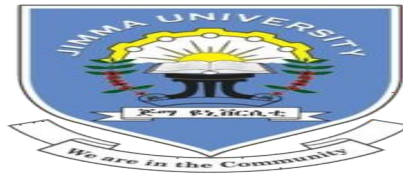


Effects of Strategic Human Resource Management on Organizational Performance: Mediating Role of Human Resource Capabilities: *A Study on Awash Bank*

A Thesis Submitted to the School of Graduate Studies of Jimma University in Partial Fulfillment of the Requirements for the Award of the Degree of Master of Business Administration (MBA)

BY:

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**JIMMA UNIVERSITY
COLLEGE OF BUSINESS & ECONOMICS
MBA PROGRAM**

**MAY 25, 2020
ADDIS ABABA, ETHIOPIA**

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UNDER THE GUIDANCE OF
DANIEL AMENTE (PhD Candidate)



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PROGRAM**

June, 2020

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DECLARATION

I hereby declare that this thesis entitled “The Effect of Strategic Human Resource Management Practices on Organizational Performance by mediating at Awash Bank”, has been carried out by me under the guidance and supervision of Ato. Daniel Amente.

The thesis is original and has not been submitted for the award of any degree or diploma to any university or institutions.

Researcher’s Name

Date

Signature

Chala Nigussie

CERTIFICATE

This is to certify that the thesis entitles “The Effect of Strategic Human Resource Management Practices on Organizational Performance by mediating at Awash Bank”, submitted to Jimma University for the award of the Degree of Master of Business Administration (MBA) and is a record of bonafide research work carried out by Mr. Chala Nigussie under our guidance and supervision.

Therefore, we hereby declare that no part of this thesis has been submitted to any other university or institutions for the award of any degree or diploma.

Main Adviser's Name

Date

Signature

Co-Advisor's Name

Date

Signature

Abstract

The purpose of this study was to examine the effect of strategic human resources management (SHRM) practices on organizational performance mediated by Human Resource Capabilities in Awash Bank. The study adopted a mixed approach. The target population of this research was 600 employees out of which 240 employees were taken as a sample using simple random & stratified sampling. In order to achieve the above objectives, primary data were collected through questionnaire and interview. The gathered data were analyzed using descriptive and inferential statistics. Pearson Correlation and regression analysis were conducted to determine the relationship and the effect of two variables by using SPSS. Finding revealed that Strategic Human Resource Management practices (Training and Development, Recruitment & Selection, Performance Management & Compensation) affect organizational performance positively. This positive relationship indicates that the Strategic Human Resource Management Practices directly influencing the effectiveness of the Bank and through Human Resource Capabilities indirectly. Thus, the study recommends that, management of the Bank should give attention for the implementation of a set of HRM strategies to gain strategic organizational outcomes in terms of effectiveness, efficiency, relevance and financial viability. There is a need to develop proactive talent acquisition strategy and modern performance management system to support a high performance culture and ensure the proactive use of performance appraisal outcomes as a tool to determine developmental. Training needs, the performance of employees should be measured on the basis of objective quantifiable results, Training needs assessment could be carried out before any training programs began and effectiveness of training should be done after. Finally the study recommends the bank should recognize the contribution of Human Resource capabilities to organizational success.

Key Words: Strategic, Human Resource, Management, Human Resource Capabilities

List of Abbreviations

HR	Human Resource
HRM	Human Resource Management
SHRM	Strategic Human Resource Management
RBVT	Resource Based View Theory
SPSS	Statistical Package for Social Science
USA	United States of America

Acknowledgements

First and foremost, I would like to thank God for giving me health, strength and intellect to start and finish this research project. Second, I am thankful for my advisor Mr. Daniel Amente for his continuous guidance and intellectual support. Third, I am indebted of all Awash Bank respondents for providing me necessary and relevant information.

Finally, my earnest recognitions go to my families who have always been helpful and have contributed a lot to the accomplishments of this paper.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Organizations operating in the 21st century are gradually shifting from traditional approaches of Human Resource Management (HRM) to Strategic Human Resource Management (SHRM) approaches (Lamba&Choudhary, 2013). With the changing business environment, competition, influence of technology, employee diversity, and change of consumer demands and costs of operation, organizations in developed and developing countries have to adopt Human Resource Management in order to be competitive (Thite & Russell, 2010).

The concept of SHRM has been instrumental in management research and practice for the last three decades (Purcell, 2011). Continuing analysis within the field usually focuses on how Human Resource Management (HRM) can add strategic value and hence to organizational success. According to this approach, which has mainly been applied in the private sector, people are a key resource and a significant element in an organizations performance. The main rationale for strategic HRM thinking is that by integrating HRM with the organizations strategy and by utilizing particular sets of HR policies and practices, workers will be managed more effectively, and consequently individual and organizational performance will improve (Fombrun, 2010).

Strategic human resource management represents a latest change in the field of HRM. SHRM is concerned with the function that human resource management systems play in organizational performance, focusing on the configuration of human resources as a technique of gaining competitive advantage. Firms are becoming conscious that thriving human resource policies and practices may enhance performance in diverse areas such as productivity, quality and fiscal performance (Voorde, Van De, Paauwe& Van Veldhoven, 2010).

The postulation founding the practice of HRM is that employees are the firm's most important resource and organizational performance mostly depends on them. Hence if proper assortment of HR policies and processes are developed and implemented effectively, then HR will register a huge impact on organizational performance. A great deal of the previous

research work in the field of HR has attempted to answer two fundamental questions: First whether SHRM practices create a positive impact on organizational performance; second, whether they have any impact when applied. The second query is the more imperative one. It is not sufficient to give reason for HRM by proving that it is a good practice. It is important to establish what can be done to ensure that it is a good thing (Voorde et al., 2010). Measuring the performance of organizations is not straight forward especially for firms with numerous objectives of customer retention, productivity, and profitability, ability to become accustomed to the ever varying environment, employee satisfaction, growth and social responsibility amongst additional goals. Organizational performance has mostly been conceptualized on the basis of financial measures, however some scholars have urged for a wider performance construct that incorporate aspects of non-financial measures such as, effectiveness, efficiency, quality, and company image, (Waiganjo, Mukulu&Kahiri, 2012

According to Richard (2009), organizational performance means achievement of organizational goals and objectives. Organization performance should be measured not only in terms of market share, return on investment and financial profitability, but should encompass both qualitative and quantitative parameters of measurement. This approach is supported by Lusthaus (2000) who categorizes organization performance indicators in terms of; effectiveness, ability of an organization to provide the best service or product within the most effective structure; efficiency, the degree to which an organization moves towards attainment of its mission and realization of its goals; relevance, survival of an organization and financial viability, an organizations ability to have more financial resources than its spending.

In the past years, more investment has been made in research focusing on the relationship between SHRM practices and organizational performance. Research in this area has been accelerated recognition of the fact that accessing funds and equipment are becoming less efficient as they can be without difficulty copied by rival firms. Human resource on the other hand is seen to represent an asset that can be a source of competitive advantage because it is often difficult to duplicate by competing firms and hard to substitute even within the same firm. SHRM can therefore, be used by organizations to acquire and develop this valuable capital. (Huselid, 1995; Huang, 1998; Dimba&K“Óbonyo, 2009; Abdulkadir, 2009).

An issue that has featured prominently in the discussion of the interactions between SHRM and organizational performance is whether the correlation between SHRM practices and measures of organizational performance is universal or contingent. The universalistic observation suggests that a number of HRM practices are more valuable than others. Firms that use modern hiring systems should on average have more efficient, competent and resourceful labor force than firms that employ other systems (Pfeffer, 2004; Huselid, 2005).

The contingency view, on the other hand, suggests that the effectiveness of SHRM practices depends on other factors such as organizational climate and culture among others, as well. According to this argument, organizational culture influences human resources management practices in that when employees understand and internalize the organizational culture they will choose strategy and behavior that fit their personality and also match the main routines of the organization's activities (Suharnomo, 2009). Hence, if HRM practices are not in conformity with the organization's values that are shared by employees, then the employees will feel unsatisfied, uncomfortable and uncommitted, thereby resulting in low performance because their values are different from the company's expectations (Earley, 2002).

SHRM practices, are those decisions and actions which concern the management of employees at all levels in the business, and which are related to the implementation of strategies directed towards sustaining competitive advantage (Dimba, 2010). Even though advancement in the direction of identifying precisely which HR practices are linked with better organizational performance has been unsatisfactory, it is recognized that there are four main areas in which human resources strategies may be developed. These include recruitment, training, compensation, and performance management (Armstrong, 2002; Foot & Hook, 2009).

Efforts have been made by human resources management theorists to try to establish a causal link between human resource management and performance (Cook, 2000). However, little has been reported on the effect of HRM and corporate performance in the banking industry. Cook (2000) argues that there is a symbiotic relationship between human resources strategy and performance. Other scholars such as Armstrong (2010) argue that human resources management practices can improve productivity by: (1) increasing employee skills and abilities (2) promoting positive attitudes and increasing motivation and 3) providing employees with expanded responsibilities so that they can make full use of their skills and

abilities. While there is a growing body of theory and empirical research demonstrating positive relationships between HRM policies, collective employee attributes, and firm outcomes, additional studies in this area are needed (Harter, Schmidt & Hayes, 2002; Purcell & Kinnie, 2007). There is need for a theoretical link on exactly how human resources management and performance are related.

1.2. Statement of the Problem

The modern field of SHRM is attracting a great deal of attention owing to its potential impact on the functioning of the organizations. There is now an evolving belief that, if organizations wish to survive and compete in the present-day knowledge-based global economy, they have to acquire, develop, and accordingly manage world-class human resource competencies and practices (Pfeffer, 1994, 1998; Schuler and Jackson, 1999; Khandekar and Sharma, 2005; Moideenkutty et al., 2011). This belief has led to research concerned with the link between SHRM and OP conducted studies on this research stream have confirmed the positive impact of SHRM on organizational performance (see, for example Huselid 2007; Armstrong & Baron, 2009; Katou, 2008; Ahmad & Schroeder, 2003; Bae & Lawler, 2000; Batt, 2002; Delery & Doty, 1996; Guthrie, 2001; Gardner & Moynihan, 2003), Huselid, 1995; MacDuffie, 1995; Delery and Doty, 1996; Wright and Boswell, 2002; Moideenkutty et al., 2011; Razouk, 2011).

However, there is also a group of researchers who have argued that the results of the SHRM-performance link are ambiguous (Beardwell et al., 2004; Paauwe and Boselie, 2005; Paauwe, 2009; Guest, 2011), and that additional studies in different contexts are required to obtain a broader view on the HRM-performance link (see, for example, Gerhart, 2005; Erickson and Dyer, 2005; Wright et al., 2005; Chand and Katou, 2007; Guest, 2011).

An extensive review of the theoretical and empirical work conducted on the SHRM and performance link shows some significant gaps.

First, each study in this research stream has utilized different combinations of HR practices; there is no standard or semi-standard list of HR practices to be considered and measured in terms of the link with organizational performance. This has led to a plea by some scholars for a specific theory on HRM (Paauwe and Boselie, 2005; Guest, 1997, 2011). As is the case with HR practices, there is no consensus amongst researchers regarding the measurement of organizational performance. Researchers have employed different performance indicators, mostly subjective, in different studies. On the subject of the mechanism that has been used in

research, this is also not considered consistent, with some researchers having examined the relationship directly whilst others have examined it indirectly through different mediating variables.

Although there are numerous research studies on SHRM, there is limited empirically based research that has examined SHRM practices, the mediating effect of HR capabilities and linked them to organizational performance such as effectiveness, efficiency, relevancy and financial viability. Moreover only a small number of researchers have expressed potential mediators to a limited extent (Delery& Shaw, 2001; Wright, 2001; Schuler, 2009). There is a black box in empirical examinations of the relationship between SHRM practices and organizational performance where the mediating is typically implied but not measured

More importantly, almost all of the studies concerning the impacts of SHRM practices on firms' performance have been conducted in the developed countries like US and the UK and in manufacturing & industry sector. HRM researchers argue that it is difficult to make generalized conclusions from current SHRM-performance results (Beardwellet al., 2004; Paauwe and Boselie, 2005; Paauwe, 2009; Guest, 2011), and that there is therefore the need for further empirical investigations from different angles (Ericksen and Dyer, 2005; Wright et al., 2005; Chand and Katou, 2007)

Similarly, since 2015, various diagnoses have been done on the bank under investigation in particular on its business and operational by KPMG international consulting firm under project ODA 2025. Consequently, different HR strategic initiatives have been proposed to address the gaps identified by the diagnosis. In particular, strengthening the HR operating model to support the strategic objective of the bank and developing Talent Management programs to attract and retain key talent and develop a globally competitive workforce is the top identified strategic initiatives in the areas of Human Resource functions for the attainment of the vision 2025 that aspired to by the company (AB HR diagnostic report, 2015).

Moreover, HR diagnostics that conducted on the bank under investigation shown that the talent acquisition approach is reactive and Recruitment turnaround times. Furthermore due to the absence of modern performance management systems, Items on the performance evaluation scale are generic. Employees are evaluated on a generic set of criteria not based on clearly set goals and targets linked to the strategic goals of the Bank. Thus, lack of

emphasis towards building organization culture can have an effect on organizations performance (AB HR diagnostic report, 2015).

Therefore, based on the above important issues in relation to the HRM-performance debate, and gaps identified, the present research aims to fill these apparent gaps by investigating the effect of SHRM practices and organization performance and also the mediating human resource capacity in Awash Bank.

1.3. Objectives of the Study

1.3.1 General Objective

The general objective of this study is to examine the effect of strategic human resource management practices on the performance and the mediating role of human resource capability of Awash Bank.

1.3.2 Specific Objectives

1. To examine the extent to which how Recruitment & selection affect organizational performance of Awash Bank
2. To investigate the effect of performance management on performance of the Awash Bank.
3. To evaluate the effect of Training & Development on organizational performance of Awash Bank
4. To examine the effect of compensation on organizational performance of the Bank.
5. To determine the mediating effect of HR capabilities on the relationship between SHRM practices and performance of Awash Bank.

1.4 Hypothesis

H0: There is no relationship between Recruitment & selection and performance of Awash Bank.

H1 Training & Development have no effect on organizational performance of awash bank

H2 Compensation have no effect on Organizational Performance of Awash Bank

H3 performance management have no effect on organizational performance of Awash Bank

H4: HR capabilities have no mediating effect on the relationship between SHRM practices and performance of the Awash Bank.

1.5 Significance of the Study

The findings of the study are believed to be primarily significant to the Awash Banks. The results will help the management of the Bank in planning for the development and implementation of effective and efficient human resource strategies that will lead to Improved performance of the bank. Additionally, it gives the researcher the opportunity to gain deep knowledge in the Strategic human resource practices in relation organization performance. In spite of the research that SHRM practices are universally appropriate. It might also help other researchers working in related topics as a reference for further research on the area.

1.6 Scope of the Study

The scope of this study delimited to assess the effect of Strategic Human Resource Management on Organizational Performance (SHRM) by Mediating Human Resource Capabilities in Awash Bank Head Office Organs. It takes into account the concept of SHRM practices and organizational performance that are broad and it is impossible to address all of its elements in this research. For the purpose of this research; selected 4 Human Resource Practices: (Recruitment and Selection, performance management, Training & Development, Compensation and organizational performance) and Organizational performance of (Effectiveness, Efficiency, Reliability and Financial viability).

1.7 Limitation of the Study

In the process of collecting data, the researcher encountered some problems whereby the banks being financial institutions the release of information by respondents was difficult. Some respondents were apprehensive on what the study intended to do with the information. The other limitation was encountered where some respondents were reluctant to provide information and return the questionnaires due to the sensitivity of the information given. The researcher however had sensitized the research assistants on how to explain the issues that were being asked in the instruments... Another limitation was experienced at the interview level. The respondents being interviewed who were senior bank managers tried to evade some questions posed to them for fear of victimization. The researcher however reframed the questions in a manner that enabled the respondents respond in a comfortable way.

Definition of Terms

Strategic Human Resource Management

Strategic human resource management (SHRM) has been defined as the planned pattern of human resource (that is workforce) and human resource management (that is, functional) deployments and activities intended to enable the organization to meet organizational goals and objectives (McMahan, Virick and Wright, 2009).

Strategic Human Resource Management Practices

Strategic human resource management practices are those practices specifically developed implemented and executed based on a deliberate linkage to an organization's Strategy, (Huselid, 2007). These represent the total of the inherent abilities, acquired knowledge and skills as exemplified in the talents and aptitude of its employees. (Megginson, 2010)

1. 8 Organization of the Thesis

This study will be organized into five chapters. The first chapter consists of the introductory part which includes background of the study, statement of the problem, objective of the study, research questions, hypothesis, scope, and significance of the study as well as organization of the thesis. Chapter two deal with the view of theoretical and empirical literatures on the subject. It also presents the conceptual framework of the research .In chapter three, the research methodology adopted to conduct the study including research approach, research design, sampling design and techniques, data sources and collection instruments as well as ethical issue are presented. Chapter four provides data presentation, analysis and interpretation. Chapter five presents with the summary of the major findings of the study, conclusion and recommendation.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

Introduction

This chapter reviews the theoretical and empirical literature suitable to answer the research hypothesis of this study. The chapter begins by discussing the definitions of HR, SHRM & organization performance, then the main theories the study relied on to build the framework for the research. The chapter then discusses the specific literature for the study with a focus on the main variables whose relationships were being investigated. This covers literature review on SHRM practices, human resource capabilities, and organizational performance. It also presents and elaborates the conceptual framework utilized in the study.

2.1 Definition of Human Resource Management

Human Resource Management (HRM) is still a relatively immature field, which has moved through a rapid evolution and development. As the literature would show, there is, as yet, no consensus on the definition of HRM (Paauwe and Boselie, 2005; Collings and Wood, 2009; Paauwe, 2009). Some authors have focused on the HR department effectiveness (Teo, 2002), whilst others have focused on HRM in terms of skills, knowledge and competencies (Hittet al., 2001). The majority of studies and books the field of HRM have defined the concept in terms of individual or a group/bundle of practices.

Beer et al. (1984) defined HRM as involving all those management decisions and actions that affect the nature of the relationship between the organization and the employee. Important to note about this definition is the inclusion of the phrase "action". This has made Beer and his colleagues the first to declare that conducting effective HRM practices is the responsibility of line managers (Armstrong, 2008)

The well-known author such as (Michael Armstrong. 2006), define human resource management as “a strategic and coherent approach to the management of an organization’s most valued assets – the people working there who individually and collectively contribute to the achievement of its objectives”. From the definitions is apparent, that HRM provides a support to organizational strategy and it addresses issues such as responsiveness and quality of product or customer service.

A particular definition of HRM which this study has found very interesting, is the one provided by Robinson (2009) when he defined HRM as "those decisions and actions which concern the management of employees at all levels in the business and which are related to the implementation of strategies directed towards creating and sustaining competitive advantage".

According to Noe et al. (2006), HRM refers to the practices and policies affecting employees' behaviors, attitudes and performance. They have focused on several important practices which, in turn, could positively impact organizational performance, such as HR planning, recruiting, selection, training and development, compensation, performance management, and employee relations. Furthermore, Way (2002) has considered the following as the most commonly applied practices in the literature: staffing, compensation, flexible job assignment, teamwork, training and communication.

"HRM is a distinctive approach to employment management which seeks to achieve competitive advantage through the strategic deployment of a highly committed and capable workforce, using an array of cultural, structural and personnel techniques." Storey (2009):

Although there is no consensus on the definition or the characteristics of HRM it can be seen from the above definitions that HRM is a combination of people-oriented management practices that views employees as assets, not costs; and its main aim is to create and maintain a skillful and committed workforce to gain competitive advantage. The differences in the interpretation of HRM have created two different schools of thought: soft and hard variants of HRM. Soft and hard HRM are also often defined as two main models of HRM. Soft HRM focuses on employee training, development, commitment and participation. It is used to define HR functions aimed to develop motivation, quality and commitment of employees; hard HRM, on the other hand, concentrates mostly on strategy where human resources are used to achieve organizational goals. It is also associated with cost control and head count strategies, especially in business processes like downsizing, lowering the wages, shortening comfort breaks, etc. (Storey, 2009)

2.2 Strategic Human Resource Management

Even though several scholars have paid increasing attention to the strategic human resource management (SHRM) discourse, there is still no agreement on the precise meaning of the term (Bratton, 2002).

Boxall (2007: 1) Defines SHRM An approach to management which encompasses those HR strategies designed to improve organizational performance and measures the impact of these strategies on organizational performance.’ SHRM is ‘the choice, alignment, and integration of an organization’s HRM system so that its human capital resources most effectively contribute to strategic business objectives.’ Kaufman (2015: 404)

Moustaghfir, 2014, defined SHRM in connection with HRM practices. SHRM is a set of managerial activities related to developing and maintaining highly qualified work force that excel organization effectiveness in order to achieve organizational objectives. It is about giving HR manager more responsibility of working towards organizational mission in partnership with other line managers and to make sure that they have the required knowledge and human capabilities. Hence HR managers become accountable for the achievement of organizational goals and operational objectives. And also Cole (2004) emphasize that „the HR function brings in the strategic value of people in organization by making contribution to value added and contribution to competitive advantage.“

To strength this concept Cascio, 2012 argued that in strategic thinking HR Managers should be appraised based on the value they added to the organization in terms customer satisfaction, cost reduction, quality standard, productivity ratio, and other performance oriented indicators. Thus as it is indicated in Figure 1 below, the strategic objective of HRM is mainly focused on ensuring the capacity of such an organizational function to attract, retain, and develop human resources to ensure the efficient and effective materialization of the organizational vision and goals.

Figure 1: Strategic definition of HRM (Moustaghfir, 2014)

Wei (2006) defines strategic HRM as “a pattern of planned human resource deployments and activities intended to enable an organization to achieve its overall goals”. Truss and Gratton (1994) define it as the linkage of HR functions with strategic goals and organizational objectives to improve business performance. According to Chang and Huang (2005), strategic HRM is concerned with designing and implementing a set of internally consistent policies and practices to ensure that a firm’s human capital contributes to achievement of business/organizational objectives. Implicit in these definitions is that the ultimate goal of strategic HRM is to contribute to the achievement of organization’s goals.

SHRM practices are aimed at shaping a work force focused on strategic performance goals and capable of achieving them. Thus, SHRM is about linking people with the organization. It is about the integration of Human Resource (HR) Human Resource Management (HRM) strategies with corporate strategies. HR strategies are plans and programed aimed at addressing and solving fundamental strategic issues related to the management of human resources in an organization (Schuler, 1992). Strategic HRM is thus concerned with aligning an organization’s HR practices, policies and program with corporate and business strategies and plans. Moreover, strategic HRM links corporate strategy and HRM, and emphasizes the integration of HR with the business and its environment.

According to Holbeche (1999), the integration between HRM and business strategy contributes to the effective management of human resources and an improvement in organizational performance. Integration is defined as ‘the degree to which HRM issues are considered as part of the formulation of the business strategy’. Integration also helps organizations to achieve competitive advantage by creating unique HRM systems that cannot

be imitated by others (Barney, 1991; Huselid et al., 1997). For this integration between HRM and business strategy to be realized, HR departments should be forward thinking.

Holbeche (1999) notes that the HR-related future-orientation approach of organizations forces HR to regularly conduct analysis regarding the kind of HR competencies needed in the future, and accordingly activate core HR functions to meet such needs. HR should also be an integral part of the executive team who is tasked with strategy development and implementation (Stroh & Caligiuri, 1998).

2.3 Theoretical Review

This study was underpinned by the following theories; resource based view theory, universalistic theory, contingency theory and configurational perspective theory which are commonly used in studying SHRM.

2.3.1 Resource Based View

The Resource Based View (RBV) theory is founded on the work of Penrose (1959), others who have extended the theory include, Wernerfelt's (1984), Rumelt (1984), Barney (1996), and Dierickx and Cool (1989). The RBV theory is currently predominantly used by researchers studying SHRM (Wright, Dunford, & Snell, 2001). Barney (1991) posits that an organization gains competitive advantage by not only acquiring but also developing, putting together, and effectively deploying its physical, human, and organizational resources in techniques that put in unique value and that are difficult for competitors to imitate. The resource based view states that competitive advantage comes from the internal resources that are owned by a firm (Wernerfelt, 2004).

The RBV is concerned with the connection between internal resources, strategy and the performance of the organization. It focuses on the encouragement of sustained competitive advantage through the development of human capital rather than just aligning human resources to current strategic goals (Torrington, 2005). The argument that resources internal to an organization can result to competitive advantage is a shift from earlier suggestions of strategy which focuses on the external environment and such factors as customers, industry,

and competitors (Miles and Snow 2004; Porter 2005). The RBV provides a theoretical enlightenment of how the human resources of an organization can add to performance and competitive advantage.

According to Wright, McMahan, and McWilliams (2004), resources that are valuable, rare, inimitable and non-substitutable lead to competitive advantage. It is the human resources of an organization that make up the resource that leads to competitive advantage. From this outlook HR practices or HR systems possibly will without difficulty be duplicated by other organizations and only the knowledge skills and abilities possessed by individuals within a firm would meet the criterion outlined by Barney (1991).

Lado and Wilson (1994) argue that HR practices put together into a general HR system can be exceptional and not easy to duplicate and constitute a resource satisfying the conditions necessary for sustained competitive advantage. While both views appear to be acknowledged in the literature, the majority of SHRM researchers using RBV as their theoretical framework have paid attention on the HR system or overarching HR philosophy as a resource functioning to develop the human capital of the firm (Boxall, 1998).

The resource based view was used in this study to support organizations human resource capabilities which needs to be valuable, rare, inimitable and organized to give a firm competitive advantage. It was also used to identify the SHRM practices that are used in the study

2.3.2 Universalistic Theory

The universalistic theory was postulated by Dewar and Werbel (1979) who rooted for a best practices approach to SHRM. Additional researchers who have contributed to the universalistic theory include; Delaney, Lewin, and Ichniowski, 1989; Huselid, 1993, 1995; Osterman, 1994; Pfeffer, 1994 and Terpstra and Rozell, 1993. These researchers, posit that some SHRM practices are constantly better than others and therefore all organizations should assume these best practices.

According to Pfeffer (1994), universalistic or best-practice approaches posits that certain independent-dependent variable relationships hold across whole populations of organization that is, some HR practices are always better than others, and all organizations should adopt

them Under a universalistic approach, strategic HR practices are those that are found to consistently lead to higher organizational performance, independent of an Organization strategy. Such practices include formal training systems, profit sharing, voice mechanisms, and job definition.

According to Marchington and Wilkinson (2008), the idea of best practice was at first acknowledged in the early US models of HRM, most of which argued that the taking on of certain best human resource practices would result in improved organizational performance, manifested through; improved worker attitudes and behaviors, decreased levels of turnover and absenteeism, increased skills levels and therefore increased productivity, better quality and efficiency and increased return on investment. Universalistic arguments simply mean that the connection between given independent variable and a dependent variable is universal across the populace of organizations. To be able to make universalistic predictions, key strategic HR practices are identified and then opinion that relate to the individual practice offered.

Leonard (1990) established that an organization having long-term incentive policies for their senior managers had registered higher profits over a five-year period than did other organizations. Ahowd (1990) argues that managerial compensation should be based on an organization's financial performance. Gerhart (1990) elaborates that pay blend was related to monetary performance. Organizations with pay strategies that included a greater amount of performance-contingent pay achieved better monetary performance.

This theory seeks to identify the choices of practices that do well in successful environments. However what works contributes to good results in one organization may not result in equally good results in another organization since it may not fit its plan, technology or working practices. The theory also helps to examine the direct relationship between SHRM practices and the performance of the organization.

2.3.3 Contingency Theory

The contingency theory was influenced by researches done in the 1950s at Ohio State University. In the mid-1960s the theory was further advanced by Fred Fielder, others who have contributed to the contingency theory include Galbraith (1973). These researchers posit that there is no one best way to organize human resources.

The contingency or external fit perspective emphasizes the fit between business strategy and HRM practices, implying that business strategies are followed by HRM practices in determining business performance. The contingency perspective goes beyond the simple, linear, causal relationships explored in universal theories and allows for interaction effects and varying relationships depending on the presence of a contingent variable most often firm strategy. Effectiveness of HR practices is contingent on how well they mesh with other aspects of the organization. The contingency perspective draws a causal line from the HR policies and practices to the organizational performance metrics, and it allows for the moderating effects of strategy (Youndt, 2006).

An argument mostly put forward by the contingency scholars is that HR strategy would be more effective if it were to be properly incorporated with a precise environmental background. The best fit theory support the idea of ensuring that HR strategies are suitable to the conditions of the firm, such as the culture, operational processes and external environment. HR strategies have to assess the specific requirements of both the organization and its people. It looks at the close association between strategic management and HRM by taking in to account the extent to which there is vertical integration between a firm's business strategy and its HRM policies and practices (Decktop, 2006).

Wright (2004) states that vertical integration between business strategies and individual behavior individual, team and organizational performance influence the models of SHRM. This vertical integration or fit where influence is realized through events, policies and processes is broadly recognized to be an important part of any strategic approach to the management of people (Dyer, 2005). The best fit hence ensures a relationship between internal operations of the firm and policies and the external market in business strategy, and thereby ensures that competences are produced which have a prospective to be a main source of competitive advantage (Wright, Gardner & Allen, 2005).

The contingency model is often criticized for tending to generalize a firm's reality. While trying to relate one dominant variable of the organization to another internal variable, the supposition is that there exists a linear, non-problematic relationship. The contingency theory is applicable in this study to help show how other factors can be integrated in the relationship between SHRM and organizational performance.

2.3.4 Configurational Perspective Theory

The configurational theory was postulated by Mintzberg (1973). The theory posits a simultaneous internal and external fit between a firm's external environment, business strategy, and HRM strategy, implying that business strategies and HRM practices interact according to organizational context in determining business performance (Arthur, 1994). According to Boxall and Purcell (2003) configurative theories address HRM issues from a systemic perspective. Shepeck and Militello (2000) argue that a system is a set of interrelated elements, such that each individual part or element depends to a greater or lesser extent on its situation within an integrated whole organization operates as complex systems comprised of interdependent external and internal subcomponents that are best understood when viewed holistically. This configurational interpretation retains a system perspective by focusing on the pattern of relationships between different elements (Delery & Doty, 2006). A change in one part will affect the other parts, intentionally or not. Thus, configurative theories analyze organizational change processes that emerge in response to external or internal pressures (Broedling, 1999).

According to Wilkinson (2002) the configurational theory attempts to obtain a set of HR practices that can be relied on in making best use of horizontal combination and then connect these to the different strategic configurations in order to exploit vertical integration and hence a better performance by firms. SHRM according to configuration theorists requires a firm to come up with a HR system that achieves both horizontal and vertical integration.

The configuration approach is used in the study to show why it is important for organizations to achieve both vertical and horizontal fit through their HR practices, so as to add to an organization's competitive advantage and consequently be deemed strategic. It shows how fit HR capabilities can enhance organizational performance.

2.9. Empirical Review

Strategic Human Resources Practices and Organizational Performance

The age of strategic HRM was ushered in nearly two decades ago and since then, a behavioral perspective has emerged as the predominant paradigm for research. Nevertheless it was only in the 1990s that the notion of bundling of human resource practices became popular and attracted several studies

Ferris (1990) in a study of 2,236 firms from the U.S. construction industry addressed the roles played by three important organizational functions and activities on firm performance: the status and importance of the HRM function, the role of unions and strategic planning. They found that firms that had HRM departments were high performers in areas such as

increased market share, organizations which had a higher number of their labor force joining unions also gave better results than firms with a lower proportion and, lastly organizations which engaged in formalized strategic planning also performed better.

Huang (1998) in a comparative research work of SHRM practices amongst American – owned, Taiwan – owned and Japanese – owned firms, examined the strategic level of HHRM at 315 Taiwanese organizations. The findings indicated that American-owned firms were observed to engage in strategic human resource management more repeatedly than Japanese- or Taiwan-owned firms. A positive relationship was furthermore found between the quantity of capital resources accessible to firms and the degree to which they practiced SHRM. Huang in addition reported that enterprises engaging in SHRM received improved ranking than other firms on the indices of organizational confidence monetary performance, and overall performance.

Browns (1999) in a study on compensation in 4600 organizations, noted that although 94 percent of the respondent reported that they had made significant changes of their rewards policies in the preceding three years and more had changes planned, the reward packages still looked the same to those of three, five or even ten years ago, the impression gained from this study is one of incremental change with aspects such as competences being used to improve traditional job evaluation schemes and team pay introduced alongside rather than in place of individual bones share.

Wan (2002) in a study on Strategic Human Resource Management and Organizational Performance in Singapore examined the relationship between strategic HRM variables and firm performance. In the analysis, the SHRM variables are found to have a positive effect on organizational outcomes, especially with respect to a firm's HR performance job satisfaction, employee productivity and commitment. The findings points to the fact that if key strategic HRM practices are effectively implemented then firms will achieve higher levels of organizational performance. The study findings also show a possibility to the fact different aspects of performance could be affected by different strategic HRM variables. For a firm promoting financial performance, performance appraisal appears to be the most important issue to tackle. On the other hand, firms interested in enhancing HR performance may emphasize the need for training and empowerment.

Singh (2004) looked at the connection between six HRM practices and firm level performance in India. 359 enterprises were obtained from firms listed in the Centre for Monitoring Indian Economy database. The study findings indicated that there was a significant relationship between the two HR practices, namely, training and compensation, and perceived organizational and market performance of organizations.

Ekhsan and Othman (2009) on a study of strategic HRM practices on perspectives of Malaysian and Japanese owned companies in Malaysia examined the applications and processes of one of the key distinctive features of SHRM, that is integration of HRM functions with business-corporate strategy and two key HRM functions, recruitment/selection and training/development. Analysis of the questionnaire responses on strategic integration, recruitment/selection, and training/development showed little difference in practices between the Malaysian and Japanese owned companies. Both Malaysian and Japanese owned companies indicated a higher HR involvement in the business/corporate strategy formulation process, either from the outset or in implementation. One of the limitations of this study is the self-reported views which could lead to bias, and may not provide reliable data about actual practices.

Dimba and K'Obonyo (2009) in their study wanted to establish whether the effect of human resource management practices on organizational performance is direct or indirect, whether employee cultural orientations moderated the relationship between strategic human resource practices or whether the moderation was through employee motivation. By means of regression analysis, the findings indicated that every of the SHRM practices variables, except recruitment and selection were positive and significantly connected with performance; relationship between SHRM practices and firm motivation did not depend on employee cultural orientations when cultural values were considered; motivation mediated the relationship between SHRM practices and firm performance and motivation affected firm performance.

Oladipo and Abdulkadir (2011) in a study on SHRM practices in Nigerian Universities examined the influence of ownership-type and age on the adoption of SHRM practices. Their findings on recruitment system as practiced were that it ensured a fit between the prospective employee's abilities and qualifications and the universities requirements. Similarly,

performance appraisal system as practiced then was effective enough to let the universities scrutinize the development of desired employee attitudes and behavior.

Onyango and Kipchumba (2012) in a study on SHRM practices and performance of Hotels in Kenya examined the relationship among strategic human resource management and organizational performance. The study also sought to establish the degree to which the connection between SHRM practices, employee motivation and firm performance depended on employee cultural values and organizational characteristics. The study found out that training and development and compensation systems were the best predictors of a hotel performance while training and development, compensation systems, and performance appraisal were the best predictors of motivation at work and that organizational distinctiveness had significant influence on the relationship between SHRM practices and firm performance.

Similarly, Cania (2014) conducted study on the impact of strategic human resource management on organizational performance. The study was aimed at investigating how applicable is in practice the theoretical aspect of strategic human resource management for the achievement the organizational performance. A total of 30 organizations, which are 16 organizations in the service sector and 14 other organizations are production sector, participated in the study. The study revealed that HRM practices such as human resource planning, recruitment, selection, training and development, compensation, performance management and employee relations linked with organizational performance indicators like cost reduction, achieving sales levels, increasing the number of customers, increasing the market percentage, increasing product quality, innovative products, and improve productivity.

Returning to HRM practices and performance relationship, study was conducted by Aguta and Balcioglu(2015). The study was aimed to examine the impact of Human Resource Management practices and its outcomes on organizational performance in private sector banks in North Cyprus (NC). Data were collected from the sample size of the respondents consisted of 335 employees of different departments and various branches of two private sector banks in NC through structured questionnaire. The finding showed that giving adequate training to employees is positively related to employee satisfaction, commitment, retention and organizational performance in general.

A bit different perspective was taken by Abdullah and his friends (2016) to investigate the relationship between HRM practices and organizational performance. The main objective of this study was to measure the impact of human resource management practices on organizational performance of the Saudi industrial organizations, with analyzing the mediating role of supply chain performance. Study population included all Saudi organizations registered in Commerce Industrial Chamber in the Eastern Province. Two hundred seventy-four (274) questionnaires were distributed. The number of correct questionnaires was 218, representing 79.6% of the total number of distributed questionnaires. The study results confirmed the existence of a significant positive impact of human resources management practices on the efficiency of supply chain performance and organizational performance. The results of this study revealed that the HR practices affect the efficiency and effectiveness of supply chain performance, and then the organizational performance. The results also confirmed that the supply chain performance plays the mediating role in that relationship

A more contemporary study was carried out by Altarawneh (2016) in Jordan. The main aim of the study was to examine the relationship between Human Resource Management (HRM) and organizational performance. A survey methodology was adopted in this study through using the self-administrated standardized questionnaire as the data collection method and that was distributed to (50) managers and collected from (29) managers. The results of the study revealed that (SHRM) positively affect the organizational performance which can be represented by increasing profits, increasing the sales ratios, increasing job satisfaction and increasing the loyalty of employees.

2.10 Conceptual Framework

The conceptual model presented here has been derived from the discussions presented in the literature review. The conceptual framework (Figure 2.1) presents the researcher's schematization of the relationships of current study variables. The variables included SHRM practices, HR capabilities, and organizational performance. Based on this framework, various hypotheses were developed.

SHRM

- Recruitment & Selection
- Training & development
- Performance management
- Compensation

Human Resource capabilities

- Valuable HR
- Rare Human Resources
- Inimitable HR
- Organized HR

Independent variable

Organization Performance

Effectiveness
Efficiency
Relevance
Financial Viability

Figure 2. Conceptual Framework

The conceptual model presented in Figure 2 captures the relationships between and among the study variables underpinning SHRM practices, HR capabilities, and organizational performance. The conceptual framework was based on the integration of several organizational theories that explains the relationship between SHRM and organizational performance. These theories included the resource based view theory, universalistic theory, contingency theory and configurational theory which have been presented in the literature review. SHRM practices which are the independent variable of the study were proposed to influence organizational performance. HR capabilities (value, rarity, inimitability and organization) were treated as the mediating variable and organizational performance (effectiveness, efficiency, relevance and financial viability) was the dependent variable.

CHAPTER THREE:

3. RESEARCH METHODOLOGY

This chapter explains the research design that will be used in this study. The chapter further describes the study population, sampling design, sample size, data collection methods, instrument of data collection, and method of data presentation, analysis and interpretation. The measures used to ensure validity and reliability of the study instruments is also discussed. In addition, it presents the measures adapted to ensure that the study is done in an ethical manner.

3.1 Research Design

According to Kothari (2004) a research design stands for advance planning of the methods to be adopted for collecting the relevant data and the techniques to be used in their analysis, keeping in view the objective of the research and the availability of staff, time and money. Therefore the current study used both descriptive and explanatory research design. Descriptive research design affords the researcher an opportunity to capture a population's characteristic and test hypothesis (Cooper & Schindler 2008). Further, the researcher has no control of the variables in the sense of being able to manipulate them hence guarding against bias. The explanatory research design looks for explanations on the nature of certain relationships and investigates the cause effect relationship between variables (Saunders, 2009).

3.2 Research Approach

This study adopted the mixed method approach utilizing both qualitative and quantitative methods. Qualitative approach was used to supplement and strengthen the quantitative aspects and provide an opportunity for the researcher to observe the application of HRM strategies first hand. The method adopted by this study was specifically a survey research. The characteristics of the bank and their employees were completely and accurately described to minimize bias and ensure reliability (Kothari, 2004). This provided the information that helped in determining the relationship between the study variables.

3.3 Data Sources and Collection Instruments

This research used both primary and secondary data sources. The major primary data collection instruments was questionnaires and interviews which is self-administered. Interviews was conducted with, Employee Service & Talent Management Manager Talent Acquisition & On boarding Manager and Senior Talent Management Officer, because they have the greatest opportunity to assess the extent to which HR policies are integrated vertically and horizontally with the firm's strategy (human resource strategy). Secondary data was collected from relevant documentaries as well as company publications. The questionnaires for the collection of the data were developed using 5-point Likert scale from "strongly agree" to "strongly disagree" on all the variables of the study with the help of existing literature on these variables.

3.4 Study population

Awash Bank which is the target of this study is a big and first private commercial bank in Ethiopia that has 470 branches operating all over the Ethiopia. The bank has also a total of 8900 employees and has a large customer bases. The total population targeted was 600 of clerical employees located at the headquarters of the banks and serve more than 1 year in the bank. This is because most of the strategic decisions of banks are made at the headquarters and then cascaded down to the branch levels and strategic human resource practices are formulated at the head office level. Hence the strategies at the headquarters are normally the same strategies used at the branches.

3.5 Sample Design

According to Kothari (2004) a sample design is a technique or procedure that the researcher adopts in selecting items for a sample. It was not possible to study all members of the population since it would have involved tremendous amounts of time and resources (Mugenda & Mugenda, 1999; Kothari, 2004). As a result a sample was selected and studied to represent the entire population. An optimum sample of 240 employees, which fulfils the requirements of efficiency, representativeness (Kothari, 2004; Mugenda & Mugenda, 1999), reliability and flexibility, was selected based on cost, accepted confidence level and size of the population. This enabled the researcher to gain information about the population. The Yamane (1967) formula for calculating sample sizes was used to calculate the sample size at 95% confidence level and $P = 0.5$.

$$n = \frac{N}{1 + N(e)^2}$$

$$1+600(0.05*0.05) =240$$

Where n is the sample size, N is the population size, and e is the level of precision Sampling was done using the multi stage approach involving purposive sampling and stratified sampling methods. Twenty HR staff from three directorate (Training & Development, Talent Acquisition & On boarding and Employee Service & Talent Management) was purposely selected due to the small in number and they have more information about the study. The population in the study area was stratified into, senior management, middle management, Senior Officer and Officer.

3.6 Validity and Reliability of Research Instruments

Sekaran, (2009) identified three type of validity namely content, criterion-related and construct validity. Content validity ensures that the measure includes an adequate and representative set of items that tap the concept under study. The more the scale items cover the concept, the greater the content validity. Hence, to ensure the study free from bias and being valid, the researcher adapted standard questionnaire. Of Allen and Meyer, (1990) that measured organizational commitment. And also the other questionnaire and interview guideline questions were developed by referring reliable sources such as published books and articles. Moreover, all the instruments were forwarded for two experts in the field of HRM and my advisor to provide their comments on the item.

Reliability is the extent to which a questionnaire tests observations or any measurement procedure produces the same results. Internal consistency of the research instrument was measured using Cronbach's Alpha. Cronbach's Alpha is the reliability coefficient that indicates how the items in a set are positively correlated to one another (Sekaran, 2003).

Table2: Cronbach's alpha Coefficient result

Variables		Cronbach's Alpha	No of Items
SHRM Practices (Independent variable)	Training& Development	.878	11
	Recruitment & Selection	.854	7
	Performance Management	.789	7
	Compensation	.814	14
Mediating Variable	Human resource Capabilities	.808	13
Organizational Performance (dependent variable)	Effectiveness	.863	8
	Efficiency	.846	6
	Relevance	.919	6
	Financial Viability	0.623	5

Source: survey result, 2020

The above table shows that the internal consistency of the subscales ranges from 0.789 for the consistency on the performance management and 0.878 for the training& development and almost all independent variable data collected was above the acceptable percentage. Internal consistency for organization performance ranges between 0.623 and 0.919 also the average was which indicate dependent variable data collected was above the acceptable percentage.

3.7 Method of Data Presentation, Analysis and Interpretation

The data collected using questionnaire was analyzed using the statistical package for social science (SPSS). The reliability test was conducted using Cronbach's alpha. Descriptive statistics, such as frequency, percentages, mean and standard deviation was used to determine the dominant SHRM and organization performance by mediating human resource capabilities based on the percentage of respondents.

Regression and correlation analysis was used to investigate the strength of relationship between a dependent variable (Organization performance), the independent (strategic human resource management practices as well as the mediating effect human resource capabilities).

Qualitative data was analyzed using content analysis method where key themes of public and spoken words can be critically analyzed to make conclusions. These standard questioners proved to be valid and reliable in measuring the variables intended to measure with a Chronbach's alpha above 0.7 (Mugenda and Mugenda, 2003). The minimum number for a pilot is 10 (Fink, 2003b) and it is better to pilot test the questionnaire using friends or family

than not at all! This will provide you with at least some idea of your questionnaires face validity: that is, whether the questionnaire appears to make sense (Mark Saunders et al., 2007). Therefore, the researcher was made a pilot test on 10 Human Resource Officer of the different Banks based on their easily accessibility to check the understandability of the instrument by the respondent and there was amendment made on the questionnaire especially the arrangement of the organization performance questionnaire.

3.8 Empirical Model

The relationship between independent variables (SHRM practices) and organizational performance (dependent variable) as well as the mediating effect of HR capabilities will be tested. Objectives one through four were addressed using model 3.1.

$$OP = \beta_0 + \beta_1T + \beta_2R + \beta_3PM + \beta_4C + \epsilon \dots \dots \dots (3.1)$$

Where OP: - Organizational

Performance T:-Training

R:-Resourcing

PM: - Performance Management

C: - Compensation

ε:- Error Term

β₁, β₂, β₃, β₄ and ε measure the effect of T, R, PM, and C on OP respectively. The significance of β's was used to test the corresponding hypotheses specified in chapter one.

The fifth objective sought to establish whether HR capabilities have a mediating effect on the relationship between SHRM practices and organization performance of Awash Bank.

$$HRC = \beta_0 + \beta_5SHRM + \epsilon \dots \dots \dots (3.2)$$

Where,

SHRM = Strategic human resource management HRC: Human resource capabilities

The other variables remain as defined in 3.1

, Model 3.3 was included HRC as one of the explanatory variables to determine whether HRC has a complete, partial or no mediation effect on the relationship between SRHM variables and organizational performance.

$$OP = \beta_0 + \beta_6SHRM + \beta_7HRC + \epsilon \dots \dots \dots (3.3)$$

3.9 Ethical considerations

The ethical issues considered in the study includes: informed consent (by informing the respondents regarding the background of the study, including the importance of the data to be gathered from them) and issues of confidentiality (by ensuring the respondents that all of the information in this study will solely be used for academic purposes only).

In addition, the researcher is sure about all of the responses from the sample are given merit, whether the researcher agree or not to their individual responses. The researcher was not disclosing any personal information of the respondents, which was explained in the conduction of the questionnaire and interview.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

This chapter presents the findings and discussion of the study and is organized as follows: The analysis of the response rate, descriptive statistics showing the respondents profiles and characteristics to show the degree to which data represents the population of interest, pre-estimation diagnostic tests and inferential statistics. At the end, analysis and interview finding summary will be discussed.

Analysis of the Response Rate

The researcher distributed 240 questionnaires, out of which 234 were received. This represented an overall successful response rate of 97.5%. The rest (2.5%) consisted of those questionnaires that were never returned. With the help of SPSS 20.0 analysis tool, descriptive and inferential statistics were used to analyze the data.

4.1 Demographic Information of the Sample

This part includes analyses of demographic characteristics of the respondents that include gender, age, work experience, position and education qualification.

Table 3: Demographic Profiles of Respondents

		Frequency	Percent
Gender	Male	184	78.6
	Female	50	21.4
Age	18 – 25	34	14.5
	26 – 33	140	59.8
	34 – 41	44	14.8
	42 – 49	10	4.3
	50 and above	6	2.6
	Year of Service	1 – 4	76
	4 – 7	60	25.6
	7 – 10	52	22.2
	10 – 15	34	14.5
	more than 15	12	5.1
Position	Director	4	1.4
	Manager	8	3.4
	Senior	72	30.8
	Officer	138	5.0
Educational	MA	92	39.3

Qualification	BA Degree	140	59.8
	Diploma	2	0.9
	Total	234	100

Source: Survey Result (2020)

The above table 2 shows gender distribution of the respondents .There were 184 males (78.6%) and 50 females (21.4%) employees' participating in this study. It can be said that 2/3 of the respondents of this study are males. Regarding to the age group of the respondents, one hundred forty (59.8%) respondents are in the range of 26 and 33 years, forty four (18.2%) respondents are between 34 and 41 years, thirty four (16.5%) respondents are in the range of 18 and 26 years, ten (4.3%) respondents are in the range of 42 and 49 years and there was only six (2.6%) of respondents above50 years old. This implies that the most active age of employees was involved in this study. 59.8% were aged between 26- 33, this being the organization has young & energetic employees which help to plan future successor, Young generation is very important in Succession planning which is also a key aspect of continuity. An ongoing supply of well trained, broadly experienced, well-motivated people who are ready and able to step into key positions as needed and should be ready, and take on the continuation process (KPMG, 2015 Report). Succession is about a flow of these capable people through various departments with the goals of educating them into the culture and process of the Bank.

Concerning the level of education, 59.8 % had a Bachelor's Degree, 39.3% had a Master's Degree while only 2 respondents had a diploma. There were no respondents who have PhD Degree. Therefore this implies that the banks have educated staffs that are capable to adopt any strategic issues that the organization formulates with the aim of improving their performance and, they also understood the issues under discussion in the research questionnaire.

The length of service year that respondents in the sample were employed by the Bank was illustrated in the table 4. The majority of the sample 32.5% (n = 76) worked between 1 & 4 years in the Bank and 25.6% (n = 60) have between 4 & 7 years of service. 52 which are 22.2% of the respondents have between 7 & 10 years of experience whereas 34 respondents which is 14.5% of the total respondents have an experience between 11 & 15. Only 5.1% (n = 12) have been worked for more than 15 years at the Bank. From the above analysis, 136 (58%) of the respondents have 7 and above years of experience.

4.2 Descriptive Analysis for the SHRM practices

In this section the descriptive statistics for the study variables namely SHRM practices, HR capabilities and organizational performance are reported. The descriptive statistics summarize the main characteristics of the study variables.

Table 4: Respondents on Training

SD=Strongly Disagree, D=Disagree, N=Neutral, A=Agree and SA=Strongly Agree

	N	Mean	Std. Dev.
Training offered is relevant to employees 'jobs	234	3.98	1.127
Training is aimed at improving organizational Performance	234	4.21	.979
Employees in each job will normally go through training programs every year	234	3.26	1.167
Training programed are well planned and designed	234	3.48	1.037
All the employees are exposed to different kinds of Training	234	3.16	1.193
There is training for problem- solving skills.	234	3.54	1.176
There is a training policy applicable to all employees	234	3.36	1.123
There are plans and budgets for training activities	234	4.09	.980
The organization links training with the company's business strategy	234	3.79	.959
The organization has a full-fledged training department manned by competent professionals	234	3.72	1.030
There is evaluation of the training program	234	3.17	1.152
Valid N (list wise)	234		

Source: Survey Result (2020)

The overall aggregate mean score for this section stands at 3.61 and the standard deviation at 0.72. This implies that on average the managers affirmed that training offered was relevant to employees' jobs, and this is aimed at improving organizational performance. This supported the statement suggesting that the organization have a plan and budget for training activities to improving organizational performance with the highest mean score of 4.09 and a standard

deviation of 0.98. In the other case two items “employees are exposed to different kinds of Training & evaluation of the training program relatively low, with a mean of 3.16, 3.17 and a standard deviation of 1.193 & 0.980 respectively. This may be explained by the fact that most employees in Awash Bank exposed to the same training & there is gap in evaluation of training program.

Interview made with Employee Service & Talent management Manager, the bank need to invest significantly in creating a globally competitive and highly skilled workforce. For this the bank has learning and development strategy that clearly defines training pillars across the L&D lifecycle (design, delivery and development. To achieve this there is a comprehensive designed curriculum and training budgets for the purpose. Currently some short term training for entry level employees on operational bank service, like customer handling, service delivery, marketing and other is given in the bank training center by selected trainers. For middle and high level employees the bank facilitate through national bank and other training institute. Into long term training the banks have a plan to have their own training institute while, it is cost to facilitate in other institution. He also suggests that for long term training program, currently there is a shortage of professional experts and lacks of training materials.

Table 5: Respondents on Recruitment & Selection

	N	Mean	Std. Dev.
The organization is able to determine future demand of employees.	234	3.34	1.058
The organization is able to determine future supply of Employees	234	3.44	1.052
The organization prefer getting employees from within	234	3.52	.855
The organization prefer getting employees from external Sources	234	3.49	1.012
The management understands the requirements for job	234	3.65	.983
A preliminary screening is conducted for all potential Employees	234	3.45	1.076
Recruitment strategies are aimed at giving the organization a competitive advantage	234	3.59	1.082
Valid N (list wise)	234		

Source: Survey Result (2020)

The overall aggregate mean score for this section stands at 3.498 and a standard deviation of 0.743. This implies that on average the managers were convinced that banks had put in place recruitment practices that would enable them get the kind of employees they needed. The statement that management understands the requirements for jobs had the highest mean score of 3.65 while the standard deviation stood at 0.98. The statement that the organization is able to determine future demand of employees had the lowest mean score of 3.34 and a standard deviation of 1.05 implying that the organization focuses on the current performance rather than future plans.

According to the interview results, it was found that Awash Bank has an objective to build Talent Management programs to attract and retain key talent and develop a globally competitive workforce, taking recruitment and selection very seriously and has set a manpower plan and budgets for the process. Awash banks are now-a-days emphasizing on the recruitment of new entrants or experienced people with high academic qualifications such as bachelors and masters' degree holders. Meanwhile, Employee Service & Talent management Manager revealed that there is evidence of significant improvement of banks' performance in terms of competency and quality services offered by private commercial banks due to well-established and managed employees' recruitment and selection strategies. The interesting point he revealed is that, when the bank is opening new branches across the country the recruitment and selection for new entry and non-clerical employees was made at where the branch is opening, this helps banks to attract more customers which in turn led to increased number of branches, sales and profits. However for officer and above level the recruitment is made at the central head office level this may lead to delay which needs immediate replacement. As interview made with Senior Talent Acquisition & On boarding officer even if the bank has talent acquisition strategy there is a gap in aligning talent Acquisition and organization strategy and currently there is no manpower planning practice in the bank and recruitment is made upon the request of work unit when it is deemed and talent acquisition strategy is reactive.

Table 6 Respondents on performance management

	N	Mean	Std. Dev
There is emphasis on behavioral based appraisal	234	3.42	.929
Performance of the employees is measured on the basis of objective quantifiable results	234	3.28	1.171
The performance evaluation emphasizes guiding employee behaviors toward the company's strategic Direction	234	3.23	1.059
The main focus of performance evaluation is development as opposed to punishment	234	3.14	1.164
Performance evaluation uses a long-term measurement Standard	234	3.46	2.019
Goals set for performance evaluation are mutually decided	234	3.27	1.053
Promotions are strictly based on performance management System	234	2.82	1.240
Valid N (listwise)	234		

Source: Survey Result (2020)

The overall aggregate mean score for this section stands at 3.23 and the standard deviation at 0.84. This implies that on average the managers strongly agreed that their firms had a system of determining and communicating to an employee how they are performing on the job and establishing a plan of improvement. The statement on whether Promotions are strictly based on performance management system results had the lowest mean score of 2.82 and a standard deviation of 1.24. This implies there are others factors (parameters) for promotion criteria.

According to diagnosis cultural assessment survey of awash bank 2019 there is no modern performance management system that aligned with over all bank strategy, items on the performance evaluation scale are generic i.e. have equal weighting and are not role specific Little emphasis on conducting goal-setting process with employees, reward and other benefits package give equally for all employees.

Talent Management Manager Reveals on interview, the bank is on the way to develop performance management framework to support a high performance culture and ensure the proactive use of performance appraisal outcomes as a tool to determine developmental and training, performance appraisal evaluation of the employee is made semiannually, employees who scored below average did not allow to increments and other benefits.

Table 7: Respondents on Compensation

	N	Mean	Std. Dev.
Incentive pay is linked to job performance for all Employees	234	3.13	1.212
The organization provides managerial staff a flexible compensation structure but not a standardized one	234	3.14	.848
There is a great discrepancy in incentive pay between the high and low performers for the same job	234	3.03	1.100
The incentive pay of middle- to high-level managerial staff is linked to the organization's performance.	234	3.25	1.031
Salary and other benefits are comparable to what is generally obtainable in the industry	234	2.94	1.224
There is a clear explanation of remuneration policy and its Implementation	234	3.31	1.044
There are individual incentives	234	3.41	1.058
There are group incentives	234	3.04	1.145
There is skill based pay element in our pay package	234	2.84	1.072
Pay is only in terms of salary	234	2.91	1.139
No financial incentives	234	2.41	1.202
Valid N (listwise)	234		

Source: Survey Result (2020)

The overall aggregate mean score for this section stands at 3.036 and the standard deviation at 0.651. This implies that the respondents agreed that they had good compensation policies in their organizations. The statement on no financial incentive had the lowest mean score of 2.41 and standard deviation of 1.20. This implies that the organization provides different kinds of financial incentives like bonus, representatives and different kinds of allowance.

From the talent management manager Interview, it was found that Awash Bank use both financial and non-financial rewards to motivate their employees. The financial rewards offered in terms of salary increases, and cash bonuses, while non-financial rewards included recognition, learning opportunity, and recommendations from managers. Other instituted packages were personal loans, housing loans, car loans, overtime allowance, car maintenance allowance, fuel allowance, transfer allowance, leave allowance, day trip allowance, refund of fees, and yearly appraisal. Interviews with the manager about the competitiveness' of the

compensation of the bank with other industry, currently there is stiff competition among the bank in the banking industry this may force some banks to lose experienced employees, regarding to Awash Bank the bank is in middle level in salary and benefits, the bank has an objective of developing on staff learning and development to motivate employees rather than compensation. The other benefits like (bonus and salary increments) depend upon the profitability of the bank.

4.3 Descriptive Analysis for Human Resource Capabilities

Table 8 : Respondents on Human Resource Capabilities

Value	N	Mean	Std. Dev.
The firm is able to exploit environmental opportunities	234	3.52	1.037
The firm is able to neutralize environmental threats	234	3.38	1.013
The firm's HR result in an increase in revenues	234	3.43	.992
The firm's HR result in a decrease in costs	234	3.49	.986
Rareness			
The HR in your firm is only comparable to others in a small number of competing firms	234	3.21	.979
The resources used to make products/services in the firm are Rare	234	2.93	1.029
The final products/services of the firm are rare	234	2.91	1.077
The firm's HR can be trusted	234	3.20	1.090
Inimitability			
What your organization is doing is difficult to imitate	234	2.92	1.025
The HR in your organization possesses unique managerial Skills	234	3.03	1.010
The organizations resources are patented	234	3.24	1.003
Organization			
particular circumstances have led to a unique development of competencies	234	3.16	.980
The firm's other policies and procedures are organized to support the exploitation of its valuable, rare, and costly-to-imitate resources	234	3.32	.906
Valid N (listwise)	234		

Source: Survey Result (2020)

The overall aggregate mean score for this section stands at 3.21 and the standard deviation at 0.556. This indicates that the bank have human resource capabilities that are valuable, rare, inimitable and organized. The aggregated parameters for the sub-variables of human resource capabilities are value with mean score of 3.455 and a standard deviation of 1.004, rareness with a mean score of 3.062 and a standard deviation of 1.041, inimitability with a mean score of 3.063 and standard deviation of 1.01 and organization with a mean score of 3.32 and a standard deviation of 0.906 Hence the sub – variable organization and value contribute somewhat highly each to human resource capabilities according to the study measurement scale. Value and organization make average contribution to human resource capabilities, on the measurement scale.

4.4 Descriptive Analysis for Organizational Performance

Table 9: Respondents on organizational Performance

Effectiveness	N	Mean	Std. Dev.
The organization achieves its annual objectives	234	4.09	.913
The organizational objectives are in line with the organization's mission	234	4.13	.813
The organization supports innovation.	234	3.62	1.095
Members of staff are fully utilized to meet organization's goals.	234	3.54	1.131
The organizations always achieve its objective within the set time frame	234	3.79	.943
The organization aggressively introduces new products	234	3.68	1.101
Continuously assesses customer satisfaction	234	3.56	1.168
High quality administrative systems are in place to support service delivery.	234	3.44	1.190
Valid N (listwise)	234		
Efficiency	N	Mean	Std. Dev.
The organization responds to customers complain in a timely Manner	234	3.49	1.053
The organization makes optimal use of its financial resources.	234	3.67	.917
Reacts to competitors' threats immediately	234	3.55	1.019

The organization compares progress made in the Organ. From time to time.	234	3.81	.807
The organization delivers its services/products promptly without any delay.	234	3.49	.986
The organization controls overhead costs.	234	3.66	.973
Valid N (listwise)	234		
Relevance	N	Mean	Std. Dev.
Services/products of the organization are regularly reviewed to reflect changing environment.	234	3.66	1.058
Services/products of the organization are regularly reviewed to reflect changing capabilities.	234	3.71	.908
Services/products of the organization are regularly reviewed to reflect changing client needs.	234	3.74	.909
Services/products of the organization are regularly reviewed to reflect changing client type.	234	3.63	.941
The organization regularly reviews the environment to adapt its strategy.	234	3.60	1.057
The organization adequately balances stakeholders demand.	234	3.69	.985
Valid N (listwise)	234		
Financial Viability	N	Mean	Std. Dev.
The organization has sustainable financial resources for Continuity of its activities.	234	4.03	.907
The organization has more revenue than expenses.	234	4.03	1.010
The organization does not rely on funds from external Sources.	234	3.56	1.122
The organization has more assets than liabilities.	234	3.98	1.040
The organization depends on external funding.	234	2.76	1.301
Valid N (listwise)	234		

Source: Survey Result (2020)

The overall aggregate mean score for this section stands at 3.676 and the standard deviation at 1.012. This indicates that the respondents agreed that the performance of the bank was effective, efficient, relevant and financially viable. The aggregated parameters for the sub-

variables are effectiveness with a mean score of 3.731 and a standard deviation of 1.044, efficiency with a mean score of 3.611 and a standard deviation of 0.959, relevance with a mean score of 3.671 and a standard deviation of 0.976 and financial viability with a mean score of 3.672 and a standard deviation of 1.076. From the study scale, effectiveness and financial viability sub – variables each make somewhat high contributions to organizational performance with efficiency making the least contribution.

Financial Performance of Awash Bank for three consecutive year from 2016- 2019

S/No	Financial		
	2016/17	2017/18	2018/19
Description			
Total Capital of the Bank		6.5 Billion	9.6 Billion
Total Asset of the Bank	40 Billion	55.2 Billion	74.6 Billion
Profit	951000	1.492 Million	2.433 Million
Income	37.5 Million	45.9 Million	62.4 Million

Source: 2019/20 (-Awash bank Annual Report)

4.5 Correlation Analysis

The relationship between organizational performance and selected SHRM Practices (Training and Development, Recruitment & Selection, Compensation & Performance management) was investigated using Pearson correlation coefficient.

Table 11 : Correlations Analysis

		TD	Recr	PM	Comp	HR Cap.	OP
Training	Pearson Correlation	1	.680**	.476**	.379**	.524**	.592**
	Sig. (2-tailed)		.000	.000	.000	.000	.000
	N	234	234	234	234	234	234
Recruitment	Pearson Correlation	.680**	1	.555**	.472**	.585**	.647**
	Sig. (2-tailed)	.000		.000	.000	.000	.000
	N	234	234	234	234	234	234
Performance Management	Pearson Correlation	.476**	.555**	1	.639**	.621**	.564**
	Sig. (2-tailed)	.000	.000		.000	.000	.000
	N	234	234	234	234	234	234
Compensation	Pearson Correlation	.379**	.472**	.639**	1	.597**	.500**
	Sig. (2-tailed)	.000	.000	.000		.000	.000
	N	234	234	234	234	234	234
Human Resource Capabilities	Pearson Correlation	.524**	.585**	.621**	.597**	1	.566**
	Sig. (2-tailed)	.000	.000	.000	.000		.000
	N	234	234	234	234	234	234

Organizational performance	Pearson Correlation	.592**	.647**	.564**	.500**	.566**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	234	234	234	234	234	234

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

Source: Survey Result (2020)

The results show that there was a strong, positive correlation among all the corresponding variables. It is find out that between organizational performance and training & Development value ($r = 0.592$ $N = 234$, $p < 0.05$), between organizational performance and Recruitment & selection perceived value ($r = 0.647$, $N = 234$, $p < 0.05$) and organizational performance and compensation perceived value ($r = 0.5$, $N = 234$, $p < 0.01$).

In addition to that the relationship between organizational performance and performance management perceived value ($r = 0.564$ $N = 234$, $p < 0.05$); organizational performance and

human resource capabilities ($r = 0.566$, $N = 234$, $p < 0.05$); Therefore, it can be concluded that organizational performance depends on the trend and selected HRM practices.

Similarly, there are positive significant relationships between SHRM Practices (training & development, recruitment & selection, compensation, at ($p < 0.01$).

4.6 Multiple Regression Analysis

In the course of investigating research objectives i.e. “what is the effect of SHRM practices at Awash Bank on organizational performance?” and “to determine empirically the relationship between Strategic Human Resource Management (SHRM) practices and organizational performance “by mediating human resource capabilities multiple regression was conducted. According to (Kerlinger & Lee, 2000), it relates one dependent variable to a linear combination of one or more independent variable. It tells that how much each independent variable has an impact or relationship with the dependent variable. The following common assumptions are taken in to account.

4.7 Multi-Co linearity Test

The assumption assumes that independent variables are not highly correlated with each other. The assumption is tested by Variance Inflation Factor (VIF) statics as follows:

Table 10: Coefficients^a

Model		Collinearity Statistics	
		Tolerance	VIF
	Training	.523	1.912
	Recruitment	.458	2.185
	Performance Management	.500	2.002
	Compensation	.572	1.749
	Human resource Capability	.473	2.113
a. Dependent Variable: Organizational performance			

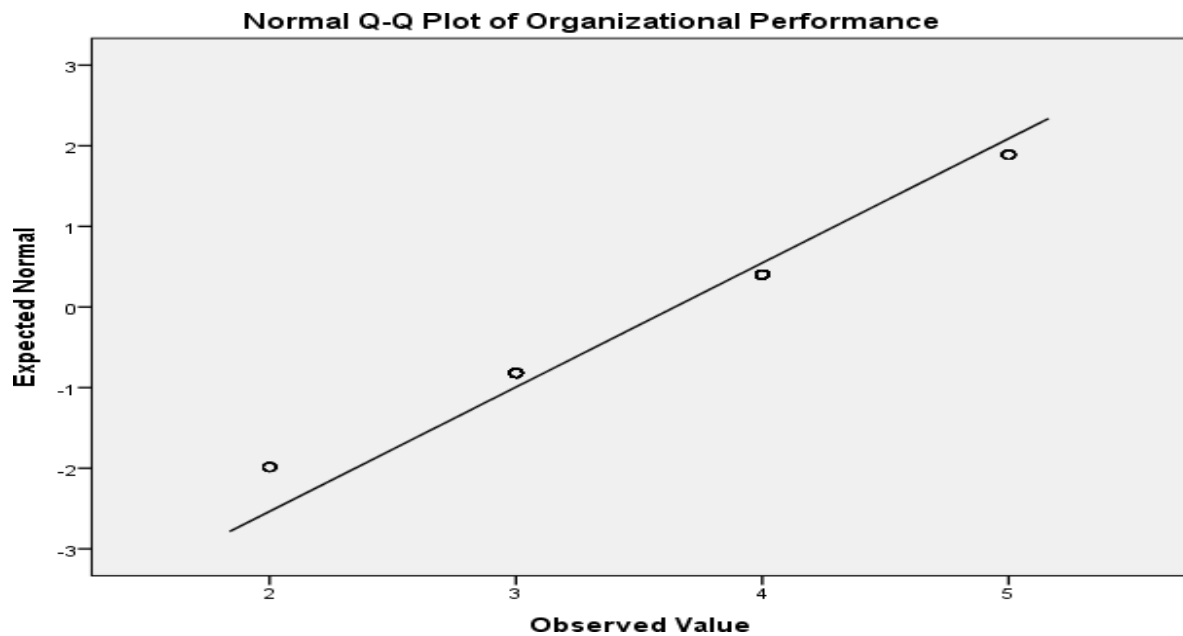
Source: Survey Result (2020)

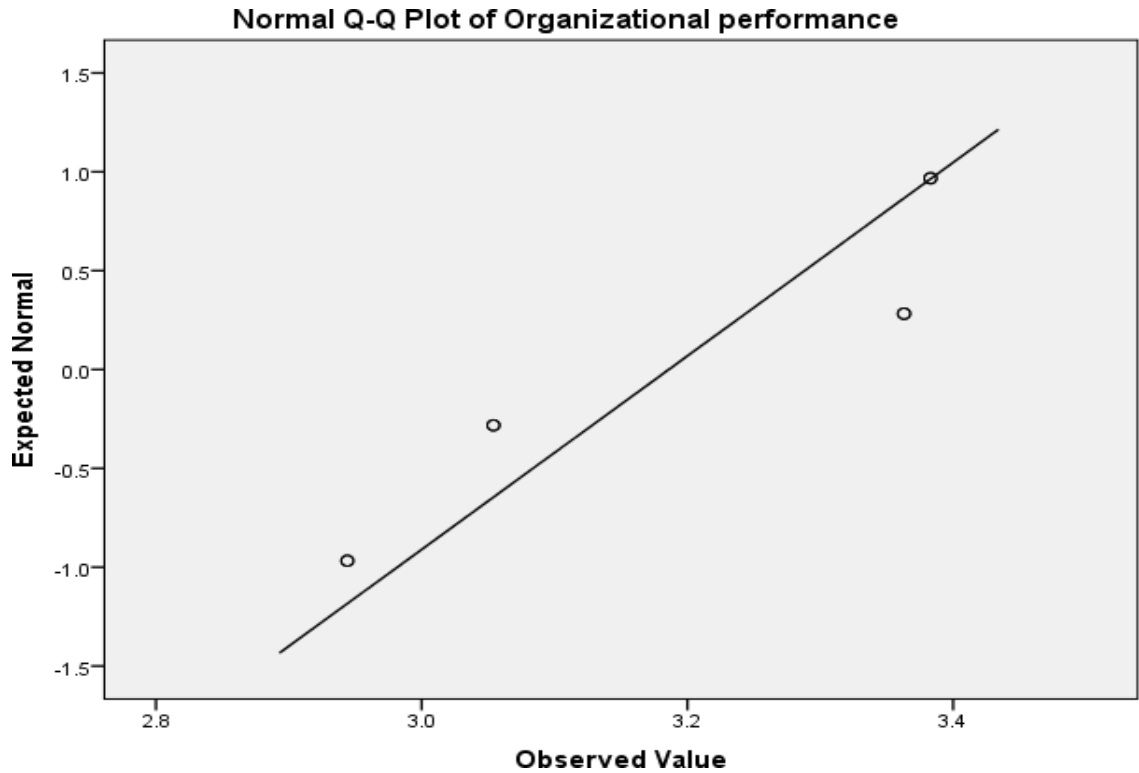
The above table shows that all the tolerance level is more than 0.2 (Menard, 1995), and VIF is less than 10 (Myers , 1990) proving that there is no multi-co linearity problem.

4.8 Normal Linearity Test

Normal linearity refers to the degree to which the change in the dependent variable is related to the change in the independent variables. To determine whether the relationship between the independent variable strategic Human Resource Practices (Training & Development, Recruitment & Selection, Performance Management & Compensation) and Organization Performance is normal or not; plots of the regression residual through SPSS software had been used.

Figure 3: Normal Point Plot Standardized Residual





Source: Survey Result (2020)

The scatter plot of residuals shows that no larger differences in the spread of the residual as you look from left to right on figure 3. This result suggests that the relationship we are trying to predict is normal. Similarly, the above figure shows the normal distribution of residuals around its mean of nearest to zero. Hence the normality assumption is fulfilled as required based on the above figure, it is possible to conclude that the inference that the researcher made about the population is somewhat valid.

4.9. Research hypotheses test results

In order to achieve the objectives designed for this study, the research hypotheses were tested. The statistical test results (regression and correlation analyses) of each null hypothesis at 95% confidence level are as shown in the hypotheses that follow:

H0. Strategic Human resources management practices have a significant effect of on organization performance

4.10 Regression Model

Table 12 Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
	.721 ^a	.520	.511	.444610	.520	61.978	4	229	.000

a. Dependent Variable: Organizational performance

b. Predictors: (Constant), Compensation, Training, Performance Mgt

, Recruitment Source: Survey Result (2020)

R-squared is measure the goodness of fit of the variables in explaining the variation in the Bank measures the variable Predictor: Training & Development, Recruitment& Selection, Performance Management and Compensation. This study combined four HRM strategies into one regression, to see the overall effect on business performance. The results show that all the four are significant ($p < 0.05$). Regression analysis was done to determine the effect of the combined human resources management strategies on the performance. From this analysis of all the strategies an adjusted R² of 51% was obtained. This implies that the simple linear model with all the strategies as the independent variable (Training & Development, Recruitment& Selection, and Performance Management & Compensation) explains 51% of the variations in performance of Awash Bank. This means that when all the strategies were used the performance of banks changed by 51%.

4.11 Regression ANOVA

Table 13: The regression ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	49.007	4	12.252	61.978	.000 ^b
	Residual	45.268	229	.198		
	Total	94.275	233			

a. Dependent Variable: Organizational performance

b. Predictors: (Constant), Compensation, Training, Performance Mgt , Recruitment

Regression Coefficient

Table 14: Regression Coefficient

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.112	.174		6.410	.000
	Training	.203	.055	.233	3.679	.000
	Recruitment	.273	.058	.319	4.709	.000
	Performance Management	.138	.049	.184	2.838	.005
	Compensation	.141	.059	.144	2.379	.018

a. Dependent Variable: Organizational performance

b. Predictors: (Constant), Compensation, Training, Performance Management, Recruitment Source: Survey Result (2020)

Table 14 (model 1) revealed that HR practices, Training & Development, Recruitment & Selection, performance appraisal and Compensation have significant impact on performance of the awash bank (i.e., $\beta = 0.203$, $p < 0.05$, $\beta = 0.273$, $p < 0.05$, $\beta = 0.138$, $p < 0.05$ and $\beta = 0.141$, $p < 0.05$, respectively This can be viewed by R square value ($R^2 = 0.520$, $F = 61.978^{**}$). The R square value revealed that 52% of variation in organizational performance is due to strategic HRM practices like training & development, recruitment & selection, performance management & compensation.

The fitted model from this analysis is:

$$OP = 1.11 + 0.203(TD) + 0.273(RS) + 0.138(PM) + 0.141(CO)$$

From the findings of the correlation analysis it was noted that recruitment & selection has a very significant positive relationship with performance with a Beta value of 0.319. This finding shows that awash bank are focusing on attracting & qualified candidates for future use related with performance. Compensation and Performance management had lower Beta values at .144 and .184 respectively. This shows that compensation and performance management strategies have a weaker relationship with performance.

H1. HR capabilities have no mediation effect on the relationship between SHRM practices and performance of the Awash Bank.

The fifth objective sought to determine whether human resource capabilities mediate on the relationship between SHRM practices and performance of Awash Bank. To this end, a null hypothesis H02 assuming that human resource capabilities had no mediating effect on the relationship between SHRM practices and performance of Awash Bank was formulated. To test the hypothesis five a composite index of the SHRM practices was computed. To establish the mediation effect Baron and Kenny"s (1986) causal step approach was used. The first step involved testing the relationship between SHRM practices and organization performance which was found to be statistically significant:

Table 15: Regression of SHRM practices and organization performance

Goodness of fit	Test Statistic	P-value	
Adjusted R-squared	0.511		
R-squared	0.520		
F-statistic	61.978	0.000***	
Dependent Variable= organizational performance	Linear Regression Results		
	Coefficients	t-statistic	P-value
SHRM	0.75	13.605	0.000***
Constant	1.112	6.41	0.23
Key	** significant at 5percent		
	*** significant at 1 percent		

Source: Survey Result (2020)

In Step 1 regression of organizational performance on SHRM practices resulted in adjusted R2 of 0.511 and a significant beta coefficient for SHRM practices of 0.22 (p<0.001) as shown in table 15 SHRM practices therefore explain 51.1% of the valuation in the regression model for step1.

The regression model was:

$$OP = 1.17 + 0.755 \text{ SHRM}$$

Step 2: Regression of Human Resource Capabilities on SHRM Practices

Table 16: Regression of HRC on SHRM practices

Goodness of fit	Test Statistic	P-value	
Adjusted R-squared	0.518		
R-squared	0.527		
F-statistic	63.716	0.000***	
Dependent Variable= Human resource Capabilities	Linear Regression Results		
	Coefficients	t-statistic	P-value
SHRM	0.678	14.14	0.000* **
Constant	0.979	6.495	0.23
Key	** significant at 5percent		
	*** significant at 1 percent		

Source: Survey Result (2020)

Regression of human resource capabilities on SHRM practices in Step 2, Resulted in adjusted R2 of 0.518 and significant beta coefficient for SHRM of 0.678 ($p < 0.001$) therefore SHRM practices explain 51.8. % of the variation in the regression model for step 2.

The linear regression model 2 was:

$$HRC = 0.979 + 0.678SHRM$$

Step 3: Regression of organizational performance on SHRM practices and HR capabilities

Table 17: Regression of SHRM practices and HRC on Organizational Performance

Goodness of fit	Test Statistic	P-value	
Adjusted R-squared	0.516		
R-squared	0.527		
F-statistic	50.772	0.000***	
Dependent Variable= organizational Performance	Linear Regression Results		
	Coefficients	t-statistic	P-value
SHRM	0.66	11.64	0.16***
HRC	0.139	1.837	0.67***
Constant	0.976	5.19	0.116
Key	** significant at 5percent		
	*** significant at 1 percent		

Source: (Survey Data, 2020)

In step 3 the simultaneous regression of organizational performance on SHRM practices and HR capabilities resulted in adjusted R² of 0.516 (table 17) and significantly beta coefficient of practices ($\beta = 0.66$, $P < 0.001$) and HR capabilities ($\beta = 0.139$, $P < 0.001$). This implies in step 3, SHRM practices and HR capabilities explain 51.6% of the variation in the organizational performance as compared to 51.1% by SHRM practices alone in step 1.

The linear regression model was:

$$OP = 0.979 + 0.66SHRM + 0.14HRC + \varepsilon$$

From the outcome of the regression model from step 1 SHRM practices significantly influence the dependent variable, organizational performance. From the results of regression model step 2 SHRM practices also significantly influences the mediating variable HRC. The regression model for step 3 suggests that HR capabilities significantly influence the relationship between SHRM practices and organizational performance. In the mediated regression model the adjusted R-square value increases by 0.5% implying that the explanatory power of practices on the variability of organizational performance increases. Thus it is observed that the relationship between SHRM practices and organizational performance depends on the HR capabilities. The null hypothesis was therefore rejected and the study concludes that HR capabilities mediate the relationship between SHRM practices and performance of Awash Bank. The above is summarized in Table 17.

Table 18: Summary of Regression Results for the Mediating Effect

Parameter	Step 1	Step 2	Step 3	Conclusion
Adjusted R ²	0.511	0.518	0.516	Not Accepted H ₀₂ , there is evidence of partial statistical mediation
R ²	0.520	0.527	0.527	
F Value	61.978	63.716	50.772	
B Constant	1.12	0.979	0.976	
SHRM	0.465	0.365	0.357	
HRC	-	-	0.14	

Source: (Survey Data, 2020)

The fifth objective sought to determine whether human resource capabilities mediate on the relationship between SHRM practices and performance of Awash Bank. To this end, a null hypothesis H₀₂ assuming that human resource capabilities had no mediating effect on the relationship between SHRM practices and performance of Awash Bank was formulated. To test the hypothesis four a composite index of the SHRM practices was computed the

simultaneous regression of organizational performance on SHRM practices and HR capabilities resulted in adjusted R2 of 0.516 (table 18) This implies, SHRM practices and HR capabilities explain 52.7 % of the variation in the organizational performance as compared to 52% by 0.07.

Regression Model 3

$$OP = 0.976 + 0.357SHRM + 1.39 HRC + \epsilon$$

In the mediated regression model the adjusted R-square value increases by 0.07% implying that the explanatory power of practices on the variability of organizational performance increases. Thus it is observed that the relationship between SHRM practices and organizational performance depends on the HR capabilities. The null hypothesis was therefore rejected and the study concludes that HR capabilities mediate the relationship between SHRM practices and performance of Awash Bank. Hence the decision making criteria affirms that human resource capabilities partially mediate the relationship between SHRM practices and performance of Awash Bank. The findings are in agreement with argument by Becker and Gerhart (1996) that work on strategic perspective must elaborate on the black box between a firm's SHRM practices and organizational performance. This argument is also supported by the contingency theory where a number of scholars such as (Huselid 2005; Huselid et al., 2007; Schuler & Jackson 2009) suggest that the strategy–HR interaction accounts for more variation in firm performance than the indirect effects of HR measures.

While researchers have emphasized that SHRM leads to better organizational performance, several authors (Delery 1998; Ferris et al. 1998; Edwards and Wright 2001) opine that a one-way causation between such fit and organizational performance is unsatisfactory and that there exists an indirect relationship between the two. Thus, there are variables that mediate a link between such types of fit and business performance (Huselid 1995; Paauwe 1996; Guest 1997; Fey, Bjorkman & Pavlovskaya 2000).

As mentioned in the problem statement, there is a black box in the relationship between SHRM and organizational performance. The current study contributes to the body of knowledge by showing that human resource capabilities mediates on the relationship between Strategic human resource and organizational performances.

CHAPTER FIVE

FINDINGS, CONCLUSION AND RECOMMENDATIONS

The aim of this study was to make an analysis on the effect of Strategic Human Resource Management practices on the organizational performance of Awash Bank by mediating the human resource capabilities. The analysis was made using SPSS and the interpretation was provided in the previous chapter. Based on the analysis and the interpretation, the following major findings, conclusion and recommendations are forwarded.

5.1 Summary of Finding

The study was conducted at head office of the Awash Bank located in Addis Ababa. Primary data was collected using questionnaires distributed to 234 and semi structured interview with 3 employees of the Bank. The collected questionnaires were valid for the statistical test that was analyzed using frequency tables, means, correlation, and regression, through Statistical Package for Social Science (SPSS). After making analysis of the primary data, the following points are presented as the major findings.

The majority 59.8 % of the respondents belong to the age group of 26 to 33. This indicates that most of the respondents were experienced men and women. They were aware of the possible consequences that their responses might have on the validity and reliability of the findings of the intended study. Majority of the respondents (90 percent) are Degree and MA holders. With 60% and 30% respectively. This also indicates that the academic and professional background of the respondents minimize the possibility of higher degree of misunderstanding of the questions asked.

- Out of the total 234 participant staffs of the bank 184 (78.6%) are males and 50 (35%) are females.
- Above half of the majority (58 percent) of the respondents are worked in the bank less than 7 years.
- The sample population participated in the study comprises of all clerical employees from all job types and grades. This is how the representative character of the respondents which is universal in nature.
- It is on this background that this study sought to analyze the effect of strategic human

resource management practices on organizational performance of Awash Bank. The specific objectives of the study were; to examine the effect training on performance of bank; to evaluate the degree to which recruitment affect organizational performance of the bank; to evaluate the effect of performance management on bank performance; to investigate impact of Compensation on bank performance, to determine the mediating effect of HR capabilities on the relationship between SHRM practices and performance of Awash Bank. The research tested two hypotheses using three multiple regression models.

The result of the research has indicated that there is a positive relationship between Strategic Human resource management practices and organization performance in Awash Bank. This positive relationship indicates that the strategic human resource of the Bank is influencing the effectiveness of the Bank. In general, this study found that four sets of HR practices – recruitment, training, performance management and compensation – as contributing significantly to improved performance of Awash Bank. When all this strategies were used, it was found that the performance of Awash bank improved by 51.1%. The result presented in this study are consistent with the findings of a similar study by Khattoon et al (2013) who suggests that practicing intensive strategic human resources management leads to improved financial performance and can be asserted to sustain in the competitive environment. This findings also corroborates the views of Huselid (1995) and Wright and McMahan (1992) who argued that when a firm's human resource practices are consistent with each other (i.e. internal fit), and with the firm's strategic goals (i.e. external fit), organizational efficiency will be enhanced.

Training and Development

From the study It was also found that there is a positive relationship of training and development practices and performance of Awash Bank with a Pearson's correlation of 0.592. From the research, it was found that training & development is to aimed to improve the performance of the bank, for this the bank have plans and budget for training & development. However there is a gap in training need analysis and measuring of training effect analyzing.

Recruitment & Selection

From this research, it was found that recruitment and selection strategies have a positive significant effect on the Awash Bank performance with a Pearson's correlation of 0.64. The

study found out that most respondents agreed that the bank management has understand the requirement for the job and recruitment strategy is give the bank competitive advantage, This enables banks to get the kind of employees their needed, reduce the cost of training and supervision in the organization by obtaining staff with the right qualifications hence affecting the realization of increased bank financial performance. The bank talent acquisition strategy is reactive and key position recruitment is made at central head office level.

Performance Management System

The research findings indicate that there is a positive correlation between performance management and performance of Awash Bank with a Pearson's correlation of 0.567. Though the employees strongly agree performance appraisal/ management affect organizational performance, the bank have no modern performance management system aligned with organizational performance and; appraisal is not conducted regularly for a promotion purpose.

Compensation

From this research, it was found that Compensation strategies have a positive significant effect on the Awash Bank performance with a Pearson's correlation of 0.567. it was found that Awash Bank use both financial and non-financial rewards to motivate their employees.

5.2 Conclusion

The major purpose of this study was to provide empirical support that SHRM practices effect, through human resource capabilities, organizational performance of Awash Bank. From this study it is concluded that strategic human resources management practices have a significant direct effect on the performance of Awash Banks. The SHRM practices also have an indirect effect on organizational performance via HR capabilities. Among all of the four factors, Recruitment & selection is a highly significant factor which affects organizational performance. However compensation has the least effect on performance. An important point to note is that although individual HRM practices are significant positive effect, the joint impact SHRM practices to increase the bank performance to a very great extent.

Human resource capabilities were found to have a partial mediating effect on the relationship between SHRM practices and organizational performance. Thus organizations should strive

to have HR capabilities that are valuable, rare, inimitable and well organized in order for them to attain competitive advantage and hence improved organizational performance.

5.3 Recommendations

Based on the conclusions reached by the researcher on the findings of this study, the following recommendations are forwarded.

As the findings suggest that individual effect of strategic HR practices have significant effect on organizational performance of Awash Bank, More importantly, the joint impact of strategic HR practices, Therefore, the management of the Bank should give attention for the implementation a set of HRM strategies to gain strategic organizational outcomes in terms of effectiveness, efficiency, relevance and financial viability.

As it is reveals on the finding that recruitment and selection have positive effect on organizational performance and talent acquisition is reactive, the bank should develop proactive talent Acquisition strategy that is aligned with the bank corporate strategy and help the bank to attract and retain qualified candidates.

There is a need to develop modern performance management system ensure the proactive use of performance appraisal outcomes as a tool to determine developmental and training needs, additionally the study recommends that HR managers should ensure that the performance of employees should be measured on the basis of objective quantifiable results. Strategic training was a key factor that influenced employee performance for the banking industry therefore, Training needs assessment could be carried out before any training programs began and effectiveness of training should be done after.

On human resource capabilities which were found to partially mediate the relationship between SHRM practices and organizational performance, HR managers should recognize the contribution of HR capabilities to organizational success. Identifying the source of competitive advantage with the entire organization and ensure they acquire human resource that is able to exploit environmental opportunities as well as neutralize environmental threats.

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Appendix I: Questionnaire



Jimma University
College of Business and Economics Masters of Business
Administration

This questionnaire is designed to obtain information for a research entitled “*The effects of strategic human resource management practices on organizational performance: Mediating Role of Human Resource Capabilities the case of Awash Bank*”. The research is purely undertaken for academic purpose in the partial fulfillment Masters of Business Administration at Jimma University. The information you will provide can be used only for the research purpose and can't be disclosed to anyone. Furthermore, you are not expected to write your name on the questionnaire. The accuracy of the responses you provide will be crucial to the success of the research project. Kindly respond to all the questions.

Instruction: Tick (√) where appropriate.

Part A: Demographic Characteristics of the respondent

1. Gender

Male female

2. Educational Qualifications

Below Diploma Diploma

Bachelor's Degree Master's Degree PHD

If others specify _____

3. Year of service in your current

organization. 0 -3 years 4- 6 years

7 – 10 years

11- 14 years

More than 15 years

4. Age

18 – 25

Less than 30 years

26 – 33 years

34 -41 years

41- 48 year

More than 49 years

5. Position

Director []

Manager []

Senior Level []

Officer Level [] if other specify -----

Part B: Strategic Human Resource Management Practices

Please indicate to what extent the following statements are true. Please tick (√) the box with a number from the scale below that best describes your response. Where 5 = (strongly agree, 4(agree), 3 (neutral), 2(disagree), 1(strongly disagree).

S/No	Training Strategy	1	2	3	4	5
1.	Training offered is relevant to employees 'jobs					
2.	Training is aimed at improving organizational performance					
3.	Employees in each job will normally go through training programs every year					
4.	Training programme are well planned and designed					
5.	All the employees are exposed to different kinds of Training					
6.	There is training for problem- solving skills.					
7.	There is a training policy applicable to all employees					
8.	There are plans and budgets for training activities					
9.	The organization links training with the company's business strategy					
10.	The organization has a full-fledged training department manned by competent professionals					
11.	There is evaluation of the training programme					
Recruitment & Selection						
12.	The organization is able to determine future demand of employees.					
13.	The organization is able to determine future supply of Employees					
14.	The organization prefer getting employees from within					
15.	The organization prefer getting employees from external Sources					
16.	The management understands the requirements for job					
17.	A preliminary screening is conducted for all potential Employees					
18.	Recruitment strategies are aimed at giving the organizational competitive advantage					
Performance Management						
19.	There is emphasis on behavioral based appraisal					
20.	Performance of the employees is measured on the basis of objective quantifiable results					
21.	The performance evaluation emphasizes guiding employee behaviors toward the company's strategic Direction					
22.	The main focus of performance evaluation is development as opposed to punishment					
23.	Performance evaluation uses a long-term measurement Standard					

24.	Goals set for performance evaluation are mutually decided					
25.	Promotions are strictly based on performance management system					
Compensation and benefits						
26.	Incentive pay is linked to job performance for all Employees					
27.	The organization provides managerial staff a flexible compensation structure but not a standardized one					
28.	There is a great discrepancy in incentive pay between the high and low performers for the same job					
29.	The incentive pay of middle- to high-level managerial staff is linked to the organization's performance.					
30.	Salary and other benefits are comparable to what is generally obtainable in the industry					
31.	There is a clear explanation of remuneration policy and its Implementation					
32.	There are individual incentives					
33.	There are group incentives					
34.	There is skill based pay element in our pay package					
35.	Pay is only in terms of salary					
36.	No financial incentives					

Part C: Human Resource Capabilities

The following statements are on how the organization uses its Human Resources Capabilities for the purposes of reducing costs to a competitive level, exploiting targeted market opportunities, and/or defending against known competitive threats.

Value		1	2	3	4	5
37.	The firm is able to exploit environmental opportunities					
38.	The firm is able to neutralize environmental threats					
39.	The firm's HR result in an increase in revenues					
40.	The firm's HR result in a decrease in costs					
Rareness		1	2	3	4	5
41.	The HR in your firm is only comparable to others in a small number of competing firms					
42.	The resources used to make products/services in the firm are rare					
43.	The final products/services of the firm are rare					
44.	The firm's HR can be trusted					
Inimitability						
45.	What your organization is doing is difficult to imitate					
46.	The HR in your organization possesses unique managerial Skills					
47.	particular circumstances have led to a unique development of competencies					
48.	The organizations resources are patented					

Organization						
49.	The firm's other policies and procedures are organized to support the exploitation of its valuable, rare, and costly-to-imitate resources					

Part D: Organizational Performance		1	2	3	4	5
50.	Effectiveness					
51.	The organization achieves its annual objectives					
52.	The organizational objectives are in line with the organization's Mission					
53.	The organization supports innovation.					
54.	Members of staff are fully utilized to meet organization's goals.					
55.	The organizations always achieve its objective within the set time frame					
56.	The organization aggressively introduces new products					
57.	Continuously assesses customer satisfaction					
58.	High quality administrative systems are in place to support service delivery.					

Efficiency						
59.	The organization responds to customers complain in a timely manner					
60.	The organization makes optimal use of its financial resources.					
61.	Reacts to competitors threats immediately					
62.	The organization compares progress made in the Organ. From time to time.					
63.	The organization delivers its services/products promptly without any delay.					
64.	The organization controls overhead costs.					

Relevance						
65.	Services/products of the organization are regularly reviewed to reflect changing environment.					
66.	Services/ products of the organization are regularly reviewed to reflect changing capabilities.					
67.	Services/products of the organization are regularly reviewed to reflect changing client needs.					
68.	Services/products of the organization are regularly reviewed to reflect changing client type.					
69.	The organization regularly reviews the environment to adapt its strategy.					
70.	The organization adequately balances stakeholders demand.					
Financial viability						

71.	The organization has sustainable financial resources for Continuity of its activities.					
72.	The organization has more revenue than expenses.					
73.	The organization does not rely on funds from external Sources.					
74.	The organization has more assets than liabilities.					
75.	The organization depends on external funding.					

In your own opinion what is the effect of human resource strategies on the performance of banks?

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Thank u for your Participation

Appendix ii: Interview Questionnaire

- a. How does recruitment & Selection done in your bank?
- b. How does the recruitment and selection process affect the performance of the bank?
- c. How do you ensure that your employees have the right skills at all times?
- d. How often is training done in the bank?
- e. How are training needs identified?
- f. Is the training given to the employees relevant to their performance?
- g. How does the performance management practice implement in your organization?
- h. What types of Compensation are offered in the bank?
- i. How do reward & Compensation affect motivation of employees?

Thank you for your time