Management

Enhancing SMME effectiveness in South Africa through Human Resource Management practices

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Abstract

Small, Medium, and Micro Enterprises (SMMEs) are essential for national economic growth, but their success is significantly affected by management practices and globalization pressures. Despite being recognized for their adaptability, strong customer relationships, operational flexibility, and technological adoption, SMMEs face substantial risks of failure primarily due to poor Human Resource (HR) practices. This study explores strategic Human Resource Management (SHRM) techniques that SMMEs in South Africa can implement to reduce failure risks and improve organizational sustainability. It posits that human capital is the most critical asset for SMMEs and that effective practices in recruitment, selection, retention, and performance management can enhance productivity and create a sustainable competitive edge.

The research reveals a positive correlation between training, skills development, and organizational performance, establishing a clear relationship between employee abilities and the effectiveness of SMMEs. Empirical findings indicate that strategic HR practices significantly enhance profitability and overall performance. Moreover, the study expands the Resource-Based Entrepreneurship Theory (RBET) by highlighting the fundamental role of human resources in driving SMME effectiveness. It concludes that strong HRM practices are crucial for improving the performance and sustainability of SMMEs, thus emphasizing the necessity for these enterprises to adopt comprehensive strategic HR practices to thrive in challenging environments.

Keywords: Resource Based Entrepreneurship Theory (ABET), Resource Based View (RBV), SMME, Management practices

1. Introduction

1.1 Introduction

This paper offers a comprehensive overview of the research landscape by providing background information, pinpointing the research problem, and emphasizing the study's significance. It includes a literature review that establishes a theoretical framework, analyzing prior research and highlighting existing knowledge gaps. Additionally, the paper elaborates on the research methodology and procedures, discusses the implications of the findings, and concludes with insights drawn from the data collected.

1.2 Background of the study

Small, Medium, and Micro Enterprises (SMMEs) are recognized as key drivers of national development, comprising over 95% of global enterprises and employing 60–70% of the workforce. Human Resource Management (HRM) can be viewed through control and commitment perspectives: the control approach aims to optimize organizational efficiency through rewards, while the commitment approach fosters alignment between employee and organizational goals. Research shows a strong link between commitment-based HRM practices and improved organizational performance. Gooderham et al. (1999) differentiate between calculative HRM practices, focused on efficiency, and collaborative practices that enhance outcomes for both employers and employees.

Significant HRM practices identified by researchers like Pfeffer (1994) and Delaney and Huselid (1996) include training, participation, and incentives, which can significantly boost performance. In the context of SMMEs, effective HRM practices, such as recruitment, training, performance management, and compensation, are essential for enhancing efficiency, performance, and employee satisfaction. This study frames HRM as a multifaceted approach that improves human resource efficiency, individual performance, employee relationships, and job satisfaction, fostering positive organizational behaviors and attitudes.

1.3 Problem statement

Despite substantial government support, South African Small, Medium, and Micro Enterprises (SMMEs) continue to face considerable failure rates, particularly in developing nations as highlighted by the Global Entrepreneurship Monitor (GEM, 2013). The study aims to assess how management practices influence organizational effectiveness.

Research indicates financial constraints as a significant hurdle for SMMEs (Akiwane & Ogundiran, 2014; Philips, Moss & Nieman, 2014; Olwane & Garwe, 2010), but there is a notable gap in exploring the role of Human Resource Management (HRM) and management practices in the survival of these enterprises. Evidence points to effective HRM strategies being crucial to SMME growth and sustainability (Castrogiovanni, 2014; Long, Ajagbe & Kowang, 2014).

In developed nations, HRM functions such as recruitment, employee motivation, promotions, and compensation are often regulated, offering advantages to SMME owners. Conversely, South African SMMEs, which operate under conditions similar to larger organizations, grapple with issues like insufficient human capital (Smit & Watkins, 2012). Employees frequently engage in informal and diverse roles, which restrict specialization and limit their decision-making capabilities (Kynobe, 2004; Kazooba, 2006). Additionally, poor management practices characterized by ineffective communication and misuse of authority are prevalent (Bowen, Morara & Mureithi, 2009).

The Socio-Technical Systems Theory (SST) (Emery & Trist, 1969) underscores the interplay between organizational design, productivity, technology, strategy, and HRM practices. The lack of structured HRM and organizational strategies in SMMEs weakens skill development, organizational capabilities, and holistic growth.

1.4 Research objectives

- To examine the relationship between human resource management practices and the effectiveness (growth and survival) of SMMEs in South Africa.
- To determine the impact of management practices on SMME survival.

The study highlights that Small, Medium, and Micro Enterprises (SMMEs) worldwide are at risk of failure primarily due to poor management practices (Bannock, 2005). It emphasizes the importance of understanding the critical characteristics and management practices necessary for the growth of SMMEs to foster sustainability.

1.5 Research question

This study seeks to answer the following question:

- What is the relationship between human resource management practices and the effectiveness of SMMEs in South Africa in terms of growth and survival?

1.6 Significance of the study

This research enhances the understanding of Human Resource Management (HRM) practices within Small, Medium, and Micro Enterprises (SMMEs) in South Africa. It indicates that effective HRM correlates with improved work practices and organizational outcomes, supported by prior studies (Whyman & Petrescu, 2011). The debate surrounding the most effective HRM practices is noted, with the universalistic approach suggesting that certain best practices yield consistent positive outcomes (Delery & Doty, 1996), while the contingency approach posits that HRM practices should align with specific organizational conditions.

The study emphasizes that strategic HRM is essential for the growth, survival, and long-term sustainability of SMMEs in South Africa, thereby contributing valuable insights to the existing body of knowledge.

2. Review of literature

2.1 Introduction

The literature review aims to systematically overview Human Resource Management (HRM) practices, emphasizing key theories and concepts in the field. HRM practices, defined by Brown (2005) as organizational activities for effective human capital management, include various work practices related to human actions and relationships that impact employee performance. The study focuses specifically on the integration of HRM practices with strategic business strategies in Small, Medium, and Micro Enterprises (SMMEs). Notably, it highlights a research gap, as empirical studies show limited investigation into HRM practices within SMMEs, as noted by Dun & Bradstreet (2001), Mazzarol (2003), Cardon & Stevens (2004), and Gilman & Edwards (2008).

2.2 Theoretical framework

The theoretical framework is essential for implementing HRM systems aimed at achieving organizational goals, according to Tan (2011). Wright and Snell (2009) point out that managers can choose from various strategic HRM (SHRM) practices that encompass employee selection, recruitment, development, motivation, and retention. These practices are designed to foster behaviors aligned with the organization's objectives.

Several theoretical perspectives inform HRM practices, including Systems Theory, Opportunity-Based Theory (OBT), Resource-Based View (RBV), Multiple Stakeholder Theory, Strategic Reference Point Theory, Firm Theory, Resource-Based Entrepreneurship Theory (RBET), Contingency Theory, and Configurational Theory.

The Resource-Based View (RBV) highlights that competitive advantage is sustained through the strategic use of unique resources (Schmit, 2013; Srivastava, 2013). RBET expands on RBV by emphasizing that firms, as profit-maximizing entities, leverage effective management practices for superior performance (Kraaljenbrink et al., 2010). It argues that sustainable competitive advantage is achieved by effectively acquiring, retaining, and managing unique resources, as supported by Eccles et al. (2013).

RBET comprises three key components identified by Muogbo (2013): Liquidity Theory of Entrepreneurship (LTE), Human Capital Theory (HCT), and Social Network Theory (SNT). In this context, human capital encompasses the knowledge, skills, experience, and capabilities that drive organizational performance. Like RBV, HCT posits that human resources are vital due to their flexibility and cognitive capacity, enabling organizations to maintain a sustainable competitive advantage through strategic management of these resources.

2.3 Empirical literature

Research indicates that Human Resource Management (HRM) practices significantly affect the performance of Small, Medium, and Micro Enterprises (SMMEs). Fabling and Grimes (2007) discovered that Strategic Human Resource Management (SHRM) positively impacts organizational outcomes. Karami, Jones, and Kakabadse (2008) noted that SHRM specialists can enhance competitiveness, while Wang,

Walker, and Redmond (2010) found that successful SMMEs commonly engage in strategic planning. Moreover, Syed et al. (2012) demonstrated the beneficial effects of SHRM on performance in South African SMMEs, a finding supported by Bhatti et al. (2012), who highlighted the HR challenges many SMMEs encounter.

Sustainability within organizations refers to their capacity to survive and prosper in competitive settings (Noe et al., 2012). Sustainable organizations show innovation, uphold competitive advantages, and apply effective management practices. Key HRM aspects aiding sustainability comprise employee learning, engagement, performance management, leadership development, and organizational change (Chan, 2010). Factors like globalization, technological progress, and shifting stakeholder expectations accentuate the strategic role of HRM.

While HR outcomes often mediate organizational effectiveness, the specific interplay within SMMEs is underexplored (McMahan et al., 1999). Prior research has established positive correlations between SHRM and organizational effectiveness (Becker & Huselid, 2006), highlighting the outcomes from interactions between HR practices and other organizational resources (Lawler, 2012).

2.4 Human resources management practices

HRM practices involve a range of policies and procedures aimed at effectively managing human resources, including recruitment, training, performance appraisal, and employee rewards (Dessler, 2003). Bratton (2007) asserts that enhancing employee capabilities is essential for achieving a competitive edge. Zheng, O'Neil, and Morrison (2009) illustrate that positive HR outcomes—such as employee competency, commitment, reduced turnover, and improved cost-effectiveness—stem from increased employee involvement and training, which in turn bolster market share and growth opportunities. Additionally, Armstrong (2012) emphasizes that human capital is vital for organizational success. In the context of Small and Medium-sized Enterprises (SMMEs), HRM encompasses areas such as human resource planning, recruitment, training, compensation, performance management, reward management, and knowledge management, as noted by Kotey & Folker (2007), Osman, Ho & Galang (2011), and Bratton et al. (2007).

2.4.1 Human resources planning

HR planning is crucial for organizations to optimize the use of human resources in line with strategic objectives. In Small, Micro, and Medium Enterprises (SMMEs), HR planning is frequently informal or neglected, resulting in inefficiencies and decreased job satisfaction. Significant objectives of HR planning encompass ensuring the availability of high-quality employees, maintaining competency levels, anticipating training requirements, and preparing budgets for HR-related expenses.

2.4.2 Recruitment and selection

Recruitment and selection are essential practices in Human Resource Management (HRM) for Small, Medium, and Micro Enterprises (SMMEs), significantly influencing organizational survival and competitiveness (Ongori, 2010; Agarwala, 2007). Effective recruitment ensures that employee capabilities are aligned with the strategic needs of the organization, fostering flexibility, innovation, and a supportive organizational culture. The modern recruitment process has evolved to encompass not only job descriptions but also selection, training, and performance evaluation (Toucher & Rutherford, 2009). Conversely, inadequate recruitment strategies can impede skill development and hinder organizational growth (Van Sheers, 2011; Long, Ajagbe & Kowang, 2014).

2.4.3 Training and development

Training is strategically designed to improve employees' knowledge, skills, and competencies (Armstrong, 2012; Blanchard & Thacker, 2014). Small, Medium, and Micro Enterprises (SMME) training programs are vital for gaining a sustainable competitive advantage through the development of human capital, as they promote learning, mentoring, coaching, and self-managed learning (Klapper, Lewin & Delgado, 2009; Long et al., 2013).

This study is grounded in three theoretical frameworks: the Resource-Based View (RBV), which identifies resources as key to competitive advantage (Wright, Dunford & Snell, 2001); the Behavioral Perspective, which connects employee behavior with firm performance (Van De Voorde, Paauwe & Van Veldhof, 2012); and the Cybernetic Systems Model, which outlines the input-throughput-output processes in HR training.

2.4.4 Performance management

Performance management encompasses various components, including goal setting, resource allocation, strategy development, and reward systems, aimed at improving both individual and organizational outcomes (Heinrich, 2002; Garengo & Bernardi, 2007; Schuler, Jackson & Tarique, 2011). In Small, Medium, and Micro Enterprises (SMMEs), effective performance management is crucial as it fosters continuous improvement, aids in resource retention, ensures high-quality outputs, encourages innovation, and facilitates knowledge sharing (Bezuidenhout & Henungwi, 2012; Vichitdhanabadee et al., 2009).

2.4.5 Reward management

Reward systems are instrumental in enhancing employee engagement, commitment, trust, and cooperation within an organization. By aligning individual motivation with organizational objectives, these systems not only foster a supportive culture but also significantly improve overall performance and sustainability of the organization.

2.4.6 Knowledge management

Work knowledge, derived from creativity and human intellect, is essential for driving organizational performance and gaining competitive advantage. Effective management of knowledge and implementation of innovative work practices not only enhance employee competence but also enable organizations to adapt successfully to competitive environments.

3. Research methodology

3.1 Research design

This study utilized a quantitative research design to analyze the impact of Human Resource Management (HRM) practices on the effectiveness of Small, Medium, and Micro Enterprises (SMMEs) in Limpopo Province, South Africa. By focusing on numerical data collection and hypothesis testing through statistical analysis, the research adopted a deductive and particularistic approach. This methodology allowed for systematic data collection and analysis from SMME managers, aiming to establish clear relationships between HRM practices and organizational outcomes. The study's design emphasizes reducing subjectivity in data interpretation while facilitating the validation of theories.

3.2 Sampling procedure

A random probability sampling method was utilized to select a study sample from a population of 1,000 small, medium, and micro enterprises (SMMEs) in Limpopo Province. A total of 100 SMMEs were chosen, constituting a 10% sample fraction as advised by Welman et al. (2009). This methodology ensured that each SMME had an equal opportunity for inclusion, thereby improving the sample's representativeness.

3.3 Population of the study

The study focused on South African small, medium, and micro enterprise (SMME) owners and managers actively engaged in business operations and human resource management (HRM) practices. These individuals served as the primary respondents for the research questionnaire.

3.4 Data collection instruments

Data collection utilized self-administered questionnaires due to their straightforward nature and effectiveness in eliciting honest feedback from Small, Medium, and Micro Enterprises (SMME) managers. These questionnaires gathered data on Human Resource Management (HRM) practices, organizational performance, and business sustainability. The analysis of the collected data employed both descriptive and inferential statistical methods, leveraging SPSS (Statistical Package for the Social Sciences) to facilitate a comprehensive interpretation of identified patterns, relationships, and trends.

4. Research finding

Table 1: Selection and recruitment impact on business performance

Annual income of small enterprises in R 000						
Owner qualification	**±50**	**±300**	**±1 000**	**±3 000**	**±6 000**	**Total**
Grade 8 certificate	5	4	0	0	0	9
Grade 12 certificate	14	10	4	3	6	37
Diploma certificate	0	9	10	17	14	50
Degree graduate	0	0	0	0	4	4
Total	19	23	14	20	24	100

The table illustrates the significant influence of selection and recruitment on business performance. Notably, 76% of managers earning between fifty thousand and three million Rands possessed only grade 8, grade 12, or a diploma. In contrast, 24% of managers earning above six million Rands were university graduates, highlighting a correlation between educational attainment and higher income levels.

Table 2: Training effects on business turnover

Annual income of small enterprises in R 000						
Frequency of training	**±50**	**±300**	**±1 000**	**±3 000**	**±6 000**	**Total**
Weekly	0	0	0	0	20	20
Monthly	0	0	0	23	1	24
Quarterly	1	3	9	3	0	16
Yearly	18	20	2	0	0	40
Total	19	23	11	26	21	100

Table II indicates that a large number of SMMEs were training once every year and the got little income of plus or minus R300 000.The SMME that received training four time a year realized been R1 million and R3 million as income and the SMME that received training every week enjoyed above R6 million as income. The results reveal Strong evidence that prosperous small businesses train more frequently and keep abreast of changing market environment.

5. Conclusions

Human Resource Management (HRM) practices provide substantial advantages for Small, Medium, and Micro Enterprises (SMMEs) by supporting organizational goals, survival, and strategic objectives. Effective HRM enhances employee responsiveness, innovation, and performance, leading to a sustainable competitive advantage.

There is a clear correlation between employee management and organizational outcomes. Understanding the relationship between HRM practices and performance allows managers to create policies and programs that effectively utilize human capital to meet organizational targets.

6. Study contribution

This study makes several key contributions to the understanding of HRM practices in SMMEs:

a) **Human capital recognition:** Employees are recognized as vital human capital within strategic HRM, emphasizing their role as a critical resource for organizational performance.

b) **Positive organizational attitudes and behaviors:** The cultivation of positive attitudes and behaviors enhances employee commitment. These factors are essential for successful implementation of strategic HRM practices.

c) **Integrated strategic HRM framework:** Strategic HRM practices are composed of HRM policies, human capital development, HR systems, governance, and performance management. This integrated framework supports the alignment of employee capabilities with organizational objectives, promoting sustainability and growth in SMMEs.

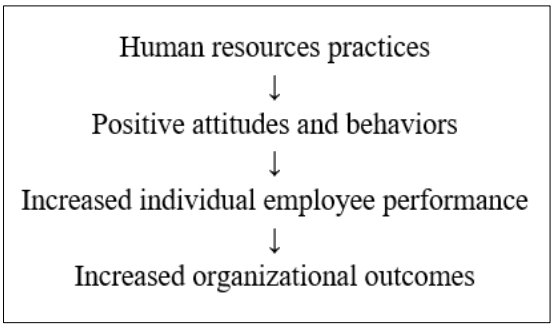


Fig 1: Advanced HR Practices Model

Human Resource Management (HRM) practices foster positive employee attitudes and behaviors, which enhance individual commitment and performance. This, in turn, translates into improved overall organizational performance.

7. Managerial implications

The study concludes that integrating Human Resource Management (HRM) practices with organizational strategies enhances the success of employment models. Key HRM aspects such as selection, recruitment, training, motivation, and performance management significantly influence organizational outcomes. Small, Medium, and Micro Enterprises (SMMEs) are crucial for employment, and effective HRM is vital for their growth and sustainability, ensuring stable job opportunities. Since many SMMEs are family-run, it is essential for owners and managers to enhance their knowledge and skills through targeted training programs. Such training not only equips employees with necessary skills but also serves to motivate and inspire them, resulting in improved performance and overall organizational success.

8. Recommendations

Based on the study findings, the following recommendations are proposed:

- SMMEs should adopt HRM practices that contribute to effective organizational outcomes.
- South African SMMEs are encouraged to implement an established institutional framework incorporating clear policies, procedures, and practices (Fedderke & Luiz, 2008).
- SMMEs should invest in HRM initiatives and best management practices to sustain competitiveness, enhance employee performance, and support long-term growth.

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