

A review of the human resource management dilemma for SMEs: case of central Uganda

Abstract

The increasing interest in human resource practices is driven by the hypothesis that employees and their management are critical to the success of an organization. Small and medium enterprises (SMEs) contribute significantly to several countries' economies in terms of gross domestic product, employment fraction and exports. Human resource management (HRM) on the other hand plays a pivotal role in the growth and survival of SMEs if systematically understood and implemented in these businesses. As such, this paper aims to analyze factors that affect successful HRM and implementation in small and medium enterprises. Our findings demonstrate that SMEs need to make an effort to close the gap between demand and supply of labor for them to be able to compete with larger firms in the market. We conclude that the factors that affect human resource management are mainly due to the internal organization of these businesses and if HRM is properly implemented, it almost guarantees sustainability and competitive advantage of small firms. An "employee retention model" was formulated which can be used by SMEs to guide the retention of employees hence reducing staff turnover.

Keywords: human resource management, small and medium enterprises, employee retention, internal organization

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Introduction

One of the major limitations in performing a thorough analysis of small and medium enterprises (SMEs) data is the absence of a universal description of what constitutes an SME.¹ Because of this, a number of research efforts have been aimed to streamline several SMEs definitions.² Although there isn't yet universally agreed definition of an SME, the number of workers and size of assets are the most common indicators in developing countries.³ According to McQuaid,⁴ there are two main approaches of defining SMEs; Quantitative approach based upon criteria such as employment, capital turnover, asset size and Qualitative approach based on ownership or control of the business. SMEs therefore are of strategic importance in the economy of many countries owing to their significant contribution to employment, national income and innovation.⁵ Human resource management (HRM) on the other hand is the management function that employs policies and strategies that aid in the management of individuals in a work place.⁶ It is the management activity taken by state owned enterprises and commercial firms to employ, retain and motivate their work teams.⁷ HRM includes policies designed to maximize employee commitment, flexibility, quality of work and people management in achieving the desired set goals.⁸ The main aim of HRM in is to make an efficient utilization of existing individuals and drive towards having the most skilled and competent workers than the competition.⁹ Having an effective HRM can be a major competitive advantage for SMEs because motivated employees are seen as a valuable resource that has a significant influence on the overall performance of a business.¹⁰⁻¹² According to Bacon et al.,¹³ SMEs' possibility of survival and productivity may significantly rise if they adopt HRM practices. However, there is a notable lack of interest with regard to HRM in SMEs.^{14,15} This paper thus aims to review the HRM dilemma for SMEs. The next chapters further breakdown HRM and SMEs, compare the two and discuss the SLAP model as a tool to analyze HR problems SMEs.

Small and medium enterprises distinctive characteristics

To this day, there is no universally accepted definition of small and medium enterprises since the definition varies depending on the industry and country.¹⁶ Barrett¹⁷ defines a small firm as one as having less than 20 employees in the service industry or not more than 100 in manufacturing, though several other studies define small firms as those operating with less than 100 people.¹⁸⁻²⁰ In Uganda, SMEs are defined basing on both the number of employees and the annual turnover of the business. Ministry of Finance, Planning and Economic Development defines a small business as one that employing a between 5-50 people with an annual revenue turnover of a maximum of Ugx 360M and total assets of a maximum of Ugx 360M. The ministry as well defines a medium business as one employing between 50-100 people with an annual revenue turnover of more than Ugx360M and total assets of more than Ugx 360M.²¹ A small firm is also defined by Hashim and Abdullah²² as employing between 5-19 workers whereas a medium firm employs between 20-199 employees. According to this description therefore, firms with 5-199 employees can be called as SMEs and this is the SME definition that is going to be considered throughout this paper. These enterprises play a pivotal social and economic role in all industries. Mallett and Wapshott²³ argue that smaller firms are not scaled down versions of larger firms. This is mostly because employment relationships in small organizations are approached in environments of greater social and spatial proximity between managers and workers than we find in larger firms. The development of relationships and practices is neither linear nor smooth but more improvisatory, often renegotiating towards the best task of fit. In the sense of diversity, personalities in a small firm largely govern the behavior of the organization²⁴ because of the locked-in-vicinity characteristics of the work environment. The second important feature that stands out when identifying SMEs is flexibility.²⁵ Internal flexibility is the company's ability to implement

productivity compared to those that do not. On a larger scale, salary is arguably the most important determinant of employee retention in small firms. This can be either a good or constant pay but, in most cases, an employee in Uganda will strongly consider the amount of salary received above other factors before moving to another. When

a well-motivated employee is trained and given a satisfactory salary, it is very likely that that worker will stay on the job for a longer time compared to one that is not. This tri-factor thus becomes the basis of the *Employee Retention model* illustrated in Figure 3.

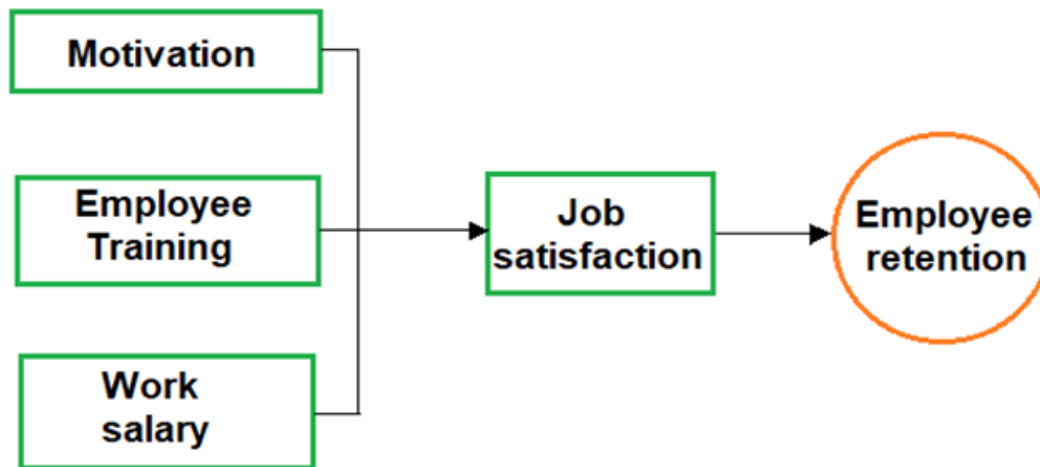


Figure 3 Illustration of the Employee Retention model.

The model can mathematically be represented as $ER = f(K_1, K_2, K_3)$.

Where ER = Employee retention, K_1 = Motivation, K_2 = Employee training and K_3 = salary. According to the model, employee retention comes from job satisfaction which is a function of motivation, training and work salary. The model can also be used to predict employee turnover by monitoring the balance between the three factors over different employees. Since compromising on any of the three factors increases the probability of losing a worker, this model can therefore be used by SMEs to retain employees by ensuring a stable balance across the three factors. A small fabrication company MECPOWERS Agri (U) Ltd in Namanve industrial Park Uganda with 13 employees was significantly affected by staff turnover in the past year at a rate of 38.5%. This could strongly be attributed to the fact that the company is still in the initial growing stage hence not financially prioritizing employee trainings and staff motivation. The Employee Retention model in this case would be applied from three directions; scheduling motivation activities for staff, carrying out employee trainings and establishing a satisfactory salary scale for all employees. Prioritizing these three factors would possibly be a means to reducing the staff turnover rate through improving the employee retention.

Conclusion

The effect of recruitment, performance appraisals, compensation and training contribute individually and collectively to the performance of the SMEs. The study emphasizes that managers and owners are big players in the survival of SMEs since decision making entirely lies on their shoulders. By understanding the supply and demand dynamics of labor within an organization, small firms are able to both attract and retain competent workers which improve their productivity and competitiveness. The results of this review drove us to the recommendation that SMEs must encourage and invest in HRM for a sustainable growth. For as long as most managers believe that people management is just common sense, SMEs will continue to die within the first year as is the trend until the importance of HRM is fully conceptualized.

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Conflicts of interest

Authors declare that there is no conflict of interest.

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