the relationship between human resource management practices and the performance of small scale manufacturing firms in Nairobi's industrial area by evaluating the HRM policies of small-scale manufacturers that make will make them more profitable.
- iii. **Government:** The government can use the findings for their research to assist in policy formulation and development of a framework for supporting the informal sector in its ministries this is because the government policy should not narrowly target sub-sectors within the informal sector; this study might also help in pointing out areas in which manufacturing sector especially the small scale manufacturing sector can develop competencies and capabilities leading to superior performance. It is also hoped that this study will help in recognizing local economic constraints in the small scale manufacturing firms.

CHAPTER TWO: LITERATURE REVIEW

2.1 Perspectives on Human Resources Management Practices

Three perspectives emerge from the existing literature on human resource management practices namely: universalistic, contingency, and configurational (Guest, 1997; Hoque, 1999). The universalistic perspective posits the “best practice bundle” of HR practices, implying that business strategies and HRM policies are mutually independent in determining business performance (Arthur, 1994; Brewster, 1999; Claus, 2003; Huselid, 1995; Ichniowski, Shaw, and Prensushi, 1997; Pfeffer, 1994).

There is no consensus among researchers regarding which of the three perspectives is predominant. Wood (1999, p. 409) makes a relevant remark in this regard: “If one’s arm were twisted to make an ‘overall’ conclusion on the balance of the evidence so far, one in favor of contingency hypothesis would be just as justified as the universal hypothesis. This is because any such conclusion would be premature because of conflicting research results, but more importantly, because the debate is still in its infancy.” The literature also highlights that most studies examining the relationship between HRM and organization’s performance have been conducted in the United States and United Kingdom. Recently, a few studies have been done in other parts of the world, especially in emerging markets such as China (e.g., Ahlstrom, Foley, Young, and Chan, 2005; Deng, Menguc, and Benson, 2003) and in transitional countries such as Slovenia (Zupan and Kase, 2005).

Nevertheless, although it is well accepted that HRM is positively related to organizational performance, there is a great need for additional robust and quantitative evidence to support the HRM-performance link (Gerhart, 2005) and investigations from different contexts (Ericksen and Dyer, 2005; Wright et al., 2005). Gerhart (2005, p. 178) makes an appropriate comment in this regard: “This is a concern because it seems unlikely that one set of HR practices will work equally well no matter what context.” To fill this gap and to further examine the existence of such a relationship, it is important to conduct research in Non-U.S. /U.K. contexts.

The universalistic model of HRM, as an ideal set of practices, suggests that a specified set of HR practices (the so-called “best practices”) will always produce superior results

The universalistic model of HRM, as an ideal set of practices, suggests that a specified set of HR practices (the so-called “best practices”) will always produce superior results whatever the accompanying circumstances. Proponents of the universalistic model (Claus, 2003; Huselid, 1995; Pfeffer, 1994) emphasize that “internal fit” or “horizontal fit” or “alignment of HR practices” (i.e., the case when the organization is developing a range of interconnected and mutually reinforcing HRM policies and practices) helps to significantly improve an organization’s performance. In this regard, the works of Delaney, Lewin, and Ichniowski (1989), Terpstra and Rozell (1993), Huselid (1995), Pfeffer (1994, 1998), Delaney and Huselid (1996), Ichniowski et al. (1997), and Huselid et al. (1997) highlight a number of lists of “best practices” that constitute “best practice bundles” or the “high-performance work systems,” which are accompanied by high business performance, and thus support this type of fit.

Considering that internal fit is the key concept of universalistic models, the main question/problem is how to determine an HR system (i.e., as a coherent set of synergistic HR practices that blend better in producing higher business performance). The methods used in order to develop such HR systems depend on the “additive relationship” (i.e., the case when the HR practices involved have independent and no overlapping effects on outcome) and on the “interactive relationship” (i.e., the case when the effect of one HR practice depends on the level of the other HR practices involved) (Delery, 1998). However, in our opinion, universalistic models do not explicitly consider the internal integration of HR practices and just consider them from an additive point of view (Becker and Gerhart, 1996; Pfeffer, 1994).

Although in the literature systems of internally consistent practices have been proposed (Arthur, 1994; Delery and Doty, 1996; Miles and Snow, 1984), in fact, very few have satisfactorily described the so called portfolio effect (i.e., how the HR practices support and improve one another). Furthermore, Doty and Delery (1997) argued that there are countless combinations of practices that will result in identical business outcomes. This observation raised the concept of equifinality (i.e., identical outcomes can be achieved by

a number of different systems of HR practices) (Delery and Doty, 1996; Doty and Glick, 1994; Doty, Glick, and Huber, 1993; Meyer, Tsui, and Hinings, 1993).

Nevertheless, support for the universalistic approach to HRM exists; there are notable differences across studies as to what constitutes a “best HR practice.” The most cited studies referring to best practices include Delaney et al. (1989), Arthur (1994), Pfeffer (1994), Mac-Duffie (1995), Huselid (1995), Delaney and Huselid (1996), Delery and Doty (1996), and Youndt et al. (1996). Most of these studies (Bamberger and Meshoulam, 2000; Boxall and Purcell, 2003; Christensen Hughes, 2002; Gerhart, 2005) focus on three mechanisms by which universal HR practices impact business performance: (1) Human capital base, or the collection of human resources (skills, knowledge, and potential) the organization has to work with (the organization’s recruitment, selection, training, and development processes directly affect the quality of this base); (2) motivation, which is affected by a variety of HR processes, including recognition, reward, and work systems; and (3) opportunity to contribute, which is affected by job design, and involvement/empowerment strategies.

2.2 Human Resource Management Practices

It is accepted that HRM activities may affect organizational performance either directly or indirectly through HRM outcomes. However, the obvious question that arises is which HRM activities (policies and/or practices) are important to be included in a model that links HRM with organizational performance? Doty and Delery (1997) argue that there are countless combinations of HR practices that result in identical organizational outcomes. Becker and Gerhart (1996) believe that much research has been focused solely on HR practices, although there is little agreement as to the exact HR practices that make up a coherent HRM system, but it may be equally important to focus on HRM policies. Marchington and Grugulis (2000, p. 1114) stress that “lists of HR practices are developed on the basis of looking at what other researchers have used or by constructing groupings of practices on the basis of factor analysis, and then attempting to impose some theoretical justification for this *ex post facto*.”

Similarly, Paauwe and Boselie (2005, p. 987) indicate “that a number of practices and policies are simply implemented due to legislation, collective bargaining agreement, fashion, imitation out of uncertainty, the selling capabilities of HR consultants and/or the wish to contribute to feelings and expectations of fairness/equity, etc.” Huselid (1995) and MacDuffie (1995) argue that it makes sense to assess systems of HR practices rather than focus on individual practices, because the logic behind this proposition is that the firm’s performance will be enhanced by systems of practices that support each other and that have a mutually reinforcing effect on employee contributions to organizational performance (Ferris et al., 1998; Patterson, West, Lawthorn, and Nickell, 1997).

Although progress toward identifying exactly which policies are associated with superior firm performance has been disappointing, it is recognized that four key areas in which human resources strategies may be developed are resourcing, development, reward, and relations (Armstrong, 1996; Foot and Hook, 1999). A number of scholars have provided the required rationale for the inclusion of HRM policies to these key areas:

Resourcing: recruitment (Boxall, 1996; Horgan and Muhlau, 2005; Marchington and Grugulis, 2000); selection (Phillips, 1996); separation (Foot and Hook, 1999); and flexible work arrangements (Foot and Hook, 1999).

Development: individual and team training and development (Boxall, 1996; Dolan, Mach, and Olivera, 2005; Horgan and Muhlau, 2005; Marchington and Grugulis, 2000; Pfeffer, 1998); monitoring training and development (Fey, Bjorkman, and Pavlovskaya, 2000; Foot and Hook, 1999); careers (Fey et al., 2000; Paul and Anantharaman, 2003); work design (Patterson et al., 1997); and performance appraisal (Koch and McGrath, 1996; Latham and Wexley, 1981; Pfeffer, 1998; Snell and Dean, 1992; Terpstra and Rozell, 1993).

Reward: job evaluation (Foot and Hook, 1999; McNabb and Whitfield, 2001); compensation (Dolan et al., 2005; Paul and Anantharaman, 2003); promotion arrangements (Guest, 1997; Pfeffer, 1995); incentive schemes (Gomez-Mejia and

Wellbourne, 1988; Horgan and Muhlau, 2005; Marchington and Grugulis, 2000); and benefits (Mowday, Porter, and Steers, 1982; Paul and Anantharaman, 2003). Relations: employee participation (Harel and Tzafrir, 1999; Pfeffer, 1994); employee involvement (Marchington and Goodman, 1992); communications (Marchington and Grugulis, 2000; Pfeffer, 1994, 1998); and health and safety (Phillips, 1996).

Taking into account the arguments about the countless combinations of HR practices (Doty and Delery, 1997), the importance of focusing on possible HRM policies (Becker and Gerhart, 1996), and the systems view of aggregation of individual HR practices (Ferris et al., 1998), the approach followed in this article is to consider all the HRM policies indicated above. After all, the most commonly mentioned HR practices could be used to elicit different role behaviors under different circumstances (Becker and Gerhart, 1996).

Further, considering that the evidence with respect to organizational convergence and divergence in contingent employment practice in Europe suggests that the used HRM practices remain distinct across Europe (Tregaskis and Brewster, 2006), and that the generalizability of HR practices across countries depends on the characteristics of the specific country (Brewster, Sparrow, and Harris, 2005; Gerhart and Fang, 2005), in the absence of any earlier empirical investigation in the Greek context, it is important to examine possible HRM policies to conduct a comprehensive investigation, which can help to highlight the relevant practices.

2.3 Performance

The concept of performance has been expressed by Brumbrach (1988) as follows: Performance means both behaviors and results. Behaviour emanate from abstraction to action. Not just the instrument for results, behavior is also outcomes in their own right – the product of physical effort applied to tasks – and can be judged apart from results. (Armstrong, 2006) argues that, this definition of performance leads to the conclusion that when managing performance both inputs (behaviour) and outputs (results) need to be considered. It is a not a question of simply considering the achievement of targets, as

used to happen in management by objectives schemes. Competency factors need to be included in the process.

The chief strategic goal of a business is higher financial performance or maximization of wealth for the shareholders (Becker and Huselid, 1998; Horngren, Foster, and Datar, 2000; Paul and Anantharaman, 2003). Although this is probably true for stock market quoted businesses, it may not be true for all Greek businesses where status and ensuring family succession would come before short-term profit objectives. However, achieving the organization's long-term ultimate objective (e.g., profits) will obviously depend on the degree to which its organizational performance is reached (Delaney and Huselid, 1996; Delery, 1998; Huselid, 1995).

Organizational performance is usually indicated by indices such as: Effectiveness: if the organization meets its objectives (Dyer and Reeves, 1995; Ostroff and Schmitt, 1993; Rogers and Wright, 1998). Efficiency: if the organization uses the fewest possible resources to meet its objectives (Dyer and Reeves, 1995; Ostroff and Schmitt, 1993; Rogers and Wright, 1998). Development: if the organization is developing in its capacity to meet future opportunities and challenges (Phillips, 1996). Satisfaction: of all participants; stakeholders, employees, and customers (Delaney and Huselid, 1996; Kalleberg and Moody, 1994). Innovation: for products and processes (Guest, 2001); Quality: % of products of high quality (Delaney and Huselid, 1996; Kalleberg and Moody, 1994; MacDuffie, 1995; Richardson and Thompson, 1999).

2.4 HRM Practices and Organizational Performance

The best practices approach generally refers to the resource-based theory of firm and competitive advantage, which focuses on the role internal resources like employees play in developing and maintaining a firm's competitive capabilities (Wright et al., 1994; Youndt et al., 1996). Specifically, Pfeffer (1994) has made the case that firms wishing to succeed in today's global business environment must take appropriate HR investment to acquire and build employees who possess better skills and capabilities than their

competitors. For a resource to be a source of competitive advantage, it must be rare, valuable, inimitable, and non substitutable.

The studies of the impact of high performance work practices such as team working, appraisal, job rotation and broad banded grade structures in 623 UK aerospace establishments (Thomson 1998) revealed that the number of HR practices and the proportion of the workforce covered appeared to be the differentiating factor between more and less successful firms. The same view is brought out by a survey on 835 private sector organizations where interviews were carried out with 610 HR professionals and 462 chief executives which revealed that a greater use of HR practices is associated with higher levels of productivity and quality of services/products (Guest et al 2000)

Therefore, HR practices of the organization can lead to competitive advantage through developing a unique and valuable human pool (Delery, 1998). In order to be able to build the operational model of the study, three types of elements: best practices, business strategies, and organizational performance are looked.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the procedures that the researcher used in the study to collect and analyze the data .It covers the following major areas: Research Design, Target Population, Sampling, Data Collection and Data Analysis Procedures.

3.2 Research Design

The study used a cross sectional survey design approach. This design was considered appropriate because of the comparative nature of the analysis that was to be undertaken. It was comparative because different organizations were likely to use different practices which are likely to have different effects on performance.

3.3 Population

The target population consisted of 1000 small manufacturing firms (with 20 or fewer employees) in the Industrial Area in Nairobi. This population was obtained through a preliminary survey conducted by the researcher in the Nairobi's Industrial Area.

3.4 Sample

Stratified and simple random sampling was used to appropriately obtain a representative sample from the population (See Table 3.1 below). Stratification was based on type of trade (textile work, woodwork, and metal work). Simple random technique was used to select firms from each stratum. The number selected from each stratum depends on its proportion of the total population as provided in table 3.1.

A total sample of (100) respondents was used. This conforms to the widely held rule of thumb that to be representative, a sample should have 30 or more test units (Wayne and Terrell, 1995).

Table 3.1 Sampling Procedure

Table 3.1 Sampling Procedure

Peer	Category	Key Activities	Number of Firms in Population	Number of Firms in Sample (10%)
Largest Activity Group	Textile work	tailoring, dressmaking, knitting, and sewing of textile products, and weaving	600	60
Second largest group	Woodwork	carpenters mostly making wooden furniture, supplying doors and windows, and doing repair work	298	30
A third group	metalwork	produces cooking utensils, charcoal stoves, boxes, small hardware, furniture, door and window frames, and iron gates	102	10
Total			1000	100

3.5 Data Collection

Primary data was collected using questionnaire (See Appendix 2). The questionnaire contains both open and closed ended questions. It is divided into three parts; Part One: General Information; Part two: The relationship between human resource management practices and the performance of small scale manufacturing firms in Nairobi's industrial area. This will provide data for the study. Part Three addresses the firm's perceived performance.

3.6 Data Analysis

Once the responses were received, the questionnaires were edited for completeness and consistency before processing. Data will be coded to facilitate categorization. Descriptive and factor analysis enabled meaningful description of the distribution of scores and data reduction with the use of means and standard deviation. Descriptive statistics will be used especially the mode to determine the most frequent response on the factor under study. The mean will also used to determine the average response to the various questionnaire items.

Pearson product moment correlation coefficient will be used to measure the degree of relationship between the two casually related variables. The value of the coefficient of correlation will enable us establish if there exists perfect positive correlation, perfect negative correlation, or no correlation, between the variables under study (Kothari 2004).

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATIONS

4.1 Introduction

This chapter covers data analysis and findings of the research. The data is summarized in form of proportions, means, and Standard deviations and then presented in tables. The analyzed data are interpreted in line with the aim of the study namely: to establish the relationship between human resource management practices and the performance of small scale manufacturing firms in Nairobi. Out of the one hundred (100) small scale firms operating in Nairobi's Industrial area in Kenya, who were sampled and the questionnaires were administered, ninety-seven (97) responded. This gave a response rate of 97 percent (%).

4.2 Organizational Profile

In any research endeavor, good representative sample is important. Ninety – seven small scale firms operating in Nairobi's industrial area in Kenya were sampled and their profile is discussed below.

4.2.1 Firms' Years of Operation

The number of years an organization has been in operation influences its human resources management practices and performance. Those institutions that have been in operation for long can be seen to be properly aligned to the best-practice human resources management to performance. The respondents were asked to indicate for how long their firms have been in business in Kenya and the results are as in table 4.1.

Table 4.1: Number of Years in Operation

Number of Years	Distribution	
	Frequency	Percentage
Above 20	41	42.9
1 - 5	29	28.6
6 - 10	27	28.6
TOTAL	90	100.0

From the research data in table 4.1 above, most of the firms (42.9%) have been in operation for more than 20 years while 28.6% have been in operation for between 1-10 years. This is an indication good representation of all firms in small scale category.

4.2.2 Number of Employees and Sources of Funds

The number of employees of any organization influences its human resources management practices. The respondents were asked to indicate the number of employees in their firms and the results are as in table 4.1below.

Table 4.2: Number of Employees

Number of Employees	Distribution	
	Frequency	Percentage
11 - 20	44	42.9
21 - 30	28	28.6
31 - 40	25	28.6
TOTAL	97	100.0

From the research results in table 4.2 above, most of the firms that were sampled had an employee population of between 11-20, and the rest less than 40 employees. Thus they have balanced the number of firms for those that have been in small scale and those graduating to medium scale enterprises. Further the only sources of finance were personal services and friends donations.

4.3 Human Resource Management Practices and the Performance of Small Scale Manufacturing Firms in Nairobi

Human resources are one of the most critical components of an organization’s performance and for one to objective judge the human resources management practices as effectively, they must contribute to the organization’s overall performance. The respondents were asked to indicate on a five point scale the extent to which a number of issues correctly describe their firm’s human resource policies and practices on a five-likert scale, (where 1= Not at all, 2= To a less extent, 3= To a moderate extent, 4= To a

great extent and 5= To a very great extent) and the results are as presented in table 4.3a, b & Figure 4.1 below.

Table 4.3a: Mean Scores Human Resource Management Practices and Performance

Human Resource Management Practices and Performance	n	statistic	
		Mean	Std. Deviation
In my organization recruitment is based more on aptitude and trainability rather than formal paper qualifications	97	3.40	1.33588
My enterprise conducts systematic analysis to determine the needs for training programs	97	4.16	1.09621
The management conducts regular cost - benefit analysis to assess the effectiveness of the training program	97	4.65	.76432
The training programs are evaluated regularly to determine whether the training objectives have been met	97	4.09	1.00086
Employees' promotion is based on the length of stay at the enterprise.	97	4.59	.49482
In my organization, employees' promotion is based on performance	97	4.34	.76221
There is a high level of functional flexibility with less use the of potentially rigid job descriptions.	97	2.53	1.60138
Hierarchies and status differentials are much more in my organization.	97	2.01	1.29498
The enterprise relies heavily on team structure for disseminating information (team briefing), structuring work, (team working) and problem solving (quality circles).	97	4.55	.50043
Job design is something management consciously does in order to provide jobs that have a considerable level of intrinsic satisfaction	97	4.47	1.14649
My organization has a policy of no compulsory lay - offs or redundancies and permanent employment guarantees, with the possible use of temporary workers to cushion fluctuations in the demand for labor	97	2.25	1.17288
There is a high involvement of employees in the management of quality	97	4.41	.77396
My enterprise has new forms of assessment and payment systems and, more specifically, merit pay and profit sharing	97	4.00	1.24164
My enterprise has properly functioning grievance procedures	97	4.00	1.24164
My enterprise has promotion and compensation schemes that provide for the recognition and financial rewarding of the employees	97	3.86	.86590

The descriptive statistic presented in table 3a was interpreted as follows:

A mean score of 1 or less implies that the human resource⁴ management approach to which it applies is not practiced at all by the small scale manufacturing firms that were studied; a mean score above 1 but less than 2 indicates that the responding firms, on the average engage in the practice very rarely; a mean score less than 3 but more than 2 suggests that the practice is fairly common among the firms under study; a mean score of above 3 but less than 4 implies that the firms have strongly embraced the practice while a mean score ranging from 4 to 5 indicates that the practice is very prevalent among the respondent firms.

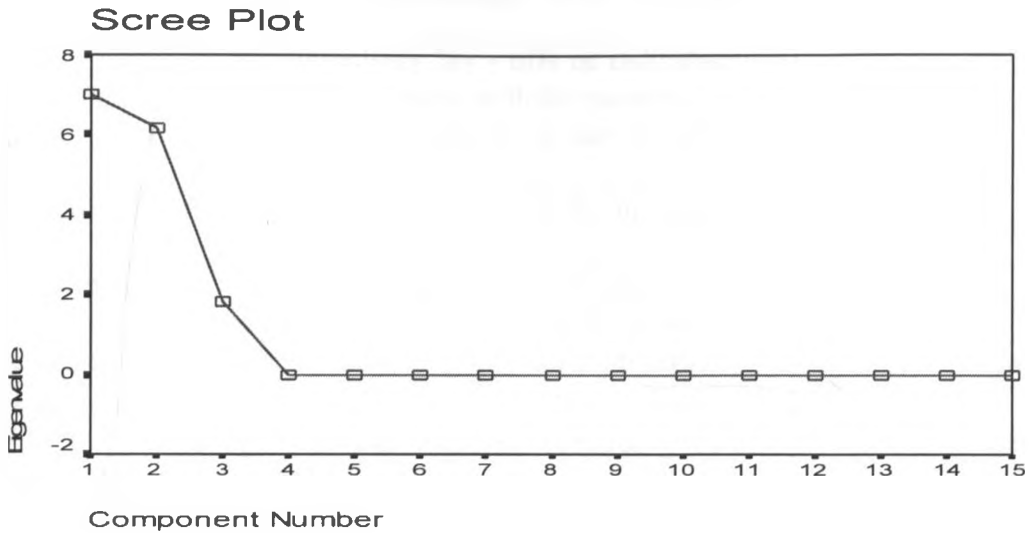
A standard deviation less than 0.2 implies 20% of the firms have mean scores that deviate widely from the group mean scores; standard deviations ranging from 0.2 to 0.5 indicate that between 20 % and 50 % of the firms in question have means score that deviate from the group mean score from a moderate to a large extent; Finally, standard deviations ranging from 50.1 to 100% of the firms have mean scores that deviate greatly from the group mean score.

The standard deviations show the margin of error arising possibly from sampling error. The bigger the standard deviation, the less reliable the results are.

The above criterion was applied to the data in table 4.3a. As shown in the table, the practices are strongly used by about 67 % of the firms while about 20 % of the firms engage in these practices to a great and moderate extent, respectively.

Further analysis using the scree plot indicates that there are only four most important human resources management best practices. But all the factors showed a very positive correlation with each other. The correlation is significant at the 0.01 level (2-tailed) and also significant at the 0.05 level (2-tailed). (See correlation matrix in appendix III)

Figure 4.1: Human Resource Management Practices and Performance (Scree Plot)



To reduce the factors into amore manageable for, factor analysis was performed on the data variables and the results are as in table 4.3b below.

Table 4.3b: Human Resource Management Practices and Performance (Factor Analysis)

Human Resource Management Practices and Performance	Rotated Component Matrix(a)		
	1	2	3
Recruitment is based more on aptitude and trainability rather than formal paper qualifications	.960	.238	.150
The enterprise conducts systematic analysis to determine the needs for training programs	-.044	.279	.959
The management conducts cost - benefit analysis to assess the effectiveness of the training program	.249	.528	.812
The training programs are evaluated to determine whether the training objectives have been met	.947	.018	.321
Employees' promotion is based on the length of stay at the enterprise.	-.090	.994	.059
Employees' promotion is based on performance	-.189	.137	.972
There is a high level of functional flexibility with the abandonment of potentially rigid job descriptions.	-.918	.174	.356
There is the reduction of hierarchies and the ending of status differentials	-.951	.291	.107
The enterprise has a heavy reliance on team structure for	.947	.018	.321

disseminating information (team briefing), structuring work, (team working) and problem solving (quality circles).			
Job design is something management consciously does in order to provide jobs that have a considerable level of intrinsic satisfaction	.249	.528	.812
There is a policy of no compulsory lay - offs or redundancies and permanent employment guarantees, with the possible use of temporary workers to cushion fluctuations in the demand for labor	-.931	.073	.358
There is a high involvement of employees in the management of quality	.066	.896	.439
The enterprise has new forms of assessment and payment systems and, more specifically, merit pay and profit sharing	.005	.955	.297
The enterprise has properly functioning grievance procedures	.005	.955	.297
The enterprise has promotion and compensation schemes that provide for the recognition and financial rewarding of the employees	.933	.356	.046

Factor analysis was done using Principal Component Analysis to extract the key strategic human resources management practices required Varimax with Kaiser Normalization gave a rotation that converged in 4 iterations. The results are as in table 4.3b. From the research data, human resources management best practices can be broken into three components. The first component is recruitment practices and policies which include based recruitment more on aptitude and trainability rather than formal paper qualifications. The second component is one employee involvement in decision making which include assessment and payment systems based merit pay and profit sharing where promotion is based on the length of stay at the enterprise. The third component revolves around employees training and performance which includes employees' promotion is based on performance, systematic analysis to determine the needs for training programs and conducting cost - benefit analysis to assess the effectiveness of the training program.

4.4 Perceived Organizational Performance

The best human resources management practices always influence the performance of a firm. This can be seen as perceived until when a relationship has been established. On a scale of 1 to 5 (where 1 represents very low and 5 very high), the respondents were asked

to rate the performance of their firms compared with that of their competitors over the past three years, and the results are as in table 4.4 below

Table 4.4: Means and Standard Deviations for Perceived Organizational Performance

Perceived Organizational Performance	n	Descriptive	
		Mean	Std. Deviation
Quality of products	97	4.8247	.38216
Development of new products	97	4.8247	.38216
Ability to attract and retain essential employees	97	4.7629	.42752
high-performing members of the work force	97	4.4124	.77396
Overall performance	97	4.3093	.46460
Relations between management and other employees	97	4.3093	.46460
Relations among employees in general	97	4.0722	.73947

From the quantitative data in table 4.4, the mean scores for all these measures of performance are above 4. Given that the maximum score is 5, these results indicate that all the respondents rated their firms performance at 80% and above. The highly rated indicators of performance are quality of products (mean = 4.8247) and development of new products (4.8247). The least rated indicator of performance is relations among employees in general with a mean score of 4.0722.

Overall the results indicate that the small scale manufacturing firms' performance compared with that of their competitors over the past three years resulting from human resources management practices has been characterized with the following: improved quality of products, enhanced development of new products, increased ability to attract and retain essential employees, high-performing members of the work force, increased overall performance, improved relations between management and other employees; and that among employees in general.

4.5 Relationship between Human Resource Management Practices and the Performance of Small Scale Manufacturing Firms

HRM can help to improve the firm's performance. Indeed business strategies and HRM policies interact according to organizational context in determining business performance. Pearson's product moment correlation analysis was carried to determine the relationship between human resource management practices and the performance of small scale manufacturing firms in the Industrial area Nairobi. The results are presented in table 4.5. In the table, **X** represents mean scores for Human Resource Management Practices, **Y** represents mean scores for performance and **r** stands for the link between human resource practices and performance. The correlation coefficients are presented for all the 97 firms that participated in the study.

Table 4.5: Correlation Coefficient for the Relationship between Human Resource Practices and Performance of Small Scale Firms.

X	Y	X ²	Y ²	r
4.07	4.14	16.56	19.36	0.941
4.07	4.14	16.56	19.36	0.941
4.07	4.14	16.56	19.36	0.941
4.07	4.14	16.56	19.36	0.941
4.07	4.14	16.56	19.36	0.941
4.07	4.14	16.56	19.36	0.941
4.07	4.14	16.56	19.36	0.941
4.07	4.14	16.56	19.36	0.941
4.07	4.14	16.56	19.36	0.941
4.07	4.14	16.56	19.36	0.941
4.07	4.14	16.56	19.36	0.941
4.07	4.14	16.56	19.36	0.941
4.07	4.14	16.56	19.36	0.941
4.07	4.14	16.56	19.36	0.941

4.07	4.14	16.56	19.36	0.941
4.07	4.14	16.56	19.36	0.941
4.07	4.14	16.56	19.36	0.941
4.07	4.14	16.56	19.36	0.941
4.07	4.14	16.56	19.36	0.941
4.07	4.14	16.56	19.36	0.941
4.07	4.14	16.56	19.36	0.941
4.07	4.14	16.56	19.36	0.941
4.07	4.14	16.56	19.36	0.941
4.07	4.14	16.56	19.36	0.941
4.07	4.14	16.56	19.36	0.941
4.07	4.14	16.56	19.36	0.941
4.67	4.43	21.81	19.62	1.000
4.67	4.43	21.81	19.62	1.000
4.67	4.43	21.81	19.62	1.000
4.67	4.43	21.81	19.62	1.000
4.67	4.43	21.81	19.62	1.000
4.67	4.43	21.81	19.62	1.000
4.67	4.43	21.81	19.62	1.000
4.67	4.43	21.81	19.62	1.000
4.67	4.43	21.81	19.62	1.000
4.67	4.43	21.81	19.62	1.000
4.67	4.43	21.81	19.62	1.000
4.67	4.43	21.81	19.62	1.000
4.67	4.43	21.81	19.62	1.000
4.67	4.43	21.81	19.62	1.000
4.67	4.43	21.81	19.62	1.000
4.67	4.43	21.81	19.62	1.000
4.67	4.43	21.81	19.62	1.000
4.67	4.43	21.81	19.62	1.000
4.67	4.43	21.81	19.62	1.000
4.67	4.43	21.81	19.62	1.000
4.67	4.43	21.81	19.62	1.000
4.67	4.43	21.81	19.62	1.000
4.67	4.43	21.81	19.62	1.000

4.67	4.43	21.81	19.62	1.000
4.67	4.43	21.81	19.62	1.000
4.67	4.43	21.81	19.62	1.000
4.67	4.43	21.81	19.62	1.000
4.67	4.43	21.81	19.62	1.000
4.67	4.43	21.81	19.62	1.000
4.67	4.43	21.81	19.62	1.000
4.67	4.43	21.81	19.62	1.000
2.80	4.00	7.84	16.00	1.000
2.80	4.00	7.84	16.00	1.000
2.80	4.00	7.84	16.00	1.000
2.80	4.00	7.84	16.00	1.000
2.80	4.00	7.84	16.00	1.000
2.80	4.00	7.84	16.00	1.000
2.80	4.00	7.84	16.00	1.000
2.80	4.00	7.84	16.00	1.000
2.80	4.00	7.84	16.00	1.000
2.80	4.00	7.84	16.00	1.000
2.80	4.00	7.84	16.00	1.000
2.80	4.00	7.84	16.00	1.000
4.40	4.86	19.36	23.62	0.999
4.40	4.86	19.36	23.62	0.999
4.40	4.86	19.36	23.62	0.999
4.40	4.86	19.36	23.62	0.999
4.40	4.86	19.36	23.62	0.999
4.40	4.86	19.36	23.62	0.999
2.80	4.00	7.84	16.00	1.00
2.80	4.00	7.84	16.00	1.00
2.80	4.00	7.84	16.00	1.00
2.80	4.00	7.84	16.00	1.00
2.80	4.00	7.84	16.00	1.00
2.80	4.00	7.84	16.00	1.00

2.80	4.00	7.84	16.00	1.00
4.40	4.86	19.39	23.62	0.999
4.40	4.86	19.39	23.62	0.999
4.40	4.86	19.39	23.62	0.999
4.40	4.86	19.39	23.62	0.999
4.40	4.86	19.39	23.62	0.999
4.40	4.86	19.39	23.62	0.999
4.40	4.86	19.39	23.62	0.999
4.40	4.86	19.39	23.62	0.999
4.40	4.86	19.39	23.62	0.999
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4.40	4.86	19.39	23.62	0.999
4.40	4.86	19.39	23.62	0.999
4.40	4.86	19.39	23.62	0.999
4.40	4.86	19.39	23.62	0.999
4.40	4.86	19.39	23.62	0.999
4.40	4.86	19.39	23.62	0.999
4.40	4.86	19.39	23.62	0.999
4.40	4.86	19.39	23.62	0.999
			Σr	95.554
Overall Coefficient			$\Sigma r/n$	0.985

According to table 4.5 above the overall coefficient of **0.985** shows that there is a very strong correlation between human resource practices and performance of small scale manufacturers in Industrial area, Nairobi

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the findings and makes conclusions on based on the objective of this study: to establish the relationship between human resource management practices and the performance of small scale manufacturing firms in Nairobi. It also includes the study recommendations for improvement and for further research

5.2 Summary, Discussions and Conclusions

5.2.1 Summary and Discussions

It is observed from the analysis that the response rate of 97 percent (%). The number of years an organization has been in operation influences its human resources management practices and performance. Those institutions that have been in operation for long can be seen to be properly aligned to the best-practice human resources management to performance. Most of the firms (42.9%) have been in operation for more than 20 years while 28.6% have been in operation for between 1-10 years. The number of employees of any organization influences its human resources management practices. Most of the firms that were sampled had an employee population of between 11-20, and the rest less than 40 employees. Thus they have balanced the number of firms for those that have been in small scale and those graduating to medium scale enterprises. Further the only sources of finance were personal services and friends donations.

Human resources are one of the most critical components of an organization's performance and for one to objective judge the human resources management practices as effective, they must contribute to the organization's overall performance. The following best practices form the small scale manufacturing firms' human resources management best practices: The management conducts cost - benefit analysis to assess the effectiveness of the training program; employees' promotion is based on the length of stay at the enterprise; the enterprise has a heavy reliance on team structure for disseminating information (team briefing), structuring work, (team working) and problem

disseminating information (team briefing), structuring work, (team working) and problem solving; job design is something management consciously does in order to provide jobs that have a considerable level of intrinsic satisfaction; there is a high involvement of employees in the management of quality; employees' promotion is based on performance; the enterprise conducts systematic analysis to determine the needs for training programs; the training programs are evaluated to determine whether the training objectives have been met; the enterprise has properly functioning grievance procedures; and the enterprise has new forms of assessment and payment systems and, specifically, merit pay and profit sharing.

Further analysis using the scree plot indicates that there are only four most important human resources management best practices. But all the factors showed a very positive correlation with each other. The correlation is significant at the 0.01 level (2-tailed) and also significant at the 0.05 level (2-tailed). To reduce the factors into amore manageable for, factor analysis was performed on the data variables and using Principal Component Analysis to extract the key strategic human resources management practices required Varimax with Kaiser Normalization gave a rotation that converged in 4 iterations. From the research data, human resources management best practices can be broken into three components. The first component is recruitment practices and policies which include based recruitment more on aptitude and trainability rather than formal paper qualifications. The second component is one employee involvement in decision making which include assessment and payment systems based merit pay and profit sharing where promotion is based on the length of stay at the enterprise. The third component revolves around employees training and performance which includes employees' promotion is based on performance, systematic analysis to determine the needs for training programs and conducting cost - benefit analysis to assess the effectiveness of the training program.

The best human resources management practices always influence the performance of a firm. This can be seen as perceived until when a relationship has been established. The small scale manufacturing firms' performance compared with that of their competitors over the past three years resulting from human resources management best practices has

been characterized with the following: improved quality of products, enhanced development of new products, increased ability to attract and retain essential employees, high-performing members of the work force, increased overall performance, improved relations between management and other employees; and that among employees in general.

HRM can help to improve the firm's performance. Indeed business strategies and HRM policies interact according to organizational context in determining business performance. Linear regression analysis was carried to determine the relationship between human resource management practices and the performance of small scale manufacturing firms. The following variables were entered: The enterprise has promotion and compensation schemes that provide for the recognition and financial rewarding of the, Employees' promotion is based on performance, Employees' promotion is based on the length of stay at the enterprise. The rest of the variables were removed. There is a very strong relationship between the three variables (HRM) and organization performance, since $r = 9.85\%$.

5.2.2 Conclusions

Based on the results from data analysis and findings of the research, one can safely conclude the following, based on the objectives of the study;

First, human resources are one of the most critical components of an organization's performance and for one to objective judge the human resources management practices as effective, they must contribute to the organization's overall performance. The following best practices form the small scale manufacturing firms' human resources management best practices: The management conducts cost - benefit analysis to assess the effectiveness of the training program; employees' promotion is based on the length of stay at the enterprise; the enterprise has a heavy reliance on team structure for disseminating information (team briefing), structuring work, (team working) and problem solving; job design is something management consciously does in order to provide jobs that have a considerable level of intrinsic satisfaction.

Secondly, to reduce the factors into amore manageable for, factor analysis was performed on the data variables and using Principal Component Analysis to extract the key strategic human resources management practices required Varimax with Kaiser Normalization gave a rotation that converged in 4 iterations. From the research data, human resources management best practices can be broken into three components: recruitment practices and policies which include based recruitment more on aptitude and trainability rather than formal paper qualifications; employee involvement in decision making which include assessment and payment systems based merit pay and profit sharing where promotion is based on the length of stay at the enterprise; and lastly employees training and performance which includes employees' promotion is based on performance, systematic analysis to determine the needs for training programs.

Thirdly, the best human resources management practices always influence the performance of a firm. This can be seen as perceived until when a relationship has been established. The small scale manufacturing firms' performance compared with that of their competitors over the past three years resulting from human resources management best practices has been characterized with the following: improved quality of products, enhanced development of new products, increased ability to attract and retain essential employees, high-performing members of the work force, increased overall performance, improved relations between management and other employees; and that among employees in general.

Lastly, HRM can help to improve the firm's performance. Indeed business strategies and HRM policies interact according to organizational context in determining business performance.

5.3 Limitations of the Study

The following factors were the greatest hurdles while conducting the study: It took long when collecting the questionnaires because some of the respondents kept them and never bothered to answer; due to the nature of business, most managers looked ignorant concerning the study.

5.4 Recommendations for Further Research

The findings of the study indicate that there are a number of issues to be addressed in research for policy and practice. This was a survey on the relationship between human resource management practices and the performance of small scale manufacturing firms in Nairobi. Further research in the areas of the relationship between human resource management practices and the performance would be useful in understanding the impact that the practice has in organizations competitiveness and management process for enhanced productivity in other sectors.

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APPENDICES

APPENDIX ONE: LETTER OF INTRODUCTION

Dear Sir/Madam, -----

RE: THE EFFECT OF HUMAN RESOURCE MANAGEMENT POLICIES AND PRACTICES ON THE PERFORMANCE OF SMALL SCALE MANUFACTURING FIRMS IN NAIROBI'S INDUSTRIAL AREA (K)

I am a student pursuing a postgraduate degree at the school of business, University of Nairobi, currently in research year. My research is focusing on “**The Effect Of Human Resource Management Policies And Practices On The Performance Of Small Scale Manufacturing Firms In Nairobi’s Industrial Area (K)**”. The specific objectives of the survey component of the research are to establish the effect of human resource management policies (best practices) on the performance of small scale manufacturing firms in Nairobi’s industrial area; and, secondly, to examine the particular problems that face small scale manufacturing firms in Nairobi which may be contributing to their poor performance.

Please be assured that this information is sought for research purposes only and your responses will be strictly confidential. No individual’s responses will be identified as such and the identity of persons responding will not be published or released to anyone. All information will be used for academic purposes only.

Please assist me in gathering enough information to present a representative finding on the current status of the human resource management policies (best practices), by completing the attached questionnaire. Your participation is entirely voluntary and the questionnaire is completely anonymous. Thank you very much for helping with this important study.

Yours faithfully

Roselyne A. Middii

APPENDIX TWO: RESEARCH QUESTIONNAIRE

Part One: General Information

1. When was the firm established? (Give the Year) _____
2. What is the number of workers in your firm? (please tick one)
- a. 1 worker
 - b. 2-3
 - c. 4-6
 - d. 7-10
 - e. 10-20
 - f. above 20
3. From where did the firm get its Initial Capital? (Tick one or more)
- a. Own Savings
 - b. Relative(s)
 - c. Partner(s)
 - d. Friend(s)
 - e. Other sources. (Please specify)
-
-

4. Which of the following key areas does your organization specialize in?

(You can tick more than one where appropriate)

Category	Key Activities
Textile work	Tailoring []
	Dressmaking []
	knitting, and sewing of textile products []
Woodworkers	carpenters making wooden furniture []
	carpenters supplying doors []
	carpenters supplying windows []
	carpenters doing repair work []
Metal-Workers	producing cooking utensils []
	producing charcoal stoves []
	producing boxes []
	producing small hardware []
	producing furniture []
	producing door and window frames []
	producing iron gates []

Part Two: Human Resource Management Practices among small scale manufacturing firms in Nairobi

5. Rate the extent to which each of the statements presented below correctly describes your firm’s human resource policies and practices. The numbers represent the following:

1. - Not at all
2. - To a less extent
3. - To a moderate extent
4. - To a great extent
5. - To a very great extent.

Place a tick () against the relevant number

No.	Statement	1	2	3	4	5
i	Recruitment is based more on aptitude and trainability rather than formal paper qualifications					
ii	The enterprise conducts systematic analysis					

	to determine the needs for training programs						
iii	The management conducts cost – benefit analysis to assess the effectiveness of the training program						
iv	The training programs are evaluated to determine whether the training objectives have been met						
v	Employees’ promotion is based on the length of stay at the enterprise.						
vi	Employees’ promotion is based on performance						
vii	There is a high level of functional flexibility with the abandonment of potentially rigid job descriptions.						
viii	There is the reduction of hierarchies and the ending of status differentials						
ix	The enterprise has a heavy reliance on team structure for disseminating information (team briefing), structuring work, (team working) and problem solving (quality circles).						
x	Job design is something management consciously does in order to provide jobs that have a considerable level of intrinsic satisfaction						
xi	There is a policy of no compulsory lay – offs or redundancies and permanent employment guarantees, with the possible use of temporary workers to cushion fluctuations in the demand for labor						
xii	There is a high involvement of employees in the management of quality						

xiii	The enterprise has new forms of assessment and payment systems and, more specifically, merit pay and profit sharing						
xiv	The enterprise has properly functioning grievance procedures						
xv	The enterprise has promotion and compensation schemes that provide for the recognition and financial rewarding of the high-performing members of the work force						

Part Three: Perceived Organizational Performance

On a scale of 1 to 5 (where 1 represents very low and 5 very high) rate the performance of your firm compared with that of your competitors over the past three years. Tick against the relevant number and statements in the scales given below:

Statement	1	2	3	4	5
i) Overall performance					
ii) Quality of products					
iii) Development of new products					
iv) Ability to attract and retain essential employees					
v) Satisfaction of customers or clients					
vi) Relations between management and other employees					
vii) Relations among employees in general					

APPENDIX IV: CORRELATION MATRIX A

Recruitment is based more on aptitude and trainability rather than formal paper qualifications	Pears on Correlation Sig (2-tailed)	.168	.486(***)	.961(*)	.159	-.003	.786(***)	.827(***)	.961(*)	.486(*)	.822(***)	.342(***)	.276(***)	.276(***)	.987(***)
The enterprise conducts systematic analysis to determine the needs for training programs	Pears on Correlation Sig (2-tailed)	.108	.918	.271(*)	.338(***)	.979(***)	.431(***)	.226(*)	.271(*)	.915(*)	.405(***)	.666(***)	.551(***)	.551(***)	.102
The management conducts cost - benefit analysis to assess the effectiveness of the training program	Pears on Correlation Sig (2-tailed)	.000	.506(*)	.000	.000	.000	.137	.971	.000	.000	.341	.000	.000	.000	.000
The training programs are evaluated to determine whether the training objectives have been met	Pears on Correlation Sig (2-tailed)	.000	.550(***)	.000	.000	.000	.152	.004	.506(*)	.1000(***)	.098	.846(***)	.746(***)	.746(***)	.458(***)
Employees' promotion is based on the length of stay at the enterprise	Pears on Correlation Sig (2-tailed)	.640	.185	-.048	.815(***)	.000	.752(***)	.861(***)	.000	.000	.341	.000	.000	.000	.000
Employees' promotion is based on performance	Pears on Correlation Sig (2-tailed)	.039	.210(***)	.000	.210(***)	.000	.276(***)	.381(***)	.550(*)	.765(***)	.219(***)	.911(***)	.966(***)	.966(***)	.007
There is a high level of functional flexibility with the abandonment of potentially rigid job descriptions.	Pears on Correlation Sig (2-tailed)	.006	.543(***)	.000	.543(***)	.000	.276(***)	.000	-.048	.000	.082	.000	.000	.000	.007
There is the reduction of hierarchies and the ending of status differentials	Pears on Correlation Sig (2-tailed)	.000	.962(***)	.000	.962(***)	.000	.324(***)	.000	.640	.000	.000	.000	.000	.000	.007
The enterprise has a heavy reliance on team structure for disseminating information (team briefing), structuring work, (team working) and problem solving (quality circles).	Pears on Correlation Sig (2-tailed)	.000	.752(*)	.000	.752(*)	.000	.136	.136	.000	.000	.000	.000	.000	.000	.007
Job design is something management consciously does in order to provide jobs that have a considerable level of intrinsic satisfaction	Pears on Correlation Sig (2-tailed)	.137	.152	.000	.152	.000	.543(***)	.815(*)	.000	.000	.000	.000	.000	.000	.007
There is a policy of no compulsory lay - offs or redundancies and permanent employment guarantees, with the possible use of temporary workers to cushion fluctuations in the demand for labor	Pears on Correlation Sig (2-tailed)	.000	.995(***)	.000	.995(***)	.000	.537(***)	.534(***)	.000	.000	.000	.000	.000	.000	.007
There is a high involvement of employees in the management of quality	Pears on Correlation Sig (2-tailed)	.013	.252(***)	.000	.252(***)	.000	.418(***)	.418(***)	.000	.000	.000	.000	.000	.000	.007
The enterprise has new forms of assessment and payment systems and, more specifically, merit pay and profit sharing	Pears on Correlation Sig (2-tailed)	.008	.267(***)	.000	.267(***)	.000	.267(***)	.267(***)	.000	.000	.000	.000	.000	.000	.007
The enterprise has properly functioning grievance procedures	Pears on Correlation Sig (2-tailed)	.008	.267(***)	.000	.267(***)	.000	.267(***)	.267(***)	.000	.000	.000	.000	.000	.000	.007
The enterprise has promotion and compensation schemes that provide for the recognition and financial rewarding of the	Pears on Correlation Sig (2-tailed)	.000	-.779(***)	.000	-.779(***)	.000	-.779(***)	-.779(***)	.000	.000	.000	.000	.000	.000	.007

There is the reduction of hierarchies and the ending of status differentials	Pears on Correlation	.827(**)	.226(*)	.004	.861(*)	.381(**)	.324(**)	.962(**)	1	.861(*)	.004	.945(**)	.245(*)	.304(**)	.304(**)	-.779(**)
	Sig. (2-tailed)	.000	.026	.971	.000	.000	.001	.000		.000	.971	.000	.016	.002	.002	.000
The enterprise has a heavy reliance on team structure for disseminating information (team briefing), structuring work, (team working) and problem solving (quality circles).	Pears on Correlation	.961(**)	.271(**)	.506(**)	1.000(**)	-.048	.136	.752(**)	.861(**)	1	.506(*)	.765(**)	.219(*)	.117	.117	.905(**)
	Sig. (2-tailed)	.000	.007	.000		.640	.185	.000	.000		.000	.000	.031	.252	.252	.000
Job design is something management consciously does in order to provide jobs that have a considerable level of intrinsic satisfaction	Pears on Correlation	.486(**)	.915(**)	1.000(**)	.506(*)	.550(**)	.815(**)	.152	.004	.506(*)	1	.098	.846(**)	.746(**)	.746(**)	.458(**)
	Sig. (2-tailed)	.000	.000		.000	.000	.000	.137	.971	.000		.341	.000	.000	.000	.000
There is a policy of no compulsory lay-offs or redundancies and permanent employment guarantees, with the possible use of temporary workers to cushion fluctuations in the demand for labor	Pears on Correlation	.822(**)	.405(**)	.098	.765(**)	.178	.534(**)	.995(**)	.945(**)	.765(*)	.098	1	.162	.172	.172	-.826(**)
	Sig. (2-tailed)	.000	.000	.341	.000	.082	.000	.000	.000	.000	.341		.113	.093	.093	.000
There is a high involvement of employees in the management of quality	Pears on Correlation	.342(**)	.668(**)	.846(**)	.219(*)	.911(**)	.537(**)	.252(*)	.245(*)	.219(*)	.846(*)	.162	1	.986(**)	.986(**)	.401(**)
	Sig. (2-tailed)	.001	.000	.000	.031	.000	.000	.013	.016	.031	.000	.113		.000	.000	.000
The enterprise has new forms of assessment and payment systems and, more specifically, merit pay and profit sharing	Pears on Correlation	.276(**)	.551(**)	.746(**)	.117	.966(**)	.418(**)	.267(**)	.304(**)	.117	.746(*)	.172	.986(**)	1	1.000(*)	.358(**)
	Sig. (2-tailed)	.006	.000	.000	.252	.000	.000	.008	.002	.252	.000	.093	.000			.000
The enterprise has properly functioning grievance procedures	Pears on Correlation	.276(**)	.551(**)	.746(**)	.117	.966(**)	.418(**)	.267(**)	.304(**)	.117	.746(*)	.172	.986(**)	1.000(**)	1	.358(**)
	Sig. (2-tailed)	.006	.000	.000	.252	.000	.000	.008	.002	.252	.000	.093	.000			.000
The enterprise has promotion and compensation schemes that provide for the recognition and financial rewarding of the	Pears on Correlation	.987(**)	.102	.458(**)	.905(*)	.273(**)	-.083	.779(**)	.779(**)	.905(*)	.458(*)	.826(**)	.401(**)	.358(**)	.358(**)	1
	Sig. (2-tailed)	.000	.319	.000	.000	.007	.421	.000	.000	.000	.000	.000	.000	.000	.000	

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).