

The Effect of Strategic Human Resource Management Practices on Performance of Manufacturing Multinational Companies in Kenya: A Moderating Role of Employee Cultural Orientations

Beatrice Dimba, Strathmore University, Kenya
bdimba@strathmore.edu

Peter K'Obonyo, University of Nairobi, Kenya

This study linked strategic human resource (SHRM) practices, cultural orientations, employee motivation and firm performance in foreign manufacturing multinational companies (MNCs) in Kenya. The objectives were: to establish the relationship between SHRM practices and firm performance; to determine the extent to which the relationship between SHRM practices and employee motivation depends on employee cultural orientations; to establish if the relationship between SHRM practices and firm performance is mediated by motivation; to gauge the relationship between motivation and firm performance. The respondents were HR managers, financial managers and production managers, and non-management employees working in 50 foreign MNCs. Data was collected using questionnaires developed by Hofstede and Huselid and modified by the researcher. Hofstede's instrument contains measures of employees' cultural orientations, whereas Huselid's instrument contains measures for SHRM practices, motivation and performance. The findings of the study indicate that: all the variables of SHRM practices, except recruitment and hiring were positively and significantly correlated with performance; relationship between SHRM practices and firm motivation did not depend on employee cultural orientations in the case where cultural beliefs were considered, but depended on employee cultural orientations when cultural values were considered; motivation mediated relationship between SHRM practices and firm performance; and motivation affected firm performance.

INTRODUCTION

Some studies have shown direct linkage between SHRM practices and firm performance (Edwards and Wright, 2001). Other studies (Katou and Budhwar, 2006) argue that SHRM practices do not lead directly to business performance but influence employee motivation and it is these employee outcomes which ultimately influence performance. Hence, the focus has mainly been limited to the linkage between HR practices and organizational performance. In this regard, the universalistic perspective posits the “best practice bundle” of HR practices. Gerhart (2005, p. 178) make an appropriate comment in this regard: “This is a concern because it seems unlikely that one set of SHRM practices will work equally well no matter what context”. Consequently, there is need for additional robust and quantitative evidence to support the SHRM-performance link and investigations from different contexts (Aycan et al 2007).

LITERATURE REVIEW

Although most studies speak of SHRM practices leading to performance, such a one-way line of causation is unsatisfactory (Edwards and Wright, 2001). The usual key criticism of SHRM practices and organizational performance is that sound theoretical development that explains how such SHRM practices operate is absent (Becker and Gerhart, 1996). In an effort to address such theoretical developments in the area, scholars have proposed to consider intermediate linkages between SHRM practices and organizational performance (Ferris et al, 1998). Thus the general consensus developed is that SHRM practices do not lead directly to organizational performance. Rather they influence firm resources, such as the human capital, or employee behaviors, and it is these resources and behaviors that ultimately lead to performance; even although only a few researchers (Katou and Budhwar, 2006) have measured these mediators and addressed their importance. Since the SHRM practices are not standardized and they only differ according to the aims and objectives of each individual research, Katou and Budhwar (2006) suggest use of “mediating model” which adopts two systems of SHRM practices that are usually present

in almost all works, namely, resourcing/development, aiming at attracting and developing human resources; and rewards/relations, aiming at retaining and motivating human resources. Similarly, Gerhart (2005) suggests application of motivation as a mechanism by which SHRM practices impact organization performance. Motivation is affected by a variety of SHRM practices, including recruitment, training and development, work arrangements, compensation systems, and appraisal systems.

However, considering that the literature highlights that most studies examining the relationship between SHRM practices and organization's performance have been conducted mostly in a few developed countries (US and UK), and that only a few researchers have measured the mediators and addressed their importance, the question still left unanswered is the influence of SHRM practices on human capital or specifically, motivation and, consequently organizational performance in other contexts (Katou and Budhwar, 2006). To fill this gap and to further examine the existence of such a relationship, it is important to conduct research in non-US/UK contexts. This study investigates the association between SHRM practices and organization performance and also the mediating role of employee motivation in the Kenyan context.

As developing countries are adopting technologies, and expertise similar to that of developed countries (Mamman and Adeoye, 2007), MNCs can transfer home-country SHRM practices to some developing host-countries without changing the practices. However: "cultural diversity in societies around the globe tends to retard convergence" (Horwitz et al (2006). For instance, Aycan et al (2000) established that managerial beliefs and values affect the managers' attitudes towards SHRM practices. Similarly, employees' perception of SHRM practices is important because employees' attitudes influence their behavior or their motivation (Chian and Birtch, 2007). Employees' attitudes are attributed to their cultural orientations. Nevertheless, the majority of work in SHRM adopts the resource-based view perspective (Paauwe and Boselie, 2002), which emphasizes the gaining of competitive advantage by means of utilization of the resources of the organization through the employees. However, HRM studies based on RBV theory tend to ignore contextual variables, particularly employee cultural orientations (Fields et al, 2000), which influence employees' reaction towards HRM practices strategies (Earley, 1994). Central to this study is an attempt to determine if cultural orientations moderate the relationship between SHRM practices and motivation of workers in MNCs operating in Kenya.

The purpose of this study was to investigate the relationship between SHRM practices, cultural orientations, employee motivation and firm performance in MNCs in Kenya.

Objective 1

To establish the relationship between strategic human resource management practices and firm performance on MNCs in Kenya.

Hypothesis

There is no relationship between SHRM practices and firm performance.

A relationship exists between SHRM practices and firm performance.

Objective 2

To determine the extent to which employee cultural orientations moderate the relationship between SHRM practices and employee motivation.

Hypothesis

Cultural orientations do not moderate the influence of SHRM practices on employee motivation.

Cultural orientations moderate influence of SHRM practices on employee motivation.

Objective 3a

To establish if motivation mediates the relationship between SHRM practices and firm performance.

Hypothesis

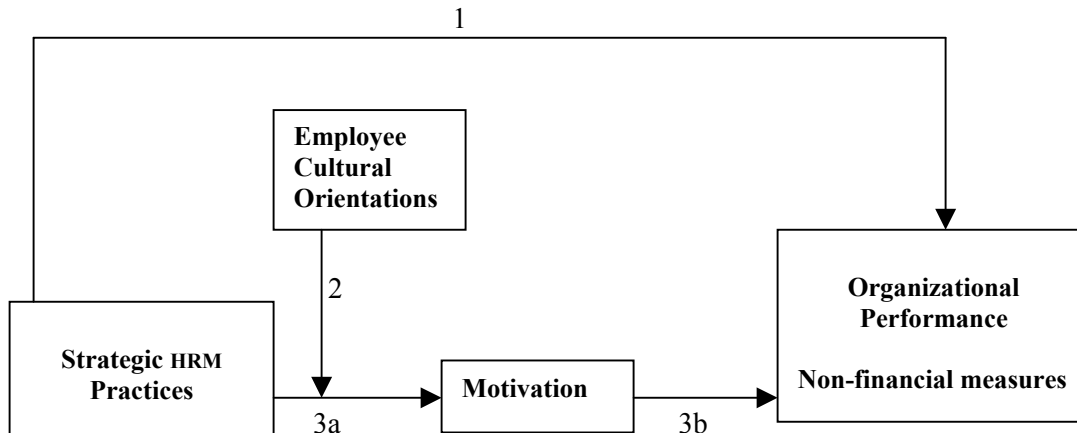
Employee motivation does not mediate the relationship between SHRM practices on performance.
Employee motivation mediates the effect of SHRM practices on performance.

Objective 3b

To gauge the influence of employee motivation on firm performance in MNCs in Kenya.

Hypothesis

Motivation has no effect on performance
Motivation has effect on performance



Conceptual Model of the relationships among SHRM Practices, Employee Cultural Orientations, Motivation and Firm Performance

METHODOLOGY

The target population was all foreign large multinational manufacturing companies in Kenya who were members of Kenya Association of Manufacturers. There were 50 such companies, and all the 50 companies were included in the study. One HR manager, 2 line managers and 3 employees from each organization were chosen for survey. This study used the questionnaire developed by both Hofstede (1980), and Huselid (1995) to collect data. Hofstede's instrument contains measures of employees' cultural values and cultural beliefs, whereas Huselid's instrument contains measures for SHRM practices, motivation and performance. Hofstede's instrument had been used in West Africa, East Africa, and Arab speaking countries. Huselid's instrument had also been used in the US in nearly 1000 firms. Hence validity and reliability of the two instruments had been established.

The questionnaire was divided into five sections: Parts A and B asked questions related to demographic characteristics. Part C, using a scale of 1-5 asked the respondents to give their opinion of the extent to which they agreed or disagreed with the statements regarding SHRM practices. Bae et al (1998) found reliability coefficients of 0.70 using similar scales, while Delaney and Huselid (1996) reported coefficients of between 0.70 and 0.91. Part D asked questions relating motivation to job and the organization. Delaney and Huselid (1996) found positive relationships between the variables of interest. In part E the respondent was asked to give information about organizational performance in the areas of product quality, image, and interpersonal relations. Previous scales used by Huselid (1996) had shown reliability coefficients of between 0.75 and 0.88. For parts C and D the instrument was pilot tested and the Cronbach's Alpha Coefficient confirmed the reliability of the measured variables with a coefficient of 0.7.

The Model depicts the relationships among the four variables of the study. The relationship between SHRM practices, cultural orientations, employee motivation and firm performance is a complex process and little is known about how these variables are linked. This study advanced a conceptual model linking

these variables by introducing employee cultural orientations to moderate the relationship between SHRM practices and motivation. Research Kanungo and Jaeger (1994) shows that the socio-cultural environment affects employees' beliefs and attitudes, and hence behavior towards SHRM practices. From the literature, it is apparent that the relationships between the four variables have not been examined (from the Kenyan context). That is, their combined effect on firm performance has not been examined before on MNCs operating in Kenya.

The framework suggests an interrelationship among four groups of variables: SHRM practices, organizational performance, employee cultural orientations, and employee motivation. There is a direct link between SHRM practices and performance as illustrated in (1). Most studies hypothesize a direct link between SHRM practices and performance. It is indicated in (2) that employee cultural orientations moderate relationship between SHRM practices and motivation. Studies by Mendonca and Kanungo (1994) assert that the socio-cultural environment affects employees' beliefs and attitudes, and hence behavior towards SHRM practices. There is a link mediated by motivation as shown in (3a). Wright et al (1994) and Delery (1998) argue that SHRM practices do not lead directly to business performance, but influence processes, such as employee motivation, and it is these processes that ultimately lead to performance (3b). The use of this model allows for incorporation of more recent ideas concerning SHRM practices, other related variables and work performance. The model also reflects complexities of interrelationships and how employee cultural orientations are linked to SHRM practices, employee motivation and firm performance.

Demographic characteristics of the sample

The questionnaire was administered to forty companies in Nairobi; three in Mombasa, five in Kiambu, one in Eldoret, and one in Athi River. Three hundred questionnaires were distributed. Of these, 161 questionnaires were successfully completed and returned by respondents from 27 organizations, giving a response rate of 54%, which was considered sufficient for the study. Analysis of the profiles was length of employment, gender, level of education, age of employees, age of the organizations, size of organization, ownership, and target market.

RESULTS

All the variables, except recruitment and hiring, are positively and significantly correlated to performance. Training and development and compensation systems alone explain up to 20% of variance in firm performance ($R^2 = 0.2$). Hence, null hypothesis is ejected and alternative hypothesis is accepted.

To test for the moderating effects of employee cultural orientations (measured by power distance) on the relationship between strategic HRM practices and motivation, the coefficient of determination (R^2) obtained when cultural orientations were in the regression equation and when they were not were compared. The differences are shown on (Table 1). The Table reveals that R^2 decreased by 10% from 40% to 30% but remained the same at 40%, respectively, when cultural values and cultural beliefs were introduced into the regression equation. Therefore, null hypothesis is rejected partially for the cultural values dimension but not for the cultural beliefs and the alternative hypothesis is accepted for the cultural values but not for the cultural beliefs attribute.

Table 1: Regression results for the factors influencing relationship between SHRM practices and motivation at work

Variable	R² before	R² after	Change in R²
Cultural values:			
Power Distance	0.4	0.3	- 0.1
Cultural beliefs:			

Collectivism/Individualism Uncertainty Avoidance	0.4	0.4	0
Masculinity/Femininity			

These two variables alone explain up to 20% of variance in firm performance ($R^2 = 0.2$). Motivation alone accounts for 10% ($R^2 = 0.1$) of variation in performance. Consequently, motivation and SHRM practices account for 0.30 or 30% of firm performance. Therefore the null hypothesis is rejected and the alternative hypothesis is accepted.

Table 2: Results of the regression analysis of the effect of SHRM practices, motivation, cultural values and cultural beliefs on organizational performance

Variable	Beta	t value	α value
SHRM practices:			
Training and Development	0.3	4.0	<0.01
Compensation Systems	0.2	2.3	<0.01
$R^2 = 0.2$			
Motivation	0.3	3.3	<0.01
$R^2 = 0.1$			

In Table 3, the values of beta coefficient and R^2 for motivation are 0.3 and 0.1, respectively. Beta coefficient is significant at $t = 3.3$, $\alpha < 0.01$. Therefore, null hypothesis is rejected and the alternative hypothesis is accepted.

Table 3: Regression analysis of factors influencing motivation at work

Variable	Beta	t value	α value
SHRM practices:			
Training and Development	0.3	3.5	<0.01
Compensation Systems	0.3	3.2	<0.01
Performance Appraisal	0.2	2.4	<0.05
$R^2 = 0.4$			

MAJOR CONCLUSIONS AND IMPLICATIONS

No empirical evidence shows that a particular bundle is superior to another and the number and type of SHRM practices differ according to the aims and objectives of each study. Moreover, applicability of Western nations' models of SHRM practices in MNCs operating in developing countries is questionable. Furthermore, cultural orientations moderate relationship between SHRM practices and motivation when cultural values (measured by Power Distance) are considered; but not when cultural beliefs (measured by Collectivism/Individualism, Uncertainty Avoidance, and Masculinity/Femininity) are considered. Against these conclusions, empirical study should be carried to examine the applicability of models of SHRM practices formulated in the Western nations in developing countries. Similarly, longitudinal research design should be used to obtain more interesting and revealing results of cultural orientations.

REFERENCES

- Bae, J., S. Chen and J. Lawler (1998) "Variations in HRM in Asian Countries: MNC Home Country and Host Country Effects." *International Journal of Human Resource Management*, 9(4), 653-670.
- Aycaan, Z., Al-Hamadi, A.B., Davis, A., and Budhwar, P. (2007) Cultural Orientations and Preference for HRM Policies and Practices. The case of Oman *International Journal of Human Resource Management*, 18: 11-32
- Aycaan, Z., Kanungo, R.N., Mendonca, M., Yu, K., Deller, J., Stahl, G., and Kurshid, A., (2000). Impact of Culture on Human Resource Management Practices: A 10-Country Comparison. *Applied Psychology: An International Review*, 49(1), 192-221
- Katou, A. and Budhwar, P. (2006) Human Resource Management Systems on Organizational Performance: A Test of Mediating Model in the Greek Manufacturing Context. *International Journal of Human Resource Management*, 17(7): 1223-1253.
- Delaney, J.T. and M.A. Huselid (1996). "The impact of human resource management practices on perception of organizational performance." *Academy of Management Journal*, 39 (4) 949-69.
- Earley, C. (1994). "Self or group? Cultural effects of training on self-efficacy and performance." *Administrative Science Quarterly*, 39 89-117.
- Edwards, P. and M. Wright (2001). "High-involvement work systems and performance outcomes: the strength of variable, contingent and context-bound relationships." *International Journal of Human Resource Management*, 12(4) 568-585.
- Fields, D., A. Chan, and S. Akhtar (2000). "Organizational Context and Human Resource Management Strategy: A Structural Equation Analysis of Hong Kong Firms." *International Journal of Human Resource Management* 11(2), 264-277.
- Hofstede, G. (1980). *Culture's consequences: International differences in work-related values*. Beverly Hills, CA: Sage.
- Horwitz, F.M., Heng, C.T., Quazi, H.A., Nonkwelo, C., Roditi, D. and van Eck, P. (2006). Human resource strategies for managing knowledge workers: an Afro-Asian comparative analysis, *International Journal of Human Resource*, 17(5), 775-811
- Huselid, M.A. (1995). "The impact of human resource management practices on turnover, productivity, and corporate financial performance." *Academy of Management Journal*, 38, 635-672.
- Kanungo, R.N. (1995). *New Approaches to employee management: Employee management in developing countries*, Greenwich CT: JAI Press.
- Mamman, A. and Adeoye, B. (2007). *Performance Management in Multi-National Companies in Africa: Implications for Transferability of Human Resource Management Innovation to Developing Countries*, Institute for Development Policy and Management, University of Manchester.
- Markus, H.R. and S. Kitayama (1991). "Culture and the Self: Implications for Cognition, Emotion, and Motivation." *Psychological Review*, 98(2), 224-253.
- Paauwe, J. and P. Boselie (2002). *Challenging (Strategic) Human Resource Management Theory: Integration of Resource-Based approaches and new institutionalism*. Erasmus Research Institute of Management (ERIM), Rotterdam School of Management.
- Wright, P.M., McMahan, G. and McWilliams, A. (1994). "Human Resources and Sustained Competitive Advantage: A Resource-Based Perspective." *International Journal of Human Resource Management*, 5(2), 301-326.