EFFECTS OF HUMAN RESOURCE MANAGEMENT PRACTICES ON PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN KENYA: A CASE OF KIAMBU MUNICIPALITY

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ABSTRACT
The SME sector is characterized by dilapidated infrastructure, low adoption of advanced technology, poor market access, low credit access and continued harassment from government institutions that should in the first place protect and nurture it. The purpose of this study is to establish the effect of human resource management practices on the performance of small and medium enterprises. This study targeted SMEs in Kiambu municipality. A sample of 200 SMEs was used. The data collection method was a questionnaire with some open ended questions. A pilot study was conducted to establish the validity and reliability of the questionnaire. The questionnaire questions were based on the research questions that are raised in the first chapter. The data analysis included both quantitative and qualitative methods. The analyzed data was interpreted, analyzed and presented in tabular forms. A descriptive research design was utilized in the interpretation of the study findings. The study found that employee performance and reward affected performance and that employee training and development contributed to the performance of the business. The study also concludes that motivated employees affected business performance and that methods used to assess employees to be motivated affected business performance. Moreover, the study concludes that employee recruitment affected business performance. Finally, the study concludes that time taken to induct employees and the resources used to train the employee affected business performance. The study recommends that SMEs should adopt HRM programmes so as to increase competitive advantage. The study also recommends that SMEs should embrace extensive recruitment and training procedures, increased
employment involvement and incentive compensation so as to achieve higher levels of turnover, higher productivity and better financial performance.

**Key Words:** Performance, Practice, Enterprise, Profitability, Management

**Introduction**

In most research on the link between HRM and organizational performance, virtually no thought is given to the limits of the empirical field of validity. Very often research is limited to larger and older organizations while small and medium sized enterprises (SMEs) receive little attention (Welbourne and Cyr, 1999). Given their statistical predominance, firms with less than 50 employees count for 98.9% of all firms in the European Union (ENSR, 1997). It is important to study the Small and Medium Enterprises (SME) in Hong Kong as SMEs accounted for over 98% of the total businesses in Hong Kong (Government of HKSAR, 2006).

In the global marketplace large firms and SMEs are competing with each other not only for market share but also for attracting skilled employees (Hornsby & Kuratko, 1990). Given this context it is difficult to attract skilled employees and retain them in the organization without having sound HR practices. The SME sector is characterized by dilapidated infrastructure, low adoption of advanced technology, poor market access, low credit access and continued harassment from government institutions that should in the first place protect and nurture it. It is time the government took deliberate steps to promote more tangible intervention in this sector in ways that will not only create further employment, but also enhance the quality of the jobs created while at the same time promoting growth of the present SMEs. These enterprises must be encouraged to grow into bigger companies. In so doing, they will grow the economy and enhance the quality of the work environment. This study therefore, seeks to understand what effect human resource management practices have on the performance of small and medium enterprises (SMEs).

Globally, small and medium size enterprises (SMEs) are being hailed for their pivotal role in promoting grassroots economic growth and equitable sustainable development. It is nevertheless important to note that the definition of SMEs varies between countries dependent on the country’s level of development. The definition is also based on considerations such as the number of employees and revenue levels (Munyanyiwa, 2009). In recent years, the SME sector
has consistently registered a higher growth rate than the overall industrial sector. The major advantage of the SME sector is its employment potential at a low capital cost. Labour intensity in the SME sector is estimated to be nearly four times that of large enterprises. Small and medium enterprises (SMEs) are key players in any economy. They represent a large segment of the total market, contribute to economic development and foster the creation of job opportunities, accounting for over 60% of employment worldwide (Jamali et al., 2008). In emerging economies, the role of SMEs is even greater. In most developing countries, SMEs represent more than 95% of formal economic activity (OECD, 2006).

In today’s business environment, proper management of firm factor input especially manpower is vital to business survival. This is because it determines a firm’s effectiveness and ability to create a sustainable competitive advantage over competitors. The human potential in a company is generally much more difficult for competitors to duplicate than the plant, equipment or even products that a company produces (Applebaum and Kamal, 2000). The goal of enterprises is to maximize profit with least cost possible and to achieve this cost effectiveness (Saru, 2007). Hence HRM takes a center stage because it improves efficient utilization of human resource through a judicial preparation of methods and means of addressing various HR issues such as recruiting, performance and reward, motivation, training and development among others. Given their statistical predominance, firms with less than 50 employees count for 98.9% of all firms in the European Union (ENSR, 1997). A number of these differences can be explained by lacking economies of scale and scope which amongst others is also caused by less provision for human resource management (Fitzsimmons & Fitzsimmons, 2003). Principal challenges facing SME’s, whether family or non-family businesses, point to human resource aspects (Torrington & Taylor, 2008).

However, from the beginning of the 1990’s it was found that the size of a business does affect the formality of human resource practices. It also affects the sophistication of the HRM practices used. Small firms do not have the same kind of resources to implement official human resource practices, but they still need to keep employees satisfied and productive. SMEs are likely to survive and sustain a competitive advantage over larger firms by increasing employee satisfaction, which in turn impacts on the performance of SMEs (Saru, 2007). From the above studies, it is clear that no study has investigated into the effects of human resource management practices on performance of small and medium enterprises in Kenya. As a result, this study seeks
to fill this research gap by examining the effects of human resource management practices on performance of small and medium enterprises.

**Objectives of the study**

In general the study seeks to establish the effects of human resource management practices on performance of SMEs in Kenya with particular reference to Kiambu Municipality. Specifically the study sought to:

1. To establish how employee recruitment affects performance of small and medium enterprises in Kiambu Municipality.
2. To determine how training and development affects performance of small and medium enterprises in Kiambu Municipality.
3. To establish the effect of motivation of employees on performance of small and medium enterprises in Kiambu Municipality.
4. To find out what significance performance and reward has on performance of small and medium enterprises in Kiambu Municipality.

**Literature Review**

**Subjective Factor and Critical Factor theories**

As per Behling (2007), there are three ways in which an individual makes a decision to join an organization; objective factor, subjective factor and critical contact. As per the Subjective Factor Theory, compatibility of individual personality with the image of the organization is a decisive factor in choosing an organization by an individual candidate seeking employment while the Critical Factor theory asserts are instances when a candidate is unable to choose an organization, out of alternatives based on objective or subjective factors which are given above. This is due to many reasons such as limited contact and insufficient data, in regards to the organization or their own inability to analyze and come to any firm conclusion. In such cases, certain critical factors observed by him during his interview and contact with employees of the organization will have profound influence in his decision process. In such cases, the potential employer/organization is in a better position to choose the candidates from many available. This theory supports the first objective; to establish how employee recruitment affects performance of small and medium enterprises in Kiambu Municipality.
Skinner Development Theory

The first major attempt to apply learning theory to educational technology was Skinner's development of teaching machines, (Skinner, 1986). His idea was to develop curricula at such a level of detail that a learner could learn without error. The learner, his theory held, never fully recovers from making errors; once made, there remains a possibility that they will recur to disrupt future learning and performance. Skinner's dream was never realized. Teaching machines never took off, though some of their features can still be seen in contemporary drill and practice software. Still alive, however, is the concept of machines programmed to offer individualized instruction on the basis of principles of learning. These take the form of intelligent tutoring systems of ITSs. Though based on a different theory to Skinner's, these modern systems carry forward the dream of automated instruction adapted to the needs of individual learners. The most developed and tested tutoring systems of this species, which will be reviewed in part II, are based on Anderson's theory of learning and cognition, (Anderson, Boyle, Farrel and Reiser, 1987). This theory supports the second objective; to determine how training and development affects performance of small and medium enterprises in Kiambu Municipality.

Herzberg’s Two-factor Theory

Frederick Herzberg developed the two-factor theory, also known as the motivation-hygiene theory, based on the idea that two factors are involved when it comes to job motivation. The two factors involve extrinsic, or "hygiene" factors and intrinsic motivators and how they correlate to satisfaction and dissatisfaction. Herzberg believed that hygiene factors such as company policies, working conditions, and compensation did not serve to motivate individuals, but could cause dissatisfaction (Herzberg, 2004). The intrinsic motivators, according to Herzberg, included areas such as interesting work, recognition, and personal growth, which could enhance employee motivation if these factors were properly developed causing satisfaction. The Two-Factor theory implies that the managers must stress upon guaranteeing the adequacy of the hygiene factors to avoid employee dissatisfaction. Also, the managers must make sure that the work is stimulating and rewarding so that the employees are motivated to work and perform harder and better. This theory emphasize upon job-enrichment so as to motivate the employees. The job must utilize the employee’s skills and competencies to the maximum. Focusing on the motivational factors can improve work-quality (Herzberg, 2004). This theory supports the third objective; to establish the
effect of motivation of employees on performance of small and medium enterprises in Kiambu Municipality.

**Maslow’s Theory**

According to Maslow, people seek satisfaction of physical needs first, so long as these needs are unsatisfied they dominate behavior, once they are satisfied to a reasonable degree the security needs becomes dominant, (Saleemi, 2005). Maslow states that physiological needs for food, clothing shelter are needs essential for survival for human life and must be satisfied before all other needs, according to Maslow theory an organization can help individuals satisfy their needs by providing good pay and other benefits, (Saleemi, 2005). Generation Y may easily eye the greener grass the competitor offers, hence effective remuneration strategy is extremely important in retaining generation Y; to avoid losing the young talent to competition, (Sayers, 2007). Abraham Maslow (1954) presents a hierarchy of needs model which can be divided into basic (or deficiency) needs (e.g. physiological, safety, love, and esteem) and growth needs (cognitive, aesthetics and self-actualization). Maslow noted only one in a hundred people become fully self-actualized because our society rewards motivation primarily based on esteem, love and other social needs (Saleemi, 2005). This theory supports the fourth objective; to find out what significance performance and reward has on performance of small and medium enterprises in Kiambu Municipality.

**Conceptual Frame work**

A conceptual framework can be defined as a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation Saunders *et al*, (2003). A conceptual framework is a research tool intended to assist a researcher to develop awareness and understanding of the situation under scrutiny and to communicate this. A variable is a measurable characteristic that assumes different values among subjects. An independent variable is that variable that which is introduced to effect or determine a dependent variable.
Methodology

The study adopted a descriptive survey. This survey design is appropriate because it enables the researcher to gather information on attitudes and opinions in relation to effects of human resource management practices on performance of small and medium enterprises.

The study targets all the 2,061 SMEs in Kiambu Municipality. However, the accessible populations for this study will be those licensed businesses between 2008 and 2013 within Kiambu Municipality. In Kiambu Municipality there are 2,061 SMEs licensed by February 2013, due to the high level of homogenous nature of the population this study random sample 10% of the 2,061 licensed.

A questionnaire was administered to the sample chosen for the study. The researcher opts for the primary data collection technique in the form of questionnaires which will be researcher assisted as all respondents may not be literate enough for the purpose of the questionnaire items. The questionnaires will be conveyed to the respondents by use of the drop and pick later method.

Frequency of various demographic variables will be derived for analysis of the demographic aspects of respondents of the selected SMEs. The demographic variables are business types, gender, age, education level and experience (years) in business. The collected data by way of questionnaire will be organized to answer set objectives in the study. Data organization will start with coding of the question items, then coded data will be tabulated in excel and computer program statistical package for social sciences (SPSS). Data will be analyzed using descriptive
statistics: - frequency Distributions and measures of central tendencies. The results of the survey will be presented using tables, charts and graphs. The SPSS computer software (Version 17) will be used to aid the analysis.

**Results**

The study findings are presented on to investigate into the effects of human resource management practices on performance of small and medium enterprises; a case of Kiambu municipality. The data was gathered exclusively from the questionnaire as the research instrument. The questionnaire was designed in line with the objectives of the study. The study targeted 200 respondents in investigating into the effects of HRM practices on performance of SMEs: A case of Kiambu municipality.

**Employee Performance and Reward**

<table>
<thead>
<tr>
<th>Employee Performance And Reward</th>
<th>Not at all</th>
<th>Rarely</th>
<th>Not Sure</th>
<th>Much</th>
<th>Very Much</th>
<th>Mean</th>
<th>Std deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Recruitment</td>
<td>8</td>
<td>6</td>
<td>8</td>
<td>74</td>
<td>86</td>
<td>2.1</td>
<td>0.9</td>
</tr>
<tr>
<td>Employee Training and Development</td>
<td>10</td>
<td>4</td>
<td>4</td>
<td>72</td>
<td>92</td>
<td>2.3</td>
<td>0.8</td>
</tr>
<tr>
<td>Employee Motivation</td>
<td>10</td>
<td>20</td>
<td>42</td>
<td>64</td>
<td>46</td>
<td>2.2</td>
<td>1.1</td>
</tr>
<tr>
<td>Employee Performance And Reward</td>
<td>2</td>
<td>10</td>
<td>44</td>
<td>78</td>
<td>48</td>
<td>2.3</td>
<td>1.9</td>
</tr>
</tbody>
</table>

From the findings, the respondents indicated that employee performance and reward and employee training and development contributed to the performance of the business, very much as indicated by a mean of 2.3 respectively, the respondents indicated that employee motivation contributed to the performance of the business, much as indicated by a mean of 2.2, finally, the respondents indicated that employee recruitment contributed to the performance of the business, very much as indicated by a mean of 2.1. These findings collate with the literature review where Jones and Kakabadse (2008) in the light of a resource-based view, they assume that HR capabilities, including skilled human resources, innovative human resources, human resource
effectiveness, HR commitment, and training competent HR are factors that determine the competitive advantage of the firm.

**Employee Motivation**

**Rate Extent to Which Employee Motivation Aspects Affect Business Performance**

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Not at all</th>
<th>Rarely</th>
<th>Not sure</th>
<th>Great extent</th>
<th>Very Great</th>
<th>Mean</th>
<th>Std deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management time taken to motivate employees</td>
<td>8</td>
<td>10</td>
<td>8</td>
<td>98</td>
<td>58</td>
<td>1.7</td>
<td>1.1</td>
</tr>
<tr>
<td>Resources used to motivate employees</td>
<td>14</td>
<td>6</td>
<td>24</td>
<td>72</td>
<td>66</td>
<td>2.0</td>
<td>1.1</td>
</tr>
<tr>
<td>Methods used to assess employees to be motivated</td>
<td>10</td>
<td>14</td>
<td>22</td>
<td>66</td>
<td>70</td>
<td>2.1</td>
<td>1.2</td>
</tr>
<tr>
<td>The extrinsically motivated employees</td>
<td>18</td>
<td>10</td>
<td>42</td>
<td>44</td>
<td>68</td>
<td>2.3</td>
<td>1.1</td>
</tr>
</tbody>
</table>

From the findings, the respondents indicated that the extrinsically motivated employees affected business performance to a very great extent as indicated by a mean of 2.3, the respondents indicated that methods used to assess employees to be motivated affected business performance to a very great extent as indicated by a mean of 2.1, the respondents indicated that resources used to motivate employees affected business performance to a great extent as indicated by a mean of 2.0, the respondents indicated that management time taken to motivate employees affected business performance to a great extent as indicated by a mean of 1.7. These findings are in line with the literature review where Reid & Adams (2001) postulates that HRM models commonly assert that employees motivation should be regarded as value assets and that there should be an emphasis on commitment, adaptability and consideration of employees as a source of competitive advantage.
Employee Recruitment

Number of Employees in the Business

According to the findings, 56% of the respondents indicated that they had less than 2 employees in their business, 14% of the respondents indicated that they had between 5-6 employees in their business, 13% of the respondents indicated that they had between 3-4 employees in their business, 10% of the respondents indicated that they had over 10 employees in their business while 7% of the respondents indicated that they had between 7-9 employees in their business. These findings are in line with the literature review where results from Purchell (1995)’s quantitative analysis showed that number of employees in a business affects the performance of SMEs.

Whether Recruitment of Staff is a Challenge to Management Skills
According to the findings, 55% of the respondents indicated that recruitment of staff was very much a challenge to management skills, 35% of the respondents indicated that recruitment of staff was much a challenge to management skills 6% of the respondents indicated that recruitment of staff was not at all a challenge to management skills, while 4% of the respondents indicated that recruitment of staff was not much a challenge to management skills. These findings relate with the literature review where Swierczek and Ha (2003) in their study of Vietnamese small business owners found that challenges and achievement were more significant motivators than necessity and security.

**Employee Training and Development**

**Extent to Which Employee Training and Development Affect Business Performance**

<table>
<thead>
<tr>
<th></th>
<th>Not at all</th>
<th>Rarely</th>
<th>Not Sure</th>
<th>Great extent</th>
<th>Very Great extent</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time taken to induct employees</td>
<td>20</td>
<td>9</td>
<td>38</td>
<td>50</td>
<td>64</td>
<td>2.3</td>
<td>1.1</td>
</tr>
<tr>
<td>Resources used to train the employee</td>
<td>16</td>
<td>18</td>
<td>14</td>
<td>52</td>
<td>80</td>
<td>2.3</td>
<td>1.2</td>
</tr>
<tr>
<td>Leave given to employees to attend training/college</td>
<td>14</td>
<td>22</td>
<td>16</td>
<td>78</td>
<td>54</td>
<td>2.2</td>
<td>1.2</td>
</tr>
<tr>
<td>The new knowledge and skills acquired after training</td>
<td>6</td>
<td>20</td>
<td>12</td>
<td>82</td>
<td>62</td>
<td>2.0</td>
<td>1.1</td>
</tr>
</tbody>
</table>

From the findings, the respondents indicated that time taken to induct employees and the resources used to train the employee affected business performance to a very large extent as indicated by a mean of 2.3 respectively, the respondents indicated that leave given to employees to attend training/college affected business performance to a large extent as indicated by a mean of 2.2. Finally, the respondents indicated that the new knowledge and skills acquired after training affected business performance to a large extent as indicated by a mean of 2.0. These findings collate with the literature review where a Stewart et al. (1999) discovered that the resources used to train employees largely affected business performance.
Discussion

ANOVA (Analysis of Variance)

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>0.744</td>
<td>2</td>
<td>0.372</td>
<td>2.88</td>
<td>.048</td>
</tr>
<tr>
<td>Residual</td>
<td>23.091</td>
<td>179</td>
<td>0.129</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>23.835</td>
<td>181</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

From the ANOVA statistics in the table above, the processed data, which is the population parameters, had a significance level of 4.8% which shows that the data is ideal for making a conclusion on the population’s parameter as the value of significance (p-value) is less than 5%.

Multiple Regression Analysis

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>.833</td>
<td>.172</td>
<td></td>
<td>.000</td>
</tr>
<tr>
<td>Employee Recruitment</td>
<td>.142</td>
<td>.082</td>
<td>.132</td>
<td>.034</td>
</tr>
<tr>
<td>Employee Training</td>
<td>.643</td>
<td>.082</td>
<td>.586</td>
<td>.000</td>
</tr>
<tr>
<td>and Development</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee Performance</td>
<td>.232</td>
<td>.083</td>
<td>.246</td>
<td>.006</td>
</tr>
<tr>
<td>and Reward</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee Motivation</td>
<td>.162</td>
<td>.063</td>
<td>.223</td>
<td>.011</td>
</tr>
</tbody>
</table>

From the regression findings, the established regression equation becomes:

\[ Y = 0.833 + 0.142 X_1 + 0.643 X_2 + 0.232X_3 + 0.162 X_4 \]

The P value shows the level of significance of each variable. The p-value of all the variables was less than 0.05 this is an indication that they were statistically significant. The study further revealed that there was positive relation between employee recruitment, employee training and development, employee performance and reward, employee motivation and performance of SMEs in Kiambu Municipality. All the variables were found to be significant as the significant
value were less than 0.05 or 5%. At 5% level of significance in two tail test, the value of t-statistics is 1.96, if the t-value is less than 1.96 is considered insignificant. If the t-statistics value is greater than 1.96 is statistically significant. The study revealed that all the variables were statistically significant as their values were greater than 1.96.

Conclusions

The study found that employee performance and reward affected performance and that employee training and development contributed to the performance of the business. The study also concludes that motivated employees affected business performance and that methods used to assess employees to be motivated affected business performance. Moreover, the study concludes that employee recruitment affected business performance. Finally, the study concludes that time taken to induct employees and the resources used to train the employee affected business performance. The study recommends that SMEs should adopt HRM programmes so as to increase competitive advantage. The study also recommends that SMEs should embrace extensive recruitment and training procedures, increased employment involvement and incentive compensation so as to achieve higher levels of turnover, higher productivity and better financial performance.

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