ROLE OF PERFORMANCE MANAGEMENT PRACTICES ON THE PERFORMANCE OF FINANCIAL COOPERATIVES BASED IN NAIROBI COUNTY KENYA

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ABSTRACT

The purpose of the study was to investigate the relationship between performance management practices and the performance of financial cooperatives otherwise known as Savings and Credit Cooperative Societies in Nairobi County in Kenya. Problems in Human Resource Management led the researcher to formulating a research problem which guided the research process and the final results may be used to solve HRM problems thus improving performance. The performance Management practices that serve as variables of the study are in broad HR area of performance management. Research objective and research hypotheses were formulated based on this area. Population of financial cooperatives in Nairobi is 2959 and from this number 340 were selected. Simple random sampling technique was used to select a representative sample. Data was collected using questionnaires. Data was analyzed using a combination of data analyses techniques. Both qualitative and quantitative data was collected and analyzed. Statistical Quantitative data was analyzed using inferential statistics. From the results of data analysis there is evidence that performance management practices have a relationship with performance of financial Cooperatives. Conclusions and recommendations are made

based on the results of findings of the study to guide financial cooperatives in improving their performance management practices thus performance.

Key words: performance management, financial performance, non financial performance.

1.1 Introduction

Many countries that have achieved economic development have a vibrant and a dynamic cooperative sector which contributes substantially to the growth of those economies. For example, in Kenya cooperatives contribute 45% of the Gross Domestic Product (GDP) and 31% of the total national savings and deposits. Cooperatives control 70% of the coffee market, 76% of the dairy market and 95% of the cotton market (ICA Report, 2006).

According to Wanyama (2009) the greatest contribution of cooperatives to Kenya's social and economic development is in the financial sector where financial cooperatives such as savings and credit cooperatives hold substantial savings portfolios. This underlines the importance of financial cooperatives to the economy of Kenya.

Davis (2006b) investigated the issue of HRM in cooperatives through fieldwork over seven years with co-operative organizations including the international co-operative alliance (ICA), Asian confederation of credit unions (ACCU), and the British society for co-operative studies and found problem of inadequate Personnel or HRM systems in the majority of co-operatives. Additionally, cooperatives are lagging behind the private sector in HRM according to this study.

Uysal and Koca (2009) researched on HRM practices and firms performance and found out that HRM practices have a strong relationship with organizational performance but weak relationship with market performance. Additionally, Khan (2010) investigated the effects of HRM practices and found a positive significant relationship between practices and organizational performance.

1.2 Performance

One key area of concern is the definitions and limitations of performance used in evaluation. Current measures of performance are largely determined by financial performance and productivity, usually within a highly managerialist perspective (Guest, 1997). However, this approach neglects the role and contribution of employees in achieving organizational performance and fails to consider how employees' perceive HR practices (Guest, 1999).

Thus there needs to be a balance when studying the link between HRM and performance in the sense that financial performance and the role and contribution of employees should form the basis of performance indicators. That is why this research used financial and non financial performance indicators. This upholds the morality of

HRM and prevent this field from being seen as the one that supports ideas that perceives employees as a means to an end.

1.3 Performance Management Practices

Performance management is creating a shared vision of the purpose and aims of the organization, helping each individual employee to understand and recognize their part in contributing to them to them and thereby managing and enhancing the performance of both individual and the organization (Fletcher, 1997).
Armstrong (2010) identifies the key features of performance management. These include joint agreement between managers and subordinates at every stage on how well the later is are doing and what can be done jointly to develop strengths and deal with weaknesses. Secondly discussions between managers and subordinates should take form of dialogue and managers should not dominate the process. Thirdly performance management is about managing managers and subordinate expectation. Fourthly this process should use positive feedback to motivate people. Additionally performance management is forward looking and does not dwell on the past. Lastly performance management is a continuous process not an annual event and it should be managed throughout the year.

According to Brudan (2010) Performance measurement should emphasize learning and not control. Unfortunately organizations are still over emphasizing performance measurement without using performance data for learning which in turn is likely to improve financial performance. Results of performance Measurement should not be used for control purposes. Both the supervisor and the subordinate can also learn about the ways that can be used to improve their relationship aimed at improving performance.
A common weakness in appraisal / goal setting systems is that the discussions to do these tasks take place in a communication 'vacuum' – the manager and team member are probably both relatively unclear about the overall priorities of the business (Grint, 1993). Indeed Performance Management activities should always be geared to achieve certain clear objectives.

Torrington *et al.* (2008) stresses the importance of departmental objectives in PMS and argues that individual objectives should be derived from departmental objectives. Obviously departmental objectives should then emanate from organizational objectives. They go further and point out that the organizational objectives should then be aligned to the mission of the organization.

Bascal (1999) explains that performance management should be a continuous partnership between employee and supervisor in areas such as employee's involvement in formulating goals, and discussion of the role of each in accomplish these goals. This means that a consultative and participative approach should be used where each party feels part and parcel of the partnership without domination from either side.

PMS approach believes that there are many other factors coupled with performance outcome and it is not only based on objective achievement which was main target of MBO practice. In this approach 'sharing expectations' has changed the autocratic style of management into democratic (Wilson, 2009).
Individual objectives derived should agree with job description and jointly devised by managers and employees. These objectives are outcomes or result oriented rather than task oriented and include measures to be accessed. The objectives are designed to stretch the individual and offer potential development as well as meeting business needs, Its helpful to both the individual and the organization that objectives are prioritized (Torrington *et al.*, 2008).

Armstrong (2010) notes that objective setting that result in an agreement on what the holder has to achieve is an important part of performance management process of defining and managing expectations and this should always form a reference for future performance reviews.

1.4 Methodology

This research adopted a mixed research design. This means that descriptive survey and correlation research designs was used. The implication is that the research design was both qualitative and quantitative in nature. Correlation research design was used to show the strength of relationship between dependent and independent variables as used in research. Saunders (2009) identifies reasons for using mixed research designs. This include triangulation, facilitation, complementarily, generality, to aid in interpretation, study different aspects and lastly to solve a puzzle.

The population consisted of the registered Financial Cooperatives in Kenya. According to the MCDM (2011) there are 2959 financial cooperatives in Nairobi County. Thus this research targeted all 2959 financial cooperatives in Nairobi County formerly Nairobi Province as registered by the former Ministry of Cooperative Development and Marketing. All financial cooperatives in Nairobi County were targeted whether they have a Human Resource department or not.
Given the target population, the researcher used a formula to calculate the sample size to be 340 as proposed by Saunders (2009). The researcher adopted simple random sampling technique to select financial cooperatives.

This study adopted multi methods research. This implies that both qualitative and quantitative methods were used. The use of quantitative and qualitative research methods is to strengthen the validity of data and to corroborate survey findings (Creswell & Miller, 2000; Creswell, 2003). Questionnaires and were used to collect data. Questionnaires were administered with heads of HR departments. The questionnaires included both open and closed ended questions. Statistical package for Social Science (SPSS) was used to analyze data. Quantitative data was analyzed inferential statistics while qualitative data was analyzed using categorization.

1.5 Results

To assess the reliability of statements Cronbach's Alpha was used. Financial performance had an alpha of 0.857 while non financial had an alpha of 0.756. Cronbach's Alpha was greater than 0.7 indicating reliability of the data. Lastly performance management had an alpha of 0.871.

The number of respondents who participated in this survey and completely filled the questionnaire totaled to 240 out of the targeted 340 which translates to 70.58% response rate.

1.5.1 Performance Management and performance

Table 1.1 Correlations

		Financial performance	Non Financial performance
Performance management practices	Pearson Correlation	.527**	.386**
	P-value	.000	.000
	N	233	232
	P-value	.000	.000
	N	220	219

**. Correlation is significant at the 0.01 level (2-tailed).

Pearson correlation was employed to show the relationship between financial and non financial performance and performance management practices. Financial performance was reported to have significant positive relationship with all the studied HRM practices with p-values<5% as indicated in the table above.

Performance management Practices (.527) had a significant correlation coefficient with financial performance measured in net profits p-values<5% as indicated in the table above. Non financial performance (.527) was reported to have significant positive relationship with performance management practices with p-values<5% as indicated in the table above.

Table 1.2 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.791[a]	.626	.611	.24703

a. Predictors: (Constant), Performance management practices, Employee resourcing practices, Reward management practices, Training practices

Multiple regression with financial performance as dependent variables had R^2 of 62.6% indicating that 62.6% of variation in financial performance could be explained by employee resourcing practices, reward management practices, training practices and performance management practices.

Table 1.3 Model Summary

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate
1	.593[a]	.352	.341	.51654
a. Predictors: (Constant), Performance management practices, Employee resourcing practices, Reward management practices, Training practices				

Multiple regression with non financial performance as dependent variables had R^2 of 35.2% indicating that only 35.2% of variation in non financial performance could be explained by employee resourcing practices, reward management practices, training practices and performance management practices.

1.6 Hypotheses Testing

Hypotheses were tested using t test. One hypothesis related to the relationship between performance management practices and financial performance. The other was concerned with performance management practices and non financial performance.

1.6.1 Financial Performance

Hypothesized relationship between variables is shown in the following research hypotheses.

H_1: There is a positive relationship between Performance Management practices and financial cooperatives' performance in Nairobi County, Kenya.

Table 1.4 Financial Performance

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	T	Sig.
1	(Constant)	.663	.258		2.568	.011
	Performance management practices	.162	.085	.148	1.910	.047
a. Dependent Variable: Financial performance						

From the table 1.4, the t test gives a positive figure of 1.910. The probability value (p-value) of the relationship between performance management practices and financial cooperatives' performance is 0.047 which is less than alpha value of 0.05. Thus the test of hypothesis supports that there is a positive relationship between performance management practices and financial cooperatives' performance in Nairobi County, Kenya. These results are consistent with other previous studies such as the one done by (Dimba, 2008).

1.6.2 Non Financial Performances

Hypothesized relationship between variables is shown in the following research hypotheses.

H_1: There is a positive relationship between Performance Management practices and financial cooperatives' performance in Nairobi County, Kenya.

Table 1.5 Financial Performance

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	.692	.298		2.317	.021
	Performance management practices	-.011	.098	-.009	-.112	.911

a. Dependent Variable: Non financial performance

H_1: There is a positive relationship between Performance Management practices and financial cooperatives' performance in Nairobi County, Kenya.

From the table 1.5, the t test gives a negative figure of -1.12. The probability value (p-value) of the relationship between performance management practices and financial cooperatives' performance is 0.911 which is more than alpha value of 0.05. Thus the test of hypothesis fails to reject the null hypothesis that there is no positive relationship between performance management practices and financial cooperatives' performance in Nairobi County, Kenya.

1.7 Conclusions

For financial cooperatives to maximize net profits, they must have effective and efficient performance management practices. The performance management system should give employee ownership. The overall systems should be linked to the objectives of the organization. In this performance management practices were found to have a significant relationship with net profit.

1.8 Recommendations

Performance management in financial cooperatives in Kenya should be futuristic in the sense that current employee performance can be used for learning purposes in a view to improve performance in future. Performance management data should yield lessons that both managers and employees can use so as to improve performance in future.

Performance targets should be set in a consultative manner with employees. Employees should have ownership of the process. They should feel that the system is fair and aimed at improving performance and not sacking employees.

Targets should also have developmental plans in areas where necessary to enable employees have capacity needed to achieve performance targets. After targets have been jointly set, both the immediate manager and employee should identify implications for development of employees' capacity and set out plans so as to develop the needed capacity.

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