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## IMPACT OF STRATEGIC HUMAN RESOURCE MANAGEMENT PRACTICES ON ORGANIZATIONAL PERFORMANCE (A CASE STUDY OF SAFARICOM)

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### Abstract

**Purpose:** The purpose of the study is to investigate the impact of strategic human resource practices on performance of Safaricom Ltd

**Methodology:** The study adopted a cases study research design. Stratified random sampling technique was applied to select the managers from various departments in order to best inform the study results. A questionnaire was the preferred data collection instrument due to its convenience and confidential nature. The data was analyzed using descriptive statistics. Specifically, means, mode and median were the preferred descriptive statistics. The findings were presented in bar charts and graphs.

**Results:** Findings indicated that that the human resource factors, personal factors and firm level factors contributed to the vertical and horizontal firm between strategic human resource management and competitive strategy. Consequently, it was concluded that Strategic Human management impacted on the superior performance of Safaricom Ltd.

**Unique contribution to theory, practice and policy:** Since the study established the presence of horizontal fit among human resource function factors, the researcher recommended that Safaricom should continue to align its human recruitment policy with its motivation policy, compensation policy and training policy. For instance, Safaricom should continue recruiting highly qualified individuals, compensate the individuals highly, motivate the individuals highly and train them effectively. In addition, the Safaricom management should allow the HR function to operate flexibly such that the department is able to exercise all the available options relevant to carrying out human resource activities. Furthermore, the investment budget towards Safaricom HR function should be increased so as to enhance the strategic fit and the consequent superior organization performance. The study further recommended a causal study on the statistical relationship between investment in HR function and the performance of Safaricom using the balance score card concept advocated by Kaplan and Norton

**Keywords:** *organizational performance, strategic human resource management practices, strategic fit, resource based view*

## 1.0 INTRODUCTION

Strategic human resource management is the proactive management of people. It requires thinking ahead, and planning ways for a company to better meet the needs of its employees, and for the employees to better meet the needs of the company. This can affect the way things are done at a business site, improving everything from hiring practices and employee training programs to assessment techniques and discipline.

Companies who work hard to meet the needs of their employees can cultivate a work atmosphere conducive to productivity. Human resource management is the best way to achieve this. Being able to plan for the needs of employees by thinking ahead can help to improve the rate of skilled employees who choose to remain working for a company. Improving the employee retention rate can reduce the money companies spend on finding and training new employees (Wei, 2006).

When creating a human resources plan, it is important to consider employees' wants or needs and what the company can reasonably supply. A large company can afford training and benefit programs that smaller companies cannot afford to offer. This does not mean that a smaller company should not engage in strategic human resource management. Providing specialized on-site training, even if provided by senior members of the company, and offering one-on-one assessment and coaching sessions, can help employees reach peak performance rates (Baird & Meshoulam, 1988).

An important aspect of strategic human resource management is employee development. This process begins when a company is recruiting and interviewing prospective employees. Improved interviewing techniques can help to weed out applicants that may not be a good match for the company. Effective selection procedures like work life balance, disclosure of all job requirements help in this. After being hired on, a strong training and mentoring program can help a new member of the staff get up to speed on company policies (operational or otherwise) and any current or ongoing projects they will be working on. To help employees perform at their best, a company can follow up with continual training programs, coaching, and regular assessment. Investing in the development of its employees can allow a company to turn out more consistent products.

By a strategic approach to HRM, we are referring to a managerial process requiring human resource (HR) policies and practices to be linked with the strategic objectives of the organization. Just as the term 'human resource management' has been contested, so too has the notion of SHRM. One aspect for debate is the lack of conceptual clarity (Bamberger & Meshoulam, 2000). Over the past decade, HR researchers and practitioners have focused their attention on other important questions. Of interest is which organizations are most likely to adopt a strategic approach to HRM. Another area of interest concerns the policies and practices making up different HR strategies. Finally, much research productivity in recent years has been devoted to examining the relationship between different clusters of HR practices and organizational performance (Wright, 2005). For organizational practitioners who are looking for ways to gain a competitive advantage, the implication of HR strategic choices for company performance is certainly the key factor.

In order to gain competitive advantage, the strategic fit between the various drivers or factors that influence performance has to be sought. A strategic fit between human resource functions

and competitive strategy, strategic fit between personal factors and competitive strategy and the strategic fit between firm level factors and competitive strategy all act towards achieving competitive advantage. In return, competitive advantage brings about superior organizational performance.

The people make Safaricom exceptionally successful and the company always seeks to attract, develop, reward and retain outstanding individuals who are committed to offering challenging responsibilities and development opportunities. In the modern world of globalization, Safaricom has been able to keep pace with the global mobile telecommunication scenario by having strategic business associations; associations which add value to the global mobile telecommunication initiative and which help in meeting the dynamic challenges of the modern mobile telecommunication world. Safaricom strategic association with the world leaders in mobile telephony has created a niche in the Kenyan market.

### **1.1 Problem Statement**

Strategic human resource management practices realignment with the competitive strategy has gained prominence in organizations operating on a global scale as well as those operating locally. This assertion is evidenced by the talent wars that are happening in Kenyan organizations especially in the telecommunications sector as well as in the financial sector. The implication of this is that organizations in Kenya do realize that strategic staffing is fundamental to their successful performance. In short it is important to recruit the right person for the right job hence the need for strategy.

Leda (2003), in the research findings of an empirical research carried out in Greece among a sample of 104 organizations show that when Human Resource Management is consistent with the competitive strategy it has significant effects on financial performance. Another important finding by Leda (2003) is that market performance is positively influenced by Human Resource Management flexibility and negatively influenced by HRM control.

Since its inception, Safaricom has been the most profitable organization in Kenya as well as in East Africa. The C.E.O of Safaricom, Michael Joseph, attributes its successful performance to the people and customer concept and argues that they are the foundation of the organization's success. Consequently, he recognizes the talent war existing between Safaricom, Zain, Yu and Telkom Orange and promises to fight back (Safaricom Newsletter, 2009). Consequently, Safaricom has embarked on a process of realigning its human resource practices to competitive strategy so as to exploit the resultant financial gains and operational benefits.

This study sought to assess the impact of strategic human resource practices on performance success of organizations in Kenya with an aim of validating prior assumptions on the relationship between the two variables. More specifically, the study focused on the drivers that provide a strategic fit between human resource practices and competitive strategy which gives rise to improved financial and operational performance. The findings would prove the business case for and against adopting strategic human resource practices of Kenyan organizations.

### **1.2 Research Objectives**

- i. To establish the strategic fit of human resource function factors and their impact on the performance of Safaricom.

- ii. To determine the strategic fit of personal factors and their impact on the performance of Safaricom.
- iii. To assess the strategic fit of firm level factors and their impact on the performance of Safaricom.
- iv. To recommend better strategic fit between the various drivers and the performance of Safaricom

## **2.0 LITERATURE REVIEW**

### **2.1 Theoretical framework**

#### **2.1.1 The Resource-Based View (RBV) of the Firm to Human Capital**

The issue of what contributes to competitive advantage has seen, within the strategy literature, a shift in emphasis away from external positioning in the industry and the relative balance of competitive forces, towards an acknowledgement that internal resources be viewed as crucial to sustained effectiveness (Wright et al., 2001). The work of Penrose (1959) represents the beginning of the resource-based view of the firm (RBV), later articulated by Rumelt (1984), Barney (1991, 1996) and Dierickx and Cool (1989).

The RBV established the importance for an organisation building a valuable set of resources and bundling them together in unique and dynamic ways to develop firm success. Competitive advantage is dependent not, as traditionally assumed, on such bases as natural resources, technology, or economies of scale, since these are increasingly easy to imitate. Rather, competitive advantage is, according to the RBV, dependent on the valuable, rare, and hard-to-imitate resources that reside within an organisation. Human capital in a real sense is an ‘invisible asset’ (Itami, 1987). The importance to the strategic aims of the organisation of the human capital pool (the collection of employee capabilities), and how it is managed through HR processes then becomes apparent. In terms of rarity: ‘If the types and levels of skills are not equally distributed, such that some firms can acquire the talent they need and others cannot, then (ceteris paribus) that form of human capital can be a source of sustained competitive advantage’ (Snell et al., 1996:65). And in terms of inimitability, there are at least two reasons why human resources may be difficult to imitate: causal ambiguity and path dependency (Becker & Gerhart, 1996, Barney, 1991). ‘First, it is difficult to grasp the precise mechanism by which the interplay of human resource practice and policies generates value...second; these HR systems are path dependent. They consist of policies that are developed over time and cannot be simply purchased in the market by competitors’ (Becker & Gerhart, 1996:782).

#### **2.1.2 Models that Describe Approaches to Strategic Human Resource Management**

**High performance management model** – The model explains SHRM impact on performance of the organization through people; impact productivity, quality, levels of customer service, growth, profits, increased shareholder value. Practices like rigorous recruitment and selection procedures, extensive relevant training, management development activities, incentive pay systems and performance management systems; high level processes leadership, people capability, advanced technology; executive says of projects help towards this.

**High commitment management model** – aims at eliciting a commitment from the employees so that behaviours are self-regulated not controlled by sanctions or pressures; relations within the org based on high levels of trust. Calls for development of career ladders, trainability, commitment of employees in all levels of org, functional flexibility, leaving out rigid job descriptions, reduction of hierarchy, ending status differentials, heavy reliance on teamwork, team briefing, team problem solving; new forms of assessment and payment systems.

**High involvement management model:** a management approach that is centred on employee involvement. Provides employees with opportunities to make decisions concerning the conduct of their jobs and to participate in the business as a whole; empowerment; entails team working, empowerment, ideas, sharing of information, customers feedback, organization performance related reward systems, extensive training and development, social problem solving skills. Today the above seems to be lacking in many organizations; thus could be a reason for their low performance or entrance of competition.

### 2.1.3 The Concept of ‘Fit’.

The congruence or ‘fit’ between HR practice and business strategy has been emphasised in studies related to SHRM (Miles & Snow, 1984; Baird & Meshoulam, 1988; Wright & McMahan, 1992). It is the primary logic of melding the HR function into the strategy of a firm. A great deal of conceptual illustrations assert that the employment of effective HR practices and the design of a HR system compatible with the firm strategy are imperative for the successful implementation of business strategies (e.g., Lengnick-Hall & Lengnick-Hall, 1988). There are also increasing numbers of empirical studies, conducted in various contexts, on the relationship between strategic HRM and organisational performance or competitive advantage (Huselid 1995, Bjorkman, & Fan 2002, Chan, Shaffer, & Snape, 2004). Essentially, SHRM emphasises developing the firm’s capacity to respond to the external environment through a better deployment of human resources. Since the strategy of a firm is a reflection of its response to the competitive external changes, a human capital pool with a broad array of skills that are compatible with the corporate strategy, is a catalyst for fulfilling the strategic goals through promoting behavioural utility among employees.

Scholars suggest that there are two kinds of fit: horizontal fit and vertical fit. Horizontal fit refers to the congruence among the various HRM practices such as planning, staffing, training, performance evaluating systems, compensation systems, labour and employee relations (Baird & Meshoulam 1988), and vertical fit refers to the alignment of HRM practice with the strategic management process of the firm (Schuler & Jackson 1987). In general, vertical fit is viewed as a critical step toward attaining the organisational goals through initiating some human resource activities that are aligned with firm objectives, while horizontal fit is essential when making good use of these resources.

The linkage between HR practice and strategy has been studied by scholars (Wright & McMahan 1992, Wright & Snell 1998). Due to the lack of rigorous empirical evidence, it is argued that this linkage is relatively weaker than the relationships among internal HR practices. However, from the perspective of the resource based view (RBV) of the firm (Barney 1986, 1991), researchers advocate that HR systems aligned with the firm’s strategy is helpful for creating competitive advantage.

Based upon the resource based view of the firm, Huselid, Jackson and Schuler (1997) differentiated technical HRM activities from strategic HRM activities. They clarified that technical HR activities can be utilised by firms to select employees with high values and train them in a way different from other firms, and hence, ensure its human resources to be unique. Strategic HRM activities are those that are integrated or congruent with the company strategy, which can ensure the inimitability of the firm's human resources.

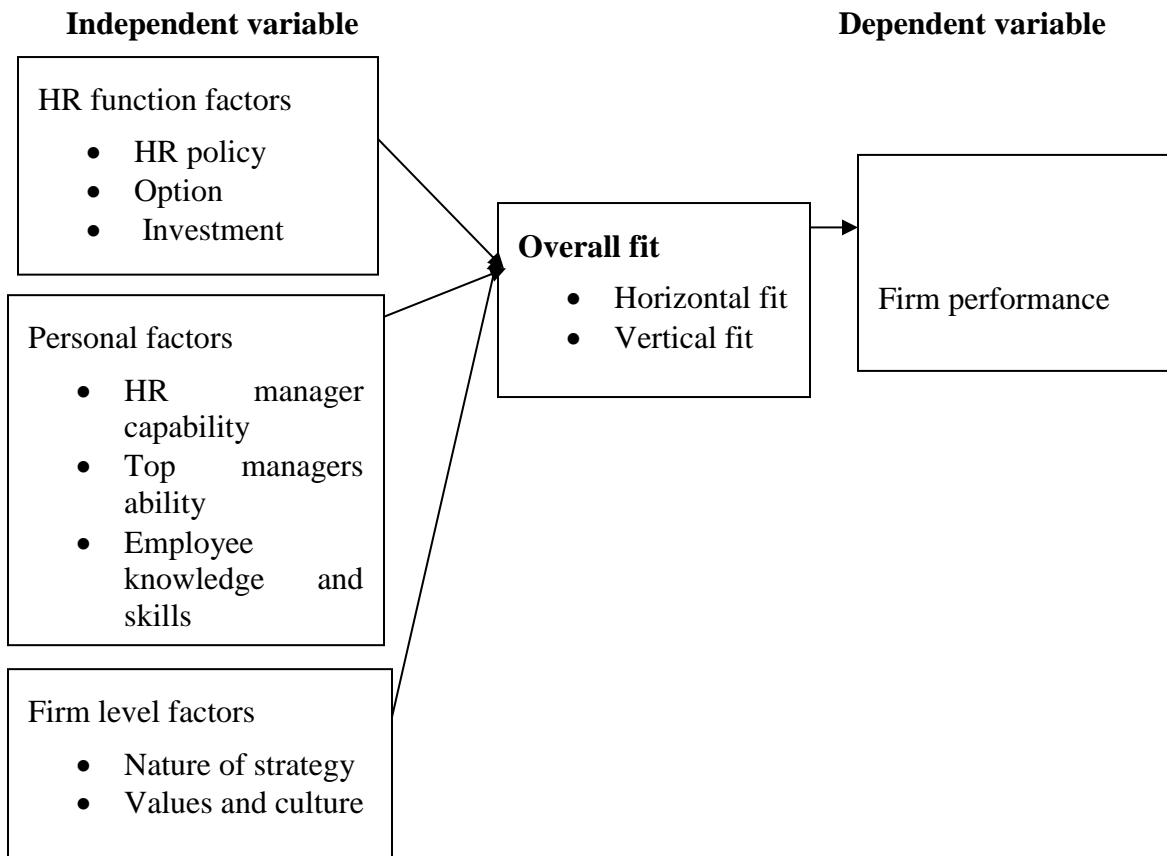
Technical HRM activity spans a series of HR practices. These activities range from attracting high quality employees, placing them in appropriate positions, training them to work in the firm's specific way, and motivating them to devote more enterprise to organisational goals. This requires a systematic design of HRM practices. HRM effectiveness is likely to be decreased if not enough attention is paid to coordinating these separate HRM practices. For example, an excellent employee might find it quite difficult to achieve high performance without good training compatible with organisational goals and the work itself. Similarly, a lack of motivation for well trained employees may be linked with them performing below their potential. It logically follows that adoption of effective technical HRM activities is a key to implementing a set of internally consistent HR practices. In other words, effective technical HR activities are necessary for accomplishing the partial goal of SHRM (i.e., the horizontal fit among those HR practices).

## **2.2 Conceptual framework**

### **2.2.1 Determinants of Fit**

Determinants of horizontal fit and vertical fit are shown in Figure 2. The HR function factors are proposed to be specific factors that influence the compatibility of a variety of HR practices themselves, while firm level factors are analysed as major determinants for matching HR activities with organisational strategy. Personnel factors, which embrace the capabilities of both employees and managers, including HR manager and other top managers, are identified as common determinants for both horizontal fit and vertical fit.

**Figure 1: Determinants of the Two Types of Fit**



Source: Wei (2006)

The independent variables in this conceptual framework are the HR factors, personal factors and firm level factors. The dependent variable in the conceptual framework is the firm performance. Human resource factors which have a strategic fit with the business strategy (competitive strategy) are responsible for superior firm performance. In addition, firm level factors which are aligned to the business strategy are also responsible for superior business performance. Personal factors which possess strategic fit with the business strategy are responsible for superior business performance. The relationship between the various factors and how they affect business performance is as discussed in the sections that follow.

### 3.0 RESEARCH METHODOLOGY

This study was conducted through a case study. The population from which the conclusion for the study was made included all the middle level and top level managers of Safaricom totaling 80. A stratified simple random sampling approach was adopted in this study and the lottery method was applied in order to get the actual respondents. A sample size of 50 percent was considered appropriate for this study. Primary data was collected by the use of a questionnaire. The data was analyzed using descriptive statistics. Specifically, means, mode and median were the preferred descriptive statistics. The findings were presented in bar charts and graphs.



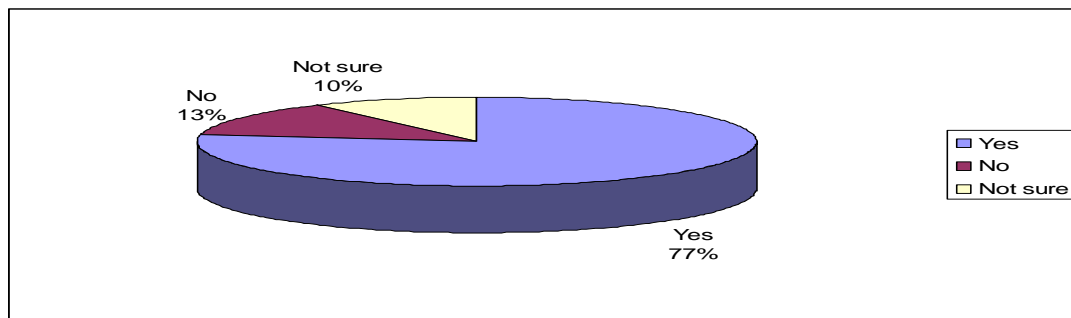
## 4.0 RESULTS AND DISCUSSIONS

### 4.1 Response Rate

Out of the 40 questionnaires handed out to respondents, only 31 were valid. The rest, 9, were incomplete hence could not be considered for data analysis. The response rate for the study was 78%. According to this study, the majority of respondents, 81%, were male. The female respondents were 19%. This finding indicates that Safaricom is still male dominated field. The majority of respondents, 61%, indicated that they had university level education. Furthermore, 19% had college level education and 19% had post graduate level education. The majority of respondents, 71%, in this study indicated that they had been in current employment for 3 to 5 years. Meanwhile, 13% had been in current employment for more than 5 years, 10% had been in current employment for 1 to 2 years and 6% had been in current employment for less than one year.

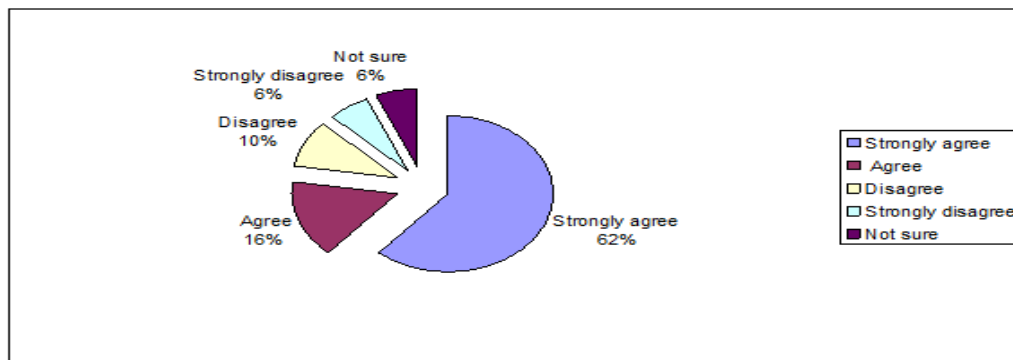
### 4.2 Strategic Fit of Human Resource Factors

On the question of whether the company recruits highly qualified and experienced employees, the majority of the respondents, 77%, answered to the affirmative. 13% answered to the negative while another 10% were not sure.



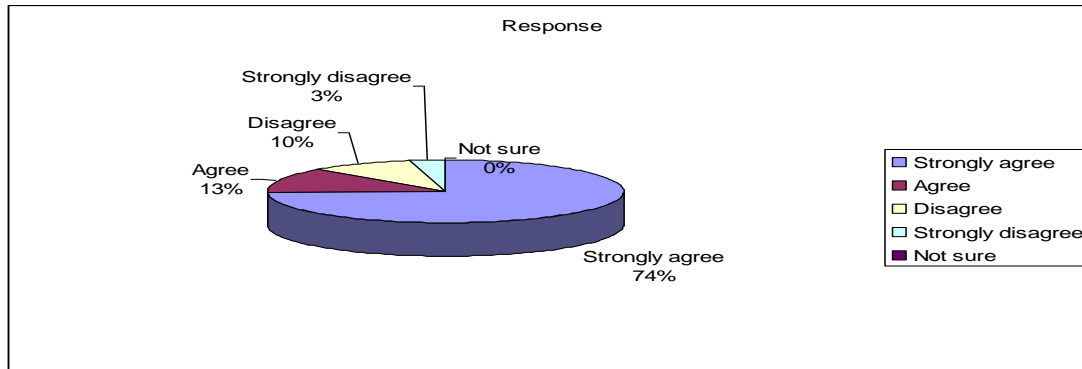
**Figure 1: Recruitment of Qualified Staff**

The majority of the respondents, 62%, strongly agreed with the statement that the company trains its employees adequately. 16% agreed, 10% disagreed, and 6% strongly disagreed while 6% were not sure.



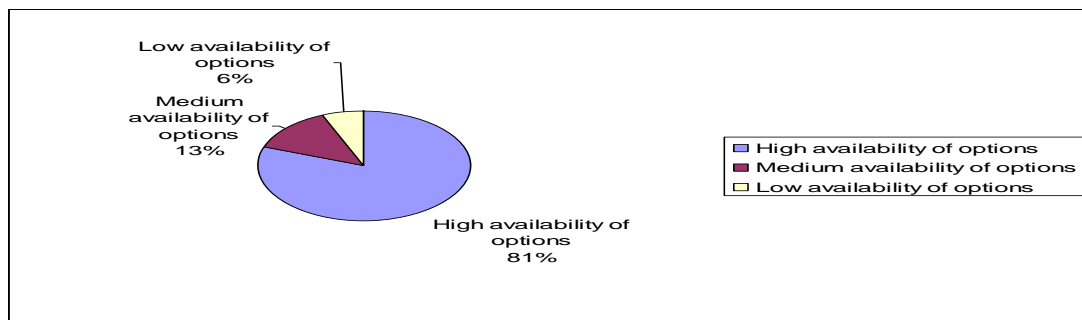
**Figure 2: Adequate Training**

The majority of respondents, 74%, strongly agreed with the statement that safaricom motivates its employees through financial rewards good working environment and through job redesign and rotation.



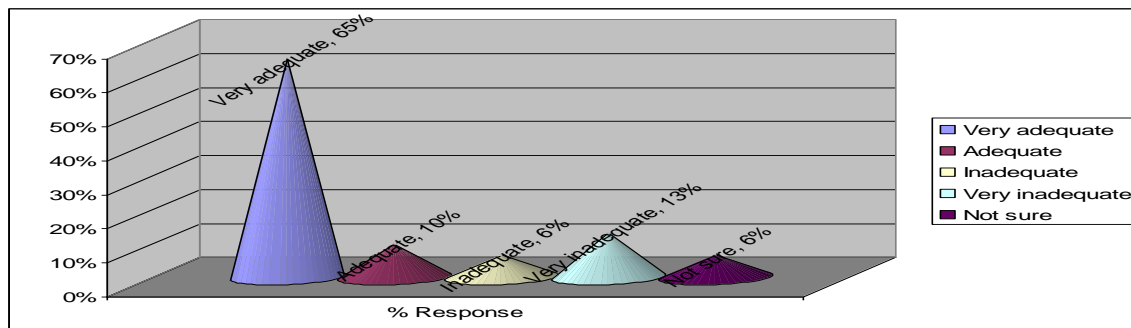
**Figure 3: Motivation through Incentives and Good Environment**

According to study findings, the majority of respondents, 81%, indicated that the HR function had a high availability of options. 13% indicated that there was a medium availability of options while 6% indicated that the HR function had low availability of options.



**Figure 4: Availability of HR Options**

The majority of respondents, 65%, indicated that the budgetary allocation for the HR function was very adequate. 10% indicated that it was adequate, 6%, indicated that it was inadequate, 13% indicated that it was very inadequate while 6% were not sure.

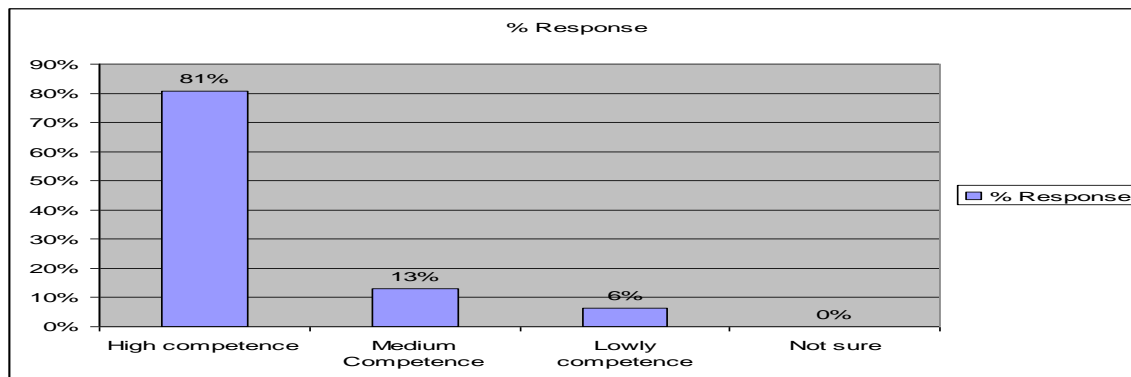


**Figure 5: Adequacy of Budgetary Allocation**

**Interpretation**

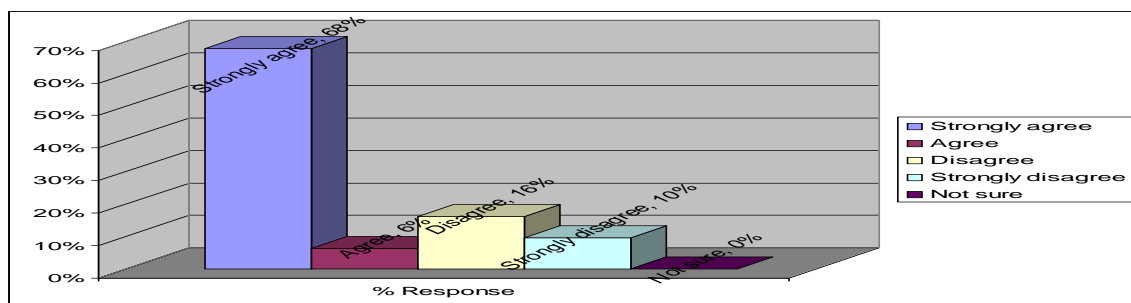
Findings from the above section imply that there exists horizontal fit among the Human resource practices practiced by Safaricom. For instance, the recruitment policy of hiring qualified and experienced employees is aligned with the policy of motivation and the training policy. This finding agrees with (Baird & Meshoulam 1988). The finding on the availability of options for managing human resource activities also implies a horizontal fit. According to Bhattacharya and Wright (2005), if there are more options in the practical activities in managing human resources, there will be more freedom to choose the most optimal ones. He further argues that although a firm's human resources, as an asset, can provide value and competitive advantage, the uncertainties and risks associated with HR assets, cannot be ignored. However, firms can manage these uncertainties through HR options which are capabilities generated by certain HR practices and their combinations. The findings on investment budget imply that Safaricom finds it easier to achieve horizontal fit as the HR function has enough resources to implement their activities. The finding is supported by Tsui (1990).

### 4.3 Personal Factors



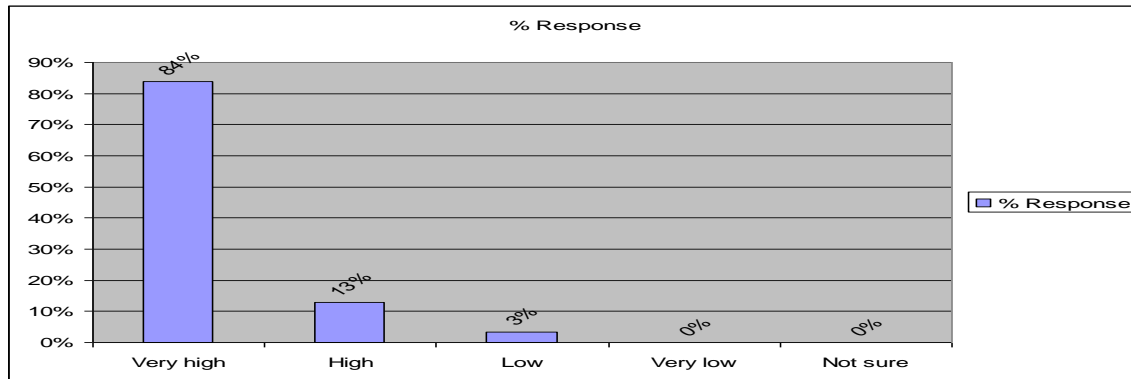
**Figure 6: HR Manager Capability**

The majority of the respondents, 81%, rated the HR managers as highly competent in effectively designing and managing HR systems. 13% of respondents indicated that the HR managers were of medium competence, while a further 6% indicated that the HR managers were of low competence. According to study findings, the majority of respondents, 68%, strongly agreed with the statement that the top level management gave adequate support to the HR function. 6% agreed, 16% disagreed, and 10% strongly disagreed.



**Figure 7: Top Level Management Support to HR Function**

The majority of respondents, 84%, rated the level of employee skills and knowledge as very high. 13% gave a high rating, 3% gave a low rating while no respondent gave a very low rating.



**Figure 8: Level of Employee Skills and Knowledge**

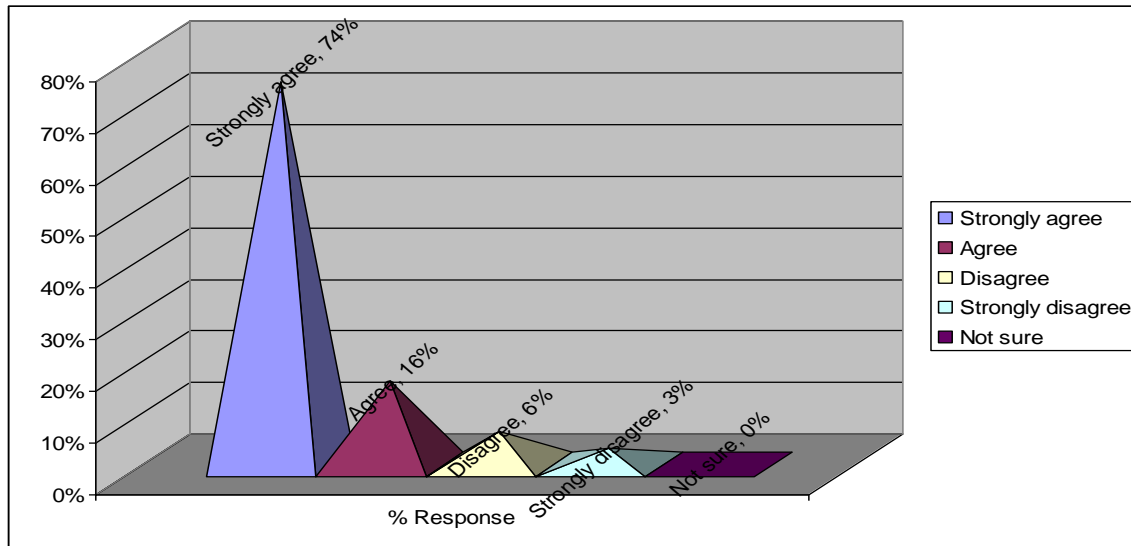
### Interpretation

Findings from the above section imply that the personal factors have enabled the achievement of both horizontal and vertical fit. These findings are supported by those of Lado & Wilson (1994) which concluded that the ability and skills of organizational members are important for successful implementation of organizational goals and strategies. Findings on the HR capability also imply a horizontal and vertical fit. The findings agree with those of Wei & Lau (2005). The more capable the HR manager, the more likely this manager will be able to discern any incongruence or problems of the HR system, and thus, be able to initiate adjustments to rectify the incompatibility of the system.

Findings on the support of top management to the HR function indicate that Safaricom is in a good position to achieve both the horizontal and vertical fit. The findings agree with those of Lado and Wilson (1984) that concluded that the ability and support from senior managers is also critical for a firm to acquire both horizontal fit and vertical fit. Findings on the employee knowledge and skills indicate that there is vertical fit. The finding agrees with those of Wright & Snell (1998) which argue that more knowledgeable and skillful employees will have competencies to understand and enact a variety of HR practices, such as those designed for a firm's specific strategy.

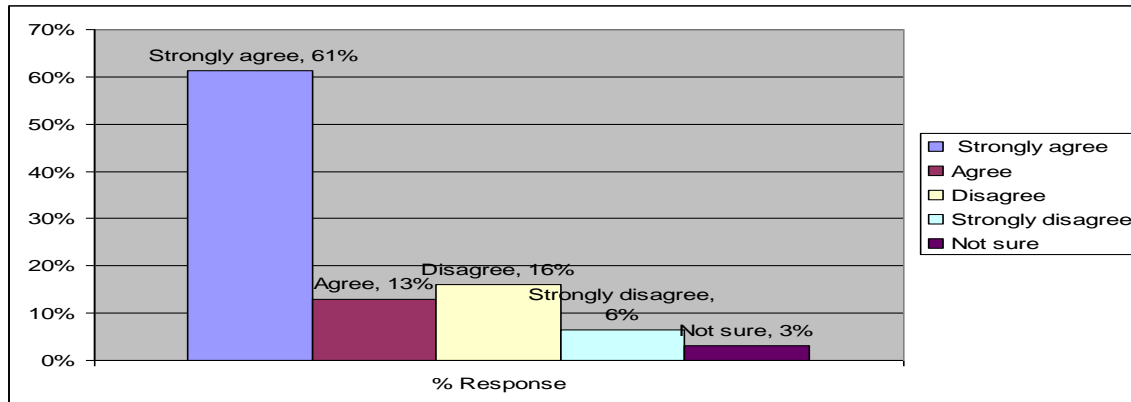
### 4.4 Firm Level Factors

The majority of respondents, 74%, strongly agreed with the statement that Safaricom believes in good customer service. 16% agreed, 6% disagreed, and 3% strongly disagreed.



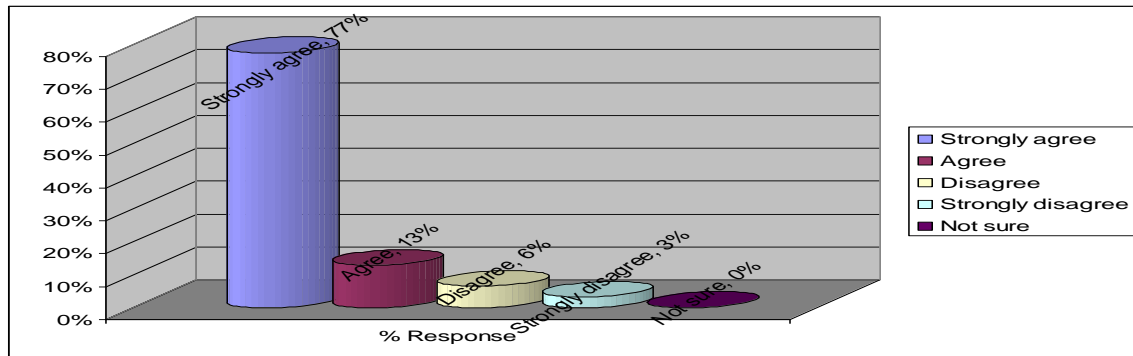
**Figure 9: Attitude towards Customer Service**

The majority of respondents, 61%, with the statement that the firm believes that employee satisfaction determines customer satisfaction. 13% agreed, 16% disagreed, and 6% strongly disagreed while 3% were not sure.



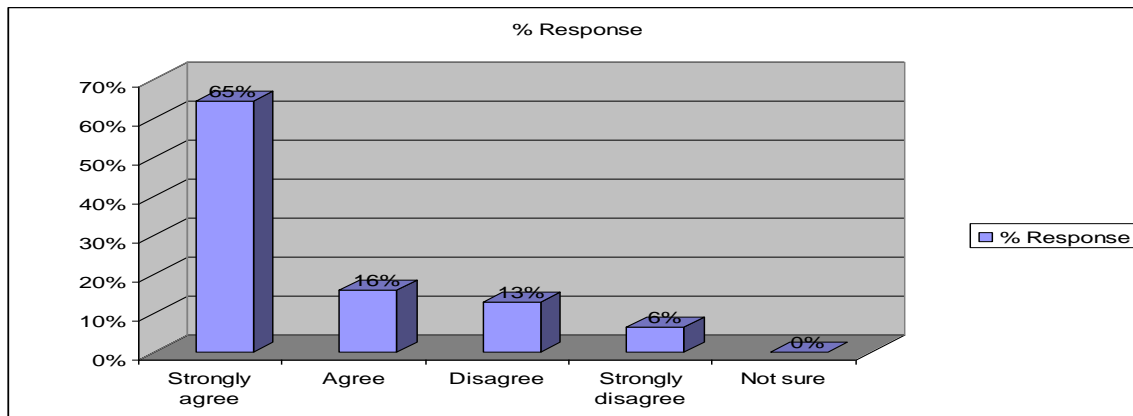
**Figure 10: Attitude towards Employee Satisfaction**

Study findings indicate that the majority 77% strongly agreed with the statement that the firm believes in speedy resolution of issues and implementation of strategies. While 13% agreed, 6% disagreed and 3% strongly disagreed.

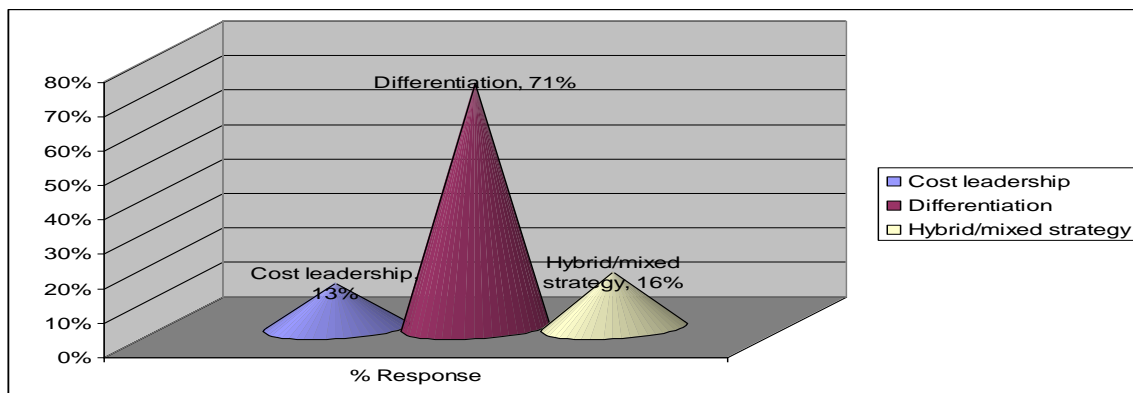


**Figure 11: Flexibility and Speedy Resolution of Issues**

The majority of respondents strongly agreed with the statement that the firm believes that the HR function is a very strategic and important function. 16% agreed, 13% disagreed while 6% strongly disagreed.



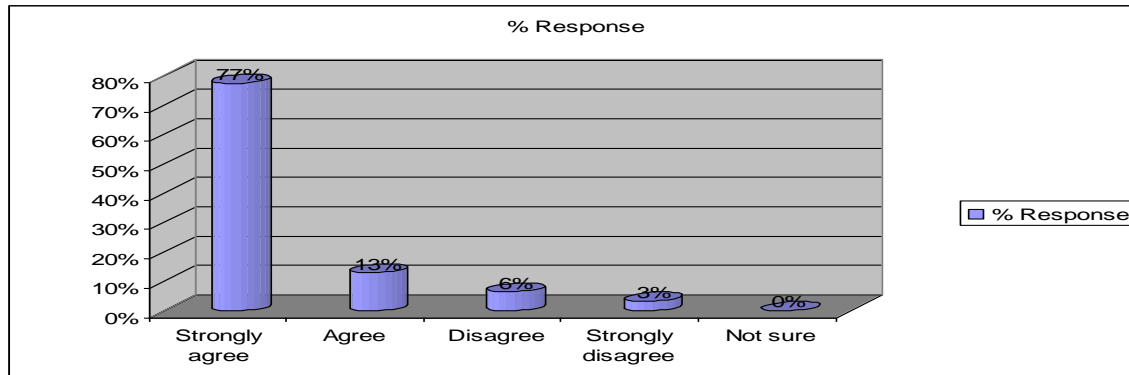
**Figure 12: Attitude towards HR Function**



**Figure 13: Competitive Strategy**

The majority of the respondents, 71%, indicated that the competitive strategy adopted by Safaricom can best be described as differentiation strategy. 13% of the respondents indicated cost leadership while 16% indicated a mixed/hybrid strategy

The majority of the respondents, 77%, strongly agreed with the statement that there was strategic fit between human resource practices and firms competitive strategy. 13% strongly agreed, 6% disagreed, and 3% strongly disagreed.



**Figure 14: Strategic fit**

### Interpretation

Findings from above section imply the presence of vertical fit in Safaricom. Safaricom employs differentiation as the competitive strategy. A differentiation strategy complements the values and culture of Safaricom which are based on good customer service, employee satisfaction, flexibility and speedy resolution of issues, and strategic value of the HR function. The findings agree with those of Schuler and Jackson (1987), Martell, Gupta and Carroll (1996), Bowen and Ostroff (2004) and Wei and Lau (2005).

## 5.0 DISCUSSION CONCLUSIONS AND RECOMMENDATIONS

### 5.1 Findings

Findings in this study imply that there exists horizontal fit among the Human resource practices practiced by Safaricom. For instance, the recruitment policy of hiring qualified and experienced employees is aligned with the policy of motivation and the training policy. The finding on the availability of options for managing human resource activities also implies a horizontal fit. The findings on investment budget allocated to the HR department imply that Safaricom finds it easier to achieve horizontal fit as the HR function has enough resources to implement their activities.

Findings from this study imply that the personal factors at safaricom have enabled the achievement of both horizontal and vertical fit. Findings on the HR capability and support of top management to the HR function also imply a horizontal and vertical fit. Findings on the employee knowledge and skills indicate that there is vertical fit in that more knowledgeable and skillful employees will have competencies to understand and enact a variety of HR practices, such as those designed for a firm's specific strategy.

Findings from this study imply the presence of vertical fit in Safaricom. Safaricom employs differentiation as the competitive strategy. A differentiation strategy complements the values and culture of Safaricom which are based on good customer service, employee satisfaction, flexibility and speedy resolution of issues, and strategic value of the HR function.

## 5.2 Conclusions

The study concluded that the human resource factors, personal factors and firm level factors at Safaricom contributed to both vertical fit and horizontal fit. The alignment of these factors to the competitive strategy in turn contributed to the good organizational performance of Safaricom.

## 5.3 Recommendations

Since the study established the presence of horizontal fit among human resource function factors, it was recommended that Safaricom should continue to align its human recruitment policy with its motivation policy, compensation policy and training policy. In addition, the Safaricom management should allow the HR function to operate flexibly such that the department is able to exercise all the available options relevant to carrying out human resource activities.

The study recommended that the HR capability of safaricom can be enhanced by sponsoring the HR managers to workshops related to discovering new ways of achieving strategic fit between human resource function and business strategy for superior organizational performance. The top management of safaricom should continue to give the HR function the support it needs in an effort to achieve vertical fit. Safaricom limited should sponsor its employees to courses that would enhance their skills and knowledge.

The study further recommended that Safaricom continues with its differentiation strategy as it has worked in the past. Further, safaricom should also hold onto its values which are centered on the customer and the people.

## 5.4 Suggestions for Further Studies

The study recommends that a causal study using regression analysis to be conducted on the relationship between the investment budgets allocated to the HR department and the organizational performance. The organizational performance in this case would follow the balance score card concept, that is, performance from a financial perspective, from customer satisfaction perspective, from employee satisfaction perspective and from the internal processes perspective.

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