

Influence of Human Resource Management Practices on the Performance of Small and Medium Enterprises in Kisumu Municipality, Kenya

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Abstract

The increasing interest in human resource practices is due to the assumption that employees and the way they are managed are critical to the success of a firm . Small and Medium enterprises are emerging as reliable alternatives to poverty alleviation and employment .They however face peculiar challenges that affect their performance . It has been noted in other studies that they lack performance standard, do not attract appropriately trained personnel, have Poor compensation systems and lack of employee involvement.

Keywords: HRM practices, SME performance, Kisumu

Introduction

Human resource management (HRM) is the management function that implements strategies and policies relating to the management of persons (Patterson, 1987). HRM practices therefore is an innovative view of workplace management than the traditional approach because its techniques force the managers of enterprises to express their goals with specificity so that they are understood and undertaken by the workforce and to provide the resources needed for them to successfully accomplish them (Becker & Gerhart, 1996) . Hence, HRM practices techniques, when properly practiced, are expressive of the goals and operating practices of the overall enterprise (Delery & Doty, 1996) . SMEs have covered a wide range of meaning and measures, varying from country to country and between the sources reporting statistics on SMEs. Although there is no universally agreed definition of an SME, among the most common definitions in developing countries are the number of employees and size of assets or turnover (KAM, 2008). Kenya SMEs Bill (2009) defines SMEs in terms of general number of employees and the enterprise turnover.

Background Literature

Recruitment is the process of attracting, screening, and selecting qualified people for a job (Hoover, In Press). According to Montana and Charnov (2000), recruitment includes sourcing candidates by advertising or other methods, screening potential candidates using tests and interviews, selecting candidates based on the results of the tests or interviews, and on-boarding to ensure that the candidate are able to fulfill their new roles effectively. As Kelly (2001) notes, recruitment activities need to be responsive to the increasingly competitive market to secure suitably qualified and capable recruits at all levels. However, to be effective, these initiatives need to include how and when to source the best recruits (McLean *et al.*, 2004).

Effective recruitment demands well-defined organizational structures with sound job design, robust task and person specification and versatile selection processes, and employee engagement and on-boarding strategies Kelly(2001). The quality of the recruitment process in the SMEs in Kisumu municipality has not been investigated despite the poor performance in comparison with other SMEs in other regions.

Training and development is the organizational activity concerned with improving the performance of individuals and groups in organizational settings (Hoover, In Press). According to Legge (2004), and Montana and Charnov (2000), training and development encompasses training, education, and development. those jobs. Generally, training ensures that the identified competency requirements are built through a systematic and focused approach (Elwood & James, 1996), and development ensures that individuals are provided with opportunities to develop their competencies that enable them to achieve professional and personal career objectives within the organization's goals (Kelly, 2001). If the employees are not evaluated against their current jobs, those that they are likely to hold in future or against the activities of the organization, there will be no basis for training and development. The employees and organizations affected are likely to witness reduced performances.

An equally important aspect of HRM practices is employee compensation. Compensation consist of every item of payment that is both monetary and non monetary. According to Roche (2000), this practice improves organizational performance. Blinder (1990) points out that the way employees are compensated impacts on their commitment levels. The virtues of employee compensation and its influence on the performance of SMEs in Kisumu municipality are still unknown, despite the performance of the SMEs being low.

Conceptual Framework

Figure 1 indicates that HRM practices influence the performance of SMEs . HRM practices are viewed as recruitment and selection, training and development and compensation. Performance on other hand is viewed as life span, profit and sales volumes. Intervening variables include environmental, political, and global and insecurity factors which may impact on the performance of SMEs although they are not investigated in this study. The framework holds that if there is proper HRM practice based on proper recruitment and selection procedures; effective training and development of staff and compensation, then the SMEs will have long life spans, make profits, have large sales volumes, and expand considerably.

Hypotheses

- i. The hypothesis of no regression effect.
H₀: None of the factors is significant determinant of the performance of the SMEs in Kisumu municipality.
- ii. The hypothesis of no significant effect.
H₀: One or more of the elements of HRM factors are not significant determinants of the performance of the SMEs in Kisumu municipality

Measures of constructs

The two main variables investigated in this study were human resource practices and performance of SMEs. Performance of SMEs was measured from life span, profits, sales volumes, and expansion in SMEs. Each of these elements of performance was assessed individually for each SME, and the result used to measure the overall performance of the SME. The responses of respondent were scored such that the lowest permissible score was 5 and the maximum permissible score was 36. The scores were then expressed as a percentage of 36 to enable equitable comparison. On this wise, the maximum possible score on performance was 13.80% and the maximum was 100.0%. The data was scored depending on the total number of items measuring a specific construct in an objective, and converted to uniform scores of between 1 to 3 to reflect poor to good using the procedure described in Table 4.1. Data on recruitment and selection was collected on sourcing, attracting and screening of prospective employees. The data was scored on a range of 0-22 and converted into good which was coded 1, moderate which was coded 2, and poor which was coded 3, and then interpreted as summarized in Table 4.1. Data on training and development was collected on analysis of training needs, analysis of training outcomes and capacity of trainers. The data was scored on a range of 5-21 and converted into good which was coded 1, moderate which was coded 2 and poor which was coded 3, and then interpreted as summarized in Table 4.1. Data on compensation was collected on performance referencing, retention mechanisms and salary structuring.

The data was scored on a range of 3-15 and converted into good which was coded 1, moderate which was coded 2, and poor coded 3, and then interpreted as summarized in Table 4.1.

Methodology

This study employed a cross sectional survey research design . The target population comprised of all the 777 SMEs in Kisumu Municipality . The sample consisted of 260 SMEs selected from all clusters of Kisumu municipality. This study employed proportionate stratified sampling, simple random and purposive sampling techniques . Purposive sampling technique was used to select the managers of SMEs. The data was collected using semi-structured questionnaires of mostly Likert Scale type, and interviews. Interview, using focus group discussion (FGD) technique. Reliability was determined using test-re-test method. Quantitative data was analyzed using percentages and multiple regression techniques. Quantitative data was presented in form of tables such as frequency and percentage tables. Pictorial such as pie-charts and histogram was also used. Qualitative data was presented in prose form, including verbatim quotation where necessary.

Data Analysis and Discussions

This study investigated the overall performance of SMEs based on the scores of each SME on life span, profits, sales volumes, and expansion.

4.3 Correlation Matrix for HRM and Performance of the SMEs

The correlation matrix is summarized in Table 4.3.

Table 4.3: Correlation Matrix for Elements of HRM and Performance

	Recruitment & Selection	Training & Development	Compensation	Performance
Recruitment & Selection	1	.393**	-.006	-.641**
Training & Development		1	-.073	-.660**
Compensation			1	.037
Performance				1

Table 4.3 summarizes the correlations of the two elements of HRM and performance of SMEs. The table shows there are three significant bivariate correlations at .01. But there are no significant bivariate correlations at .05. Further, the table also shows that there are significant associations between the elements of HRM themselves. It reveals that training and development, have significant associations with recruitment and selection at .01 and that training and development also has a significant association with performance appraisal at .01. All these associations have positive values which indicate that an increase in one variable means an increase on the other variable and vice versa. The table further indicates that recruitment and selection, training and development and all have significant correlations with overall performance of SMEs at .01. But interestingly, the associations have negative values which seem to suggest that increasing of recruitment and selection and of training and development. This could suggest that these elements of HRM are not implemented in the correct manner, or are just used for decorations. However, there are no significant associations between compensation with any element of HRM, or with performance itself. This suggests that compensation have no significant influenced on the performance of SMEs.

The researcher proceeded to determine individual relationships between each element of HRM practice and performance of the SMEs. From the correlations in Table 4.3, there was reason to suspect that the HRM practices and performance are related, and that knowing the value(s) of one or more HRM practices could enable a corresponding value of performance to be determined using a general model of $P^I = a + \beta H$; where P^I is the predicted performance, H the HRM practice, a is the regression constant, and β is the coefficient of regression. The elements of HRM practices (recruitment and selection, training and development and employee compensation) in Appendix IV were regressed on performance data and the results of the regression analysis summarized in the following subsections were obtained.

4.4.1 Recruitment and Selection and Performance of SMEs

Table 4.5: Statistics of Simple Regression of Recruitment and Selection and Performance

Element of HRM	Constant	Coefficients		R values/proportions			Std. ϵ	F statistic		t-statistic		Sig.
		B	B	R	R ²	Adj. R ²		F _o	F _c	t _o	t _c	
Recruitment & Selection	95.96	-14.01	-641	.641	.411	.408	10.46	143.46	3.860	-11.97	1.968	.000

Table 4.5 shows the statistics for regression of recruitment and selection and performance. The table shows that $F_o = 143.46 > F_{(1, 206)} = 3.860$; $t_o = 11.97 > t_{(206)} = 1.968$; $\alpha_o = .000 < \alpha_c = .05$. This led to the rejection of the null hypothesis that recruitment and selection is not a significant determinant of the performance of the SMEs in Kisumu Municipality. The study therefore established that recruitment and selection is a significant determinant of the performance of the SMEs in Kisumu Municipality.

The adjusted R square statistic (Adj. R² = .408) indicates that recruitment and selection accounts for 40.8% of the variance in the performance of the SMEs leaving about 59.2% to other factors including errors in the measurements. Since recruitment and selection are significant predictors of the performance of SMEs, it was possible to build prediction model of performance using the constant and value such that $P^I = -95.96-14.01h$; where P^I is the predicted performance, H the status of recruitment and selection if it can be accurately measured. Hence it is possible to increase the performance of SMEs in Kisumu city by about 40.8% through putting in place effective measures and criteria for recruitment and selection. The performance of SMEs can also be lowered by the same magnitude if poor recruitment and selection process are allowed to prevail.

The findings fits well with the sentiments of Hoover (In Press) and the views of Montana and Charnov (2000) that recruitment is the process of attracting, screening, and selecting qualified people for a job. This being the case, it should be, if done well, bring in the best people to the organisation. This should enhance performance of the organisation. Recruitment and selection, as Elwood and James (1996) point out, and as confirmed by this study, is a major part of an organization's overall resourcing strategies, as it identifies and secures people needed for an organization to survive and succeed in the short to medium-term.

4.4.2 Training and Development no Performance of SMEs

Table 4.7: Statistics of Simple Regression of Training and Development and Performance

Element of HRM	Constant	Coefficients		R values/proportions			Std. ϵ	F statistic		t-statistic		Sig.
		B	B	R	R ²	Adj. R ²		F _o	F _c	t _o	t _c	
Training & Development	93.77	-13.17	-.660	.660	.435	.432	1.04	104.96	3.860	-12.59	1.968	.000

Table 4.7 summarizes the statistics for regression analysis of training and development and performance. The information in the table indicates that the overall regression model is significant since $F_o = 104.96 > F_{(1, 206)} = 3.860$; $t_o = 12.59 > t_{(206)} = 1.968$; $\alpha_o = .000 < \alpha_c = .05$. This led to the rejection of the null hypothesis that training and development is not a significant determinant of the performance of the SMEs in Kisumu Municipality. The study therefore established that training and development is a significant determinant of the performance of the SMEs in Kisumu Municipality. Taken together with the information of Table 4.6, the study established that the better the training and development in an SME, the higher the performance of the SME.

The adjusted R square statistic ($\text{Adj. } R^2 = .432$) indicates that training and development accounts for 43.2% of the variance in the performance of the SMEs in Kisumu Municipality. Hence training and development influence the performance of the SMEs in Kisumu Municipality by 43.2%, but the rest 56.8% are accounted for by other factors including errors in the measurements. Since training and development are significant predictors of the performance of SMEs, it was possible to build prediction model of performance using the constant and β value such that $P^I = 93.77 - 13.77H$; where P^I is the predicted performance, H the status of training and development if it can be accurately measured. Hence it is possible to increase the performance of SMEs in Kisumu city by about 43.2% through putting in place effective measures and criteria for training and development. But the performance of SMEs can also be lowered by the same magnitude of poor training and development is allowed to prevail.

Training and development is a significant determinant of the performance of the SMEs in Kisumu Municipality; and that it accounts for up to 43.2% of the variance in the performance of the SMEs in Kisumu Municipality. This finding should be understood from the views of Hoover (In Press), and from the views of Legge (2004) that training and development is the organizational activity concerned with improving the performance of individuals and groups in organizational settings. If the performance of the individuals themselves is improved, so is the performance of the organization for which they work. Successful training and development prepares individuals to undertake a higher level of work, and provide the possibility of performance change; and this enhances the performance of the individual and of the organization. It therefore follows that SMEs with good practices of training and development were found to perform higher than those without. But further, it also true, as Pfeiffer (1994) observed, that organization's competitive success is achieved through people. Hence SMEs that take keen interests on training tend to achieve higher productivity.

4.4.5 Compensation and Performance of SMEs

Table 4.13: Statistics of Simple Regression of Compensation and Performance

Element of HRM	Constant	Coefficients		R values/proportions			Std. ϵ	F statistic		t-statistic		Sig.
		B	B	R	R^2	Adj. R^2		F_o	F_c	t_o	t_c	
Employee Voice	59.12	1.31	.037	.037	.001	-.003	13.62	.282	3.860	.531	1.968	.596

Table 4.13 all led to the acceptance of the null hypothesis that compensation is not a significant determinant of the performance of the SMEs in Kisumu Municipality. The study therefore established that compensation is NOT a significant determinant of the performance of the SMEs in Kisumu Municipality; and that the status of compensation has no significant influence on the performance of the SMEs. Even though the information of Table 4.12 suggested that the better the compensation in an SME, the lower the performance of the SME, these differences, as indicated in the Table 4.13 are too small and insignificant.

The adjusted R square statistic ($\text{Adj. } R^2 = .003$) indicates that compensation actually accounts for only 0.3% of the variance in the performance of the SMEs in Kisumu Municipality, and that the rest 99.7% of the variance in the performance of the SMEs in Kisumu Municipality are accounted for by other factors including errors in the measurements, but not employee compensation. Since employee compensation is NOT a significant predictor of the performance of SMEs, it was not necessary to build prediction model of performance using the constant and B values. But a prediction model of $P^I = 59.12 - 1.31H$; where P^I is the predicted performance, H the status of compensation could still be built if it can be accurately measured. However, just like in the case of employee involvement, the predictions based on this model are largely unrealistic since the whole regression model is insignificant.

Compensation is NOT a significant determinant of the performance of the SMEs in Kisumu Municipality. It therefore does not matter how all employees in the SMEs are paid, they still produce the same amount of labor. This finding contradicts the views of Roche (2000) that compensation improves organizational performance, and the views of Prosser (2001) that employee compensation humanizes and civilizes the workplace and brings positive benefits to a business as a motivator. The study has established that people do not always look for jobs that will compensate them in terms of salary and benefits accordingly. It does not follow, as Blinder (1990) points out, that the way employees are compensated impacts on their commitment levels.

4.6 Multivariate Relationship between HRM Practices and Performance of SMEs

Having determined the relationships between each element of HRM and performance, the relationships between all the elements of HRM taken together, and performance was then determined. This was necessary since the elements of HRM were presumed to affect performance as has been suggested in literature, it was not possible that they could affect performance in isolation. Hence the need for a multiple relationship of the model of $P^F = a + \beta_1 H_1 + \beta_2 H_2 + \beta_3 H_3 + \dots + \beta_n H_n$, where P^F is the predicted performance, H_{is} ; the elements of HRM, a the regression constant; and β_{is} the coefficients of regression. The elements of HRM scores in Appendix IV were all regressed on performance under the hypothesis that recruitment and selection, training and development, performance appraisals, employee involvement and employee compensation taken together are not significant determinants of the performance of the SMEs in Kisumu Municipality. The results of the analysis are summarized in Table 4.14.

Table 4.14: Statistics of Multiple Regression of elements of HRM and Performance

Element of HRM	Coefficients		R values/proportions			F statistic		t-statistic		Sig.	
	B	B	R	R ²	Adj. R ²	Std. ϵ	F _o	F _c	t _o		t _c
Constant	114.20								36.64		.000
Recruitment & Selection	-5.45	-.249							-5.52		.000
Training & Development	-4.49	-.225							-4.67		.000
Compensation	-.069	-.004							-.099		.921
Model Summary	-	-	.885	.730	.724	7.14	109.50	2.23	-	1.968	.000

Note. B is un-standardized coefficients, β is standardized coefficients; R is multiple correlation coefficient, R² is the proportion of the total variance, Adj. R² adjusted is improved approximation of R²; Std ϵ is standard error of the estimate, F_o is the observed ANOVA statistic, F_c is critical ANOVA statistic F_(5, 202); t_o is observed t statistic, t_c is critical t statistic t₍₂₀₂₎; $\alpha = .05$.

The data on the last row (model summary) of Table 14 gives information on all the elements of HRM taken together and performance, and provides the overall significance of the regression. The F value is significant (F_o = 109.50 > F_(5, 202) = 2.230; $\alpha_o = .000 < \alpha_c = .05$) which gives a strong evidence against the null hypothesis that all β_{is} are equal to zero. The hypothesis that recruitment and selection, training and development, performance appraisals, employee employee and employee compensation taken together are not significant determinants of the performance of the SMEs in Kisumu Municipality was therefore rejected. This means that at least one of the elements of HRM practices is a significant determinant of the performance of the SMEs in Kisumu Municipality, as not all β_{is} are equal to zero. Having established that not all β_{is} were equal to zero, and that at least one of the elements of HRM practice was a significant determinant of the performance of SMEs, the significant element(s) of performance were then investigated by investigating a, β_1 , β_2 , β_3 , β_4 , and β_5 , under the hypothesis that at least one of the elements of HRM practice (i.e. recruitment and selection, training and development, performance appraisals, employee voice and employee compensation) is not a significant predictor of the performance of the SMEs in Kisumu Municipality: thus H_{oj}: $\beta_j = 0$ against H₁: $\beta_j \neq 0$ for j = 0,1,2,3,4,5.

The column of t values confirms that only three elements of HRM practice are significant determinants of the performance of SMEs. These are (i) recruitment and selection (t_o = 5.529 > t₍₂₀₂₎ = 1.968; $\alpha_o = .000 < \alpha_c = .05$); (ii) training and development (t_o = 4.672 > t₍₂₀₂₎ = 1.968; $\alpha_o = .000 < \alpha_c = .05$); and (iii) performance appraisals (t_o = 9.611 > t₍₂₀₂₎ = 1.968; $\alpha_o = .000 < \alpha_c = .05$); which all indicate significant differences. But for employee employee (t_o = .067 < t₍₂₀₂₎ = 1.968; $\alpha_o = .947 > \alpha_c = .05$); and employee compensation (t_o = .099 < t₍₂₀₂₎ = 1.968; $\alpha_o = .921 > \alpha_c = .05$); which all indicate insignificant differences. The hypothesis that at least one of the elements of HRM is a significant predictor of the performance of the SMEs in Kisumu Municipality was therefore accepted. The study therefore established that recruitment and selection, training and development, and performance appraisals taken together are significant determinants of the performance of the SMEs in Kisumu Municipality. A general model for determining the performance of the SMEs was then developed from the coefficients as $P^F = 114.40 - 5.45H_1 - 0.449H_2 - 10.9H_3$; where H₁ is the status of recruitment and selection, H₂ is the status of training and development, and H₃ is the status of performance appraisal in an SME.

Employee involvement and employee compensation have been omitted from this model because they do not have a significant influence on the performance of SMEs.

The adjusted R square statistic ($\text{adj. } R^2 = .724$) gives the proportion of the total variance in performance explained by the model. The total variance in performance of the SMEs in Kisumu Municipality explained by the model is 72.4%. In other words recruitment and selection, training and development, and performance appraisals together account for 72.4% of the variance in the performance of SMEs. Thus only 27.6% of the total variance is accounted by the elements of HRM practice specific to the determinants, and by errors due to measurements, as well as by elements of HRM practice not investigated in this study.

5.4 Conclusion

The purpose of this study was to determine the influence of HRM practices on the performance of SMEs. It particularly investigated the influence of recruitment and selection, training and development, performance appraisals, employee voice and compensation individually and collectively, on the performance of the SMEs in Kisumu Municipality. Performance was based on the scores of each SMES on life span, profits, sales volumes, and expansion. The main top be addressed in this section is” does HRM practices influence the performance of SMES in Kisumu Municipality?” The study found out that the overall average performance of SMEs in Kisumu Municipality is 60.71%; and that recruitment and selection; training and development; and are significant predictors or determinants of the performance of the SMEs in Kisumu Municipality. But employee voice and compensation, which are the other elements of HRM investigated in this study, are NOT significant predictors or determinants of the performance of the SMEs in Kisumu Municipality. Based on the fact that there are three positive results against two negative results, and on the balance of probabilities, the study concludes that HRM practices have a significant influence on the performance of SMEs in Kisumu Municipality, and the better the HRM practice, the higher the performance of the SME.

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