HUMAN RESOURCE MANAGEMENT PRACTICES AND SMALL SCALE BUSINESS PERFORMANCE: EVIDENCE FROM OSUN STATE, SOUTH WESTERN NIGERIA

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Abstract
Small and Medium scale Enterprises (SMEs) have, for long, been considered to be key players in the sustainable development of both the developed nations, and the developing economies of Third World countries, owing to their contribution to all aspects of the phenomenon. In Africa, the SME sector is the largest source of employment and constitutes the backbone of almost every economy on the continent. However, over the years, the capacity and productivity of SMEs in most countries of the Third World have been very low, and the relative share of the sector in total output and exports, have been much lower as compared to that of the more developed nations. Some identified challenges faced by SMEs, have been found to be responsible for this low performance, and these include, among others, lack of finance, inadequate infrastructure, inconsistent government policies, low level of entrepreneurial skills, and poor management practices. This study focused on human resource management (HRM), as a key functional area of management, and examined the impact of HRM practices on performance of small scale businesses in Osun state, south western Nigeria. Factors influencing the adoption of HRM practices by small scale businesses in the study area were also examined. The objective was to ascertain ways by which the HRM function can be applied as an effective tool for enhancing the capacity of SMEs. A survey of 71 small scale businesses in three urbanized local governments in the study area was conducted, and data collected was analyzed with Multiple Regression Analysis. Findings of the study revealed that HRM practices have significant impact on business performance at 1% level of significance. The study also revealed that while compensation and performance appraisal independently and significantly impacted on business performance, the effect of recruitment was not significant. Training however, had an inverse relationship with business performance. The findings also revealed that financial resources and firm size were major factors that had significant influence on adoption of HRM practices by small scale businesses in Nigeria. The paper concluded that, for small businesses to grow, and build up the required capacity for promotion of sustainable national economic development, the adoption of human resource management practices by SME operators should be encouraged.

Keywords: SMEs, business performance, sustainable development, third world nations, Nigeria

INTRODUCTION
Small and Medium scale businesses constitute a driving force for economic growth, job creation, and poverty reduction in developing countries. In Nigeria, the informal economy has grown to a stage where it contributes over 65% of Gross National Product, and accounts for more than 70% of all new jobs in the country (Osalor, 2010). Recent trends at different form in Nigeria have clearly revealed the amount of respect attached to SMEs by government, educational institutions, and corporate bodies; and the development of SMEs has been recognized as a veritable tool for promoting poverty eradication, job creation, rural development and sustainable livelihood for the populace (Iwere, 2013). However, while the contributions of small scale businesses to economic development are generally acknowledged, entrepreneurs in this sector face many challenges that limit their long term survival and development. These challenges have been linked to some economic variables such as high level of unemployment, high incidence of poverty, lack of finance, inadequate infrastructure, low industrialization capacity, inconsistent government policies, among others. Some internal characteristics like low level of entrepreneurial skills, and poor management practices also interact with the economic variables to undermine the capacity of SMEs (Abiodun, 2014).

It is pertinent to note that the solution to the economic challenges rest, mainly, at the feet of government, while the internal challenges have their solution with the entrepreneur himself. For any business to survive and prosper, the need for effective management of resources, particularly human resources, cannot be overemphasized. This is even more so for small businesses, which rely more heavily on individual employee’s contributions than their larger counterparts (Ojokuku, 2012). As Macgregor (2004) also pointed out, the backbone of a small business is its core staff. It is therefore expedient to direct research attention to the application of human resource management practices to the creation and promotion of viable small scale businesses that will drive sustainable economic development.

It must be recognized however, that the focus of HRM researchers on SMEs has been very limited, because SMEs have been considered for long, by HRM researchers as second class citizens (Tansky and
Heneman, 2003; cited in Zakaria, 2013). However, since SMEs are not a scaled-down version of large firms, and they have their unique characteristics and also face different challenges, the findings of HRM research in large organizations cannot be generalized, in a wholesale manner, to SMEs (Nguyen and Bryant, 2004; Kwang, Songan, and Kian, 2008; and Barret and Mason, 2006). There is therefore the need for a shift of focus to HRM practices in SMEs, in view of the limited understanding of the significant roles of HRM in small and emerging firms (Cardon and Steven, 2004).

Furthermore, given their financial constraints and other resource limitations, SMEs too, are directing increasing attention to how they can utilize other available resources more efficiently and effectively (Gallego et al., 2012). SMEs however, have fewer resource options than their larger counterparts to improve performance, but one resource that is common to all organizations, irrespective of size, is human resources, and this is becoming an increasing focus of theoretical, empirical, and practical attention in SMEs (Sheehan, 2013).

Against the backdrop of the increasing realization of the vital contribution of HR practices to business success, this study examined the impact of HR practices on small scale business performance in Osun State, south western Nigeria. Factors influencing the adoption of HRM practices by small scale businesses in the study area were also examined. The economy of Osun state is, essentially, public sector- driven in nature, hence there is the need to explore ways of facilitating growth in the informal economy, to enable them act effectively as catalysts of sustainable development in the state.

LITERATURE REVIEW
In the last two decades, the phenomena of globalization, deregulation, competition, and giant technological strides, have created highly turbulent business environments that have changed, dramatically, human resource and other management practices (Ray and Ray, 2011). Today, managing human resources effectively has become more important than ever, and managers in organizations of all sizes, now realize how vital it is to have highly motivated and competent employees, if their organizations are to gain competitive advantage, and serve all of their multiple stakeholders (Werner, Schuler, and Jackson, 2012).

According to Chang and Huang (2005) human resources are viewed as strategic assets that create value when embedded in the operational system in a manner that can enhance firm’s abilities to deal with a turbulent environment. Armstrong (2012) defined human resource management (HRM) as the 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 the objectives of the business. It has been established that improved performance is achieved through the people. But this can occur only if appropriate policies and practices of HRM are applied (Guest, 1997). Delery and Doty (1996) acknowledged that adoption of effective HRM practices by small scale businesses will not only bring about acquisition of new skills and knowledge among employees, but will also bring about change of attitudes that will improve their performance. He opined that, through effective HR practices, small scale businesses can get rid of traditional ineffective and inefficient practices, and thus be able to maximize the achievement of its objectives. In the same vein, Singh and Vohra (2005) affirmed that small scale businesses that successfully integrate their HRM system with their vision and organizational objectives, will achieve their goals in a more organized manner.

What is Small Scale Business?
The legal definition of "small business" or ‘small scale business’ varies by country and by industry. The European Union generally defines a small business as one that has fewer than 50 employees. However, in Australia, a small business is defined by the Fair Work Act, 2009, as one with fewer than 15 employees. By comparison, a medium sized business or mid-sized business has less than 500 employees in the US, and fewer than 200 in Australia. In addition to number of employees, other methods used to classify small companies include annual sales (turnover), value of assets and net profit (balance sheet). In Nigeria, the National Council of Industry in 2001, defined small scale business as an enterprise with 11-100 workers and total cost (including working capital but excluding cost of land) of not more than fifty million naira. Small businesses are common in many countries, depending on the economic system in operation. Typical examples include: convenience stores, other small shops (such as a bakery or delicatessen), hairdressers, restaurants, guest houses, photographers, small-scale manufacturing, and online businesses, such as web design and programming, etc. Fadahunsi (1992) affirmed that small scale businesses represent 90% of the enterprises in developing countries. They also provide 70% of employment opportunities for the citizens and promote indigenous technology. In the same vein, Kuratko and Hodgetts (2001) also noted that small businesses employ 53% of the private workforce and accounted for 47% of sales and 51% of private sector gross domestic product GDP. This indicates that small scale business predominate the economy in developing countries.

Small Scale Businesses as Agents of Sustainable Development
The United Nations Economic Commission for Africa (UNECA) in 2008 described sustainable development as one that meets the needs of the present, without compromising the ability of future generations to meet their own needs. This requires full integration of the economic, social, and environmental dimensions, and implies commitment of all relevant stakeholders in the public and private sectors, among consumers, and in civil society. SMEs have been found to play a leading role in all this by virtue of their contributions, as summarized below by Ebiringa (2011).

*SMEs act as catalysts for technological development
*They are a major source of employment
*SMEs provide training a ground for creation of future entrepreneurs in different fields
SMEs are a major source of domestic capital formation
* They aid in the process of redistribution of income
* They provide intermediate/semi-processed goods for use by large scale firms
* SMEs engage in manufacturing and serve as channels for import substitution and promotion of exports
* SMEs serve as dispersed local markets
* They constitute a critical source of specialization

Empirical Studies on HRM Practices and Small Scale Business Performance
Findings of several studies on HRM and small business performance have revealed that firms need to implement an effective system of HRM practice in order to gain competitive advantage. For example, Fanny (2009) investigated the impact of HRM practice on small and medium enterprises success in Hong Kong, using four variables—job analysis, performance appraisal, human resource planning, and training. The result showed that HRM practices were related significantly to business success in the SMEs in Hong Kong. Obasan, (2012) also examined the impact of HRM practice on small business performance in Nigeria. The study focused on variables such as recruiting, selecting, placement, training and development. He found that positive relationship exists between HRM practices and small business performance in Nigeria. The study concluded that there is need for training and re-training of staff as well as the development of an ideal model to enhance organizational profitability and performance.

Tiwari (2012) also found that organizations which implement HRM practices with dedication remain ahead of their competitors because such practices affect other variables such as job satisfaction, financial performance, employee turnover, and employee commitment in a positive way. Mansour (2010) examined the relationship between HRM practices and firm performance using companies in Saudi Arabia. The research revealed a positive relationship between the overall HR practices such as recruitment, training, participation, performance appraisal, compensation and benefits, and the performance of the firm. However, the findings of Nankervis (2002) suggested that previous empirical evidences are still not able to provide enough evidence to suggest that HR practices works for all kinds of organizations. It is therefore hypothesized that:

H0: HRM practices have no significant impact on small scale businesses performance.

Factors Influencing the Adoption of HRM Practices in Small Scale Businesses
Empirical studies indicate that organizational contextual variables (firm size, ownership type, organizational strategy and planning) and external environmental factors (market and economic conditions, legal regulations, and sector) are the major factors affecting the adoption of HRM practices in small scale businesses. For instance, Mohammad (2012) investigated the factors affecting HRM practices in a sample of diversified Palestinian organizations. The factors investigated included firm size (number of employees), sector (whether government, private or non-government organization), and profitability (profit or non-profit organization). Findings showed that larger firms apply more formalized HR practices than smaller firms do. In addition, non-governmental organizations (NGOs) proved to be more significantly involved with the implementation of HRM practices than private and public establishments, regardless of their size, i.e. number of employees.

The study of Bayo-Moriones and Merino-Diaz de Cerio (2001) in the Spanish context, provided evidence about variations in HRM practices according to firm size. The presence of an HRM department is another important factor influencing the variations in HRM practices in SMEs, and part of the impact of firm size on the formalization of HRM practices is channeled through the existence of an HRM department or an HRM manager (Kok et al, 2003).

Arthur and Hendry (1992) suggested a model of how principal factors identified in the literature may affect HRM in small enterprises. The major factors likely to influence HRM activity in small firms are human resource supply, product market structure, and industry sector, type of ownership, and small firm infrastructure, referring to size-structure effects, growth stage, culture and management. Also, Kok and Uhlaner (2001) proposed a conceptual model of how organization contextual variables may influence the formalization of HRM practices in SMEs using insights from resource-based view of the firm, institutional theory, transaction cost economics and the behavioral perspective. Company size, collective labor agreement, large firm associate and growth strategy are viewed as indirectly influencing the formalization of HRM in SMEs.

While a substantial number of studies indicate that organization size has a positive substantial influence on HR practices (Mohammad, 2012; and Kotey and Slade, 2007), other studies show that organization size has a limited effect on HR practices (Ding and Akhtar, 2006). Other contextual resources that have been found to have the capacity to build up human resource competencies in small businesses include financial resources and ownership of these organizations, while external environmental factors include activities of competitors, government regulations, type of industry and sector. Based on the empirical review discussed above, the research model conceptualized for this study is as illustrated in Figure 1, and consists of four variables: firm size, ownership type, legal regulations and financial resources. It is hypothesized that these variables affect the adoption of HRM practices in Nigerian small scale businesses.
Model Specification

Figure 1: Research Model

Mathematically, the model is expressed as follows:

**Model I**

$$BP = F\ (HRMP)$$ where BP is Business Performance and HRMP is Human Resources Management Practices which are: Compensation (COP), Recruitment and Selection (RAS), Training (TRN) and Performance appraisal (PRS). Therefore; $BP = \beta_0 + \beta_1 (COP) + \beta_2 (RAS) + \beta_3 (TRN) + \beta_4 (PRS) + \epsilon$

**Model II**

$$AHRMP = F(X_1, X_2, X_3, X_4)$$ Where; AHRMP = Adoption of Human Resource Management Practices $X_1 = $ Firm size, $X_2 = $ Ownership type, $X_3 = $ Legal regulation, $X_4 = $ Financial resources $\beta_0 = $ Intercept $\beta_1, \beta_2, \beta_3, \beta_4 = $ Regression coefficient $\epsilon = $ Stochastic error term

METHODOLOGY

A survey of 71 randomly selected small scale businesses in the three most urbanized local governments of the study area was conducted. The study sample was drawn from bakeries, block-making industries, and packaged water production companies. In this study, small businesses referred to firms employing between 10 to 25 employees. The data collection instrument was a questionnaire designed by the researchers. The instrument was designed in Likert scale format, with responses ranging from Strongly Agree (5) to Strongly Disagree (1). In order to establish the reliability of the research instrument, a test-retest method was used. To ascertain the face and content validities of the instrument, it was given to experts for verification. Business performance was measured through the economic goals of the businesses such as return on investment, sales growth, and profitability (Hartenian and Gudmundson, 2000). Data analysis was conducted with Multiple Regression Analysis.

DATA ANALYSIS AND DISCUSSION

Table 1a

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.728</td>
<td>.529</td>
<td>.501</td>
<td>.54719</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Performance appraisal, Recruitment, Compensation, Training

Table 1b

<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>1</td>
<td>Regression</td>
<td></td>
<td>22.239</td>
<td>4</td>
<td>5.560</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>66</td>
<td>.299</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>70</td>
<td>42.000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Business Performance
b. Predictors: (Constant), Performance appraisal, Recruitment, Compensation, Training

Table 1c

<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>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>.085</td>
<td>.480</td>
<td>.178</td>
<td>.860</td>
</tr>
<tr>
<td>Compensation</td>
<td>.638</td>
<td>.106</td>
<td>.632</td>
<td>6.032</td>
</tr>
<tr>
<td>Recruitment</td>
<td>.115</td>
<td>.111</td>
<td>.134</td>
<td>1.040</td>
</tr>
<tr>
<td>Training</td>
<td>-.010</td>
<td>.126</td>
<td>-.012</td>
<td>-.080</td>
</tr>
<tr>
<td>Performance appraisal</td>
<td>.352</td>
<td>.086</td>
<td>.376</td>
<td>4.115</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Business Performance

Table 1a, b, c, show that HRM practices have significant impact on business performance (F (4, 66) = 18.569; $R^2 = 0.529$; $P < .01$). The predictor variables jointly explained 52.96% of the variance of organizational performance, indicating that HRM practices contribute 52.96% to business performance. This result is in line with the findings of Obasan, (2012); Fanny,( 2009); Tiwari, (2012) and Mansour, (2010). Furthermore, compensation ($\beta = 0.638, t = 6.332, P < .01$) and performance appraisal ($\beta = 0.352, t = 0.086, P < .01$) were significant independent predictors of business performance, while the effect of recruitment ($\beta = 0.115, t = 0.134, P ns$) was positive, but insignificant. A probable explanation for this could be because selection processes are mostly based on personal judgements of the owner-managers. Training was also found to have insignificant impact on business performance ($\beta = -0.010, t = -0.012, P ns$). This may also be due to the manner of training which is described as predominantly informal, not related to systematic analysis of employees’ needs, and usually provided on-the-job by the owner-managers, through direct supervision and correction of performance.
Table 2: Regression result of the factors influencing HRM Practices in Small Scale Businesses

<table>
<thead>
<tr>
<th>Variable</th>
<th>Beta</th>
<th>t-value</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm Size</td>
<td>0.320</td>
<td>3.475</td>
<td>0.001</td>
</tr>
<tr>
<td>Ownership Type</td>
<td>0.140</td>
<td>1.755</td>
<td>0.084</td>
</tr>
<tr>
<td>Legal Regulation</td>
<td>0.045</td>
<td>0.560</td>
<td>0.577</td>
</tr>
<tr>
<td>Financial Resources</td>
<td>0.570</td>
<td>5.923</td>
<td>0.000</td>
</tr>
<tr>
<td>R²</td>
<td>0.684</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adj. R²</td>
<td>0.660</td>
<td></td>
<td></td>
</tr>
<tr>
<td>F value</td>
<td>28.160</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Probability</td>
<td>0.000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2 shows that financial resources has highest beta value (0.570) and is significant at 1% level. This implies that financial resources constitute the most important factor that influences HRM practice adoption in small scale businesses in Osun state, Nigeria. This result is in agreement with Sels et al., (2006) who asserted that adoption of formal HRM practices may not always be possible because it is often too costly. Also, firm size has significant influence on HRM practice adoption with (β = 0.320, P <.01). This implies that the implementation of SHRM practices differs between firms with different sizes. The result is complementary to the previous findings by Mohammad (2012); Ding and Akhtar, (2006) and Kotey and Slade, (2007) who affirmed that firms of different sizes differ in the implementation of SHRM practices. Larger firms could have more complete and sophisticated human resource systems compared to small firms, as large firms need to spread out their cost, and have higher level of control and image consciousness, due to their higher visibility in society. The result also showed that ownership type and legal regulation influence adoption of HRM practices by small scale businesses, but not significantly.

CONCLUSION AND IMPLICATIONS

Based on the findings of this study, it can be concluded that, overall, HRM practices impact significantly on small scale business performance in Osun State, Nigeria. Also, financial resources and firm size are major factors that significantly influence the adoption of HRM practices in small scale businesses in Nigeria. The implication of these findings is that an enabling environment, that will encourage adoption of HRM practices by small scale businesses, should be provided. This is expected to facilitate their ability to grow and build up the required capacity for the promotion of sustainable development in the nation.

REFERENCES


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