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An Analysis of the Moderating Effect of a Cost led Human Resource Strategy on the Relationship between Human Resource Management and Firm Performance of Corporate Organizations in Kenya

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Abstract: **Recent conceptual works have argued that a firm's performance may not be directly linked to human resource management; but complementary or synergies, both among and between an organization's human resource management practices and its competitive human resource strategy can have an additional and positive effect on performance. This study, therefore, focused on analyzing the moderating effect of a cost led human resource strategy on the relationship between human resource management and firm performance. The study adopted a cross sectional survey research design and corporate organizations comprised the target population. Data was collected using self-administered questionnaires and analyzed using statistical package for social sciences and Microsoft Excel. Hypothesis testing was done through multiple regression analysis, using standard F and t tests. The findings of the study indicated that a cost led human resource strategy had no significant moderating effect on the relationship between human resource management and firm performance of corporate organizations in Kenya. The research, therefore, concluded that the sampled organizations lay more emphasis on other aspects of their products but not the price and that irrespective of whether a cost led human resource strategy was being pursued or not, human resource management remained significant in influencing firm performance. The study recommends organizations should promote human resource practitioners to the strategic level, making them to be directly involved in critical decision making and business strategy formulation from the beginning stage. Organizations should also carefully consider the alignment among human resource management practices, as well as between the human resource management and the competitive human resource strategies adopted so that they support and supplement one another.**

Keywords: **Cost led human resource strategy, Human resource management, Performance.**

I. INTRODUCTION

Many factors ranging from globalization, technological advancement, changes in customer tastes and preferences and rapid environmental changes have contributed to the transformation of the twenty-first century business landscape making firms compete in a complex and challenging context. This new landscape requires organizations to search for better competitive approach for modern business as the traditional concerns and orientations of the human resource (HR) function do not respond adequately to fundamental environmental changes particularly in product market conditions. The frequent and uncertain changes, greater competition between firms, the need for continuous innovations, quality enhancement and cost reduction force organizations to face the challenge of improving their competitiveness and consequently their performance. This realization has propelled human resource management (HRM) as a major field of study and the renewed interest has facilitated the development of newer approaches in managing organizations and human resources (Wright, 2005).

The quest for competitive advantage has long been a central tenet of the field of HRM (Armstrong, 2009). In view of the fact that the goals and the necessities of each of the competitive strategy types are different, the management of HR of the firm should be aligned with the overall corporate strategy. The firm can thus obtain a competitive advantage and thus achieve superior performance (Kelliher & Perret, 2001). In most firms today, it is the employees' skills and commitment that create competitive advantage for an organization. It is, therefore, important that organizations truly leverage on the workforce as a competitive weapon to develop a competitive advantage.

There has been a debate by numerous researchers whether HRM should always be positively related to firm performance. Although most of the studies speak of HRM practices leading to performance, such a one-way line of causation is unsatisfied (Edwards & Wright, 2001).The usual key critique of HRM and organizational performance is that sound theoretical development that explains how such HR practices operate is absent ((Becker & Gerhart, 1996). In an effort to address such theoretical developments in this area, researchers have proposed further studies to consider intermediate linkages between SHRM and organizational performance (Ferris *et al*. 1998). Accordingly, a better understanding of the role of SHRM in creating and sustaining organizational performance and competitive advantage should be achieved through further theoretical development and empirical evidence.

II. RESEARCH PROBLEM

The market environment in the country has been extremely turbulent during the past decade, and to maintain continuous success in the face of global competition, organizations must identify and analyze environmental characteristics and develop competitive human resource strategies to meet changing market needs. Kenya's Productivity Policy report (2010) reveals that the market environment in the country has been extremely turbulent during the past decade, and to maintain continuous success in the face of global competition, organizations must identify and analyze environmental characteristics and develop strategies to meet changing market needs. According to Kenya's Economic Development report (2004), the economies of most successful countries in the world originated from their successful business organizations which drive the economy of the country. These organizations need to respond to greater global imperatives and challenges to compete effectively in local and global markets. One of the basic strategic options that an organization has in order to gain competitive advantage is the use of a cost led HR strategy (Schuler, 2001). An organization pursuing a cost led HR strategy seeks to produce goods and services cheaper than the competition, with no frills and places an emphasis on minimizing cost at all stages in the process including people management.

Recent conceptual works have also argued that a firm's performance may not be directly linked to HRM; but complementary or synergies, both among and between an organization's human resource management practices and its competitive human resource strategy can have an additional and positive effect on performance (Marchington & Wilkinson, 2008). Thus a firm's performance may not be directly linked to HRM. Majority of the work in HRM according to Paauwe and Boselie (2002) adopts the resource-based view perspective which tends to ignore contextual variables, particularly competitive HR strategies, which influence organizational performance. This study, therefore, focused on analyzing the moderating effect of a cost led human resource strategy on the relationship between HRM and firm performance.

III. OBJECTIVE AND HYPOTHESIS

The objective of the research was to analyze the moderating effect of a cost led HR strategy on the relationship between HRM and firm performance of corporate organizations in Kenya.

The null hypothesis was stated as: H_0: A cost led HR strategy has no significant moderating effect on the relationship between HRM and firm performance of corporate organizations in Kenya.

IV. SIGNIFICANCE OF THE STUDY

Corporate organizations have a great potential for improvement of quality, profits, innovation and competitiveness, therefore, the study is valuable to managers and HR practitioners in providing more knowledge on contributions of competitive HR strategies to organizational performance. The findings of this study also serve to assist organizations to evaluate the role of competitive HR strategies in enhancing organizational performance. The growth in competition, liberalization of the economy and the environmental changes put additional challenges to organizations. As such, they need to respond to greater market imperatives and challenges. There is lack of a theoretically grounded understanding of the HR strategies underlying organization's success or failure in general. The question posited is how a model can be created to the established organizations or those entering the market to perform well, succeed or produce a sustainable competitive advantage. The research, therefore, makes a contribution to new knowledge in business competitiveness which is a recurring theme examined by academicians, consultants and practitioners.

V. LITERATURE REVIEW

CONCEPTUAL FRAMEWORK

The study used the strategic typology by Schuler and Jackson (1987) which they derived from Porter's (1985) model. The typology has three types of strategy: cost-reduction led HR strategy, quality-enhancement led HR strategy and innovation led HR strategy. All these three strategies can be deemed 'strategic' in linking HR policies and practices to the goals of the business and the external context of the firm. A strategy's success turns on combining external fit and internal fit. A firm with bundles of HR practices should have a high level of performance, provided it also achieves high levels of fit with its competitive strategy (Richard & Thompson, 1999). Emphasis is given to the importance of bundling HRM practices and competitive strategy so that they are interrelated and therefore complement and reinforce each other. The notion of a link between business strategy and the performance of every individual in the organization is central to 'fit' or vertical integration. The most influential model of external fit is that from Schuler and Jackson (1987) which argues that business performance will improve if their HR practices support their choice of competitive strategy: cost leadership, quality enhancement and innovation. Under this model, organizations need to work out the required employee behaviors to implement a chosen competitive strategy and devise supporting HR practices to enable those behaviors to be encouraged in the workforce. Schuler and Jackson (1987) defined the appropriate HR policies and practices to 'fit' the generic strategies of cost reduction, quality enhancement and innovation. Figure 1 diagrammatically presents HRM as the independent variable, cost led HR strategy as the moderating variable and firm performance is the dependent variable.

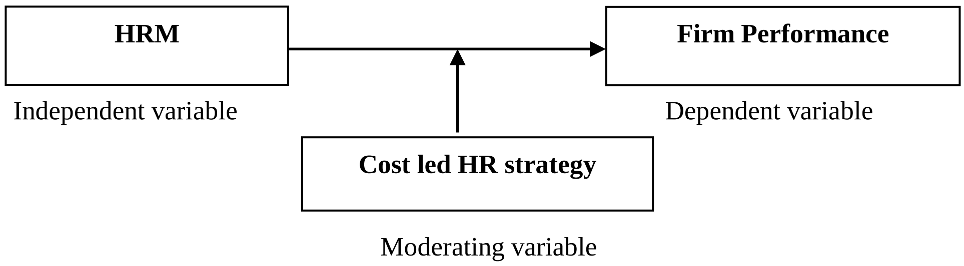

Fig 1: Conceptual framework

COST LED HR STRATEGY

Business success built on cost reduction led HR strategy requires the business to be able to provide its product or service at a cost below what its competitors can achieve. And it must be sustainable cost advantage (Robinson *et al*. 2008). The cost reduction employer seeks to produce goods and services cheaper than the competition, with no frills and an emphasis on minimizing costs at all stages in the process -including people management. The firm thus sets to become low cost producer in its industry. The firm has a broad scope and serves many industry segments, and may even operate on many industries. The sources of cost advantage are varied and depend on the structure of the industry. If a firm can achieve and sustain overall cost leadership, then it will be an above-average performer in its industry provided it can command prices at or near the industry average. At equivalent or lower prices than its rivals, a cost leader's low-cost position translates to higher returns (Marchington *et al*. 2005).

Low cost producers usually excel at cost reductions and efficiencies. They maximize economies of scale, implement cost-cutting technologies, stress reductions in overhead and in administrative expenses, and use volume sales techniques to propel themselves up in the earning curve (Storey *et al*. 2000). A low cost leader is therefore able to use its cost advantage to charge lower prices, or to enjoy higher profit margins. By so doing, the firm effectively can defend itself in price wars, attack competitors on price to gain market share, or if already dominant in the industry, simply benefit from exceptional returns. The essence of an organization's competitive strategy to be a low cost leader will use various HR strategies to support its low cost strategy. Therefore, the HR implications for the cost reduction led HR strategy, according to Storey and Sisson (2000); Kelliher and Perrett (2001) are: recruitment and selection is likely to be ad hoc, especially for low-grade tasks, and the employer may well use agencies or subcontractors to perform much of the work. Training is likely to be poor or non-existent, with no recognition that employees should be provided with opportunities for learning and development. Pay levels are unlikely to be much above the minimum wage, and could be less if the employer can get away with it, and this may be typical of firms who use migrant labour and provide very basic conditions all around. There are likely to be minimum health and safety standards, tight performance monitoring, limited employee involvement and communications, and little empathy with staff experiencing problems. It is evident that the cost reduction led HR strategy is likely to focus in the delivery of efficiency through mainly hard HR techniques. The cost reduction led HR strategy therefore stresses efficient scales, minimizing expenses and supplying a standard for reducing costs to support the organization's low cost strategy.

HUMAN RESOURCE MANAGEMENT

Cooke *et al.* (2005) asserted that SHRM is an efficient function that copes with environmental changes. It directly and indirectly benefits companies because it changes passivity into initiative, transmits organizational goals clearly and encourages the involvement of line managers. Marchington (2008) argue that SHRM positively influences firm performance because it generates structural cohesion, an employee-generated synergy that propels a company forward, enabling the firm to respond to its environment while still moving forward. Cooke *et al.* (2005) investigated the HRM practices of firms in declining industries. They found that most high performance firms adopted SHRM measures. Conversely, low performance firms tended to employ conventional methods. Various researchers (Appelbaum *et al.* 2000; Guest *et al*. 2000; West *et al*. 2002; Purcell *et al.* 2007) have found a positive relation between HRM practices and firm financial performance. They found that the strategic orientation of HR in high productivity firms differed obviously from that in low productivity firms. The bundle of HRM practices adopted for this study included selective resourcing, use of teams and decentralization, extensive training, sharing information and incentive

FIRM PERFORMANCE

The measurement of organizational performance is not easy for business organizations with multiple objectives of profitability, employee satisfaction, productivity, growth, social responsibility and ability to adapt to the ever changing environment among other objectives. Although performance has been traditionally conceptualized in terms of financial measures, some scholars have proposed a broader performance construct that incorporates non-financial measures including among others market share, product quality, and company image. Extant research findings have shown that perceived measures of performance can be a reasonable substitute of objective measures of performance (Wan-Jing and Tung, 2005) and have a significant correlation with objective measures of financial performance. Additionally, cross-industry organizational performance is influenced by external economic factors (Bamberger and Meshoulam, 2000); hence subjective evaluations may be even more appropriate than objective measures in this study. Studies by Youndt *et al*. (1996) recognize the difficulty in obtaining objective measures of performance and suggest asking managers to assess their own firm's performance relative to others in the same industry or sector. To minimize the effects of random errors, researchers have suggested the use of multiple items to assess performance. Given this scenario, the researcher in this study opted to use multiple items in order to assess the performance of the organizations that were studied. These items related to profitability ratio and sales growth.

VI. RESEARCH METHODOLOGY

A cross sectional survey research design was adopted for the study, and stratified random sampling was used to select a sample of 210 corporate organizations registered with the Kenya Association of Manufacturers. Data was collected using self-administered questionnaires and analyzed using statistical package for social sciences (SPSS) and Microsoft Excel. Hypothesis testing was done through multiple regression analysis, using standard F and t tests. Data was analyzed using SPSS and Microsoft Excel. Inferential data analysis was carried out by the use of factor analysis, correlation analysis and multiple regression analysis.

VII. RESEARCH FINDINGS AND DISCUSSION

SIZE OF THE STUDY SAMPLE

The size of the participating organizations was measured in terms of the number of full time employees working in the organizations. The findings of this study indicated that the majority of the organizations (55.8%) employed over 100 full time employees, with 10.7 % employing between 71-100 employees. Only 5.3% representing 11 of the organizations sampled had less than 20 full time employees.

REGRESSION ANALYSIS

A moderated multiple regression (MMR) model was used to test the moderating effect of cost led HR strategy on the relationship between HRM(selective resourcing, teams and decentralization, extensive training, sharing information and incentives on performance) and firm performance(sales growth, profitability ratio). Parsimonious regression models were fitted for testing the hypothesis using the beta coefficients on Table 1, and the resulting regression equations for prediction purposes were:

i. $Y_{sg} = 0.331X_1 - 0.234X_3$ where Y_{sg} is sales growth

ii. $Y_{pr} = 0.919X_5 + 0.071X_3$ where Y_{pr} is profitability ratio

An F test was used to check the significance of these overall fitted general moderated multiple regression models and the above regression equations were found to be valid and significant as a whole.

Table 1: Regression Analysis Results for the Moderating Effect of a Cost led HR strategy

Dependent variable	Predictor variable(s)	Standardized Coefficients Beta	R^2	F	Sig.
Sales growth	X_1	.331	.138	8.694	$.000^b$
	X_3	-.234			
Profitability ratio	X_5	.919	.906	957.312	$. 000^b$
	X_3	.071			

$P<0.05$

X_1=selective resourcing X_3=extensive training X_4 =sharing information X_5 =incentives

MODERATING EFFECT OF A COST LED HR STRATEGY

The findings of this study indicated that there was no moderating effect of a cost led HR strategy with any of the HRM practices used as predictors (selective resourcing, teams and decentralization, extensive training, sharing information and incentives on performance) that were fitted into the regression model when using any of the measures of firm performance in this study. The fitted regression models remained the same even after introducing the moderator into the regression analysis as the fitted regression models illustrate. Consequently, the null hypothesis that a cost led human resource strategy had no significant moderating effect on the relationship between human resource management and firm performance of corporate organizations in Kenya was accepted.

The empirical results of this study on Table 1 indicate that a cost led HR strategy has no moderating effect, but the non-zero beta coefficients for HRM indicate that selective resourcing, extensive training, sharing information and incentives are significant in the regression model. The value of R square (R^2) when the moderator (cost led HR strategy) was introduced in the regression model was not significantly different, suggesting that the moderator does not have any influence on the relationship between HRM and firm performance of corporate organizations in Kenya.

The findings of this study that a cost led HR strategy did not have any moderating effect in are consistent with prior researches. Budhar and Sparrow (2002) found that a cost reduction HR strategy reduces personnel costs associated with recruitment and selection; training and competitive pay to be lowest possible level and this explains why there was no interaction of the moderator with the independent variables in the regression model. Firms adopting a cost reduction HR strategy will require a utilization HRM philosophy that will emphasize short term relationships, minimize training and development and higher external pay comparability. The findings of this study from the interviews indicated that the HR implications of adopting a cost led HR strategy in the manufacturing organizations in Kenya was that there was minimum training, low employee interaction, less attractive reward and the emphasis was on efficiency at the expense of human resource.

According to Boxall and Purcell (2003) ,a firm adopting a cost led HR strategy design jobs that are fairly repetitive, train workers as little as is practical, cut staff numbers to the minimum, reward high output and predictable behavior. This confirms the failure of a cost led HR strategy to interact with selective resourcing, use of teams and decentralization, extensive training, sharing information and incentives on performance in Kenya's manufacturing organizations. Corporate organizations in Kenya pursuing a cost led HR strategy placed an emphasis on minimizing costs at all stages in the process, including people management. There were no systems for independent worker voice or any evidence of high commitment HRM, no recognition that employees should be provided with opportunities for learning and development, pay levels were unlikely to be much above the minimum and there was likely to be limited employee involvement and communications. These practices maximized efficiency by providing means for management to monitor and control closely the activities of employees. Sisson and Storey (2000) state that the key HR practice choices include: use of ad hoc methods in resourcing, poor or non-existent training in specific immediate skills, little or no communications and low pay levels and team working.

VIII. CONCLUSION

The results of this research indicating that a cost led HR strategy had no moderating effect on the relationship between HRM and firm performance in Kenya's corporate organizations is a reflection that these HRM practices are in contrast with the implications of a cost led HR strategy. Based on the findings of this study, it can, therefore, be concluded that majority of the organizations in Kenya sampled in this study lay more emphasis on other aspects of their products but not the price and that irrespective of whether a cost led HR strategy was being pursued or not, HRM remained significant in influencing firm performance. HRM practices (selective resourcing, extensive training, sharing information and incentives) had a linear relationship with performance. This could imply that HRM played a major role in influencing overall firm performance. It is widely accepted that an organization's HRM practices should be matching to the strategy of the whole organization. This would help the organization achieve congruence between the HRM practices and the competitive strategy chosen.

IX. RECOMMENDATIONS

The underlying assumption of HRM is that firm performance is influenced by a set of HRM practices, and for firm to compete effectively; they must constantly improve their performance by reducing cost, enhancing quality and differentiating their product and services. The research recommends that organizations should diagnose their strategic needs and develop practical solutions for achieving business goals by effectively fitting their competitive HR strategies to the HRM practices present. With regard to this is the role that HR practitioners play in organizations as the HRM practices are concerned. Thus, the study recommends organizations should promote the HR practitioners to the strategic level, making them to be directly involved in critical decision making and business strategy formulation from the beginning stage. Moreover, organizations should carefully consider the alignment among HRM practices, as well as between the HRM practices and the competitive strategy adopted so that they support and supplement one another.

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