A SURVEY OF HUMAN CAPITAL PRACTICES AMONG THE SUGAR COMPANIES IN KENYA

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DECLARATION

This management research project is my original work and has not been presented for a degree in any other university.

Signed ____________________ Date 27TH OCTOBER 2005.

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

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DEDICATION

To my friend, Kabs Wasa. For your love, support and encouragement during this entire course.

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To the almighty God for giving me the strength to go through this course. I also owe gratitude to my supervisor, Prof.K'Obonyo for guiding me through the entire process. To all my MBA colleagues with whom we have worked together. Lastly but not least, to my loving parents for their kind assistance.

ABSTRACT

The purpose of this study was to determine human capital management practices among the sugar companies in Kenya and the challenges that the sugar companies face while implementing these human capital practices. The population of this study consisted of all the human resource managers and the employees in the human resource departments of the seven sugar factories currently operating in Kenya. The sample used consisted of all the human resources managers and five employees from each of the human resources departments in the sugar companies. The data was collected using a structured survey questionnaire that was personally administered by the researcher to the human resources managers and other personnel in the human resources departments of each of the sugar companies. The response rate was 80%. Out of the seven operational sugar companies, only five responded to the questionnaire. Descriptive statistics such as frequencies, mean, standard deviation, and percentages were used to analyze the data. The data was then presented in tabular form and narratives.

Results indicate that 40.6% of the sugar companies practice human capital management to a large extent, 12.5% are moderate in their practices and 46.9% do not practice human capital management. However, majority of the companies have implemented practices such as having training and development that are based on improving the performance of the employees and training and developing employees who perform well and those employees who are in core positions. This is important as it enables the companies to manage their employees better by looking at the value that each individual employee adds to the organization for competitive advantage. Having training and development opportunities for employees that perform well and those in core positions adds value to the organizations and motivates the employees in those positions to work towards achieving the organizations objectives. The research findings also indicated that the sugar companies hardly engaged in practices like having different salaries for employees in similar positions, temporary wage freezes, golden handshakes and in-house job matching for retrenched employees and offering individual choices in the employee benefit systems among others. This is likely to impact negatively on productivity. In a competitive world, organizations strive to keep the best employees who are committed and engaged in their jobs. Without offering the interests of the employees at work, the companies could compromise the performance of their employees and their competitive advantage.

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LIST OF ABBREVIATIONS

HCM	-	Human Capital Management
HR	-	Human Resources
ROI	-	Return on Investments
'A' positions	-	Core positions
'C' positions	-	Support positions
'A' employees	-	High performing employees
'B' employees	-	Employees with potential of becoming 'A' employees
'C' employees	-	Poor performing employees
COMESA	-	Common Markets of East and Southern Africa
SD	-	Standard deviation
X	-	Mean
SONY	-	South Nyanza Sugar Company

CHAPTER I

INTRODUCTION

1.1 Background

The global business climate is marked by extreme geopolitical and economic uncertainties. For global market acceleration, businesses must respond to customers faster than ever with value-added products and services, while they struggle to maintain temporary competitive advantages. By the early 2000's, there is a growing awareness that it is people and the inspiration, knowledge and creativity they bring creates competitive advantage. The key to gaining competitive advantage is the willingness and ability of employees to share their knowledge, skills and attitudes in work processes (Leonard and Dorothy, 2003).

Human Capital is defined by Rogers and Sue (2004) as a collection of human resources that an organization has, which form potential for realization of their objectives. It is the collective sum of the attributes of human resources, their life experience, knowledge, inventiveness, energy and enthusiasm that they choose to invest in their work. This is the human brainpower, which over time transforms other resources and opportunities.

Firms that have embraced human capital management (HCM) perceive human resources as investment and will thus have selection, rewarding and development policies and practices that are more employees focused. Such practices according to Huselid et al (2005) include selection practices that recognize that employees have different expectations, that is, different returns on investment that they would expect to receive from an organization. People differ in terms of their needs, preferences, personalities, and ages, among others. Some employees join organizations because they want higher salaries while others may expect opportunities for developing their careers in the particular organizations. Therefore, organizations look into these individual differences and provide different contracts that will afford each employee a return on investment that they need (Gallaga, 1996). Organizations are also operating in vibrant environment that affect their profitability, market share among others. Sometimes the costs of having particular employees surpass the return on investment (ROI) that an organization receives. With these challenges, organizations are forced into cost cutting measures that involve downsizing or even outsourcing procedures so as to maintain their competitiveness. These come with endless conflicts in the organizations and sometimes even lawsuits are opened against such organizations. To prevent such eventualities, HCM emphasizes that firms draft flexible contracts that have provisions for change when firms are faced with external challenges that they may not be able to control. The employees learn to expect change, and when it comes, it meets less resistance (Rousseau, 1996). HCM also prescribes to realistic job previews that detail the appropriate information (both positive and negative) about an organization to the job candidates. This will enable candidates get a clear picture about the operations in a firm and they can determine their fit in the organization. This will help reduce the levels of dissatisfaction by the employees, as they are aware of what to expect at their work places. This in turn saves the firm costs that would otherwise be associated with low performance and need to hire other employees (Rodgers, 1990). In developing employees, HCM hires employees who are internally motivated to learn. These should be a focus of prehire assessment by emphasizing on competence building efforts. Organizations hire people with the right competencies and then nurture their development (EDC, 1998). In offering the training, organizations should only pay for the training costs if the knowledge and skills the employees will acquire in the training will benefit the firm. Organizations should not venture into general training activities that will only benefit the individual, but the firm too. These is because organizations face resource constraints, and the resources should be invested where there are higher returns (Flamholtz and Lacey (1981). Organizations also differentiate the training and development needs of different employees. Training and development programs are costly to organizations, resources for the same are scarce therefore organizations offer the training and development opportunities first, only to those positions that are strategic to a firm ('A' positions); that is those positions without which organizations cannot achieve their objectives because they are core in implementation of strategy. The training and development programs are also only offered to employees who perform well in the organization and help in the attainment of objectives ('A' employees) and 'B' employees with potential of becoming 'A' employees. Those employees who do not perform well ('C' employees) are not included in the training and development initiatives because they are not adding value to the organizations (Lynch and Black, 1996). Differentiation is also reflected in the pay systems. HCM emphasizes pay based on performance, that is, pay commensurate to an employee's performance and not a standard package for all employees irrespective of their performance; that is, 'A' employees should get a higher pay than 'B' employees who should earn higher than 'C' employees. This will motivate 'A' performers to work harder because their efforts are rewarded. Also, 'A' positions should be paid higher than 'C' positions, irrespective of tenure. This is because 'A' positions are core to the organization than 'C' positions (Huselid et al, 2005). Apart from pay based on performance, organizations also give the employees a choice between the benefits that they wish to have from those provided by the organization. There are no standard benefits systems (Henemann et al, 1988).

However, following the above practices can be challenging to organizations. Many managers would become uncomfortable, having to view some of their employees as superior to others. They would want to value all their employees equally. Also, in line with the differentiation strategies, especially as regards to pay tied to performance, employees may resist it; especially employees categorized as 'C' employees. 'A' employees may generally embrace the system. Offering different compensation and rewards to employees in similar positions may come under legal constraints from labor laws and policies and employee advocacy groups like unions that grade and promote employees based on tenure (Huselid et al, 2005).

1.2 The Kenya Sugar Sector

Miwani and Ramisi were the first sugar companies to be established before independence in 1922 and 1927 respectively. After independence, the government started to play a major role in the sector by establishing five more sugar companies in Muhoroni (1966), Chemelil (1968), Mumias (1973), Nzoia (1978) and South Nyanza Company (SONY) in 1979. West Kenya Sugar Company is the only private sugar company in Kenya. Ramisi and Miwani have since closed down while Muhoroni is currently under receivership (Kenya Sugar Authority Year Book, 2004).

The employees have riddled the sugar companies with various human resources problems ranging from strikes and factory shut downs due to problems like poor pay for the employees and poor patronage based management systems resulting to poor internal management. Due to political influences and general mismanagement, the sugar companies employed workers who did not really add value to the organizations but instead increased their operational costs. Due to these problems, the government introduced stricter supervision through performance-based contracts for the top management and this has made the organizations resort to massive retrenchment of employees who did not meet the skills and knowledge required by the sugar companies so as to manage their costs and compete effectively (Daily Nation, March 24th 2003). Against the background of increasing competition from a liberalized market, and especially from the COMESA region, sugar firms need prudent management practices that will enable them to rise above these problems that affect their capacity to compete effectively.

1.3 Problem Statement

Different organizations use different strategies to achieve competitive advantage. Human capital management is an emerging concept in the management of human resources. It is a management for gaining competitive advantage through an employee focus. Human capital management ensures that organizations hire top performers who have critical knowledge, skills, and talents and who value the returns on investment that organizations can offer. Organizations thus build on initiatives that strengthen performance capacity of employees most efficiently. In an increasingly competitive world, organizations strive to keep the best people who have the most employment options, and are committed and engaged in their jobs. Therefore, human capital management helps to balance the interests of employees to achieve competitive advantage. After the implementation of performance contracts for parastatal chiefs in the sugar companies, Chemelil Sugar Company has made a dramatic turnaround, recording a remarkable Sh50 million profit for the financial year ending December 31, 2004 (www.new-agri.co.uk). But, due to lack of data, it is not possible to attribute the company's dramatic turn-round to HCM practices. However, studies done in USA have shown that over 750 international companies that implement HCM best practices achieved an average 47 percent increase in shareholder value (Watson Wyatt, 1999-2001). Their financial results differ greatly from those firms that do not implement HCM. Also, in research done in 240 pharmaceutical companies in the USA, firms that focused on human capital practices were more productive and innovative. The ratio of their market to book value is nearly four times larger on firms that practice human capital management. These differences were sustained over the next four years in very difficult economic environments (Ulrich, 1987). Given the remarkable performance improvement recorded by the companies that have adopted HCM practices, it is reasonable to argue that a firm that is sensitive to competition would adopt such practices. It is against this background that the proposed study sets out to find out the extent to which sugar firms in Kenya have adopted HCM practices. This is what constitutes research problem for the study. The significance of this problem is underscored by the problems the industry is facing, including its inability to compete both in the COMESA region and globally.

Objectives Of The Study

1) To analyze human capital management practices in the sugar industry in Kenya.
2) To identify the challenges sugar companies face in implementing the human capital practices.

1.5 Importance of the Study

This study will benefit policy makers in drafting policies and laws for managing human resources at the work places. Human capital management will help senior executives understand why their people related strategies should be people oriented and lie beyond layoffs and disinvestments. It will help managers' deal with the day-to-day competitive battles by describing the tools they need to utilize in their activities. Information on human capital management will help employees come up with a new framework for their contribution at work and it will also heighten their sense of their strategic value in organizations. They will learn how to get the most out of work by managing their jobs and careers in a value-optimizing context.

CHAPTER II
LITERATURE REVIEW

2.1 Human Capital

In business, the amount of the resources supplied by the owners is called ***Capital.*** All the resources owned by the business are called ***Assets.*** These could be machinery, cash, and bank accounts among others. This implies that when the owners of businesses have supplied all of the resources, the Capital will be equal to the value of their Assets (Wood and Sangster, 2002). In view of the above concept, human capital is also an asset to the organization; the only difference being that, it is not provided by the owners of the business, but by the people who own the human capital themselves, the employees. The capital (asset) in employees is in the form of their skills and knowledge that they apply in their working time.

According to Huselid et al (2005), human capital implies an asset with a flow of benefits that are greater than the costs of the asset. From the perspective of the firm, human capital will have the greatest value when those benefits take the form of workforce behaviors that execute strategy. Employee skills and subsequent behavior have a market value based on what they are worth to other companies, but their strategic value is based on the role they play in a firms' strategy execution. The term "human capital" therefore represents ***the sum total of a workforce's skills, knowledge, and experience***, and is a critical source of value for a company when managed properly.

Management consultant, Richard Crawford (1991) equates capital with the owners and thus suggesting that human capital consists of skilled educated people who own the asset (capital) that they willfully invest in their work. With liberalized economies, and a great deal of shifts in the labor markets, employees are gaining more power in negotiating for their terms of employment. They are behaving more like free agent owners of investable capital, that is their skills, knowledge and even talent and it is upon them to invest it optimally for the benefit of the organization.

The concept of the value of human capital as a prime economic driver also continues to gain wide recognition through particularly the publication of a book by Gary S. Becker (1993), another Nobel laureate, aptly entitled "human capital". He added that an employee's personality, appearance, reputation, and credentials are also values in human capital as they aid in gaining competitive advantage.

2.2 Perspectives on Human Capital

Human capital management articulates a new way of thinking and acting to help firms execute their strategies through the workforce. Meyer (1999) argues that, human capital can be seen as the human capacity to produce. Employees' assets, their knowledge, skills and abilities are used in the production of goods and services.

Blessing and White (1994), on the contrary argue that, when workers are equated to assets, it likens them to equipment yet people bring ingenuity, creativity and initiative to their companies. They deserve more respect and value than the equipment or any other asset. An asset can be defined as an object or a legal right that can produce future service value, can be owned and controlled and can be valued in monetary terms. Truly, people create financial value to their organizations; however, people do not bear semblance in terms of being owned and controlled. People are active beings and thus comparing them to assets like equipment cannot work since equipment and other assets, unlike people, are passive, can be bought, sold and replaced at the whim of their owners. People are actively in control over their working lives. The human capital markets are free and thus workers show declining propensity to remain with one organization. This increasing velocity carries with it a wake up call to employers as they have to provide powerful incentives and to provide interesting and motivating work.

Philosopher and humanist Jose Ortega Gasset (1948) suggests that management should think of employees as investors in a business paying in human capital and expecting a return on their investment. Workers are free agents and therefore, organizations can only win their allegiance through a return of value for their investment. Treating employees as an asset is outdated and that they should now be treated as investors in business. Like when there is low unemployment, the demand for labor is high and management would behave like the owners of a very valuable asset, they carefully demand value from the employees, investing in their own human capital and they figure out how to develop the indispensable work force. Workers as assets has become a dominant theme at the workplace in the late twentieth century, in some ways, it is a worthy status for the employees because after all, people are the engines that drive processes at the workplace. However, in other ways the 'asset' metaphor falls short of fully expressing the true value of the employees. Thus, in human capital management, a better metaphor, 'investment' is instead used. Workers act like investors by amassing their personal capital that is, dexterity and skill and deploying it to the best advantage. The people's innate abilities, their behaviors, energies and time, make up human capital. Therefore, workers, and not the organizations, own this human capital. *The workers decide when, how and where they'll contribute it.* They place their investable capital where it can add them the highest return. This can be referred to as 'return on investments' (ROI). The notion of a worker as an investor rather than an asset emphasizes that the link between the employee and the organization does not only depend on ownership, paternalism or blind loyalty, but they are bound together from the willingness of each other to provide benefits to each other. The relationship is that of mutual benefit, with neither party elevated at the expense of the other.

2.3 How Human Capital Investment Works

For an individual to invest his/her human capital there must exist ***commitment to an organization and engagement in the job***. Commitment arises from an emotional or intellectual bond linking the individual with the organization (Huntington et al, 1986). They explain that commitment comes with the acceptance of an organization's goals and direction, a desire for membership and a tacit agreement to reject other investment opportunities (Meyer and Allen (1997). Shore and Wayne (1993) observed that attitudinal commitment is where an employee bonds with the organization, identifies with it and is motivated in working with the organization. The employees will exhibit high engagement by caring and putting so much zeal and effort in their work. This is the commitment required by any business venture, as it will drastically improve on employee performance and thus competitive advantage. Attitudinal commitment and engagement is worthwhile as it leads to better performance and hence competitive advantage. All organizations aspire to be successful, and when their employees perform well, it results into success. The link between commitment and loyalty to performance can be seen when the workers identify themselves with the objectives of the organizations they serve (Garner, 1997).

2.4 Drivers of Human Capital Investment

What really drives employees to invest skills, knowledge, talent, and efforts are the returns they expect from their human capital investments (ROI). According to Blessing and White (1994) the ROI include financial compensation like base salary at market average and performance based pay and intrinsic job fulfillment elements like access to latest technology, exposure to senior management, involvement in big deals, opportunity to run important projects, among others. Also growth opportunities like training opportunities and assignment to key teams, recognition through company awards, opportunity to present papers at professional conferences, control over discretionary funds, among others and other benefits like standard health and welfare benefits, education assistance, car loans and mortgages, sabbatical leave, among others.

2.5 Human Capital Management

The practices in human capital are the kinds of thinking and steps organizations can apply to make progress in managing human capital strategically. The practices are fact-based, focused on strategic results, and incorporate merit principles and other goals, actions and the kind of thinking that marks high-performing organizations' approaches to managing people. All the practices reflect two principles that are central to the human capital idea. That is, people are assets whose value can be enhanced through investment and as with any investment, the goal is to maximize it is value while managing risk. Organizations should consider making targeted investments in specific human capital approaches in light of three fundamental ideas that firstly, the approaches should help the organization attract, develop, retain, and deploy the best talent and then elicit the best performance for mission accomplishment. Secondly, the approaches should have clearly defined, well documented, transparent, and consistently applied criteria for making these investments.

Thirdly, decisions regarding these investments should be based largely on the expected improvement in organization results (Huselid et al, 2005).

2.6 Hiring Human Capital Investors

Attracting people with the right human capital requirements is important for strategic success. Organizations would require workers with the skills, knowledge, talent and behavior to implement the organization activities. Organizations have to identify the kinds of skills and behaviors needed to achieve critical business results and positive employee experiences, and investments in the activities and processes essential to the future growth of the business (Sweeney and McFarlin, 1993). In acquiring human capital, organizations may have different options in place, depending on the laid out strategies; that is, they may outsource, have part time or full time employment among others. But it is imperative to get the right worker, match the right worker to the right position who brings in the right strategy (Hunter et al, 1990).

Most human resources hiring processes emphasize the match between workers abilities and the job requirements. The contracts express mutual obligations that each party must strive to fulfill. These contracts capture some aspects of the relationship between the worker and the organization, but not the subtle interpersonal elements. Therefore, in HCM, emphasis is laid upon a *psychological contract*, which encompasses the written, unwritten, spoken and unspoken aspects about the interaction between a worker and the organization. The psychological contract includes Contract differentiation, Contract flexibility and a Realistic job preview (Smart, 1999).

2.6.1 Contract Differentiation

HCM recognizes the fact that people are different in terms of their personalities, interests, ages and even orientations. Therefore, one contract size may not fit for all of them. Given employees' subtle differences, they will expect different ROI from their employers. Even among people with similar jobs, their psychological contracts may vary in subtle ways. For example, one employee could be gifted in technical skills and therefore would want a job with individual incentives and elements that build and recognize his technical artistry.

On the other hand, another employee in the same job in contrast, wants to rise in the company. His technical skills may not be as good measure to that of the other team leader, but he has something else that is of value to the organization, an interest in general management. So he wants to work in a place that emphasizes his group orientation, gives him exposure to current executives and rewards him with chances to advance up the corporate ladder. Therefore, organizations must craft different contracts for different people, implementing the contract, especially the non-financial one to particular needs and motivations of the particular employees (Gallaga, 1996).

2.6.2 Contract Flexibility

As the business market changes, contracts must also change to reflect new realities. Contracts must be flexible so as to accommodate the changes that take place in the market. Many organizations sometimes find themselves with high employee cost expenditures and lower ROI's because of external political, economic, social, technological and even legal factors. For example, for an international company, prices in the international market may fluctuate to the lowest, thus affecting their returns. If the situation persists, it may culminate into a need to reduce the workforce or a need to outsource so as to contain costs and remain competitive. This will come with a lot of resistance from the afflicted employees. To avoid such situations and even resulting court suits, HCM emphasizes that workers should be informed about expected contract changes in the uncertain future. However difficult it is to predict the future, organizations practicing HCM provide legitimate and validated reasons for expected changes in the work contracts. As companies, industries and whole economies restructure, contracts must change to reflect new realities that reflect and ensure an acceptable exchange (Rousseau, 1996). Organizations may want to retain all their employees, but because of the external pressures, they may be forced to make changes in their work force structures so as to remain competitive. Their resolutions will have to affect the employees' contracts in one way or another. Therefore, organizations should build on these expectations by ensuring the employees are aware of and understand that changes may be inevitable and that their contracts may have to change in different ways depending on the prevailing situation. They should provide legitimate and validated reasons to explain why the old contract must change. Contract flexibility comes in forms like temporary wage freezes during lean times, or the golden handshake offers for employees who take early retirement. Another strategy is using in-house service to match downsized workers with internal job openings. This helps maintain growth momentum and avoid violating the time honored and longstanding assumption of employment stability. The relationship between the worker and company would have evolved, but the heart of the contract remains intact (Mowen, 1993).

2.6.3 Realistic Job Preview

Organizations should forge full disclosure deals with potential employees. In HCM, organizations search for fit between the individual and the organization, the human capital availability and strategic requirements and also between an individual and organization's ROI. Realistic job previews define and communicate appropriate deals that will be existent between the workers and the organization. The recruitment process infers to the prospective employees what the organization expects from them and also what ROI they should expect from the organization. This preview gives a candidate a clear idea of the organizational culture, how management treats them, what experiences to expect at work whether positive or negative among others. Sweeney and McFarlin (1993) say that the selection process should form part of that relationship between the candidates and the organization. An organization can do this through the interview sessions or even have a written statement of the deal to job candidates. The organization could mention both the positive and negative aspects of a job. The positive may include training and development opportunities, access to senior management, flexible health benefits, among others. Negative aspects may include long hours during busy season, frequent travel and repetitive tasks among others. Realistic job previews support the spirit of openness, honesty, and candidness to help recruits develop accurate and more realistic job expectations and to gauge their fit in the organization. Honesty may give other candidates cold feet and they will self-select out of the process. This will help increase worker satisfaction and reduce turnover. It will also reduce the costs associated with lower performance because employees do not fit and costs of replacing the employees (Rodgers, 1990).

2.7 Rewarding Human Capital Investors

Differentiation in rewards is core in HCM. Not all employees are equal and not all jobs are equal, therefore rewarding an employee who for whatever reason does not add value in an organization is a waste (Davenport and Prusak, 1998). The focus in HCM is on equity, not equality. Equity means that those who give more will get more; equality means that all employees will be treated equally. The current economic environment is shifting the norm from one of equality to equity. The deal depends on a particular individual's role and their performance in the organization. For this differentiation to occur, management should firstly recognize and accept that some positions and some employees in the organization have more important influence in the execution of strategy than others (Nulty, 1995).

There is no rule of thumb for this because firms vary in strategies and they do not include scientific methods of job evaluation that rationalize the value of jobs in one organization in comparison with the value of jobs in another organization. There is no market equivalent for the strategic value of a job because of the unique ways in which different jobs contribute to a firm's strategic success. Designing and implementing a differentiated workforce strategy requires that an organization concentrate on the human capital that uniquely contribute to firm's strategy. Job evaluations develop an internally consistent set of job values across the job market in a particular industry. The job evaluations are independent of a particular firm's strategy and thus a particular position may have a lower value in the job market but internally, according to organizations strengths, the position will be most important in driving their strategy. In human capital terms, it is these internal, organization specific differences that should be looked into when rewarding employees, and not the job market indicators (Huselid et al, 2005).

2.7.1 Differentiation by Position

Many organizations use homogeneous reward systems that attempt to influence workers behaviors in a similar way. HCM emphasizes that those positions that are of a higher strategic value to the organization should be highly rewarded than any other. By rewarding all jobs more or less equally, the organization under motivates employees in high return 'A' positions. 'A' positions are those jobs that are more strategic and more direct because of their influence on organizations competitive advantage unlike the 'C' positions that are less strategic and less direct because of they are less linked to organizations strategy. Decisions on which jobs will take the 'A' positions will depend on how critical the job is to the firm's competitive advantage. 'A' positions will be unique to each organization and therefore they should be identified and rightly rewarded. For example, 'A' positions in a pharmaceutical manufacturing company could be those of biochemists in R&D department responsible for innovations and product development. As a result, this position is critical for the firm's competitive advantage. In a hospital, the 'A' positions will be those of the doctors and nurses who provide valuable service to their patients. In a university setting, 'A' positions could be those of the teaching fraternity who nurture the students. Therefore, 'A' positions in all organizations should be identified and be highly rewarded than 'C' positions. This will motivate the employees in the 'A' positions, increasing their commitment and effort to helping the organizations achieve their strategies. With the achievement of strategy, both parties shall attain their ROI in the long run (Huselid et al, 2005).

2.7.2 Differentiation by Performance

Schuler (1992) says that there's a link between levels of performance and pay however, the point should be that, the pay should have clear business logic on how it drives performance. Therefore, a high performance culture requires that high performers, 'A' employees and low performers, 'C' employees be identified and both levels of performance be managed effectively. The historical development in the HR profession is that they treat employees the same, with similar manner of access to rewards and promotional opportunities (Bossidy et al, 2002). In implementing a differentiated compensation policy, *pay should vary with performance rather than level and tenure.*

When tenure is emphasized, employees who perform better than others will be discouraged, as their efforts are not recognized. Their subsequent turnover is simply considered an administrative cost and management is not held accountable for the loss of the 'A' employees. 'A' employees make disproportionate contribution to the success of an organization's strategy through better performance. So it is entirely appropriate for an organization to identify them, reward them and motivate them. The differentiation will shape and link employee's behavior and performance, and help employees know what is expected and how they are doing so they can improve. If not, the result is that, the high performing employees become under motivated and more likely to leave because they are not compensated commensurate to their contributions, while the less productive workers are overcompensated and less likely to leave. Over time, this leads to a decline in overall workforce performance and a decline in the effectiveness of strategy execution. Eventually, the underperformance increases the need for lay offs of under performing groups that could be avoided if these performance differentials were handled appropriately in the first place (Smart, 1999).

Organizations that develop 'A' players contribute more value to the firm as when they contribute profits. Finding and encouraging 'A' players will help the firm meet their strategic goals over time. These 'A' players should be identified, encouraged, and rewarded. Ultimately, the goal is to have an organization where 'A' employees populate all of the 'A' positions. Equally important is that 'C' employees be removed from 'A' positions because their underperformance can do significant damage to the execution of strategy (Huselid et al, 2005).

2.7.3 Cafeteria System and Compensation

In terms of compensation, HCM also emphasizes that organizations make individual deals with individual workers, each of who brings different kinds of human capital to invest. The deals should allow workers to choose from an array of benefits (ROI) that is offered by an organization. People are different and with varied needs therefore a single standard benefits system could be unsatisfactory (Brinburg and Castell, 1982). An organization may offer benefits like health plans, retirement plans, social security, educational assistance, mortgages, car loans and other employee services among others. These services will be generally offered to all the employees across the board. However, a worker may prefer to trade some of the benefits for a higher proportion of another benefit. For example, a young worker may prefer to have more of the mortgages and car loans at lower interest rates so that he can accumulate some wealth. An older worker may already have a car and a house, so he may prefer to have more financial and informational assistance with the transition to retirement, social security, and educational assistance for his children and opportunities for wealth accumulation. With these varied needs between workers, organizations should create flexibilities to allow for these differences. Organizations should try and understand the choices workers want and their strategic value. However, the costs of delivery of the choices should also be looked into as compared to the value added to the offer selected ROI choices that optimize the human capital (Heneman et al, 1988).

2.8 Developing Human Capital Investors

Competence is a mechanism through which workers understand and control their environments. Competence involves the proper application of skill, knowledge, talent, effort and time in trying to achieve organizational objectives. Competence affects human capital investment in two ways. Firstly, workers with growing competence have more human capital to invest which in turn results to higher returns that is beneficial to both workers and the organization. Secondly, opportunities to continuously improve on the competencies are catalysts of effective human capital investment. When professional skills and experience are improved, it enhances their competence levels and better decision-making, which improves and sustains growth in pursuit of organizational goals. To ensure quality competence development, organizations have historically ventured into learning initiatives so as to improve on the capabilities of their employees. Education builds human capital the way fertilizer grows plants. More education implies more capital to invest and potentially greater ROI's. In a knowledge intensive world, those with more of the right human capital should command higher compensation. Organizations have the opportunity to develop an environment that supports continuous learning and invest in training and professional development programs (EQW survey, 1995).

2.8.1 The Hiring Process

Smart organizations hire people with abundance in competence and openness to learning and then nurture their development. A study done by researchers at the Education Development Center (1998) indicates that organizations can increase the tendency for people to be personally and internally motivated to learn by selecting employees who seem to be internally motivated to learn. This is because people have people have varying inclinations and attitudes towards learning. They found out that high achievers and self-starters were more likely to seek out opportunities to develop and grow within the organization. The researchers confide that, assessment of learning and teaching abilities and behaviors should be a focus in the hiring process. The interview process should describe how the organization fosters learning and growth interventions so as to capitalize on the candidates' competencies. In organizations where learning is an integral part of their culture and values, the workers tend to appreciate the value of learning and they incorporate it into their behaviors.

2.8.2 Training and Returns

Training commands a sizeable portion of organization budgets including trainer's salaries, expenditures, facilities and other overheads. Classic human capital theory states that *firms should pay only for the development of skills and knowledge that directly benefit the organization.* According to Flamholtz and Lacey (1981), the implications of human capital should be that expenditures on training should be investments in the sense that someone will earn a return on them. In the case of general training, the employee will earn the returns; consequently it is an investment for the trainee. Returns from specific training may accrue mainly to the employer; consequently it is an investment of the employer. Any general training provided free to the employees might be viewed as a direct transfer payment to the employee. Such expenditures will provide little or no future benefit to the employer and should not be viewed as an investment that will yield direct returns. Therefore, if training helps the company, pay for it. If it only helps the worker develop their general skills and knowledge, let the worker pay with their own time and money. Organizations should therefore offer training only if it is needed by the workers to help the organizations achieve their objectives and gain competitive advantage, the expected ROI. Resources are scarce, and ultimately, training budgets are tied with constraints. Organizations should only offer training to employees who need the training that will help them in their work and improve their performance in relation to the organizations objectives.

2.8.3 Differentiation and Training

Designing and implementing effective training and development systems are challenging to organizations because it involves costs that are borne in the present but whose benefits accrue in the future. Organizations that do not differentiate their employees end up absorbing costs and fail to recognize the benefits in their training ventures. In HCM training differentiation results into development investments that are targeted at 'A' players and 'B' players with 'A' potential; that is 'A' positions and employees. This therefore implies that the training should be targeted at 'A' employees and 'A' positions that enhance competitive advantage. 'C' players would receive few, if any, development resources. This could be a difficult decision to make, as organizations may want to develop the 'B' and 'C' players into 'A' players. This is wise if the organization has enough resources to cater for all the employees' educational needs. If they have limited resources, the training should be geared to 'A' players and 'B' players who have 'A' potential. In viewing employees as investments, it is more appropriate to consider where the firm might best invest their scarce resources to obtain the greatest returns in terms of strategic success (Lynch and Black, 1996).

Emphasis on this differentiation comes in the wake of the paradox in organizations training ventures in that, the organizations may provide the training budgets, but the training have a bias for the better educated workers, managers and professionals unlike the less educated ones; yet these less educated employees may have a higher strategic value to the organization than those who are highly educated. For example, at a factory shop floor, the persons who make the products may get lesser training opportunities yet they require updated skills and knowledge to produce better products. It is these better products that are core to the organization's competitiveness. But the training may be offered to employees whose positions are less important in the organizations strategy.

HCM classifies employees in 'A' positions as strategic for the organization to meet their objectives, regardless of their educational standards and tenure. 'A' positions may have in them employees of 'C' performance. Therefore, training interventions should be directed at the 'A' positions and 'A' employees (Marshall and Tucker, 1992).

2.8.4 Balance between Formal and Social Learning

Organizations generally show a bias in clear and growing dedication to building human capital through organization-sponsored training. They give more prominence to structured training either on the job or at schools and technical institutes. Yet, through informal learning, individuals learn from their peers. These informal programs include rotational assignments, periodic consultations with senior managers, team working, and mentoring relationships with other employees (Marshall and Tucker, 1992). The trainers could practice ethnography by possibly moving in, cohabiting and observing the trainees so that they can identify knowledge and skills that could help other workers do things even better (Rousseau, 1996).

Employees share a common drive to increase their competence through an autonomous approach while doing their jobs because the workers are able to choose what they need and want to learn. Their learning efforts are focused and relevant on their immediate requirements unlike in the formal training where the relevance of the material is likely to vary among individuals. Workers through their social interactions define how they will gain the knowledge they need and they take initiative to learn. By discovering personal meanings and making individual choices in uncertain situations, people are able to learn how to gain control of the situations (Langer, 1997). Organizations should encourage the use of judgment and knowledge formed through interaction among themselves and their customers. Social interaction between individuals, groups and organizations is fundamental to organizational knowledge creation (Ikujiro Nonaka, 1994). Workers have to be encouraged into these interactions so as to deal with problems realistically. They may make few mistakes, but they will, learn faster than they would by staring at the board. Fostering informal learning requires a lot of teamwork with clear and objective goals and sufficient resources and time. The teams would have diverse perspectives and the climate should be supportive, tolerant, and cooperative and they must have authority to decide outcomes. These offer a better learning environment than any classroom simulation. People form communities of practice where they collaborate, confer and share information. They do this not because the organization-training chart puts them in the same boat, but because they need each other to get the job done (Galagan, 1993).

The social learning theory may explain that individuals know each other at work and thus they have formed a community that spoke the same language and shared common experiences. According to Darrouzet (1995), teams and their collaborative work practices have a lot to do with a group's performance in terms of learning and work. Given this social context, learning intertwines more with work place practice. Learning is social, and is acquired from peer interaction and not merely from instructors. Identifying with peers encourages members to work harder to protect their identities, they cooperate with each other thereby increasing effort that results to better performance. Workers are active participants, human capital owners who need to control their learning processes (Center for Work force development, 1998). However, this does not imply that organizations do away with formal training. Classroom learning has a place in most human capital building strategies, as it is a requirement to pass the explicit knowledge like procedures, rules, and skills, work processes among others. These should however be well coordinated with the informal learning to optimize learning. HCM advocates for a clear balance between formal and informal learning mechanisms. Corporate management can realize huge gains on the money it spends on formal training by improving the relationship between training and informal learning (Stamps, 1998).

2.9 Challenges of Human Capital Management

Of all the factors that create competitive advantage that management can directly influence, or the extent to which a firm can generate a workforce with the culture, mindset, competencies, and strategic behaviors needed to execute strategy is sometimes the most difficult to make a reality. Executing a differentiated strategy for the jobs, workforce, rewards and training and development systems is quite a challenge to management. It requires great wisdom in identifying and separating the strategic value creating elements from the operational to create competitive advantage. Again, most managers would be uncomfortable to initiate a differentiated strategy that is counterculture and tell some employees that their jobs are less strategic than those of others. Most managers want all their employees to feel strategic to increase their motivation (Huselid et al, 2005).

Workers may resist attempts to implement some of the differentiation strategies. For example, as regards pay based on performance, high performers would generally embrace it, while low performers will be opposed to it. This may introduce disturbances, courting endless negotiations and administrative hassles (Pfeffer and Sutton,2000).

In HCM, there is a great need for flexibility in the compensation systems, however, the compensation and benefits plans come under legal, tax, and moral constraints that restrict organizations to attain such flexibilities. Jobs are graded, through policies that state payment grades without considering individual employee differences. Most pay policies use the grading system whereby employees rise through the ranks in tenure, and the longer they work, the higher their pay and position. It may be difficult for organizations to implement pay based on performance and also to negate the use of tenure in promotion of employees. Given such limitations, organizations are thus limited to provide homogeneous compensation and benefits to their employees (Brinburg and Castell, 1982).

CHAPTER III
RESEARCH METHODOLOGY

3.1 Research Design

This study was conducted as a descriptive survey research. A survey research concerns itself with describing practices that prevail, beliefs, views, attitudes or perceptions that are held. Survey research is the method which enables one to gather data from a relatively large number of cases at a particular time. Descriptive survey was used in this study because it explores the variables in their natural settings as they occur and yields a sizeable volume of data that can be classified by the type and frequency, and it allows the use of research instruments like questionnaires. Frequently, survey research aims at generating ideas and explanations (Muganda and Muganda, 1999). A survey method was found convenient in carrying out this study as the aim of the study was to gather extensive opinions from human resource managers and other personnel in the human resources departments of each sugar company. The study aimed at determining the extent to which human capital strategies are implemented in the sugar companies and the constraints that they face in implementing such strategies.

3.2 Population of the Study

The population in this study consisted of all the human resources managers in the seven sugar factories currently operating in Kenya (see Appendix 3) and all the employees in the human resource department in the seven sugar factories currently operating in Kenya.

3.3 Sample and Sampling Procedure

In this study, the sample comprised of all the human resource managers in the seven sugar factories currently operating in Kenya and five employees from each of the seven sugar companies currently operating in Kenya. The seven human resource managers were purposively sampled in this study because their status and the positions they hold in these companies put them in good stead to provide information required in this study. The five employees from each of the seven sugar companies were selected from human resource department using simple random sampling.

3.4 Data Collection

Data was collected using structured questionnaire that was personally administered to the HR managers and other personnel in each sugar company. The questionnaires were divided into three sections. Section I focused on the bio-data about each organization. Section II focused on the human capital practices and section III contained questions about the challenges of human capital management.

3.5 Data Analysis and Presentation

Data was first edited for completeness and consistency. The data was then analyzed using descriptive statistics like frequencies, mean, standard deviation, and percentages. The data was then presented in tabular and narrative form.

CHAPTER IV

DATA ANALYSIS AND FINDINGS

4.1 Introduction

Presented in this section are the findings of the study and the interpretations. The section is divided into three parts. The first part presents the general information about the sugar companies surveyed. The second part presents data on human capital practices in Kenya and the third part presents information on the challenges sugar companies face in implementing the human capital practices. The analysis of the data is presented in both narrative and tabular form.

4.2 Response Rate

The questionnaires were administered to a sample of 42 respondents, which comprised of 35 employees in the Human Resource and Human Resource Managers in the seven sugar companies in Kenya. Five out of the seven Human Resources Managers sampled responded to the questionnaire items while at the same time, 27 out of the 35 responses from the employees in the Human Resources Department were usable.

4.3 Organization Data

The Human Resources Managers were requested to provide information on the sugar companies surveyed. The information is tabulated below.

4.3.1 Ownership of the Sugar Companies

The respondents were asked to state the ownership of the sugar companies they worked for. Presented in the Table 4.1 are the findings on ownership of the sugar companies.

Table 4.1 Ownership of the Sugar Companies

Ownership	Frequency	Percent
Joint ownership between local and foreign investors	3	60.0
Wholly locally owned	2	40.0
Total	5	100.0

From Table 4.1, it is evident that majority of the sugar companies 3 or 60.0% were owned by local and foreign investors, while 2 (40.0%) were wholly locally owned.

4.3.2 Companies' Years of Operation

The Human Resources Managers were requested to furnish information on the year of establishment of the companies. The findings are presented in the table below.

Table 4.2 Year of Establishment of the Companies

Company	Year of establishment	Frequency	Percent
Chemelil	1965	1	20.0
Mumias	1971	1	20.0
Nzoia	1975	1	20.0
SONY	1979	1	20.0
West Kenya	1981	1	20.0

The findings in Table 4.2 indicate that all the sugar companies surveyed have been in operation for at least 25 years.

4.3.3 Respondents Years of Service

Respondents were asked to state how long they have been working in the respective sugar companies. Presented in the table below are the findings.

Table 4.3 Respondents' Years of Service

Title or position in company	Number of years in service						
	I year	2 years	3 years	4 years	7 years	9years	Total
Clerk	3	13					16
Personnel officer		3	2	1			6
Assistant HRM		4	1				5
HRM		1		1	2	1	5
Total	3	21	3	2	2	1	32

The analysis in Table 4.3 reveals that majority of the respondents' (21) had worked for two years, out of which 13 were employed as clerks. Three out of the five Human Resources Managers had experience spanning a period of more than five years.

4.4 Human Capital Practices

The study sought to find out the human capital management practices employed in the sugar companies in Kenya. Presented in the following tables are the responses from the human resources managers and other employees in the human resources departments of the five companies surveyed.

Table 4.4.1 Flexibilities in the Contracts of Employees in Similar Positions

Human Capital Attributes		Extent of use 1	2	3	4	5	Standard Deviation	Mean
Flexibilities in the contracts of employees in similar positions	Different salaries	32 (100.0%)	-	-	-	-	0.00	1.00
	Different job tasks	-	-	9 (28.1%)	16 (50.0%)	7 (21.9%)	0.71	3.94
	Flexible work hours	-	-	18 (56.3%)	10 (31.3%)	4 (12.5%)	7.16	3.56

n=32

Analysis from Table 4.4.1 indicates that all the companies (100%) did not offer different salaries to employees in similar positions. However, they offered different degrees of flexibility in the job tasks and working hours.

Table 4.4.2 Allowing for Changes in the Contracts of Employees

Human Capital Attributes		Extent of use 1	2	3	4	5	Standard Deviation	Mean
Allowing for changes in the contracts of employees during lean times.	Temporary wage freezes	32 (100%)	-	-	-	-	0.00	1.00
	Golden hand shakes	22 (68.8%)	10 (31.3%)	-	-	-	0.471	1.31
	Contract termination	-	-	3 (9.4%)	19 (59.4%)	10 (31.3%)	0.608	4.22

n=32

The analysis in Table 4.4.2 shows that all the companies did not offer temporary wage freezes during lean times. Golden handshakes were also offered to a minimal extent; however, contract terminations were highly practiced.

Table 4.4.3 Revealing Attributes of a Job during the Selection of Employees

Human Capital Attributes		Extent of use 1	2	3	4	5	Standard Deviation	Mean
Revealing attributes of a job during the selection of job candidates	Positive attributes	-	6 (18.8%)	13 (40.6%)	10 (31.3%)	3 (9.4%)	0.896	3.31
	Negative attributes	6 (18.8%)	19 (59.4%)	4 (12.5%)	3 (9.4%)	-	0.833	2.13

n=32

From the analysis in Table 4.4.3, many of the respondents (26) indicated that they revealed positive attributes of the jobs to prospective employees. However, 25 respondents showed that they revealed the negative attributes of a job to prospective employees to a lesser extent.

Table 4.4.4 Compensation Policies and Practices

Human Capital Attributes		Extent of use 1	2	3	4	5	Standard Deviation	Mean
Compensation policies and practices based on the importance the organization attaches to:	Those who perform well	7 (21.9%)	10 (31.3%)	6 (18.8%)	6 (18.8%)	3 (9.4%)	1.289	3.38
	Those who perform poorly	12 (37.5%)	20 (62.5%)	-	-	-	0.492	1.62
	Those in core positions	-	-	-	22 (68.8%)	10 (31.3%)	0.471	4.31
	Those in support positions	-	6 (18.8%)	6 (18.8%)	16 (50.0%)	4 (12.5%)	0.948	3.56

n=32

Findings from table 4.4.4 show that majority of the respondents (23) believe that their organizations do not compensate based on the importance the organizations attach to those who perform well. However, 32 of the respondents believe the organizations compensation policies are attached to the importance of employees in core positions.

Table 4.4.5 Different Human Capital Attributes

	Extent of use						
Human Capital Attributes	**1**	**2**	**3**	**4**	**5**	**Standard Deviation**	**Mean**
Tying benefits to individual preferences	32 (100.0%)	-	-	-	-	0.00	1.00
Hiring policies and practices based on the importance of staff training and development	-	-	3 (9.4%)	16 (50.0%)	13 (40.6%)	0.644	4.31
Training and staff development costs based on employees performance improvement	-	-	-	19 (59.4%)	13 (40.6%)	0.499	4.41

n=32

Analysis from Table 4.4.5 shows that all the respondents (32) indicated that the organizations did not allow for individual employee preferences to the employment benefits. However, they hire employees based on importance they attach to training and development. Also the costs of training and development of staff are based on the importance of improving performance of the employees.

Table 4.4.6 Training and Staff Development Practices

		Extent of use						
Human Capital Attributes		**1**	**2**	**3**	**4**	**5**	**Standard Deviation**	**Mean**
Training and staff development practices based on the importance the organizations attach to:	Those who perform well	-	-	6 (18.8%)	16 (50.0%)	10 (31.3%)	0.707	4.12
	Those who perform poorly	3 (9.4%)	7 (21.9%)	10 (31.3%)	12 (37.5)%	-	0.999	2.97
	Those in core positions	-	-	-	19 (59.4%)	13 (40.6%)	0.499	4.41
	Those in support positions	-	14 (43.8%)	6 (18.8%)	12 (37.5%)	-	0.914	2.94
	Team working	-	-	-	19 (59.4%)	13 (40.6%)	0.499	4.41
	Job rotations	-	6 (18.8%)	12 (37.5%)	10 (31.3%)	4 (12.5%)	0.942	3.38
	Mentoring	-	11 (34.4%)	3 (9.4%)	12 (37.5%)	6 (18.8%)	1.160	3.41

n=32

Table 4.4.6 indicates that majority of the companies base their training and development initiatives on the importance the organizations attach to the employees who perform well and the employees in core positions. They also emphasize team work between the employees.

From the analysis in the tables above, practices that had the highest mean scores of above 4.00 are presented in Table 4.5. (The highest possible mean is 5).

Table 4.5 Human Capital Practices with Highest Mean Scores

Human Capital Practices	Mean
Contract terminations during lean times	4.22
Higher compensation for employees in core positions	4.31
Hiring policies based on the importance attached to staff training and development	4.31
Training and development costs based on the importance attached to performance improvement	4.41
Training and development opportunities for employees who perform well	4.12
Training and development opportunities for employees in core positions	4.41
Training and development through team work	4.41

The above human capital practices are widely practiced in the sugar companies. With the highest possible mean being 5, they scored more than 4.00.

The human capital practices that are less practiced in the companies are listed in Table 4.6.

Table 4.6 Human Capital Practices with Lowest Mean Scores

Human Capital Practices	Mean
Different salaries for employees in similar positions	1.00
Temporary wage freezes during lean times	1.00
Golden handshakes during lean times	1.31
In-house job matching for retrenched employees	1.78
Tying benefits to individual preferences	1.00

The human capital practices in Table 4.6 are less practiced among the sugar companies in Kenya. They had means of less than 2, with the highest possible mean being 5.

Respondents were asked to rate the extent of their human capital practices using a scale stated as under. Each scale was valued as under.

Not at all	(1)
To a negligible extent	(2)
To a moderate extent	(3)
To a great extent	(4)
To a very great extent	(5)

Scales 1 and 2 (Not at All and To a Negligible Extent) were put together in the analysis to be for companies that do not practice human capital management.

Scale 3 (To a Moderate Extent) was assigned to companies that moderately practiced human capital management.

Scales 4 and 5 (To a Great Extent and To a Very Great Extent) were put together for companies that practice human capital management.

The total number of questions on human capital management = 23.

The views of the respondents on human capital management practices, in the analysis were ascertained by determining the maximum and minimum values of the items based on the scales above.

Minimum = 1 * 23 = 23

Moderate = 3 * 23 = 69

Maximum = 5 * 23 = 115

23 - < 69	Do Not practice human capital management
69	Neutral
>69 - 115	Practice human capital management

The items were then assigned the above values to determine those who do not practice human capital management, those who were neutral and those that practice human capital management. The analysis is listed in Table 4.7.

Table 4.7 Views of Respondents on Human Capital Practices

Category	Frequency	Percent
Do not practice human capital management	15	46.9
Moderately practice human capital management	4	12.5
Practice human capital management	13	40.6

n = 32

From Table 4.7, it is evident that majority of the respondents 15 or 46.9% indicated that the organizations do not practice human capital management, 13 (40.6%) practice human capital management, while 4 (12.5%) are impartial. However, out of the 5 human resource managers who responded to the questionnaire items, three of them (60%) indicated that the organizations practiced human capital management, two (40%) were found not to be practicing human capital management and, none was found to be impartial.

4.5 Challenges of Implementing Human Capital Practices

The study also sought to identify the challenges sugar companies in Kenya face in implementing human capital management practices. The analysis is summarized in Table 4.8 below.

Table 4.8 Challenges of Implementing Human Capital Practices

Challenges		Extent of Challenges 1	2	3	4	5	Standard Deviation	Mean
Difficulty to allow for flexibilities in the contracts of employees in similar positions	Different salaries	-	-	-	16 (50.0%)	16 (50.0%)	0.508	4.50
	Different job tasks	4 (12.5%)	22 (68.8%)	6 (18.8%)	-	-	0.564	2.06
	Flexible work hours	-	20 (62.5%)	12 (37.5%)	-	-	0.492	2.38
	Increasing pay	-	4 (12.5%)	7 (21.9%)	9 (28.1%)	12 (37.5%)	1.058	3.91
Difficulty to use performance as a basis for implementing company policies	Offering training opportunities	-	13 (40.6%)	19 (59.4%)	-	-	0.499	2.59
	Promoting employees	-	4 (12.5%)	10 (31.3%)	6 (18.8%)	12 (37.5%)	1.091	3.81
Difficulty to allow employees to choose benefits according to their individual preferences.		-	-	-	16 (50.0%)	16 (50.0%)	0.508	4.50
Extent to which employees in the organization accept pay based on performance		3 (9.4%)	25 (78.1%)	4 (12.5%)	-	-	0.474	2.03

n = 32

From the analysis in Table 4.8, many of the respondents (32) indicated that the sugar companies had great difficulties in affording employees in similar positions different salaries and also allowing employees to choose benefits according to their individual preferences.

Challenges of implementing human capital practices with the highest mean are listed in Table 4.9 (The highest possible mean is 5).

Table 4.9 Challenges with the Highest Mean

Challenges of Human Capital Management	Mean
Having different salaries for employees in similar positions	4.50
Tying benefits to individual preferences	4.50

The analysis in Table 4.9 above indicates that offering different salaries to employees in similar positions and tying benefits to individual preferences were difficult for the sugar companies to implement.

Respondents were asked to rate the challenges they face in implementing human capital practices using a scale stated as under.

Not at all	(1)
To a negligible extent	(2)
To a moderate extent	(3)
To a great extent	(4)
To a very great extent	(5)

Scales 1 and 2 (Not at All and To a Negligible Extent) were put together in the analysis to be for companies that had no difficulty implementing the human capital management practices.

Scale 3 (To a Moderate Extent) was assigned to companies that moderately had difficulties implementing human capital management practices.

Scales 4 and 5 (To a Great Extent and To a Very Great Extent) were put together for companies that had difficulties implementing human capital management practices.

The total number of questions on the challenges of implementing human capital management practices = 8

Minimum = 1 * 8 = 8

Moderate = 3 * 8 = 24

Maximum = 5 * 8 = 40

8 - < 24	Not challenging
24	Moderately challenging
> 24 – 40	Challenging

The views of the respondents on the challenges they face in implementing human capital management practices were ascertained by determining the maximum and minimum values of the items. The minimum value was 8 while the maximum was 40. The items were then assigned the values to determine the human capital management practices that were challenging to the employees, those who were moderate and those human capital management practices that were not challenging to the employees. Presented in Table 5.1 are the findings.

Table 5.1 Views of Respondents on the Challenges of Human Capital Management

Category	Frequency	Percent
Not challenging	5	15.6
Neutral	6	18.8
Challenging	21	65.6

n = 32

The findings in Table 5.1 indicate that majority of the respondents 21 or 65.6% were in agreement that the human capital practices were difficult to implement whereas 5 (15.6%) of the respondents stated that the human capital practices were not difficult to implement. At the same time, 6 (18.8%) of the respondents were impartial with regards to the implementation of human capital practices.

CHAPTER V

DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Discussion

This section summarizes the results of the study, conclusions and recommendations based on the research findings of chapter IV. The objectives of the study were to find the extent to which the sugar companies practice human capital management and the challenges they encounter in practicing human capital management. The study revealed that there was less practice of human capital management in the companies. Respondents were to gauge the extent of their practices using the rating scale:

Not at all	(1)
To a negligible extent	(2)
To a moderate extent	(3)
To a great extent	(4)
To a very great extent	(5)

The study reveals that 40.6% of the companies practice human capital management and 46.9% do not practice human capital management. Human capital management practices are highly practiced in the companies including contract terminations during lean periods. Most of the sugar companies resorted to terminating their employees' contracts during lean times so as to contain costs related to human resources in the organizations and to remain competitive. In the recent past, many parastatals in Kenya, including the sugar companies have had ongoing retrenchment of employees who were no longer adding value to the organizations. Many managers revealed that most of the sugar companies were initially established as social projects to benefit the citizens of the areas where they were established. The companies largely depended on the government to sustain their expenditures. But given the economic changes from liberalization of markets, there emerged strong competition from COMESA markets and internationally. Many sugar companies could not remain as social projects and thus resorted to retrenchment of employees so as to remain competitive.

Majority of the respondents, 32 or 100% indicated that the sugar companies emphasized on hiring employees who are open to learning and teaching so that they can nurture their development. Given major changes in technology and even management practices, the employees undergo training programmes to align their knowledge and skills with modern practices.

Thirty-two or 100% of the respondents indicated that the sugar companies highly focused their training based on performance improvement. Training exercises command large portions of organizations budgets in terms of trainers' salaries, expenditures, and facilities among others. Therefore, then sugar companies pay for development of skills and knowledge that help the organizations achieve their objectives. The training and development initiatives in most of the sugar companies also focus on the employees in core positions and on then employees who perform well. Given the high costs of training and development budgets, organizations invest on employees who obtain the greatest returns to the organizations. These are consistent with the literature review which observes that human capital practices enable organizations to manage their employees better by looking at the value that each individual employee adds into the organization so as to achieve a competitive advantage in the volatile market economy (Davenport, 1998). Having training and development opportunities for employees that perform well and those in core positions adds value to the organizations and motivates the employees in those positions to work towards achieving their objectives. The sugar companies practice a lot of team working to enable the employees forge social interactions that help them to learn.

However, the practices that rated low included having different salaries for employees in similar positions, temporary wage freezes, golden handshakes and in-house job matching for retrenched employees and also offering individual preferences in the benefit systems to the employees. Majority of the companies faced greater challenges implementing the human capital practices (65.6%). Majority of the respondents 32 or 100% indicated that it was difficult for the organizations to have different salaries for employees in similar positions and also to offer individual preferences to the benefits offered. Human capital theory recognizes that employees are different in terms of their personalities, interests and needs among others (Gallaga, 1996). Given these subtle differences, employees expect different salaries and benefits based on their individual needs. Most of the respondents (23) indicated that the sugar companies did not implement pay based on performance. All these difficulties are due to the fact that most of the employees in the sugar companies are unionisable and therefore their salaries and benefits are based on their job grades and positions in the organizations, not performance. It is also difficult therefore to offer flexibilities in the salaries and benefits based on employee preference. However, sugar companies are currently putting in place strategies aimed at paying their employees based on their performance as from July 1st, 2005 given the government directive to do so. However, these aspects are still in their initial stages because a lot is needed in terms of policy guidelines, restructuring and financial support to attain maximum results.

From the analysis, 32 or 100% of the respondents indicated that there is no flexibility in the contracts of the employees such that, even during lean times, the employees' salaries cannot be temporarily frozen or reduced. This thus increases employees' costs heavily compromising on their competitive advantage. This is also attributed to the fact that employees are unionized, they have job grades that allocate salaries that are not pegged on environmental effects on company earnings.

Based on the findings however, most of the companies (46.9%) did not practice human capital management. Sugar companies have not fully responded to the volatile environmental changes that compromise their competitive advantage. For sugar companies to compete effectively, they should embrace human capital management as a tool to enable them manage their employees effectively for greater competitive advantage over their global competitors.

5.2 Conclusion

Human capital management can be an effective tool in helping the sugar companies increase their competitive advantage. From the analysis, only 40.6% of the sugar companies practice human capital management, 12.5% are moderate in their practices. Majority of the companies have made better strides in basing their training and development opportunities on the employees who perform well and those employees who are in core positions. The training and development practices are also based on improving the performance of the employees. This is fundamental in enabling the companies manage their employees better by looking at the value that each individual employee adds into the organization so as to achieve a competitive advantage. Having training and development opportunities for employees that perform well and those in core positions adds value to the organizations and motivates the employees in those positions to work towards achieving the organizations objectives.

However, the study indicated that 46.9% of the companies did not practice human capital management. Attributes like having different salaries for employees in similar positions, temporary wage freezes, golden handshakes and in-house job matching for retrenched employees and also offering individual preferences in the benefit systems to the employees scored poorly in the study. This implies that the sugar companies do not have initiatives that strengthen the performance capacity of their employees most efficiently. In an increasingly competitive world, organizations strive to obtain and keep the best employees who have the best employment returns, and are committed and engaged in their jobs. Without balancing the interests of the employees by offering them individual options on salaries and benefits and golden handshakes among others, the companies compromise the performance standards of their employees and also their competitive advantage.

5.3 Recommendations

In order for the sugar companies to increase their employee motivation and satisfaction that will ultimately result into loyalty at work, the companies should try and implement all other attributes of human capital management like affording the employees the flexibility of selecting the benefits that they would prefer to have and even having different salaries for employees in similar positions. This is because human capital management recognizes that employees are different and they have different needs and therefore they would prefer to have different benefits and make trade offs with their salaries so as to satisfy their own individual needs. Since the sugar companies are operating in a turbulent business environment, given competition from COMESA countries and internationally, they should be able to provide security in the employees' contracts in terms of having temporary wage freezes and golden handshakes when times are lean. This will enable them to stay afloat financially for continuity of their businesses. Those that are unfortunate and face retrenchment should be matched for other in-house jobs that they may fit. This will enable the sugar companies to cater for the individual needs of the employees thus creating satisfaction and loyalty among the employees. The employees will then work towards the achievement of their organizations objectives and reduce costs associated with the employees while at the same time maintaining their competitive advantage.

There was a variance between the views of the employees and managers in terms of practicing human capital management. Whereas the general findings indicated that there was less practice of human capital management among the sugar companies (40.6%), three out of the five managers (60%) felt that they practiced human capital management. This could imply that maybe the employees are generally ignorant of the human capital practices in the organizations. Managers should therefore educate the employees on the human capital practices and the benefits that accrue to both the employees and the companies in practicing human capital management.

5.4 Suggestions for Future research

1) There is need to replicate this study to other sectors to find out whether they practice human capital management.
2) There is need to do longitudinal studies on the human capital practices in the sugar sector to establish whether human capital practices change with time.

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APPENDIX I

P.O. BOX 10266 GPO 00100
NAIROBI
TEL: 0720 289 625

TO WHOM IT MAY CONCERN
HUMAN RESOURCES DEPARTMENT

Dear Sir/Madam,

RE: <u>STUDY OF KENYA'S SUGAR INDUSTRY</u>

I am a postgraduate student pursuing a Master of Business Administration (MBA) degree course at the University of Nairobi.

In partial fulfillment of the requirements of the course, I am carrying out a research project on Human Capital Practices in Kenya's Sugar Companies. Your firm has been selected to participate in this study. I would like to request you to provide the required information to the best of your knowledge by filling in the questionnaire attached.

This exercise is strictly for academic purposes and any information obtained will be treated with confidence. A copy of the final research report will be availed to you upon request.

Thank you in advance.

Yours faithfully,

Nafula Pamela
MBA student

Prof. P. K'Obonyo
Lecturer and Supervisor
Department of Business Administration

APPENDIX II

SURVEY QUESTIONNAIRE

This survey research is undertaken in partial fulfillment of the requirements for the University of Nairobi, Master of Business Administration. SECTION I requires you to fill in information about your organization. It will be used for classifying the results of the study. SECTION II and III are meant to highlight the various aspects of Human capital strategies as they are applied in your organization and their challenges.

SECTION I:

PART I: RESPONDENTS PROFILE

1) Your title or position in the company ______________________

2) How long have you been with this firm? ______________________

PART II: ORGANIZATION DATA

1) Name of Company ______________________

2) Year of establishment ______________________

3) Ownership of the company

☐ Wholly locally owned

☐ Wholly foreign owned

☐ Joint ownership between local and foreign investors

4) Total number of employees ______________________

SECTION II: HUMAN CAPITAL PRACTICES

5) To what extent does your organization allow for the following flexibilities in the contracts of employees in similar positions?

Key:	Not at all	(1)
	To a negligible extent	(2)
	To a moderate extent	(3)
	To a great extent	(4)
	To a very great extent	(5)

	(1)	(2)	(3)	(4)	(5)
Different salaries	[ ]	[ ]	[ ]	[ ]	[ ]
Different job tasks	[ ]	[ ]	[ ]	[ ]	[ ]
Flexible work hours	[ ]	[ ]	[ ]	[ ]	[ ]

6) To what extent do the employment contracts of your employees allow for the following changes based on changes in the environment?

Key:	Not at all	(1)
	To a negligible extent	(2)
	To a moderate extent	(3)
	To a great extent	(4)
	To a very great extent	(5)

	(1)	(2)	(3)	(4)	(5)
Temporary wage freezes	[ ]	[ ]	[ ]	[ ]	[ ]
Golden hand shakes	[ ]	[ ]	[ ]	[ ]	[ ]
Contract termination	[ ]	[ ]	[ ]	[ ]	[ ]
In-house job matching for retrenched employees	[ ]	[ ]	[ ]	[ ]	[ ]

7) To what extent does your organization reveal the following attributes of a job during the selection of job candidates?

Key:		
	Not at all	(1)
	To a negligible extent	(2)
	To a moderate extent	(3)
	To a great extent	(4)
	To a very great extent	(5)

	(1)	(2)	(3)	(4)	(5)
Positive attributes	[ ]	[ ]	[ ]	[ ]	[ ]
Negative attributes	[ ]	[ ]	[ ]	[ ]	[ ]

8) To what extent are your compensation policies and practices based on the importance your organization attaches to the items listed on the scales below?

Key:	Not at all	(1)
	To a negligible extent	(2)
	To a moderate extent	(3)
	To a great extent	(4)
	To a very great extent	(5)

	(1)	(2)	(3)	(4)	(5)
Those who perform well	[ ]	[ ]	[ ]	[ ]	[ ]
Those who perform poorly	[ ]	[ ]	[ ]	[ ]	[ ]
Those in core positions	[ ]	[ ]	[ ]	[ ]	[ ]
Those in support positions	[ ]	[ ]	[ ]	[ ]	[ ]

Kindly rank to what extent you agree with the following statements:

Key:	Not at all	(1)
	To a negligible extent	(2)
	To a moderate extent	(3)
	To a great extent	(4)
	To a very great extent	(5)

	[1]	[2]	[3]	[4]	[5]
9) Do the employees benefit schemes allow for individual preferences?	[ ]	[ ]	[ ]	[ ]	[ ]
10) Are your hiring policies and practices based on the importance your organization attaches to staff training and development?	[ ]	[ ]	[ ]	[ ]	[ ]
11) Are your training and staff development costs based on the importance your organization attaches to employees' performance improvement?	[ ]	[ ]	[ ]	[ ]	[ ]

12) To what extent are your training and staff development practices based on the importance your organization attaches to issues listed on the scales below?

Key: Not at all (1)

To a negligible extent (2)

To a moderate extent (3)

To a great extent (4)

To a very great extent (5)

	(1)	(2)	(3)	(4)	(5)
Those who perform well	[ ]	[ ]	[ ]	[ ]	[ ]
Those who perform poorly	[ ]	[ ]	[ ]	[ ]	[ ]

	(1)	(2)	(3)	(4)	(5)
Those in core positions	[ ]	[ ]	[ ]	[ ]	[ ]
Those in support positions	[ ]	[ ]	[ ]	[ ]	[ ]
Team working	[ ]	[ ]	[ ]	[ ]	[ ]
Job rotations	[ ]	[ ]	[ ]	[ ]	[ ]
Mentoring	[ ]	[ ]	[ ]	[ ]	[ ]

SECTION III: CHALLENGES OF HUMAN CAPITAL MANAGEMENT

13) To what extent is it difficult to allow for the following flexibilities in the contracts of employees in similar positions?

Key: Not at all (1)

To a negligible extent (2)

To a moderate extent (3)

To a great extent (4)

To a very great extent (5)

	(1)	(2)	(3)	(4)	(5)
Different salaries	[ ]	[ ]	[ ]	[ ]	[ ]
Different job tasks	[ ]	[ ]	[ ]	[ ]	[ ]
Flexible work hours	[ ]	[ ]	[ ]	[ ]	[ ]

14) To what extent is it difficult to use performance as a basis for implementing the following company policies?

Key:

Key:	Not at all	(1)
	To a negligible extent	(2)
	To a moderate extent	(3)
	To a great extent	(4)
	To a very great extent	(5)

	(1)	(2)	(3)	(4)	(5)
Increasing pay	[ ]	[ ]	[ ]	[ ]	[ ]
Offering training opportunities	[ ]	[ ]	[ ]	[ ]	[ ]
Promoting employees	[ ]	[ ]	[ ]	[ ]	[ ]

15) To what extent is it difficult to offer individual preference to the employee benefits offered by the organization?

[1]	[2]	[3]	[4]	[5]
Not at all	To a negligible extent	To a moderate extent	To a great extent	To a very great extent

16) To what extent do the employees in your organization accept pay based on performance?

[1]	[2]	[3]	[4]	[5]
Not at all	To a negligible extent	To a moderate extent	To a great extent	To a very great extent

APPENDIX 3

LIST OF SUGAR COMPANIES

Mumias

Nzoia

Chemelil

Muhoroni

South Nyanza

West Kenya

Miwani

Source: Kenya Sugar Authority Year Book (2005).