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Innovative Human Resource Management Practices and Firm Financial Performance in the Nigerian Banking Industry

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Abstract

Innovative human resource management has been the focus of intellectual ferment over whether it exists in reality or is merely rhetoric. The 2005 consolidation exercise in the Nigerian banking industry created a competitive environment and to respond to the challenges, banks make some innovative changes in their HRM practices. Recent studies show that HRM practices are important for improved corporate financial performance but little has been reported on the effect of these innovative HRM and firm financial performance in the context of economic liberalization in Nigeria. In this study, the effect of innovative HRM practices on the financial performance of *banks in Nigeria is examined. Results indicate that strategic integration and devolvement of HRM are practiced to a moderate extent in the Nigerian banking sector. Findings also show that innovative HRM practices have significant positive effect on firm financial performance. The paper therefore recommends that organizations should further pay more attention to the implementation of innovative HRM practices with a view to improving the degree of their impact on firm financial performance.*

Key words: Innovative HRM, Devolvement, Integration, Performance, Banks.

Introduction

Several questions have been raised regarding the value creation of human resource management (HRM) in respect of whether it can contribute directly to the implementation of the strategic objectives of firms and improve performance (See, for example, Hope–Hailey et al. 1997). Strategic or innovative HRM emerged in the early 1990s laying more emphasis on an integrative and value–driven approach to HRM. It focuses on issues such as the fit between human resource practices and organizational strategic management, the involvement of the HR function in senior management teams, the devolvement of HR practices to line managers and the value that is added to organizational performance by HRM (Bowen and Ostroff, 2004).

Despite research efforts into HRM (See, for example, Becker and Gerhart, 1996; Wright et al. 2003), there exists an ongoing debate as to whether or not organizations actually practice strategic HRM, whether line managers are actively involved in transforming HR function to be more strategic and whether strategic HRM adds value to the bottom line (Martell and Carroll, 1995).

The broad objective of this study therefore, is to examine the effect of some innovative HRM practices on the financial performance of banks in Nigeria. Specific objective of the study is to ascertain the extent to which these innovative HRM is practiced in the Nigerian banking sector.

Literature review

The concept of innovative HRM

The concept of innovative or strategic human resource management (SHRM) evolved in the early 1900s with an increased emphasis on a proactive, integrative and value-driven approach to human resource management

(Butler et al. 1991; Schuller 1992). Strategic HRM views human resources as assets for investment and the management of human resources as strategic rather than reactive, prescriptive and administrative (Buyens and De Vos, 2001). Brewster and Larsen (1992) defined SHRM as the extent to which HRM is considered during the formulation and implementation of corporate strategies. It has also been defined as the pattern of planned human resource deployments and activities intended to enable an organization to achieve its goals (Wright and McMahan, 1999). The latter definition highlights the two important dimensions that distinguish SHRM from traditional HRM. It links HR practices with the strategic management process of the firm vertically and horizontally, it emphasizes that HR practices are integrated and support each other.

Integration of HRM with corporate strategies and management

Integration of HRM refers to the involvement of HRM in the formation and implementation of organizational strategies and the alignment of HRM with the strategic needs of an organization (Schuler and Jackson, 1999). Buyens and De Vos (1999) argues that in order for HR to be a strategic partner, HR managers should be involved in strategic decision making alongside other senior managers, providing greater opportunity to align HR goals, strategies, philosophies and practices with corporate objectives and the implementation of business strategy. This involvement would include the membership of HR managers in the most senior management teams in the organization. This would provide an opportunity for HRM to represent its concerns and influence business strategy from the outset of decision making. The chances of integration and value creation may be further increase if the senior HR manager and the CEO have an opportunity to establish a relationship (Sullivan, 2003). In this role, HR managers need to have knowledge of core markets, competitors, costs, profit indicators and stakeholders to be considered equal business partners (Chaddie, 2001). The involvement of senior HR manager in a firm’s senior management team provides an important channel for interactive information flow and communication.

To achieve strategic integration and alignment of HRM with business strategies, a documented HRM strategy would also be useful (Budhwar, 2000; Teo, 2002) as it can make more concrete the role and authority of HR managers in corporate decision making and increase capacity to cope with externalities such as a tight labour market (Cunningham and Deborah, 1995). A documented HRM strategy helps the organization to develop an HRM vision and objectives and to monitor performance. Some empirical evidence from previous research indicates that the full impact of HR practices on organizational performance occurs when HR practices are strategically congruent and consistent with each other (Becker and Gerhart, 1996; Khatri, 1999).

Most researches are linking SHRM with firm performance indicators such as absenteeism, commitment, customer satisfaction and innovation (e.g. Bowen et al. 2002). There is a need for research to focus on bottom-line indicators (Richard and Johnson, 2001) such as return on equity and profitability as HRM is under pressure from CEOs and senior managers to quantify added value to the bottom-line when HR managers join the senior management team (Sullivan, 2003).

Delegation of HR practices to line managers

To make HR managers more available for participation in strategic decision-making process, Budhwar and Khatri (2001) argued that the responsibility of routine execution and administration of HR practices should be delegated to line managers as they have direct and frequent contact with employees.

However, for the benefit of devolvement to be realized, line managers will need to possess appropriate skills to execute HR practices competently and effectively to a benchmarked standard advocated by HR managers (Hall and Torrington, 1998). This means that the senior HR manager needs to be a strategic partner with line managers, providing training, resources, incentive and a communication channel to ensure these HR practices are carried out in accordance with HRM policy (Teo, 2002).

Strategic HRM and corporate performance

Based on the questionnaire responses by heads of human resource departments in 191 companies in Singapore, David et al. (2002) examine the relationship between strategic HRM and organizational financial and human resource performance in Singapore. Using descriptive statistics and regression analysis model to analyze the data, the results indicate that with the exception of team-based work and performance-based pay, all the other strategic HRM components have a positive impact on the financial performance of a firm. Results also show that all the strategic HRM variables have a positive impact on HR performance.

Singh (2004) investigated the relationship between six HRM practices and firm level performance in India. 359 firms were drawn from firms listed in the Centre for Monitoring Indian Economy (CMIE) database. Of these 359 firms, 82 responded positively to the survey. Using regression and correlation analysis to analyze the data, findings indicate that there is a significant relationship between the two HR practices, namely, training and compensation, and perceived organizational and market performance of firms. In their comparative study of 137 large manufacturing firms, Budhwar and Boyne (2004) differentiates the HR practices in public sector and private sector companies in India. Their findings suggest that against the established notion, the gap between the Indian private and public sector HRM practices (structure of HR department, role of HR in corporate change, recruitment and selection, pay and benefits, training and development, employee relations and key HRM strategies) is not very significant but in a few functional areas (compensation, training and development), private-sector firms have adopted a more rational approach than their public sector counterparts.

Green et al., (2006) reported that organizations that vertically aligned and horizontally integrated HR function and practices performed better and produced more committed and satisfied HR function employees who exhibited improved individual and organizational performance. Tessember and Soeters (2006) examined how, when and to what extent HR practices affect performance in Eritrea, Africa’s youngest and poorest country. They reported that successful implementation of HR practices could enhance individual and civil service organization of Eritrea, but the economic and political environment within which HR practices operate are not conducive. Their study tried to shed some light on the HRM-performance debate within the context of a developing country.

Gooderham, Ringdal and Parry (2006) examined the relationship between HRM practices and perceived firm performance in 3,281 firms located in 29 European Union Countries. While controlling for firm strategy, firm size, market conditions, degree of unionization, industry and country, the results indicate calculative and intermediary HR practices have a significant impact on performance and that collaborative practices do not have a significant impact on firm performance.

Using a stratified random sampling by industry, Kai et al. (2007) surveyed 231 firms listed on the Australian Stock Exchange (ASE). Using descriptive statistics and correlation analysis, results indicate that strategic integration and devolvement of HRM were practiced to a moderate extent in the firms sampled, and that the degree of alignment of HRM with business objectives and strategies had a positive relationship with perceived firm financial performance.

Onyango and Okech (2008) examined how HR performance of hotels in Kenya is affected by the HR systems and competitive strategies. 125 managers and employees in four hotels in Nairobi and Mombasa were sampled using stratified sampling technique. Using Spearman's r_s correlation coefficient, Kruskal-Wallis one way analysis of variance and Chi-square goodness of fit test as methods of statistical analysis, the results indicate that functionally flexible human resource systems in conjunction with differentiation strategies are associated with high organizational performance; whereas, numerically flexible human resource systems and cost-reduction strategies are linked with low organizational performance. Functionally flexible human resources systems emphasize mutual obligations between management and workers. By contrast, numerically flexible human resource systems are based on a straight work-for-hire relationship, in which employment is subject to unilateral termination at any time by employee or employer.

Som (2008) sampled 69 Indian companies with a view to examining the impact of innovative SHRM practices on firm performance. Using descriptive statistics and regression analysis, results indicate innovative recruitment and compensation practices have a positive significant relationship with firm performance. Their results also show that recruitment, role of the HR department and compensation practices seem to be significantly changing within the Indian firms in the context of Indian economic liberalization. The synergy between innovative HRM practices was not found to be significant in enhancing performance during the liberalization process.

Research Hypotheses

On the basis of the literature reviewed concerning innovative HRM and firm performance, the research hypotheses are as stated below:

H_0: Innovative HRM practices have no significant effect on firm financial performance.

H_0: Innovative HRM is not practiced by banks in Nigeria.

Research Methodology

Materials and methods

The population of this study is made up of all the 21 banks that were quoted on Nigerian Stock Exchange (NSE) as at 30th November, 2011. A total of fifty (50) questionnaires accompanied by a covering letter were sent to the heads of human resource departments of these banks in order to circumvent the usual apathy and unprofessional attitude of this category of respondents to research activities and obtain adequate data amenable to proposed analytical procedure. Descriptive statistics and regression analysis were the main statistical techniques used in analyzing the data.

Measures

Measurements of relevant variables – innovative HRM alignment, line management devolvement, line management training in HR practices and firm financial performance are done as follows:

Innovative HRM alignment with business objectives and strategies was measured by 10 items, each rated on a 5 – point likert scale ranging from 1 'not at all' to 5 'to a great extent'. The 10 items were averaged to form a composite measure with higher scores indicating greater strategic alignment.

We also asked whether the company had a documented HRM strategy (coded 0 = no, 1 = yes) and if the most senior HR manager in the company was a member of the senior management committee (coded 0 = no, 1 = yes).

The line management devolvement variable was measured by asking respondents to indicate the involvement of line managers in the execution of five HR practices. We constructed an index by adding the five HR practices. Companies that indicated the involvement of line managers in one HR practice scored a 1; two practices scored a 2 and so on up to 5. The range of line management devolvement index is thus 0 to 5.

The line management training in HR practices variable was measured by asking respondents to indicate the proportion of line managers trained in the company to execute HR practices. The percentage of line management training was scored on an ordinal scale from 1 'less than 10% to 10 'more than 90%.

In measuring firm financial performance, perceptual measures were used. Four items were developed. The wordings of these four items were based on the measure of perceived firm performance developed by O'shannassy (2004). Ratings of each performance indicator were made relative to the industry's average on a 5 – point scale from 1 'very poor', to 5 'very good'. Perceptual measures have been found to correlate moderately with strongly with more objective measures of firm performance (See, for example, Delaney and Huselid, 1996, Wall et al., 2004)

Internal consistency reliability of these measures was found to be acceptable with a Cronbach's alpha coefficient of 0.70. This exceeds the minimum acceptable criterion of 0.60 suggested by Malhotra (1993).

Results

Demographical characteristics of the respondents

Of the fifty (50) questionnaires administered, a total of thirty-six (36) completed and usable questionnaires representing a response rate of over 67 percent were received. The detailed analysis of the demographic characteristics of the respondents is therefore, presented in Table 1 below:

The table shows that 65% are within the rank of Assistant Managers and above while 35% are below the managerial position. This gives an indication that the respondents are highly rated employees. 35% of the respondents are based in the Human Resource Departments of their respective organizations. Those working in the Marketing and Operations departments represent about 24% and 30% respectively while 11% are working in other departments such as risk management, legal and other supporting units of their respective organizations.

Table I: Demographic Characteristics of the Respondents (N = 12)

Characteristics	Frequency	Percentage
Job Title		
Senior Managers & Above	9	25
Asst. Managers/Managers	15	40
Others	12	35
Total	***36***	***100***
Departments		
Human Resource	12	35
Marketing	9	24
Operations	12	30
Others	3	11
Total	***36***	***100***
Length of Service		

Less than 1 Year	3	9
1 – 3 Years	6	15
4 – 5 Years	15	43
5 Years & Above	12	32
Total	***36***	***100***
Sex		
Male	21	58
Female	15	42
Total	***36***	***100***
Age		
30 – 35 Years	3	9
36 – 45 Years	15	39
46 – 55 Years	12	37
56 Years & Above	6	15
Total	***36***	***100***

Source: Author's Computations, 2012

Majority of the respondents (75%) had put in at least four (4) years of service indicating that the respondents have actually spent enough time in the service to know how the subject matter of this study could affect them. 58% of the respondents are male, while 42% are females. 91% are over 35 years old. The mean age of the respondents is 46.4 years.

Reliability and validity

Cronbach alpha reliability test and item-to- total correlation were computed in order to address issues of common method variance and to assess the internal consistency of the multiple scales. Items having low item-to-total correlation may signal that the items do not reflect the particular construct or might have tapped into another dimension of the construct.

Table II: Descriptive Statistics and Item-to-Total Correlations

Variables	Mean	Std. Deviation	Item-to-total correlation
Innovative HRM Alignment	4.05	0.47	0.752
Documented HRM Strategy	0.85	0.25	0.844
Committee Membership	0.90	0.31	0.621
Line Management Devolvement	3.72	0.53	0.702
Line Management Training	7.50	0.80	0.578
Financial Performance	3.92	0.42	0.687
Overall Cronbach Alpha			0.82

Source: Author's Computations, 2012

From computations in Table II above, the Cronbach alpha of 0.82 is above the minimum threshold of 0.70 as suggested by Nunally and Bernstein (1994), while item-to-total correlations were well above the recommended value of 0.5 (Hair et al., 2005). The result therefore, indicates high internal consistency of the scales.

Test of Hypotheses

Hypothesis one**:** *Innovative HRM practices have no significant effect on firm financial performance.*

Results indicate that innovative HRM practices as represented by innovative HRM alignment, documented HRM strategy, committee membership, line management devolvement and line management training have significant effect on firm financial performance with a multiple correlation (R) of 0.764 and an adjusted R^2 of 0.647. This implies that about 65% of the variation in firm financial performance is adequately explained by the independent variables i.e. innovative HRM alignment, documented HRM strategy, committee membership, line management devolvement and line management The standardized coefficients of regression is presented in Table III below. This result has thus, provided support for alternative hypotheses one.

Table III: Results of standardized regression model

Variables	Standardized Coefficients	t-values
Innovative HRM Alignment	0.724	0.634
Documented HRM Strategy	0.520	0.756
Committee Membership	0.210	1.414
Line Mgt. Devolvement	0.663	1.412
Line Mgt. Training	0.454	0.852
R	0.764	
R^2	0.647	
F – value	7.822*	

**Significant at the 0.05 level*

Source: Author’s Computations Using SPSS, 2012

Hypothesis two**:** *Innovative HRM is not practiced by banks in Nigeria.*

We present in table 1 the means and standard deviations of the studied variables. The mean score for the strategic HRM alignment measure was 4.05 out of a possible high score of 5 suggesting an encouraging 81% extent of strategic alignment between HRM and organizational business objectives. Of the companies sampled, 85% had a documented HRM strategy. Higher levels of committee membership was found with 90% of banks reporting that their most senior HR manager was a formal member of the most senior management team.

To assess the tendency of banks to devolve HR practices to line managers, two criteria were used, namely, the involvement and training of line managers in HR practices. Based on a possible range of 0 – 5 practices, the results revealed that line managers executed a mean of 3.72 HR practices.

In terms of the second criterion for devolvement (i.e. training provided for line managers to execute HR practices), findings show a mean response of 7.50 out of 10. This indicated a high level of training offered by banks to their line managers in the execution of HR practices.

These results have therefore, provided support for alternative hypothesis two. This implies that overall innovative HRM is practiced by banks in Nigeria.

Discussions

The results of this study indicate that HRM alignment was integrated into the organizations' core business operations (81% level of alignment).

From the perspective of committee membership, senior management integration appeared to be high (90%). That is, the majority of banks provided the most senior HR manager with a formal position on the most senior management team. Majority of banks surveyed had a formally documented HRM strategy (85%). In comparison, Budhwar (2000) reported that in the United Kingdom manufacturing sector, only 44% of the firms reported to have a HRM strategy and 55% had HR managers with committee membership.

The results also indicate that line managers were significantly involved in the execution of HR practices. Again, on average the level of training for line managers to perform these practices was found to be high, which indicate an appreciable level of transfer of HRM knowledge to line managers. Past research suggests that insufficient training offered to line managers greatly undermines the capacity of line managers to perform HR activities effectively (See, for example, Budhwar, 2000; Hope-Hailey et al.1997).

Results also show that innovative HRM practices as represented by innovative HRM alignment, documented HRM strategy, committee membership, line management devolvement and line management training have significant effect on firm financial performance. Thus, we have received support for our research hypothesis. This is consistent with previous research that has found weak-to-moderate positive relationship between strategic HRM and firm financial performance (See for example, Appleby and Mavin, 2000; Buyens and De Vos, 1999; Richard and Johnson, 2001).

Conclusion and recommendations

The results of our research have indicated an appreciable level of adoption of innovative HRM practices by banks in Nigeria. The study also found evidence for the value added by innovative HRM to firm financial performance. Our study has therefore contributed to the field of strategic human resource management by providing evidence for the value-added by innovative HRM through the integration of HR function within the organization's key strategies and operations.

The implications from this and other empirical research studies are that managers should consider the benefits of integrating their HR function with the firm's business strategy and operations and that line managers should be involve in the implementation of HR practices and policies.

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