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Relationships among Human Resources, Strategy Implementation and Performance of Small and Medium Manufacturing Firms in Thika Sub-County, Kenya

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ABSTRACT

This paper explores the relationship between attention to human resource requirements during strategy implementation and performance of small and medium manufacturing firms (SME) in Thika Sub-County in Kenya. The study is underpinned in Okumu's strategy implementation framework where staff (human Resource) is one of the component or a key variable required by the firm in maintaining superior performance and competitive edge among the rival firms. A survey questionnaire was used to collect data from 115 firms from the two key industrial subsectors within Thika town and its environs. Guided by the philosophy of logical positivism and for triangulation purposes, the study adopted a mixed research design which incorporated the descriptive, quantitative and qualitative designs. Pearson's bivariate correlation analysis was used to indicate the relationship between the dependent and independent variables of the study and regression analysis was used to test hypothesis proposed in this study. The study findings indicated that there is a positive and significant relationship between attention to human resources requirements during strategy implementation process and the performance of SME manufacturing firms in Thika, Kenya. The literature of strategic management had identified three main drivers in strategy implementation that is attention to leadership styles, attention to structure and attention to human resources. This paper investigated whether attention to human resource requirements is a major driver influencing strategy implementations and performance of the manufacturing small and medium enterprises in contemporary organizations in a developing economy like Kenya. The findings in this study are in line with other scholars in strategic management literature who found a positive and a significant relationship between attention to human resource requirements and organizational performance. The study concluded that manufacturing firms interested in enhancing their performance and staying ahead of competition should endeavor to ensure that they maintain a proper balance between strategy and the human resource requirements needed to support that strategy. The manufacturing SME firm that is able to maintain a proper balance between their strategy and human resource requirements experiences superior performance and have a competitive edge among the rival firms in the industry

Keywords: Strategy Implementation, Human Resource, Performance, Manufacturing, SME

INTRODUCTION

Human resources refer to people in terms of, time, personnel skills, capabilities, experiences and knowledge they bring to their work place. Human resource capital is obtained through a variety of means which includes formal education, job training, on the job learning and real life experiences. Management of human resources in an organization is very crucial for the survival and proper

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functioning of an organization and recent studies have shown that human resource practices play an important role in formulating and implementing strategy [1]. Accordingly, human resource management should be looked at as part of the overall organizational strategy of a firm and its importance has made human resource managers to be part of decision making process during strategy formulation and implementation. Lee, Lee and Wu [2] indicated that there is a direct relationship between a firm's strategy and the use of human resources. A review of literature by Abdullar, Ahsan and Alam [3] indicated that most researchers suggest that human resource management is vital in order for an organization to achieve competitive advantage and organizational success. According to Gupta and Carol [4] human resource management plays an important role in strategy implementation therefore if human resource in an organization is not managed effectively, it would potentially cause disruptions to the strategy implementation process [5].

Since human resource plays a crucial role in strategy implementation and the attainment of organizational goals and objectives, there is need for an organization to develop an elaborate human resource policy that promotes employees understanding and expectations of the organizational goals, encourages communication between the employees and leadership. The elaborate HR policy should include the selection of employees, recruitment and hiring procedures, training and development, performance appraisal and rewards and incentives.

OBJECTIVES OF THE STUDY

The main objective of this study was to establish the relationship between attention to human resource requirements during strategy implementation and performance of SME manufacturing firms in Thika Sub-County, Kenya

HYPOTHESES OF THE STUDY

This study was guided by the following alternative hypothesis;

H1. There is a significant positive relationship between attention to human resource requirements (staffing needs, training, remuneration, appraisals) during strategy implementation and performance of SME manufacturing firms in Thika, Kenya

LITERATURE REVIEW

The relationship between human resources and performance in an organization has been a hot subject for research for the last two decades. The initial impetus to study this relationship was initiated by the works of Huselid [6] in his study of the impact of human resource management practices on turnover, productivity and corporate financial performance and Becker and Gerhart [7], in a study of the "impact of human resource management on organizational performance: progress and prospects". To date, the empirical literature from several other scholars in management documents a supportive evidence of the existence of a positive relationship between human resource practices and performance in an organization [8], [9], [6], [11], [12] & [13].

Organizations cannot perform well without quality and resourceful people. The Resource Based View of the firm's (RBV) supports this view by recognizing the fact that human resources provides the firm with an important asset that, when well used, can lead to superior performance and or a competitive advantage. In order for human resources to provide a sustainable competitive advantage, Barney [14] identified four conditions that need to be met. First; that human resources must add value to the firm's production process meaning that the level of individual's contribution to the total production really matters, secondly; that human resources must present special skills that are rare to find in an ordinary market place, thirdly; that the combined human capital investments a firm's employees represents cannot be easily imitated by other firms in the market and in the industry and fourthly; that the human resources cannot be easily substituted by technology. However, in the dynamic environment that SMEs find themselves operating in today, the ability of the firm to create dynamic capabilities in human resources is vital for survival and competitiveness. The dynamic capability in people can be developed through injecting new knowledge and skills and continuous improvement of human resources through training and development initiatives [15]. Organizations that often practice human resources management experiences lower levels of labour turnover [10]. A study by Cho *et al*. [9] which investigated the relationship between the use of 12 human resource management practices and organizational performance measured by turnover rates for managerial and non-managerial employees, labour productivity and return on assets found out that companies implementing HRM practices such as labour management participation programs, incentive plans, and pre-employment tests experiences lower labour turnover rates for non-managerial employees.

The association between human resource management practices and performance may not be direct, something that has been referred to as a "black box" by the scholars, and is mediated by strategy [10], employee's ability and motivation [16]. In support of this observation, a study done by Katou [17] involving 178 organizations in Greece made a confirmation that a relationship between human resource policies (resourcing and development, compensation and incentives, involvement and job design) and organizational performance exists. The researcher also observed that this relationship is partially mediated through human resource management outcomes (skills, attitudes, behaviour) and it is influenced by business strategies (cost, quality & innovation). These findings imply that human resource management policies associated with business strategies affects organizational performance through human resource management.

Several human resource practices were found to have a significant influence on organizational performance. Beh and Loo [18] found out that best practices in human resources like performance appraisal, internal communication, career planning, training and development, recruitment and selection and strategic human resource alignment in the organization positively affect firm's performance. Amin *et al*., [19] interviewed a total of 300 employees from a public university and found out that human resource practices like recruitment, training, performance appraisal, career planning, employee participation, job definition and compensation have a significant relationship with university performance. Other practices identified in the literature include job security, employees autonomy, hiring of new personnel on a selective basis, creation of self-managed and cross functional teams, initiating structures that support decentralization of decision making, a relatively high compensation in line with the performance of the organization, extensive training of personnel, reduced status distinctions and barriers, including dress, language, office arrangements, wage difference across levels, and extensive sharing of information throughout the organization, incentives and information technology [20], [9], [21], [18] & [22].

Vlachos [23] observed that firm's growth as a strategic priority depends on human capital that is selecting, developing and rewarding the best people as well as revealing to them the critical company information in order to make informed decisions. His study on "effects of human resource practices on firm's growth" studied six variables namely: the compensation policy, decentralization and self-managed teams, information sharing, selective hiring, training and development and job security. The study established a strong correlation between selective hiring and market share growth. Compensation policy was found to be the strongest predictor of sales growth. Decentralization & team working were also found to be a significant factor on firm's growth, training and development was related to all firm's growth measures used in the study and showed a higher correlation with the overall firm's performance improvement. The study also found a strong positive correlation between information sharing and sales growth, firm's growth and overall firm performance. However, decentralization and information sharing did not contribute significantly to sales growth while job security was not seen as an important human resource management practice.

Safari, Karimian and Khosravi [24] ranked HRM practices affecting organizational performance and found that performance evaluation, job design and human resource planning ranked highly, fourth in the ranking was recruitment and selection, employee health and hygiene, training and development and compensation system. Employee communication ranked lowest. On performance evaluation, detecting employee capabilities and improving employee's task doing and performance evaluation by interest groups received most attention.

Human resource is one of the critical components required in order to achieve better performance in an organization [25, [26]. This component needs to be well aligned with the other components in the 8-S framework and as implied in Teece [15], the human resources of a firm need to be well aligned with the dynamism of the environment if superior performance in a firm is to be realized. Okumu's [26] observed that people are required to drive the process of strategy implementation to success. Sorooshian *et al.* [27] also observed that the significance of human resource in strategy implementation is based on the idea that people management can be an essential source of sustained competitive advantage of a firm. This implies that organizations need to embrace better HRM practices that build a strong asset in form of people. A strong human resource component is required for proper implementation of strategies and better performance in an organization.

CONCEPTUAL FRAMEWORK

The conceptualized framework that guided this study is depicted in figure 1 below:

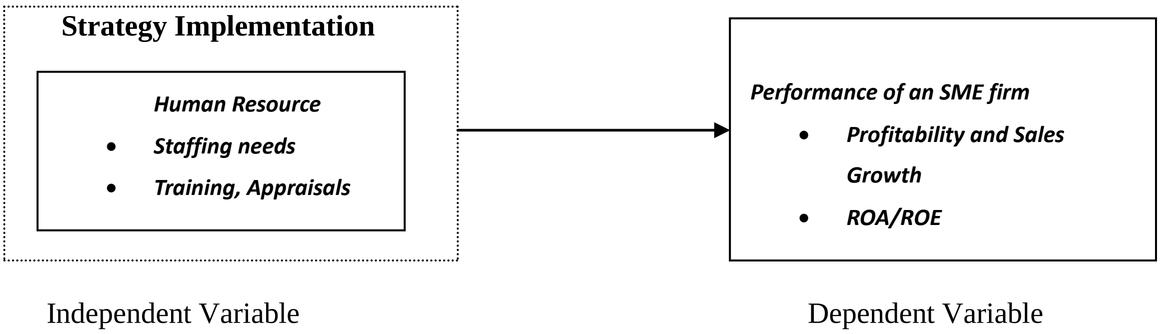


Fig1.0. *Conceptual Framework showing the Relationship between Human Resources and SME's Performance*

THEORITICAL FRAMEWORK

Okumu's Strategy Implementation Framework

Okumu's [26] identified eleven variables commonly mentioned by other research frameworks that have an effect on strategy implementation and outcome. These variables are; strategy development, environmental uncertainty, organizational structure, organizational culture, leadership, operational planning, resource allocation, communication, people, control and the outcome.

Out of these variables, he developed a new strategy implementation framework by grouping the variables into four main categories namely strategic content, strategic context, operational process and the outcome. Strategic content includes the development of strategy where various issues are addressed like whether the new strategy conforms to the overall strategic direction of the firm, identification of aims of the new initiative, adequate knowledge and expertise in managing change and active participation of management at all levels in an organization.

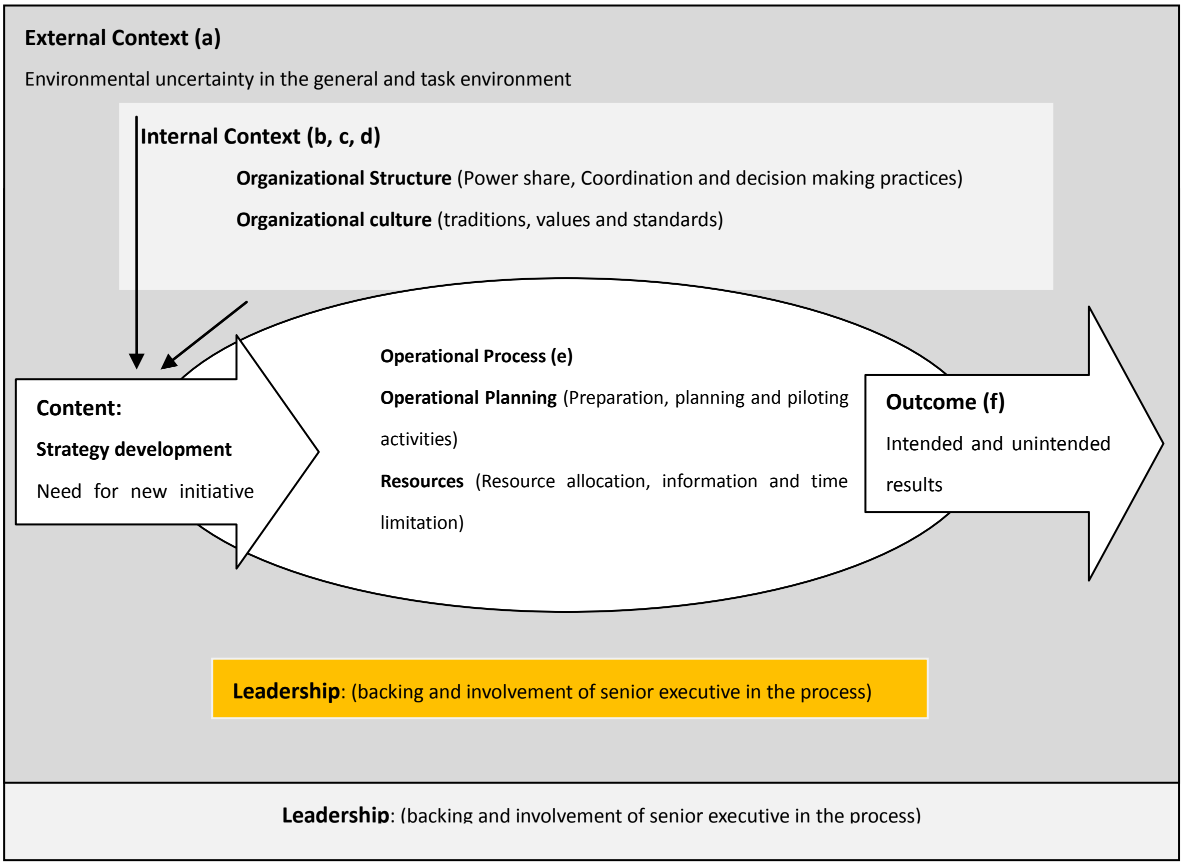
The second group include strategic context which is divided into two categories; the internal and external contexts. The external context focuses on the environmental uncertainty in both task and general environment. New changes and developments in the general and task environments require a new strategy. The new strategy must fit and be in line with market conditions until it is fully implemented [26]. The internal context factors includes the organizational structure in terms of its shape, division of labour, job duties and responsibilities, power distribution, decision making procedures, reporting relationships, information flow, coordination and cooperation between different levels of management, of activities, informal networks and politics. Changes in external context (environment) will cause changes and modification of organizational structure. The internal context also includes organizational culture which relates to the understanding of the employees about how they do things within the organization. Internal context also include leadership which shows the actual support and involvement of the CEO in the strategic initiative. According to Okumu's [26], leadership is crucial in using the process factors and also in manipulating the internal context to create a context receptive to change. Key issues considered here include the actual involvement of the CEO in the strategy development and implementation process, the level of support and backing from the CEO to the new strategy until it is completed and the open and covert messages coming from the CEO about the project and its importance.

The third group includes the organizational processes which incorporates operational planning. This is the process of initiating the project and the operational planning of implementation activities and tasks. Issues dealt with here include preparing and planning implementation activities, participation and feedback from different levels of management and functional areas in preparing operational plans and implementing activities, initial pilot projects and knowledge gained from them and the time scale for making resources available and using them. The second key variable in the organizational process is resource allocation which ensures that all the necessary time, financial resources, skills and knowledge are made available. Issues dwelt here include procedures of securing and allocating financial resources, information and knowledge requirements, time available to complete the implementation process and the politics and cultural issues within the company and their impact on resource allocation. The third key variable is people. This involves recruitment of new staff, provision of training and incentives for relevant employees. According to Okumu's [26] operational planning and resource allocation has a direct impact on people in an organization. Key issues include the recruitment of relevant staff for new strategy implementation, acquisition and development of new skills and knowledge to implement the new strategy, the types of training activities to develop and prepare relevant managers and employees, provision of incentives related to strategy implementation and their implications and the overall impact of company's overall human resource policies and practices on implementing new strategies.

The fourth variable in the organizational process is communication which is the mechanism that sends formal and informal messages about new strategy. Issues considered here include communication materials like operation plans, training programs and incentives. Use of clear messages when passing vital information to people, implications of using multiple modes of communication, problems related to communication and their causes and the impact of organizational structure, culture and leadership on selling the new strategy. The final variable in the process is control and feedback which is the formal and informal mechanisms that allow the efforts and results of strategy implementation to be monitored and compared against predetermined objectives.

The fourth group includes the outcome which is the intended and unintended results of the strategy implementation process. The key issues considered here include whether the new strategy has been implemented according to plan or not, whether the predetermined objectives have been achieved or not, whether the outcomes are satisfactory or not and whether the company has learnt anything from the strategy implementation process.

Okumu's framework [26] is relevant to this study in that it underpins human resources (people) in its internal context component in strategy implementation process. The implementation of strategy is influenced by the happenings in the external context component which includes the environmental dynamics in general and task environment. Implementation of strategies leads to an outcome (performance) which is either intended or unintended.



Key

a Changes in external environment influence the strategic context and force organizations to adopt new initiatives.

b Problems and inconsistencies in the internal context require new initiatives.

c The strategy is implemented in the internal context, and the characteristics of organizational structure, culture and leadership influences the process factors.

d Having an organizational context that is receptive to change is essential for the successful implementation of a strategy.

e The process factors are primarily used on a continuous basis to implement the strategy and manipulate the internal context.

f The characteristics of the context and process factors and how they are used directly influence the outcomes.

Figure 2.1. *Okumu's Strategy Implementation Framework: Source: Adopted from Fezzy Okumu (2003)*

To test the relationship between attention to human resources requirements during strategy implementation and performance of small and medium manufacturing firms, the study, guided by logical positivism philosophy [28], adopted a mixed research design involving the descriptive, quantitative and qualitative research designs. The data was collected once over a period of eight months from a sample of 115 targeted firms. Pearson's correlation analysis was used to show the correlation between technology and the performance of the SME manufacturing firm. The linear regression analysis was used to test the hypotheses and to show the nature of the relationships between human resource and performance. The F-Statistics was used to show the model validity while R squared was used to show the model's goodness of fit.

MEASUREMENT OF VARIABLES

Firm's Performance

The performance of a firm was measured by the degree of satisfaction on the levels of profitability, Return on Assets (ROA), Return on Equity (ROE) and sales turnover. Due to the sensitivity of obtaining information related to financial performance where owners of a firm were not willing to cooperate or information was not available, A 5 point Likert scale psychometric instrument [29] was developed to capture information using the non-financial measures of performance. The scale ranged from (1 = Strongly Disagree, 2 = Disagree 3 = Not Sure, 4 = Agree, 5 = Strongly Agree). The mean score was then calculated as an average of the 5 items examined on the enterprises' perceived performance. The higher the score obtained, the better the statement is in terms of the firm's perceived performance.

Attention to Human Resource Requirements

Attention to human resource requirements in a manufacturing SME firm was measured by the extent to which the firm matches her new strategy with good human resource practices like recruitment of skilled people and staffing, training, motivation, remuneration and rewards and staff appraisals. In order to measure the human resource requirements during strategy implementation process, a 5-items Likert scale was used [29] which ranged from (1 = Strongly Disagree, 2 = Disagree 3 = Not Sure, 4 = Agree, 5 = Strongly Agree). The mean score was then computed as the average of the 5 items. The higher the score, the more the variable is important to the performance of small and medium manufacturing firms in Thika Sub-County.

RESEARCH FINDINGS AND DISCUSSIONS

Table1.0. *Descriptive Statistics on the SME Performance*

Performance Construct	N	Mean	Std. Dev
Our Total Profits (Total sales – Costs) have been increasing yearly	115	4.139	.475
The volume of sales has been increasing ever yearly	115	4.078	.664
The number of employees has been rising every year	115	3.183	1.064
The geographical market size of our products has been expanding	115	3.635	.921
We are highly satisfied by the returns from assets invested (ROA)	115	3.374	1.013
We are highly satisfied by the returns from borrowed money (ROE)	115	3.504	.921
Number of customers satisfied by our products has been rising each year	115	3.913	.695
The size of our organization has been expanding for the last five years	114	3.895	.643
The quality of our products has improved considerably	114	3.851	.755
Efficiency of our internal work processes has improved tremendously	115	3.965	.576
Valid N (listwise)	113		

Note: *Reliability α – Performance = 0.815*

Ranked on a scale where 1=Strongly Disagree, 2= Disagree, 3=Not Sure, 4=Agree, 5=Strongly Agree

The study results in table 1.0 shows that the respondents agreed with most of the Likert-based performance constructs apart from the following two statements; we are highly satisfied by the returns from assets (ROA) invested (mean score, 3.37) and that the number of employees has been rising every year (mean score, 3.18).

People in organizations are required in every stage of the strategic management process from strategy formulation, implementation to strategy evaluation and control. Organizations cannot perform well without quality and resourceful people. The Resource Based View of the firm's [14] supports this view by recognizing that human resources provides the firm with an important asset that, when well used, can lead to superior performance and or a competitive advantage. This study aimed at establishing whether attention to human resources requirements during strategy implementation process is related to superior performance of an SME manufacturing firm in Thika Sub-County. The descriptive statistics are presented in table 2.0.

Table2.0. *Human Resource Requirements of the SME Firm*

Statement	N	Mean	Std. Dev
Employees are regularly trained	115	3.443	1.028
Jobs and responsibilities are well understood by most of the employees	114	4.044	.449
The organization always hire people with adequate skills and experience	115	3.739	.889
Our organization frequently gives incentives to motivate employees	115	3.435	.965
Most of our employees are highly committed to do their work well	114	3.965	.579
Well-designed systems of rewards, remuneration and promotions of staff	115	3.687	.958
We have unbiased systems of recruitment and placement of staff	113	3.717	.773
Performance evaluations and appraisals are done on timely basis	115	3.496	.977
Promotions are always done on merit basis	113	3.894	.541
Jobs are well designed and employees are aware what to do	114	3.983	.564
Rewards and incentives are always based on merit	114	3.868	.659
There is no shortage of staff	114	3.156	1.044
Our clients are well served all the times	114	3.544	1.065
Employees individual needs are often well taken care of	115	3.200	1.045
Employees to showcase their creativity and competencies among their peer groups	114	3.526	1.015
Valid N (listwise)	107		

Note: *Reliability α – Attention to Human Resources Requirements = 0.706*

The study results in table 2.0 indicated that all the respondents agreed with the following statements based on the attention to human resources during strategy implementation: Jobs and responsibilities are well understood by most of the employees (mean score, 4.04), jobs are well designed and employees are aware of what they are supposed to do (mean score, 3.98), most of the employees are highly committed to do their work well (mean score, 3.97), promotions are always done on merit (mean score, 3.89), rewards and incentives are based on merit (mean score, 3.87), the organization always hire people with adequate skills and experience (mean score, 3.74), the organization have an unbiased system of recruitment and placement of staff (mean score, 3.72), the organization have a well-designed system of rewards, remuneration and promotions of staff (mean score, 3.69), organization's clients are well served all the times (mean score, 3.54), the organization encourages employees to showcase their creativity and competencies among their peers (mean score, 3.53), performance evaluations and appraisals are done on a timely basis (mean score, 3.50), employees are regularly trained (mean score, 3.44), the organization frequently gives incentives to motivate employees (mean score, 3.44). However, the respondents disagreed with the following statements: employees individual needs are well taken care of (mean score, 3.20) and there is no shortage of staff (mean score, 3.16).

Table3.0. *Bivariate Correlation: Human Resource Requirements and SME Performance*

		Y	X_1
Performance (Y)	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	115	
Human Resource (X_1)	Pearson Correlation	.408**	1
	Sig. (2-tailed)	.000	
	N	115	115

***. Correlation is significant at the 0.01 level (2-tailed).*

The bivariate correlation analysis in table 3.0 indicated that there is a positive and significant relationship between attention to human resources in the manufacturing SME firm during strategy implementation and its performance in Thika Sub-County (r =.408**, P <.001). This finding implies that the owners, CEOs or the SME leaders who adapts to human resource requirements in line with changes in the environment and provides the required human resources support during strategy implementation help their organizations to achieve better results. These finding were subjected to further analysis using univariate linear regression model $Y = \beta_0 + \beta_1 X_1 + \boldsymbol{\varepsilon}$ to determine whether human resource requirements of a manufacturing small and medium enterprise during strategy implementation positively affects the performance. The model containing the explanatory variable (X_1) representing attention to human resource requirements found to be valid, $F_{(1, 113)}$ =22.559, P < .001, hence the conclusion that human resource (X_1) is a good predictor of performance in manufacturing SME firms (see table 4.0).

Table4.0. *Human Resources and Performance: Model Validity*

	Sum of Squares	df	Mean Square	F	Sig.
Regression	4.419	1	4.419	22.559	.000[b]
Residual	22.134	113	.196		
Total	26.553	114			
a. Dependent Variable: Performance					
b. Predictors: (Constant), Human Resources (X_1)					

The study in table 4.1 further revealed that attention to human resource requirements during strategy implementation explains 16.6% of the variations in the performance of the firm (R^2 = .166). These results shows that the firm's attention to human resource requirements will always exist at a certain minimum as shown by the constant (β_0 = 3.753, P < .001). The SME firm's attention to human resource requirements during strategy implementation was found to be positively and significantly related to the firm's performance (β_1 = .499, P < .001). This implies that, as the SME firm continuously pays attention to the human resource requirements during strategy implementation initiatives, the performance of the firm will also improve.

Table4.1. *Human Resources and Performance: Regression Weights*

Model	Unstandardized Coefficients		Standardized Coefficients	R^2	t	Sig.
	B	Std. Error	Beta			
Constant	3.753	.041			90.935	.000
X_1	.499	.105	.408	.166	4.750	.000
a. Dependent Variable: Performance						

The univariate model in table 4.1 is significant and supports the study's objective that attention to human resource requirements of the firm during strategy implementation positively and significantly influences the firm's performance.

Test of Hypothesis

H_1. There is a significant positive relationship between attention to human resource requirements during strategy implementation and the performance of SME firms in Thika Sub-County, Kenya.

This hypothesis intended to test whether paying close attention to human resource requirements during strategy implementation positively influence the performance of the manufacturing SME firm's performance or not. The hypothesis $H_{01:}$ $\beta_1 = 0$ versus H_1: $\beta_1 \neq 0$ was tested. The findings from the bivariate correlations in table 3.0 showed a significant and positive relationship between human resources and SME firms performance ($r = .408^{**}$, $P < .001$). On the other hand, the univariate regression results in table 4.1 showed a positive and significant relationship between attention to human resource requirements and performance of a manufacturing SME firm ($\beta_1 = .499$, $P < .001$). This led to the rejection of the null hypothesis (H_{01}) and the conclusion that there is a positive and significant relationship between attention to human resource requirements of the SME firm during strategy implementation and its performance in Thika Sub-County, Kenya.

DISCUSSION OF FINDINGS ON HUMAN RESOURCES AND SME PERFORMANCE

According to Huselid [6], Becker and Gerhart [7], there is a significant relationship between human resources and organizational performance. The bivariate correlation ($r = .408^{**}$, $P < .001$) in table 3.0 and univariate regression results ($\beta_1 = .499$, $P < .001$) in table 4.1 showed that the attention to human resource requirements during strategy implementation in manufacturing SME firms is significant and positively related to the firm's performance. Okumu's [26] observed that people are required to drive the process of strategy implementation to success. Although human resource is not a dynamic capability that give firms a direct advantage and uniqueness in the industry, the SME organizations can gain competitiveness and perform well in strategy implementation by building strong capacities and capabilities in people. This is done better when there is adequate skills development, strong policies and procedures, clear targets and motivation and when SME's leadership fosters confidence among their employees. Teece [15] observed that a dynamic capability in people can be developed through injecting new knowledge and skills and continuous improvement in human resources through training and development initiatives.

The findings of this study concurred with the works of other several contemporary scholars who found a positive relationship between human resources and organization performance [19], [9], [10], [11], [12], & [13]. Amin *et al*., [19], in an interview of 300 employees from a public university, found out that human resource practices like recruitment, training, performance appraisal, career planning, employee participation, job definition and compensation have a significant relationship with university performance. His findings confirmed an earlier study by Beh and Loo [18] who found out that best practices in human resources like performance appraisals, internal communications, career planning, training and development, recruitment and selection and strategic human resource alignment in the organization positively affect firm's performance. Katou [17], in a study involving 178 organizations in Greece, confirmed that a relationship exists between practice of human resources and organization performance. This study concluded that the finding on the relationship between attentions to human resource requirements during strategy implementation is consistent with the works of earlier scholars who studied the same variable in an attempt to establish its effect with organizational performance.

SUMMARY AND CONCLUSIONS

This study revealed that a positive and significant relationship exist between attention to human resource requirements during strategy implementation and performance of manufacturing SME's firms. The CEOs and the owners of these firms who are keen to ensure that their new strategies are matched with human resource needs and environmental changes enable their organization to perform better and also to maintain a superior competitive edge. Since People in organizations are required in every stage of the strategic management process from strategy formulation, implementation to strategy evaluation and control. Organizations cannot perform well without quality and resourceful people. The Resource Based View of the firm's [30] supports this view by recognizing that human resources provides the firm with an important asset that, when well used, can lead to superior performance and or a competitive advantage.

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