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Influence Strategic Human Resources Management on Performance of Small and Medium-Sized Enterprises in Kenya

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ABSTRACT

Small and Medium-Sized Enterprises (SMEs) account for 28.5 percent of the total Kenyan economy and are responsible for generating 30% of the jobs each year, providing employment opportunities for approximately 14.9 million people. This study sought to investigate the impact of strategic human resource management practices (SHRM) on the performance of SMEs in Kenya with specific focus on human resource planning, human resource recruitment and selection practices as well as employee retention strategies.

The study utilized a descriptive research design and targeted a population of 4,614 licensed small and medium enterprises (SMEs) with a resultant representative sample size of 405 SMEs through stratified random sampling technique. Findings showed that human resource planning was important in advancing the performance of their respective SMEs and is a significant predictor of SME performance ($\beta = 2.651$, p < .001). Similarly, human resource recruitment and selection accounted for significant variance in SME performance and is predictor of the performance of SMEs ($\beta = 3.332$, p < .001). On the other hand, although employee retention accounted for substantial variance in SME performance, it was not a statistically significant predictor of SME performance.

Therefore, human resource planning, recruitment and selection significantly predict SME performance. Consequently, proper human resource planning, effective recruitment and retention policies are vital to attract and retain talented employees, leading to higher performance. Employee development and training programs have been evidenced to enhance employee skills, knowledge, and motivation; ultimately leading to better performance of organizations and SMEs. It is important to consider factors such as the quality of hire, time-tofill, and cost of hire to achieve optimal outcomes in recruitment.

Key Words

Strategic Human Resource Management (SHRM) Human Resource Planning, Recruitment and Selection, Employee Retention



Introduction

Small and Medium Enterprises (SMEs) today have a keen interest in strategic human resource management (SHRM) as a critical dimension to improve their business performance (Babu & Kumar, 2022). SHRM is defined as a people strategy that provides a coherent plan for employee management and development which envisions business performance (Babu & Kumar, 2022). According to the Organization for Economic Co-operation and Development (OECD) (2017), SMEs are crucial in the realization of sustainable development goals (SDGs), equality, inclusivity, job creation, sustainable industrialization, and sustainable economic growth.

SMEs are businesses with a given threshold of income, assets, and the number of employees (Berisha & Pula, 2015). Different countries have different thresholds stipulated to define SMEs. For instance, most of the middle- and high-income economies define SMEs as entities that employ up to 249 individuals while low-income economies range the number of employees between 50 and 100 (Baporikar, 2015). About 90% of the businesses worldwide are SMEs, they account for at least 50% of employment globally (Mehdi & Sarma, 2022). There are approximately 400 million SMEs both formal and informal across the globe (Small & Medium-Sized Enterprises, 2021). Consequently, SMEs are vital in emerging economies as they contribute to more than 40% of their gross domestic product (GDP) (OECD, 2017).

In Africa, SMEs are the drivers of economic growth as they contribute to about 90% of the private sector and are responsible for about 80% of jobs across the continent (Runde, Savoy & Staguhn, 2021). Furthermore, there are about 44 million SMEs in Sub-Saharan Africa, and they account for almost 95% of all businesses. SMEs also contribute to about 50% of the GDP of African economies (Runde, Savoy & Staguhn, 2021). SMEs' significance is therefore notable in their capacity to alleviate poverty through increasing income, creating jobs and improving nations' GDP. The sector's approach and performance are fueled by its ability to meet the needs of most Africans by providing goods and services that are affordable. In meeting the needs, the SMEs can improve their performance in terms of financial and non-financial constructs. In Kenya, SMEs employ nearly 14.9 million people while creating 30% of the jobs annually. According to Kenya National Bureau of Statistics (KNBS) (2016), Kenyan SMEs contribute to about 28.5% of the total Kenyan economy.

Despite their significance, many SMEs hardly survive beyond their second anniversary, which is often attributed to lack of access to financing, lack of markets, poor infrastructure, government regulations and more importantly poor human resource management (KNBS, 2016). SHRM is critical when it comes to business performance (Bassett-Jones, 2023). Pournasir (2013) determined that when an organization has poor SHRM evidenced by lack of proper structure, motivation, ethical standards, and productivity; it can result in negative consequences such as low employee turnover, decreased productivity, and lack of engagement from employees. The unproductive SMEs are exacerbated by lack of motivation among employees, lack of change in the organizational structure and poor management (Pournasir, 2013; Vu & Nwachuku, 2020).

Consequently, it is essential to implement SHRM in the SME sector that support human resource planning, recruitment, selection, and staff retention if businesses must improve the productivity of employees as well as enhance business performance (Łukasik, 2017; Ugheoke,

African Journal of Business & Development studies Volume 1 Issue 1 Isa & Noor, 2014). According to Anwar and Abdulla (2021), human resource recruitment is a critical factor in organizational performance. Different studies have been conducted to evaluate

the influence of SHRM on performance. Szierbowski-Seibel (2018) evaluated how the SHRM influenced the performance of China organizations using the article review approach. The study established that SHRM activities such as human resource planning, recruitment, selection, and retention improved the financial performance of the firms. Similarly, Madera, Dawson, Guchait and Belarmino (2017) established that integrating SHRM in the hospitality and tourism industry improved firm performance. Furthermore, a study conducted in Malaysia by Chieng, Arokiasamy, and Kassim (2019) revealed that SHRM practices positively influenced performance within the construction industry.

Further, Wekesa, Kiprotich and Kwasira (2013) on the impact of human resource management (HRM) practices on organizational performance in private security firms in Kenya found that sound policies on collective representation were essential in promoting positive employee relations, while work-life balance practices had a positive effect on performance. Bakator et al., (2019) study examined the impact of human resource management (HRM) on business performance. The research revealed a positive correlation between HRM practices and overall business performance. Additionally, the study emphasized the positive influence of HRM on employee well-being, productivity, and organizational climate. Other studies that determined that SHRM practices were interrelated to organizational performance include Boon, Eckardt, Lepak, and Boselie (2017) and Njenga (2018). In light of the knowledge and contextual gaps, this study sought to evaluate the influence of SHRM on the performance of SMEs.

Statement of the Problem

According to the Kenya National Bureau of Statistics [KNBS] (2016), SMEs make a significant contribution to the economy, accounting for 28.5% of the total Kenyan economy. Additionally, SMEs are responsible for generating 30% of the jobs each year, providing employment opportunities for approximately 14.9 million people. Mbugua and Moronge (2016) concluded that the growth of this subsector has been essential in introducing new goods and services. As the backbone of our economy, SMEs play a crucial role in addressing unemployment in Kenya and improving individual incomes. Nevertheless, there is need to explore strategies to improve the performance of SMEs to ensure their long-term sustainability.

SMEs in Kenya encounter various challenges that impede their growth and profitability (Makena, 2011). These challenges include a shortage of operating funds, intense competition, a lack of markets, and inadequate human resource management (KNBS, 2016). Poor human resource management manifests in employee demotivation, organizational resistance to change, and ineffective management practices (Pournasir, 2013). Studies have documented significant associations between human resource management practices and business performance, positively influencing various economic fronts, including financial and non-financial constructs (Bakator *et al.*, 2019).

Szierbowski-Seibel (2018) has demonstrated that the implementation of SHRM can enhance the operational and financial performance of Chinese firms by adopting practices aligned with organizational goals. Scholars such as Macke and Genari (2019) and Vu and Nwachukwu (2020) have emphasized the importance of human resource planning, recruitment, selection, and retention as critical strategies for improving organizational performance. These strategies have been shown to contribute to a more engaged, motivated, and productive workforce, African Journal of Business & Development studies Volume 1 Issue 1 leading to improved organizational outcomes (Szierbowski-Seibel, 2018; Macke & Genari, 2019; Vu & Nwachukwu, 2020).

However, prior research on the effects of SHRM practices in Kenya have primarily concentrated on large corporations (Waiganjo, Mukulu & Kahiri, 2012), insurance companies (Njenga, 2018), and the hospitality and tourism sector (Madera *et al.*, 2017). As such, researches need to be carried out on the implementation of SHRM to improve SMEs' management, operations, and sustainability (Ugheoke, Isa & Noor, 2014). Furthermore, previous studies have evaluated performance using different metrics, with most studies relying on financial measures while neglecting non-financial measures (Waiganjo *et al.*, 2012; Macke & Genari, 2019; Bakator *et al.*, 2019). This study incorporated both financial and non-financial measures in assessing performance.

General Objective

This study aimed to determine the influence of strategic human resource management on the performance of SMEs in Kenya.

Specific Objectives

The following were specific research objectives:

- i. To determine the influence of strategic human resource planning on the performance of SMEs in Kenya
- ii. To evaluate the influence of strategic human resource recruitment and selection on the performance of SMEs in Kenya
- iii. To assess the influence of strategic employee retention on the performance of SMEs in Kenya

Literature Review

According to Schuler (1992), SHRM is an approach to HRM that involves aligning the organization's human resource practices and policies with its overall strategic goals and objectives. It emphasizes the proactive integration of HR strategies and activities into the broader strategic planning process. By analyzing external and internal factors that impact the organization's human resources and developing HR strategies that address these factors, SHRM ensures that the organization's workforce is effectively contributing to the achievement of its strategic goals. This study will adopt the SHRM perspective to examine how various strategic practices, such as human resource planning, recruitment and selection, and employee retention, influence the performance of SMEs in Kenya.

Ulrich (1997) defined SHRM as a process of aligning HR strategies and practices with the strategic goals of an organization to improve business performance. It involves understanding the business environment, designing effective HR practices, and continuously improving HR processes to create value for the organization. Hence, SHRM is an approach that elaborates how business aims can be achieved through people (Hamid, Muzamil & Shah, 2022). In this context, SHRM views people as a strategic tool to enhance organizational performance. Ulrich and Brockbank (2005) posit that for business performance to improve, then there is need for alignment of HR activities such as planning, recruitment, selection, and retention with business strategy. Hence, this study has adapted the model to examine three main sub-variables as provided below.



Theoretical review

SHRM model

Performance, as defined by Ulrich (1997), encompasses the outcomes of work that advance an organization's goals and objectives. It should be measured at various levels, including individual, team, unit, and organization-wide levels. The framework proposed by Ulrich for measuring human resources' contribution to performance includes four dimensions: employee skills and motivation, organizational culture and capabilities, alignment with strategy and stakeholders, and business results.

Conceptual Framework

Marshall and Rossman (2016) describe conceptual framework as a mental map that is sketched to represent relationships and interactions between variables. Typically, conceptual frameworks are linked to theoretical frameworks. While the theoretical framework provides a broad representation of constructs and relationships in a given ideology or phenomenon, the conceptual framework illustrates the specific interactions provided through the research questions. In this study, the conceptual framework depicts SHRM as the independent variable and performance as the dependent variable as given in figure1.

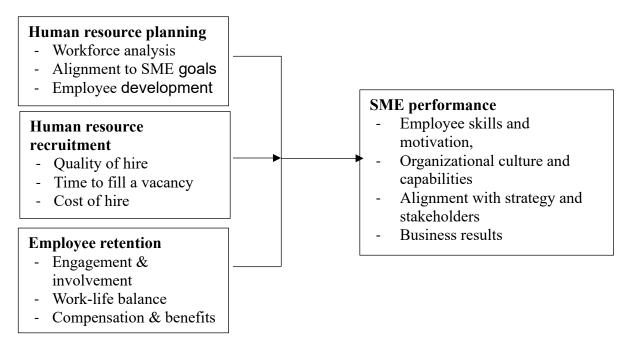


Figure 1: Conceptual Framework

Human resource planning is a strategic process used by organizations to forecast their future workforce needs and ensure the availability of skilled and competent employees while avoiding both shortages and surpluses. It involves analyzing current and future business requirements, identifying the necessary skills and competencies, and implementing proactive strategies to attract, develop, and retain the right talent (Stone, Cox & Gavin, 2020). According to Wilton (2019), human resource recruitment and selection is the process of systematically identifying, attracting, interviewing, selecting, hiring, and onboarding employees who possess the required skills, qualifications, and attributes to contribute to the organization's success. It involves

African Journal of Business & Development studies Volume 1 Issue 1 developing effective recruitment strategies, assessing candidates through various methods, and making informed decisions to hire individuals who align with the company's culture and can

positively impact its performance. Stone, Cox and Gavin (2020) posit that employee retention refers to the ability of an organization to retain its productive and skilled workforce over a sustained period. It involves creating a positive and supportive work environment that fosters employee engagement, job satisfaction, and loyalty. Effective employee retention strategies include demonstrating appreciation for employees, offering competitive compensation and benefits packages, providing opportunities for career growth and development, and promoting a healthy work-life balance.

Key Results and Discussions

Table 1

Table 2

Human Resource Planning and Performance of SMEs

The first objective evaluated in the study examined the influence of strategic human resource planning in relation to SME performance. An analysis of variance (ANOVA) was conducted to examine the relationship between SME Performance, and Human Resource Planning. The findings are presented in Table 1.

| ANOVA ^a | | | | | |
|--------------------|----------------|-----|-------------|--------------|-------------------|
| Model | Sum of Squares | df | Mean Square | \mathbf{F} | Sig. |
| 1 Regression | 1.566 | 1 | 1.566 | 4.047 | .045 ^b |
| Residual | 141.569 | 366 | .387 | | |
| Total | 143.135 | 367 | | | |

b. Predictors: (Constant), Human Resource Planning

The ANOVA results revealed a statistically significant effect of Human Resource Planning on SME Performance (F (1, 366) = 4.047, p = .045).

The findings in Table 2 present the regression coefficients for the regression between human resource planning as the independent variable and SME performance as the dependent variable.

| | Unstar Coeffi | | Standardized Coefficients | 1 | | 95.0% Co Interval fo | |
|----------------|------------------|-------|------------------------------|--------|------|-------------------------|-------|
| | | Std. | | _ | | Lower | Upper |
| Model | B | Error | Beta | t | Sig. | Bound | Bound |
| 1 (Constant) | 2.651 | .184 | | 14.411 | .000 | 2.289 | 3.013 |
| Human Resource | .120 | .060 | .105 | 2.012 | .045 | .003 | .238 |
| Planning | | | | | | | |

Regression Coefficients for Role of Human Resource Planning on SME Performance

The results revealed that human resource planning had a significant effect on SME Performance ($\beta = 2.651$, p < .001). Moreover, the coefficient for strategic human resource planning showed statistical significance ($\beta = 0.120$, p = .045). This suggests that an increase of one unit in human resource planning is associated with an approximate increase of 0.120 units



in SME Performance, assuming all other variables remain constant. The resulting regression model is given as follows:

$SME \ performance = 0.120 \ Strategic \ human \ resource \ planning \ + 2.651$

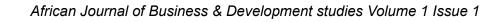
The results imply that effective human resource planning could contribute to improved performance outcomes for small and medium-sized enterprises. An increase of one unit in human resource planning is associated with an approximate increase of 0.120 units in SME performance, assuming all other variables remain constant. These findings are consistent with anecdotal empirical findings, which emphasize the importance of effective human resource planning in enhancing organizational performance outcomes.

For instance, Bakator *et al.* (2019) argue that human resource planning involves a systematic and comprehensive analysis of the current and future workforce needs of the organization. A thorough understanding of the organization's workforce enables it to anticipate and address potential talent shortages, identify areas for growth and improvement, and develop and implement effective recruitment and retention strategies to attract and retain top talent. Employee development and training programs help to build the skills and knowledge of existing employees and prepare them for new challenges and opportunities. Brauns (2013) generated a similar conclusion regarding human resource planning and noted that aspects such as workforce analysis, strategies for recruitment and retention, and employee development and training were critical in human resource planning. The results from the current study aligned Brauns' conclusions specifically in terms of employee development and training but workforce analysis was not favorable to SME performance in the current study.

Fening (2012) examined the impact of quality management practices (QMPs) on the performance of SMEs in Ghana and noted that SMEs that adopted effective quality performed better than those that did not. One of the main factors that complemented QMP was workforce analysis which helped the companies anticipate future challenges. The data in the current study contrasted with the assertion that workforce analysis was indeed useful in assessing employee skills and competencies. Aligning HRP with organizational goals is critical to SME performance. The study determined that HRP was generally aligned with organizational goals as did Ellers and Lazenby (2010), and Chow, Teo, and Chew (2018). Understanding organizational goals does not only help increase performance, but also serves other purposes including employee retention and acquisition (Verhulst & DeCenzo, 2021).

Strategic Human Resource Recruitment, Selection and SME Performance

The second objective evaluated in the study examined the influence of human resource recruitment and selection in relation to SME performance. Analysis of Variance (ANOVA) was performed to explore the connection between SME Performance and Human Resource Recruitment and Selection. The results of this analysis can be found in Table 3.





| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|-------------------|-----|----------------|-------|-------------------|
| | Regression | 1.58 | 1 | 1.58 | 4.085 | .044 ^b |
| 1 | Residual | 141.555 | 366 | 0.387 | | |
| | Total | 143.135 | 367 | | | |

Table 3

| I able 5 | | | | | | |
|----------|------------|---------|----------|-------------|-----------|------------|
| ANOVA. | for role o | f Human | Resource | Recruitment | on SMEs P | erformance |

The ANOVA results revealed a statistically significant effect of Human Resource Recruitment and Selection on SME Performance (F (1, 366) = 4.085, p = .044).

The findings in Table 3 present the regression coefficients for the regression between SME Performance and Human Resource Recruitment and Selection as the independent variable and SME performance as the dependent variable.

Table 4 Regression Coefficients for Human Resource Recruitment on SMEs Performance Coefficients

| | Unstar Coeffi | | d Standardize Coefficients | d | | 95.0% Co Interval f | |
|----------------------------|------------------|---------------|-------------------------------|--------|------|------------------------|----------------|
| Model | В | Std. Error | Beta | t | Sig. | Lower Bound | Upper Bound |
| 1 (Constant) | 3.332 | .160 | | 20.844 | .000 | 3.017 | 3.646 |
| Human Resource Planning | 106 | .053 | 105 | -2.021 | .044 | 210 | 003 |
| a. Dependent Variable | : SME Per | rformance | 2 | | | | |

The results revealed that the constant term had a significant effect on SME Performance ($\beta = 3.332$, p < .001). Additionally, the coefficient for human resource recruitment and selection showed statistical significance ($\beta = -0.106$, p = .044). This suggests that an increase of one unit in human resource recruitment and selection is associated with an approximate decrease of 0.106 units in SME Performance, assuming all other variables remain constant. The resulting regression model is given as follows:

$SME \ performance = -0.106 \ Human \ resource \ recruitment \ and \ selection + 3.332$

The results indicate that investing in effective employee recruitment and selection strategies could lead to better performance outcomes for small and medium-sized enterprises. For instance, an increase of one unit in human resource recruitment and selection is associated with an approximate decrease of 0.106 units in SMEs performance, assuming all other variables remain constant. Hussain and Murthy (2013) note that the quality of hires made by organizations shapes their performance and is a critical factor in HRR practices. Kumar and Reddy (2019) suggest that failure to adhere to high quality standards in the hiring process led to poor performance, increased turnover, and reduced job satisfaction. Further, the investments directed towards training of employees increase SME performance by reducing employee



turnovers and absenteeism at work which in turn, increases long-term adherence to the overall vision and business strategy (Austin *et al*, 2020).

Employee Retention on SMEs Performance

The second objective evaluated in the study examined the role employee retention in relation to SME performance. The findings in Table 5 present the Analysis of Variance (ANOVA) for human resource recruitment, and SME performance.

 ANOVA for Role Employee Retention on SME Performance

| ANOVA ^a | | | | | |
|--------------------|----------------|-----|-------------|------|-------------------|
| Model | Sum of Squares | Df | Mean Square | F | Sig. |
| 1 Regression | .006 | 1 | .006 | .016 | .899 ^b |
| Residual | 143.129 | 366 | .391 | | |
| Total | 143.135 | 367 | | | |

The ANOVA results revealed a statistically significant effect of Human Resource Recruitment and Selection on SME Performance (F (1, 366) = 0.016, p = .899). This indicates that the presence of Employee Retention and SME Performance has a significant role in determining the performance of SME. Therefore, no further computations were made since the model between the dependent and independent variable did not have any variability.

The study found that employee retention has no significant influence on SMEs performance. Despite this, the overall perceptions of employee retention were generally positive in determining employee performance. The current study affirms the findings by Antony (2018) that employee engagement is critical in advancing retention for organizational success, increasing employee productivity, higher job satisfaction, and low turnovers. Besides the perceived benefits, some additional benefits for having motivated employees are that they can serve as brand ambassadors on behalf of the company which is instrumental in positively marketing the SME image for increased market share (Gupta & Sharma, 2016).

Strategic HRM Practices and SME Performance

The study adopted a multiple linear regression model to determine the relationship between the different constructs explaining the relationship between strategic human resource management on the performance of SMEs. The findings presented in Table 6 are Analysis of Variance results for the regression between the strategic human resource practices on the performance of SMEs.

| | AN | IOVA ^a | | | |
|--------------|----------------|--------------------------|-------------|-------|-------------------|
| Model | Sum of Squares | Df | Mean Square | F | Sig. |
| 1 Regression | 3.233 | 3 | 1.078 | 2.804 | .040 ^b |
| Residual | 139.902 | 364 | .384 | | |
| Total | 143.135 | 367 | | | |

Table 6 Overall ANOVA for SHRM Practices on SMEs Performance

a. Dependent Variable: Strategic HRM Practices and SME performance b. Predictors: (Constant), Employee Retention, Human Resource Recruitment and Selection, Human Resource Planning

The ANOVA model results indicates that the model significant in predicting SME performance based on perceived effects of SHRM practices (F(3, 364) = 2.804, p < 0.05).

The findings presented in Table 7 show the regression coefficients and their significance.

| | | andardized ficients | Standardize Coefficients | | Sig. |
|-----------------------------------|------|------------------------|-----------------------------|--------|------|
| Model | B | Std. Error | Beta | | |
| 1 (Constant) | 2.88 | 7.316 | | 9.138 | .000 |
| Strategic Human Resource Planning | .125 | .060 | .109 | 2.073 | .039 |
| Strategic Human Resource | 107 | 0.052 | 105 | -2.033 | .043 |
| Recruitment and Selection | | | | | |
| Strategic Employee Retention | .022 | .057 | .020 | .390 | .697 |

| Table 7 |
|--|
| Overall Regression Coefficients for SHRM Practices on SMEs Performance |
| Coefficients ^a |

The study determined human resource planning was a statically significant predictor for the SHRM and SME performance ($\beta_1 = 0.125$, p = 0.039), so was human resource recruitment and selection ($\beta_2 = -0.107$, p = 0.043). Employee retention was a non-significant predictor ($\beta_3 = 0.022$, p = 0.697).

The resulting regression equation model is as follows:

SME Performance =
$$2.887 + 0.125 X_1 - 0.107 X_2 + 0.022 X_3$$

According to the model, strategic human resource planning (X_1) has a positive effect on SME performance. A unit increase in human resource planning is associated with a 0.125 increase in SME performance. This suggests that implementing effective strategies for human resource planning can contribute positively to SMEs' overall performance. On the other hand, strategic human resource recruitment and selection (X_2) have a negative influence on SME performance. A unit increase in this factor leads to a decrease of 0.107 in SME performance. This implies that if the recruitment and selection processes are not aligned or effective, it may negatively affect the performance of SMEs. Regarding employee retention (X_3) , the model indicates a positive relationship with SME performance. A unit increase in employee retention is associated with a 0.022 increase in SME performance. However, the evidence for this effect is considered inconclusive due to random variation, suggesting that the relationship between employee retention and SME performance may not be reliable.

Conclusions

The study found that effective human resource planning contributes to improved performance outcomes for small and medium-sized enterprises (SMEs). The regression analysis model showed that an increase in one unit of human resource planning is associated with approximately a 0.120 ($\beta = 0.120$, p = .045) increase in SME performance. On the other hand, the regression model showed that one unit in human resource recruitment and selection is associated with an approximate decrease of 0.106 units in SME Performance ($\beta = -0.106$, p = .044), assuming all other variables remain constant. The study did not find employee retention to significantly predict SME performance.

To enhance the performance of SMEs, it is essential to strengthen workforce analysis practices. Conducting comprehensive assessments of the specific talent and skill sets required for the organization's unique business needs is vital. Moreover, regular, and detailed workforce analysis allows SMEs to identify potential skill gaps and areas for improvement within their workforce. To attract and retain top talents, SMEs must adopt effective recruitment and retention strategies. Creating a positive and supportive work environment, where employees feel valued and appreciated, can significantly impact their motivation and job satisfaction,



contributing to higher retention rates. Investing in employee development is a key recommendation to enhance SME performance.

In light of the study's findings, future research could delve deeper into the interplay between specific employee retention strategies and their direct effects on various organizational outcomes. Analyzing the effectiveness of tailored employee engagement initiatives, strategic HRM practices, and competitive compensation packages in different SME settings can provide valuable insights for business owners and managers seeking to optimize their human resource management approaches.

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