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Assessing the Impact of Strategic Human Resource Management on Tangible Performance: Evidence from Nigerian SMEs

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Abstract

Human resource management (HRM) is the most sustainable competitive advantage of the firm. The study examines the impact of strategic human resource management on tangible firm performance. Therefore, to test this relationship, the study employs cross sectional approach to collect data from a sample of 250 SMEs in Lagos Nigeria. Using multiple regressions, the result shows that strategic human resource management (SHRM) has a significant positive influence on tangible performance. Base on the aforementioned result, the study recommended that implementing these sets of practices within SMEs can induce firms to perform better.

Key Words: *SHRM, Firm, Employee, SMEs, Tangible Performance*.

Introduction

In the past decades, human resource management has been identified as an important element that aid firm competitive advantage, capable of creating differentiation while contributing to firm overall performance. In recent years, a growing body of research has emerged that go further and argues the importance of strategic human resource management to firm performance. However, the awareness of this concept, particularly among small scale business in developing economies is still lacking, and many still condemn the reality that strategic human resource management has a direct impact on the achievement of small and medium scale business goal and performance improvement within this sector.

Presently, researchers findings are being reported both in management journals and in books, the significant contribution of small and medium scale business to growth, efficiency, and competitiveness in advanced and emerging economy of China, Taiwan, Indian, Japan including the United State (Huang, 1999). Having established that, most of this study was conducted in developed economy, not considering the present global market setting where firms seek for innovative ways of improving their performance. Besides, there is scarcity of empirical research regarding strategic impact of human resource on firm performance in developing economy (Al-Hamadi, Budhwar & Shipton, 2007), and within the context of small and medium scale enterprises in Nigeria (Okpara, 2011). As a result, this study is aimed to fill this gap by examining the impact of strategic human resource management on tangible firm performance.

Despite, its significant position as the giant of Africa, in terms of natural resources, majority of firms predominantly small and medium scale enterprise still underperform while others wind up within first five years of business, only five to ten percent survive to achieve maturity stage, even with available financial resources (Apulu, Lathan & Moreton, 2011; Ayanda & Danlami, 2011; Onugu, 2005), due to lack of strategic human resource planning (Okpara, 2011). Having established that, most researchers' attention has always been limited to exogenous factors such as firm's environment, technology, size, and financial resources. It is uncertain if line managers are actively involved, in modernizing HR functions to be more strategic. Even though human capital has been identified as the most important assets of the firm (Ahmad & Schroeder, 2003). Overcoming these deficiencies, required firm to embrace and develop the value of their human resources practices in order to be more competitive. This question has been achieved in the developed and emerging economy, such as American, Japan, and Taiwan, where SMEs are well-known in engaging the services of strategic human resource management regularly (Huang, 1999), to achieve various performance measures.

Operationalizing firm performance remains an uneasy task for researchers in the field of strategic human resource management (SHRM). Though most literature on organizational research, extensively use performance as the dependent variable. Yet, the concept remains indistinguishable and loosely define constructs (Rogers & Wright, 1998). Even though many studies have endeavored to test how SHRM dimension contributes to firm performance, it is imperative to state that no standardized dimension in examining firm performance (Dyer & Reeves, 1995). For instance, performance indicators such as profitability (e.g. return on investment and return on assets), sales growth and stock market value have been most common despite their conceptual distance from human action. Subject to conflicting argument, in identifying a unified dimension of performance, this study categorizes performance measures into tangible and intangible. For the purpose of this study, tangible performance are performance that can be effectively measured (e.g, increase in firm productivity, return on assets, return on equity, employees turnover, sales growth, employees value and profitability) due to decrease or increase in costs or long term competitive advantage in the market environment. Much is not known about the existence of this type of performance. The identified measures will serve as a positive replacement for financial measure due to the challenges currently encounter by researchers in obtaining financial measures form firms. Similarly, previous studies had submitted that the aforesaid measures have a significant relationship with objective measures of financial performance (Chang & Huang, 2005). Firm performance will significantly be enhanced when there is uniformity between strategy and human resource practices (Nigam, Nongmaithem, Sharma, & Tripathi, 2011). The business strategy implemented by an organization is subject to its human resource measurement on the performance of the firm. As a result, the contribution of this study is proposing a measurement tool for tangible performance. Theoretical development, used research method, empirical result, discussion, implications, limitations and future directions conclude this study.

Literature Review

Individual–Firm Job Fit

Selecting the right employees that fit the job has become an important issue for the newly established firm because firm success is the collective effort of organizational members (Ehrhart & Makransky, 2007; Witt, 2004). Most firms have not been adequately channel their selection system by keying in competent individual that will kick off the business (Cassar, 2001). Selecting the wrong employees will affect productivity and effectiveness, thereby further threatened the survival of the firm (Chen, Wang, & Hsu, 2013). Individual fit can be conceptualized in different ways, such as aligning individual and his/ her job, peers and the organization (Kristof, 1996). Due to differing views about the concept of fit, researchers have called for empirical study with the combination of fit (Cable & DeRue, 2002; Lauver & Kristof-Brown, 2001; Sekiguchi & Huber 2004), and because people continuously in search for specific jobs in selected firms, (Ehrhart, 2006). As a result, this study empirically examined the importance of individual-firm job fit among SMEs in Nigeria. Connecting individual with the job that matches him/her, including the firm, is the best assets that any firm should think of, even though very few firms are able to completely connect to this potential. Previously, Edwards (1991), support that individual and job fit function simultaneously to predict firm and individual performance outcome. While supporting the chances of individual identifying a better level of fit with their firm than with their specific task. Prior studies indicated that alignment between individual and firm facilitate positive outcomes for both employees and the firm (Anderson 1998; Carless 2005; Iplik, Kilic, & Yalcin, 2011; Nikolaou 2003; O'Reilly, Chatman, & Caldwell 1991).

Work Knowledge

In today's knowledge economy, firm performance and competitive advantage are derive more from what a firm knows and the human capital that permit the firm to use what it knows (Hatch & Dyer, 2004; Pfeffer & Sutton, 2000). Currently, work knowledge is considered more of a product of the human mind and creativity where implicit information is located (Rogers, 2003). According to Bettis and Hitt (1995), ability to build successful management knowledge has a significant impact on firm survival. As a result, firms must pull great effort in finding a competent approach of restructuring their work practices to fully exploit the potentials of both conventional and new technologies (Franssila, Okkonen, Savolainen, & Talja, 2012). McIver, Lengnick-Hall, Lengnick-Hall, and Ramachandran, (2013), submitted that knowledge base work provide a valuable way for improving employee understanding of what is required of them by the firm, how firms aims to succeed as well as the knowledge management actions require to be implemented in order to succeed.

Firms must embrace innovation so as to remain valuable and competitive in a competitive business environment. Failure to innovate employee knowledge will stand as a rationale to exit the business. An important component for firm to stand the test of business competition is increasing work knowledge of their employees to ensure continuity and keep up with economic development (Bilderbeek, Den Hertog, Marklund & Miles, 1998; Pyoria, 2009). They acknowledged that the critical challenge facing today's industry is the availability of knowledgeable employees.

It is imperative to state that lack of attention for knowledge worker particularly in small size businesses reduces their strength of work. In a competitive market environment, knowledge workers are directly incorporated with firms growth prospect, thus, having knowledge workers in management position provide firms with innovative strategy, new processes, as well as new network (Kheng, & Mahmood, 2013).

Similarly, a marketing expert with working knowledge create innovative ways of persuading customers, invent new brand qualities and packages, that will be attractive to customers purchase. As a result, firms will experience a significant decrease in growth and profitability if they ignore work knowledge. Selecting system should be designed to measure employee knowledge, skills and personality that have a significant relationship with job performance (Harrison & Mason, 1997; Schmitt & Chan, 1998). Despite its significant contribution to firm market competition, these have not been extended within developing economy, thus, clarifying this relationship, will be of great benefit to practitioners and researchers (Hislop, 2005; Jones & Jayawarna, 2010).

Incentive for individual Employee Contribution

There is a growing effort by most firms in subjecting incentives to individual performance, particularly in developed markets, such as USA, Taiwan, Japan with increasing effort on performance related pay (Booth & Frank, 1999). Providing incentive on employee contribution play a significant role by increases their job satisfaction which in turn lead to firm greater performance (Ahiabor 2013; Ann & Nathan 2012; Atteya, 2012). Singh (2004), strengthened further that, incentive compensation does not only guarantee firm performance, the pay structure also plays a significant role in enhancing performance.

Notwithstanding, empirical evidence provided by scholars on the significant impact of incentive strategy and firm performance, researchers have argued that providing incentive base on employees contribution demotivate employees, weakens teamwork, diminishing the quality of work, setting envy and dislike among employees and perhaps result to job dissatisfaction (Green & Heywood, 2008; Pouliakas & Theodossiou, 2009; Tomal & Tomal 1994).

The nature of the relationship between the incentive provided for employees that will increase performance is always difficult to determine. Similarly, incentive for individual contribution offers a stronger relationship between compensation and performance because performance is subject to effort, rather than exogenous factors such as business environment (Honeywell-Johnson and Dickinson 1999). Notwithstanding the above improvement, studies on the value of individual in enhancing firm goal require continuous attention (Honeywell-Johnson & Dickinson 1999). This is a significant lapse given that the success of any firm is subject to the contribution of an individual employee. The inconsistency in the result of a previous finding further necessitates the need for further investigation.

Incentive for Achieving Firm Goal

To enhance and maintain competitive advantage, most firms have shifted from an individual to overall firm achievement motivation. Few studies have giving explicit thought to this issue. Incentive for performance is an innovative way of providing a reward that is associated directly with group and organizational goal attainment (Armstrong, & Baron 2002). Moussa (2000) argued that organizational contextual incentives and self-set goal level instructions influence goal valence. Giving incentive base on overall firm achievement of goal, reduces productivity per worker than individual incentives (Naranjo-gil, Cuevas-rodrı, & Sa, 2012). They further stated that, notwithstanding the incentive structure employed by firms, collective orientation reach higher performance than individualist orientation.

Similarly, researchers in the field of accounting emphasize that giving incentive, particularly on the achievement of the overall goal of the firm are more valuable when they are suitable for firm environment (Young & Selto 1991). Pouliakas and Theodossiou (2012), asserted that restructuring the agency problem, employees incentive should be subjected to collective signal, which are informative about realizing firm output. Ethical risk can possibly be trim down by providing this form of incentive.

Evidence has also shown that various forms of incentive work in a different firm, e.g. Hansen (1997), and recommended that overall shared demands can perhaps be a valuable motivator particularly in a blue collar job, whereas employees in white collar job are being motivated by individual incentive pay.

Although different studies have examined the relationship between various sets of incentive on performance, studies that identify incentive for achieving firm goals that will perhaps drive and motivate the overall performance of the firm is limited within developing economy, thus, this study will fill this gap.

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Research Method

This study examined the influence of SHRM on tangible firm performance. In testing this relationship, this study uses statistical package for social science (SPSS) version 19, in analyzing a population of one thousand two hundred (1200) small and medium scale enterprises in Lagos Nigeria. This population was selected because of Lagos position as the highest industrial value in Nigeria. Because is not absolutely realistic to gather all the data from this population, it is important to determine the size of the sample.

As a result a survey was sent to two hundred and fifty (250) SMEs managers, directors and owners because they are in the best position to furnish the researchers the human resource practices of their firms. In order to ensure equal representation of every element, the researchers used simple random sampling, to systematically select the sample. To increase the response rate, the questionnaire was sent through email to two research assistants who then took delivery of the survey by hand to the respondents. This was done in order to avoid the challenges with the traditional mailing system and the common cultural issues, such as unwillingness to respond to unidentified survey and want to know the person and the purpose of the research prior responding.

We receive a total of one hundred and sixty three (163) respondents representing 65% response rate. 11(4.4%) were unusable because they were not properly filled as a result, they were discarded (Bell & Bryman 2007), that it is one way of avoiding the non response bias error, while 4 (1.6%) were deleted because of outliers only 148 (59.2%) were useable.

As a result the study propose the research model depicted in Figure 1

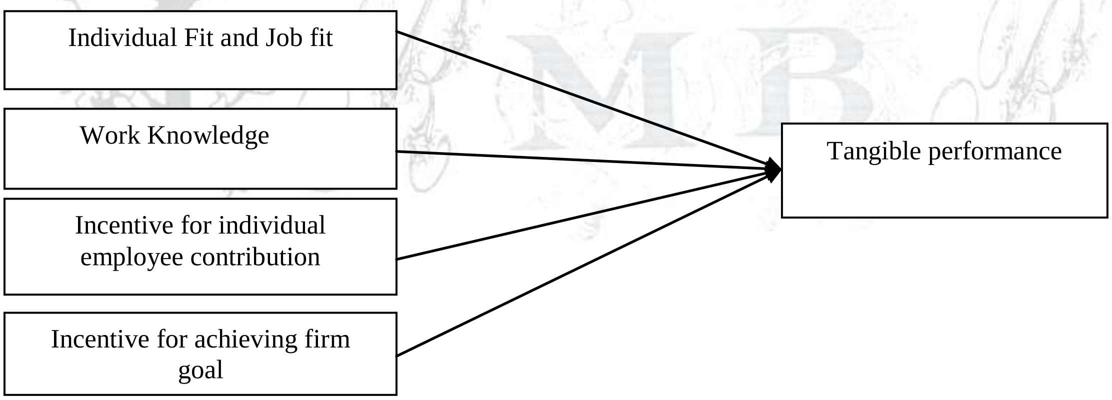

Figure 1: Theoretical research model.

Empirical Results

Factor Analysis

A factor analysis was performed in assessing the impact of SHRM on tangible firm performance with a minimum factor loading of 0.50. To test for the reliability, a coefficient was computed for each of the dimensions of SHRM. Addressing the problem of likely common method variance, the Cronbach Alpha reliability test was performed for all the measures. The resulting reliability of individual-firm job fit, work knowledge, incentive for individual contribution and incentive for achieving firm goal were .831, .860, .717 and .783 respectively. Indicating that the factors were reliable.

Demographic characteristics

Female respondents represent a simple majority 89 (54.6%) compare to male 74 (45.4%). The result is consistent with the Lagos business environment characterize by female entrepreneurs. 103 (63.2%) of the respondents that the instrument was administered to are in production/sales, human resource 40 (24.5%), finance 20 (12.3%) department. Indicating a well represented sample. A comprehensive analysis of the result also showed that the majority of the respondents 116 (71.2%) were in the food industry, while 47 (28.8%) represent beverages meaning in Lagos SMEs in the food industry are more than beverages industry. Most of the SMEs surveyed 94 (57.7%) have spent two to five years in the business. Only 32(19.6%) of the SMEs have spent eleven to fifteen years in the business. This serves as a clear signal that the respondent has sufficient knowledge of human resource practices. Besides, 72 (44.2%) of the SMEs engaged 10-20 employees, 47(28.8%) SMEs employ 21-30 employees, 29 (17.7%) SMEs employ 31-40 employees, while only 15 (9.2%) SMEs engaged 41-50 employees.

Correlation Analysis

Pearson correlation analysis was used in this study to test the relationship. As a rule of thumb, the usefulness of Correlation is to help in establishing issues of multicollinearity. The result of the correlation between the four elements of SHRM (work knowledge, individual--job fit, incentive for individual contribution, and incentive for achieving firm goals were found to have a significant relationship with the tangible firm performance with a correlation of 0.852, 0.867, 0.724 and 0.657 respectively (Appendix 1). The aforesaid correlations were significant at 0.05 significant levels.

Regression Results

The results of the multiple regression analysis was conducted to test the effect of work knowledge, incentive for achieving firm goal, incentive for employee contribution and individual--firm job fit on tangible performance. The results showed that 76.4% (R square =0.764) of the variance of tangible performance have been significantly explained by the four dimensions of SHRM (Appendix 2). The multiple regression results showed that all the dimensions of SHRM significantly contribute to tangible firm performance, however, SMEs may not have the resources to fully engage in these practices, we therefore suggest that work knowledge has the most effect on tangible performance base on their beta value (appendix 2). Consequently, firms should emphasize more on work knowledge, followed by individual—firm job fit in an effort to achieve a better performance.

Discussion of Findings

This study is aimed at examining the impact of SHRM on tangible firm performance. The study employed cross sectional approach in testing this relationship. Specifically, this study investigated the influence of incentive for Individual contribution, individual—firm job fit, and incentive for achieving firm goal on tangible firm performance. The result showed that SHRM has significant influence on tangible performance.

The findings revealed that Individual–firm job fit are significant elements that predicts firm performance (Anderson 1998; Carless, 2005; O'Reilly, Chatman, & Caldwell, 1991; Edwards 1991; Iplik, Kilic, & Yalcin, 2011; Nikolaou, 2003). The result indicated that SMEs in Nigeria typically assigns task relative to individual—firm job fit. This is really intense due to the competitive nature of the market in Nigeria. Indicating that before and during selection process, employees views about the alignment between their skills, knowledge and their ability including that of the job, and the alignment between their values, requirements and goals with the firm objectives significantly predict the firm as an attractive and viable workplace environment to work. This may have been influenced by the competitive market environment of Lagos, which makes firms to see the need to match the right employee with the job to gain good corporate image, making the firm attract new customers which in turn improve their performance. Besides, employee work knowledge remains an immediate and suitable way for firms to maximize productivity. This is because allocating employee to any task, demand the requirement of the firm, the task and the employee and the resources that are available must be balanced (Armstrong & Baron, 2002).

Therefore, this result suggests that firms are more likely to engage employees with good fit. If the individual indicates a high degree of fit that enable him/her to adjust to the firm competitive environment and work culture which will help them to perform at a most advantageous level. Selecting individual that fit the job should be an important task among firms in Nigeria, just as it repeatedly practiced in Western and Asia economy. Therefore, it will be of great benefit for SMEs in developing economy, particularly in Nigeria to be more focus in selecting individual that fit the job for a sustainable future. So, it is ethical for human resource managers to select suitable individual with the best skills from the pool of employees to give emphasis to the principle of fit. Fitting in the right individual that match the needed potential is very important, the absence of this can cause dissatisfaction of job not only to the firm but within the employees in question.

The result also indicated that work knowledge has a significant relationship with tangible performance (Bettis & Hitt, 1995; Harrison & Mason, 1997; Hislop, 2005; Jones & Jayawarna, 2010; Kheng, & Mahmood, 2013; Schmitt & Chan, 1998). These results may have been powered by the increasing consumption of food and beverages in Lagos because of its position as the most populated state in Nigeria. As a result, firms must be careful to give quality service to customers in order to keep good corporate image. Besides, global market changes, is another possible reason that may have influenced this result, as firms require their employees to have tangible knowledge about their work in order for them to be fashionable in the market.

This result has shown that for SMEs in Nigeria to be more competitive in the market require them to have knowledgeable workers. Thus, they must not only acquire knowledgeable employees, at the same time they must select and build the knowledge of their employees. As a developing economy like Nigeria, it requires employees to have adequate work knowledge about their work so as to facilitate its economic status while at the same time serve as a significant factor for SMEs to strongly contribute to the GDP better than what is currently contributed. Engaging knowledgeable employees decreases orientation/ training cost about the propose task of the employees. Similarly for firms to create history in competitive market settings they must find a new way of bringing innovation in the knowledge of their work.

From the result, the researcher found a significant relationship between incentive for individual contribution and tangible firm performance. This finding is well-matched with previous research that identifies the importance of providing an incentive base on individual employee contribution (Ahiabor, 2013; Ann & Nathan 2012; Atteya, 2012; Sigh 2004). These may have been influenced subject to the fact that individual contributions to firm goals are different. As a result, there is need to motivate them for their effort, especially in a competitive market like Lagos, where the majority of the firms are striving to survive, therefore giving incentive on the contribution made by individuals will compare high performing employees to work harder believing that goal achieve is not only for the benefit of the firm but to the benefit of the individual as well. High level of unemployment rate may also have influenced this result as the majority of employees engage by these SMEs are subject to the commission they receive from their performance without base pay. This could possibly influence them to improve their performance so as to earn better reward for their livelihood. Therefore, connecting pay to performance is an important strategy that firm should desire to achieve.

The result of incentive for achieving firm goal indicated a significant influence with tangible performance. The reason perceives for these relationships could be due to disagreement that may have been created by individual incentive, as a result, firms are motivated to provide these incentive to supplement pay for performance. The result is consistent with (Armstrong, & Baron 2002; Moussa, 2000; Pouliakas & Theodossiou, 2012; Young & Selto, 1991). Under this form of incentive, notwithstanding individual performance will help in reducing tension. It indicates that giving incentive to all employees for achieving firm's goals, will create a feeling of employee involvement, this will motivate both poor and high performing employee to put in their best for the firm. It is reasonable for firm to mutually integrate both in their compensation scheme in order to complement each other.

Conclusion

This study examined the influence of strategic human resource management on tangible firm performance, using managers and owners of SMEs in Lagos, Nigeria to subjectively evaluate the significance of the dimensions of SHRM identified in this study. The result highlighted above has shown that SHRM significantly influence firm performance, therefore, support the need for SMEs to pay attention to SHRM practices. Doing this will facilitate them towards achieving competitive advantage. However, many issues remain unexplored in this study that necessitates further investigation. First, a significant consideration for future research is to provide a better understanding of the relationship between other human resource management practices such as work skills, knowledge sharing, work knowledge, team cooperation, the contribution of individuals on the intangible performance of the firm. Besides, future study is to also look at the possible role of the mediator such as firm competitive strategy that may play a decisive role in achieving firm performance. Finally, this study will urge future research that incorporates longitudinal design by looking at the effect to which SHRM affect tangible firm performance. Not considering the limitation, by way of contrast, this study has in great extent contribute to the knowledge that human resource practices are applicable in all context as against the believe of previous researches in the 80s and 90s, considering the current global market awareness, which facilitate the fitting of human resource practices to all settings. In addition, while reviewing relevant literature on SHRM and firm performance, it is imperative to state that the majority of the previous study focused on manufacturing, and service sector, above all, their study was conducted in Western and Asia settings (Chang, & Huang, 2005; Ahmad & Schroeder, 2003). This study has enlarged the field of SHRM to developing economy, this would guide future studies and motivate new investigations that would lead to further research in this field.

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Appendix 1

Pearson correlation analysis for SHRM dimension and tangible performance.

SHRM Dimension	Pearson Correlation (r)	Level of Significance (p)
Work knowledge	0.852**	0.000
Individual—firm job fit	0.867**	0.000
Incentive for individual contribution	0.721**	0.000
Incentive for achieving firm goal	0.657**	0.000

** Correlation is significant at 0.05 level (2 tailed), **P<0.05

Appendix 2

Regression analysis for SHRM dimension and tangible performance.

SHRM Dimension	Beta	Sig.
Work knowledge	0. 652	0.000**
Incentive for achieving firm goal	0.443	0 .004*
Incentive for individual contribution	0.407	0.002*
Individual—firm job fit	0.567	0.000**
Significance at **p<0.05 and **p<0.01 $R^2 = 76.4\%$, F= 73.42,		