

The prevalence and focus of formalised Human Resource Management Practices in a sample of SMEs in the Marketing and Retail sector of South Africa

Prof HWE Schenk

*Department of Human Resources Management
University of South Africa*

@unisa.ac.za

ABSTRACT

In both the international and South African context little research has focused on Human Resource Management (HRM) practices as an internal contextual factor in SME growth and performance in various industry sectors. HRM as a coherent set of practices has mainly been researched in the context of large organisations and concerns have been raised over the transferability of such findings to the SME environment without recognising the complexity of unique contextual factors influencing management practices in small businesses operating in the marketing and retail sector. Contextual variability in SMEs does, however, present methodological obstacles towards establishing possible sets of 'best HRM practices' for enhanced employee and organisational performance that may have utility beyond the perceived contextual uniqueness of individual SMEs. As an attempt to introduce a quantitative dimension in the mostly qualitative exploration of HR practices in South African SME growth and performance, this study explores firstly the prevalence of systematic HRM practices from a functional perspective by determining the levels of formalisation and utilisation of such practices and, secondly, the focus and personal responsibility taken by the owner/managers of the sample of SMEs in managing their human capital. The findings of this study are generally supportive of HR practice utilisation patterns found in research where the effect of organisation size was reviewed. HR tool selection in functional areas, point towards the impact of resource and time poverty typically experienced by SME owner/managers. Furthermore, results of owner/manager responsibility for HR functional areas are indicative of 'critical' HR practices being formalised first. Results provide pointers for structuring training and support programmes for SMEs and further research on the adoption of formalised HR practices in small businesses.

Keywords: Human Resources Management, SMEs, Marketing and Retail sector, South Africa

Many contextual factors have been identified as having a significant impact on the performance of South African SMEs in various sectors, including the retail sector in particular. Such factors have been classified as contextual or macro environment dimensions and structural or internal dimensions (Brink, Cant and Ligthelm, 2003; De Kok, Uhlaner and Thorik, 2006; Jere, Jere & Aspeling, 2015; Wright, 2012). The former characterise the

whole, for example size, technology, resource scarcity, economic environment and compliance with legislation, whereas the internal dimensions pertain to for example formalisation, management skills, centralisation and expertise in functional areas such as marketing, finance and human resource management (HRM).

It is in the context of the internal dimension of formal human resource management practices that

a dearth of research on the nature and relationship of HRM practices and business performance in SMEs has been decried by practitioners and scholars alike (Burke, 2011; Rauch, 2011; Wiesner and Innes, 2010).

The importance of HRM in the development of a skilled and highly-motivated workforce has been extensively researched and reviews have consistently affirmed the impact of effective HRM practices on the success of businesses (Becker and Huselid, 2006; Burke, 2011; Purcell, Kinnie, Swart, Rayton and Hutchinson, 2009). However, most of such empirical evidence has been derived from studies in large organisations and an increasing number of scholars question the notion of SME's being just a smaller or 'scaled-down' version of large organisations and the transferability of HRM research findings into the SME environment (Havenga and Linde, 2012; Verreynne, Parker and Wilson, 2013).

The concern raised by critics (Kotey and Slade, 2006; De Kok et al., 2006; Harney and Dundon, 2006) focuses on SME's often being treated as a uniform entity with little recognition of their varied complexity regarding size, management practices and unique range of contextual factors influencing their growth and success. From the recent review of HRM research in SMEs Wapshott and Mallet (2015) for example argue that HR related practices should be studied in context rather than in contrast to the idealised best practices models proposed for large organisations. They articulate their plea as follows: 'We cannot start getting to grips with understanding employment relationships and practices in firms unless we have some appreciation of how they sit in relation to the various influences in firms' external and internal environments (p. 141)'.

In the South African context the case study approach of Havenga and Linde (2013) in exploring environmental dimensions specific to the single small business in order to relate the applicability of HRM practices to effective operation and consequent competitiveness in the unique context of the SME, could be construed as exploring this approach. While a new understanding of small business-specific problems may be obtained and similar investigations (Harney and Dundon,

2006) found that HRM practices in the small businesses studied were often 'informal and emergent' with a high level of variability rather than a typical coherent set of practices, the current exploratory nature of the open systems approach to understanding HR practices within the unique context of the SME has obvious limitations regarding the transferability of insights beyond the specific context of the firms under study. Any attempt at extrapolation of findings rooted in the very unique dynamics and interplay of external and internal contextual factors of individual firms could arguably be rendered as outright non-valid for purposes of transferability to other contexts. Hence the dilemma arises of the potential utility of such derived findings for the design of training and support programmes to owner/managers of SMEs by universities and governmental agencies.

To obtain some measure of utility in this regard may necessitate the balancing (or even compromising) of methodological constraints and finding some dimensions of assumed approximation of "common uniqueness" in the contextual variation of SMEs under study. This study is an attempted first step to introduce a quantitative dimension to exploring the variability of HR practices in a set of South African small businesses predominantly in the marketing and retail sector.

In advancing the merits of the proposed open systems theoretical framework, Harney and Dundon (2006) raise the point of the potentially futile effort of seeking homogeneity where there simply may not be any in terms of the many contextual dimensions that may impact on the SMEs' HR practices. They suggest that the investigation of why such homogeneity is so elusive should be explored.

This study is focused simply on exploring the "what" of the variability as an attempt to pave the way towards explaining the "why" in a context of quantitative methodology. The cue for this approach is taken from the work of scholars such as Cardon and Stevens (2004), who find continued utility in the functional approach to HRM research in parallel to emerging theoretical frameworks. The usefulness and validity of a functional perspective as framework for exploring

employment relationships in nascent small businesses is predicated on its ability to provide a “common language” for traditional HR topics such as recruitment, reward, selection and performance appraisal that is not only understood by scholars but also by entrepreneurs and business people without formal HR training.

Furthermore, we briefly explore the literature on the nature of HRM in SMEs in the contemporary South African environment, together with the contextual factors that are found to be related to the adoption of HRM practices and success of SMEs.

LITERATURE REVIEW

The problem of complexity in managing the human capital of SMEs in South Africa

Recent research reports by the OECD (2010; 2015), Global Entrepreneurship Monitor (Herrington, Kew and Kew, 2015), and findings from the SME Growth Index (SBP, 2015) on the state of entrepreneurship and growth in the small business sector of South Africa have consistently painted a bleak picture of the capacity of the sector to live up to its potential to unlock sustained economic growth through job creation and competitiveness. The critical importance of SME development has been acknowledged by the government through the establishment of a Ministry for Small Business Development but an array of macro environmental factors seem to militate against a turn-around scenario in the short or medium term (Herrington et al., 2015).

Apart from global macro-economic conditions, such factors include a decline of early stage entrepreneurial activity to 7.0% in 2014, an unemployment rate that is more than three times higher than the sub-Saharan regional average and that translates into less than half of all adult South Africans actually working, a business discontinuation rate of 4% that is higher than the rate of established business activity, a continuing downward trend in labour market efficiency and competitiveness rankings (Position 56 out of 144 in the 2014/15 World Competitiveness Report) and poor education and training at all levels hampering

not only entrepreneurial intentions but also the availability of skills pools for established SMEs to draw from (Simrie et al., 2012; Herrington et al., 2015).

The 2014 Report on the SME Growth Index, a multi-year research project run by the Small Business Project (SBP) as the most comprehensive ongoing study of the South African SME community, identified the main impediments to SME growth as linked to the contextual dimension of domestic environment factors rather than global economic conditions. The majority of the respondents (58%) of the panel of 500 small businesses reported the inhibiting factors, in order of importance, as: lack of skills, burdensome regulations, local economic conditions, lack of finance, and cost of labour (SBP, 2014:18).

Three of these factors have a bearing on HRM practices, i.e. skills shortage, regulatory environment (particularly issues relating to labour legislation, for example problems relating to bargaining councils, the CCMA and Workman’s Compensation) and labour costs. The contextual constraints presented by inhibiting labour laws and skills shortages remain consistently on the list of key challenges to South Africa’s competitiveness and as a major disincentive to employment growth in SMEs (SBP, 2015; OECD, 2010).

The 2012 GEM report (Simrie et al., 2012) cites the factors or conditions that have the biggest impact on small businesses, i.e. transitioning from an early business phase to an established business phase as commercial and physical infrastructure, government policy, openness of internal markets and government support programmes.

The government policy factor relates to burdensome compliance with regulatory red tape regarding municipal issues, SA Revenue Services (tax, compliance with BBBEE) and labour legislation issues (employment equity, basic conditions of employment, sectoral wage determinations). Regarding the latter, the very low ranking of South Africa in terms of labour market efficiency has already been alluded to. From their analysis of the employment trends in the SME sector Rankin, Darroll and Corrigan (2013) find the unaccommodating labour regulatory framework and shortage of skilled labour to be

the major disincentives to employment creation and the sector's collective capacity for labour absorption. The circumstance that it is the very SME sector that is the most likely to employ staff that are the least competitive in the job market, i.e. unskilled labour and unemployed youth, exacerbates the people management challenges for small business owner/managers.

With the liability of 'smallness' increasing the potential business impact of 'wrong' HR decisions regarding recruiting, retaining, motivating and terminating staff, and onerous labour legislative compliance issues distracting SME owners/managers from their core business, the pressure to delegate the responsibility for appropriate people management practices to better qualified members of staff or professional HR practitioners is likely to mount.

Specialised skills in the HRM domain are, however, also subject to the constraints of the South African labour market and are more likely to be found in the large organisation context. Size does seem to matter in the access to professional HR expertise, as illustrated by the UK's Chartered Institute of Personnel Development's (CIPD) findings in their 2013 comprehensive review which indicated that only 7% of HR professionals were working in SMEs.

Comparing the focus of HR practices according to company size, the CIPD found a common highest ranked focus on managing performance for both large and small firms, but with SMEs focusing significantly more on HR practices supportive of staff retention than large organisations. SME respondents listed the HR practices ranked in order of importance as performance management, employee engagement, leadership capability/development, managing change, employee well-being, workforce planning, staff retention and reward management. The reason for the strong staff retention focus was hypothesised as the intention to avoid the high cost of recruiting new staff and related costs of staff turnover (CIPD, 2013:14).

In the South African context Wright (2012) investigated, inter alia, the influence of business processes (including HRM) as one of the micro environmental contributors to perceived business

success of SMMEs in the Gauteng province. Results suggest that most entrepreneurs in the sample believe that human resource management, a cohesive team, and quality control processes are major contributors to perceived business success, as measured by sustainability, profitability, growth, customer satisfaction and market position.

The problem of HRM practices in SMEs

Overviews of empirical research on HRM in SMEs (Cardon and Stevens, 2004; Cunningham and Rowley, 2010; Tocher and Rutherford, 2009) support the notion that the implementation of appropriate HRM practices that empower and focus employee efforts on the realisation of the business strategy, will have a positive impact on firm performance irrespective of the company's size.

However, despite the existence of extensive literature on HRM practices and their effect on organisational performance dimensions, little consensus is found on what set of HRM policies and practices would constitute either on their own or in combination with others the most appropriate people management approach in support of superior organisational performance (de Kok et al., 2006). Indeed, the selection of HRM practices to be examined is consistently highlighted as one of the key methodological limitations in the study of the relationship between HRM practices and performance. (Cardon and Stevens, 2004; Guest, 2011; Sheehan, 2014)

The lack of a commonly accepted categorisation of HR interventions is argued by Rauch (2011) to be related to the contingent nature of HRM practices to specific contexts, the lesser extent of bureaucratic formal structuring typically found in large firms, the lower levels of specialisation found in SMEs and the requirement of employees to often play multiple roles in small businesses.

Indeed, a review of HRM practices used as variables in the design of some studies across a number of countries, illustrates the vexing problem:

Also in the South African context, Neneh and van Zyl (2012) investigated the prevalence of HRM practices as part of a set of business practices implemented in SMEs in the Free State province.

**TABLE 1:
HRM PRACTICES USED IN A SELECTION OF STUDIES INVESTIGATING HRM AND PERFORMANCE**

Country	Author	HRM practices used for the study
USA	Pfeffer, 1998	7 HRM practices: employment security, selective hiring, decentralised work arrangements, performance based pay, extensive employee training, reduced status differentials, and information sharing
USA	Patel and Cardon, 2010	26 practices/items in 6 functional HR domains: selection, training, careers, performance appraisal, compensation, and employee participation
Netherlands	Shaharin, 2012	3 HRM practice domains identified from literature review of variables shown to contribute to most to HRM success in small firms (e.g. Cardon and Stevens 2004): training , staffing , and compensation
Australia	Wiesner and Innes, 2010	110 HR practices across 5 functional HR areas: recruitment, selection, compensation, training and development, and performance appraisal
Kenya	Muniu and Ngugi, 2013	4 areas of HR practice: recruitment, training and development, performance and reward, and employee motivation
South Africa	Havenga and Linde, 2012	Case study design and explored practices in 4 areas of HRM practices: recruitment and selection, communication and motivation, training and development, and compensation and benefits

Source: Authors' own research

The six business practice areas included in the study were: marketing, strategic planning, HRM, risk management, performance management and teamwork. While HRM was found to be among the least implemented practices, it is not reported what specific HR practices were included in the investigation.

The continued utility of the functional approach as a theoretical framework by researchers such as Cardon and Stevens (2004) was alluded to in the introductory section and for the purposes of this study it was intended to use a framework of HR practice that can serve as a useful organising framework for South African HR researchers and practitioners alike. The South African Board for People Practice (SABPP) was instrumental in establishing during 1998 a standards generating body (SGB) for the HRM practices subfield which led to the adoption of a process model for HRM practices comprising the four role clusters of planning and organising for workforce and people management; people acquisition, development and utilisation; labour and employee relations; and maintenance and administration related to people management (Swanepoel, Erasmus, Schenk and Tshilongamulenzhe, 2014). Subsequently the SABPP launched in 2013 the National HR Standards initiative the model of which comprises 13 standard elements that: “are intended to outline the minimum set of HR practices that any organisation should have in place in order to build an aligned, engaged and productive workforce

that will achieve the organisation’s objectives” (SABPP, 2014).

The organising framework of these 13 standard elements are: strategic HRM, talent management, HR risk management, workforce planning, learning and development, performance management, reward and recognition, employment relations, employee wellness, organisation development, HR service delivery, HR technology and HR measurement.

Even a cursory review of the extant literature on HRM practices in small businesses will confirm the limited likelihood of practices in sophisticated areas of HR such as HR risk management, technology and measurement to be found in SMEs, especially in the context of the characteristics of SMEs in developing countries (Abor and Quartey, 2010; Kiggundu, 2002; Smit and Watkins, 2012).

The realities of SMEs grappling with the liabilities of smallness, resource poverty and HRM practices being less structured and sophisticated than in large organisations, together with the contingency based ‘mix and match’ approach to the selection of HR practices perceived by SME owners/managers as the most appropriate in their specific context, should however, not detract from a potentially unifying framework for the study of HR practices and their contribution to firm performance in both large and small business settings in the South African context. In guiding HR practices research in the small business context

against the backdrop of “bundles” of strategic HRM practices found to significantly contribute to large enterprise performance. Fabi, Raymond and Lacoursier (2007:25) argued for example for an approach of “identifying ‘clusters’ of practices that could be applied in SMEs without any formal, systemic view or clearly defined strategic goals”. Their study found evidence of such clusters of correlated but not necessarily logically related practices that were associated with growth, innovation and employee retention.

Similarly the constraints of the ‘large enterprise’-framework of HR standards and practices of understanding HRM in SMEs may be overcome by contextualising HRM variables in the SME environment in terms of those HR practices shown in extant small business literature to have proven associations with elements of SME success, as espoused by approaches used by for example Shaharin (2012). This approach was also used by Cunningham and Rowley (2010) in identifying the key HR practices in Chinese SMEs as employee resourcing (recruitment and selection), employee development (training and performance appraisal), employee rewards (incentives, benefits, career development) and employee relations, based on HRM in SME studies in China from 1988-2008.

The role of SME owner-managers in the formalising of HR practices

The role of the entrepreneur or owner/manager and his/her characteristics are found to contribute not only to SME survival and success but also to the development of the firm’s HRM capabilities (Barrett and Meyer, 2010; Cardon and Stevens, 2004).

Despite the general acknowledgement that HRM practices may be a source of competitive advantage and that business failures are often linked to a failure to identify and manage HRM problems, research evidence suggests that SME owners/managers only tend to recognise the importance of HRM practices once staff issues are perceived as an acute problem (Hornsby and Kuratko, 2003; Tocher and Rutherford, 2009).

According to Mazzarol (2003) this seems to be linked to the owner’s/ manager’s personality

and managerial and strategic awareness capability and may be indicative of a propensity to delegate the HRM responsibility to an expert other, either an external HR professional or a more knowledgeable internal staff member. Evidence as cited by Mayson and Barret (2006) suggest that in start-up firms owner-managers typically delegate responsibility for accounting production and information well ahead of delegating HRM issues. Similarly Tocher and Rutherford (2009) found in their analysis of factors associated with a perceived acuteness of HR problems and drive to formalise HR practices that managerial experience, age (youth) and higher levels of education were indicative of earlier recognition of HRM importance. Findings also indicated that the point of awareness of the criticality of managing people issues often arose from managerial training programmes focused on competencies of leadership, delegation and coaching. In the South African context the four year survival analysis of SMEs in the South African retail sector by Ligthelm (2011) found entrepreneurial actions together with business management skills to be the strongest predictors of small business survival.

The importance of initial choices and subsequent practice changes made by entrepreneurs or founding owner-managers, regarding employee issues, are generally recognised in the success and survival of new ventures (Cardon and Stevens, 2004; Mazzarol, 2003). From the seminal Stanford Project on Emerging Companies studies of high-technology start-ups, Baron and Hannan (2002) found a set of ‘blueprint’ clusters of HR practices that founders were likely to adopt initially and that would steer the company in a particular direction regarding leadership and staff management. For example, for the dimension of coordinating and controlling work founder’s conception could range from reliance on control through peers or organisational culture, control through the assumed commitment to performance excellence by professionals recruited, from elite schools to controls embedded in traditional formal procedures or even control by personal oversight. The longitudinal research highlighted the difficulties in changing the practices inherent to such a blueprint during subsequent growth

phases.

Mayson and Barrett (2006) argue from the perspective of the typical informal nature of planning in small firms that a research focus on the strategic value of the owner-manager's or entrepreneur's people management expertise or orientation towards HR practices can be useful in analysing strategic approaches to HRM in small businesses.

Hence an exploration of the level of 'hands-on' responsibility and level of delegation of responsibility for HRM functions in the SME by the owner/manager should provide a useful indicator of the level of formalisation of HR practices in the firm and is one of the foci of this study.

AIM AND METHODOLOGY

The main aim of this study is to determine the prevalence rate of systematic HR systems and practices in a sample of SMEs in the retail and marketing industry in South Africa by looking at the following:

- Establishing the levels of utilisation and formalisation of HR practices
- Establishing the focus and extent of personal owner/manager responsibility or HRM practices in the SME

Data collection

This study used a self-administered questionnaire based survey approach to collect data firstly on the frequency of use of a set of HRM tools in five functional areas of HRM practice, i.e. recruitment, selection, compensation, training and development and performance appraisal, and , secondly, the extent to which the respondents were responsible for the respective HRM functions in the SME.

The questionnaire was designed to obtain responses on the prevalence of 28 HRM practices in five functional areas covered by the national standards of HR practice of the SA Board for People Practice and selected according to findings in extant literature on HR practices most commonly associated with performance and success in small businesses.

A sample of 71 small business owners were asked how much of the responsibility for different

**TABLE 2:
SAMPLE CHARACTERISTICS**

Gender	Count(n)	%
Male	19	38.8
Female	20	61.2
Total	49	100

Age	Count(n)	%
18-24	5	10.2
25-29	8	16.3
30-34	3	6.1
35-39	5	10.2
>40	28	57.1
Total	49	100

Qualification	Count(n)	%
No Matric	4	7
Matric	18	31.6
Certificate/diploma	17	29.8
Degree	11	19.3
Post Degree	7	12.3
Total	57	100

Years in Operation	Count(n)	%
Less than 5 years	34	54
6-10	15	23.8
11 - 25	6	9.5
Over 25	2	3.5
Total	57	100

Turnover	Count(n)	%
< R100 000	21	39.6
R100 000-200 000	11	20.8
200 000 – 500 000	8	15.1
500 000 – 1 000 000	6	11.3
> R1 000 000	7	13.2
Total	53	100

Position	Count(n)	%
Owner and manager	19	33.9
Manager	9	16.1
Owner	28	50
Total	56	100

HR functions falls on the owner/manager of the SME. They were also asked how often the listed HR tools are used in the business. Convenience sampling was utilised to draw the sample from a set of small business owners/managers attending business skills training workshops in two metropolitan areas in South Africa.

The sample characteristics

Of the 71 businesses that were included in the survey, 67 provided information on the number of employees. More than half (57.15%) are from the age group “older than 40”. Almost two thirds (61.4%) of the respondents have higher than matric qualifications. Half the respondents (50%) are owners of the SME’s. The majority of the SME’s (59.6%) have been running for less than 5 years. The majority of the SME’s (39.6%) have a turnover of less than R1000 000. See table 2 below.

FINDINGS

The findings are described taking into account the levels of utilisation and formalisation of HR Systems as well as the focus and extent of responsibility of HRM in the SME

Levels of utilisation and formalisation of HR systems

Respondents were asked to indicate the extent to which the listed HR tools are begin used in the SME on a scale of one to five with Never being a 1 and Always a 5. Twenty-eight different questions were asked about the frequency of the use of different HR tools in five different areas namely: recruitment, selection, compensation, training and development, and performance appraisals.

Recruitment

The HR tool for recruitment, which are often used by the respondents, are referrals from staff members, business partners and friends with 35% of the respondents using it ‘Always’ or ‘Often’ (Figure 1). The three recruitment tools which are being used least frequently are: recruitment

agencies or labour brokers, newspaper job advertisements and walk-ins with respectively 63.3%, 55% and 53.3% of the respondents reported to use these tools either ‘Never’ or ‘Rarely’.

**FIGURE 1:
THE FREQUENCY OF THE USE OF DIFFERENT
HR RECRUITMENT TOOLS**



Selection

Four of the six listed HR tools for selection are reported to be used ‘Always’ or ‘Often’ by more than 50% of the respondents (Figure 2). These tools are: Interviews (68.9%), Probation periods before permanent appointment (65.5%), written job description or job profiles (55.9%) and Application forms (52.5%). External consultants and Psychological test are the two least frequently used HR selection tools.

**FIGURE 2:
THE FREQUENCY OF THE USE OF DIFFERENT
HR SELECTION TOOLS**

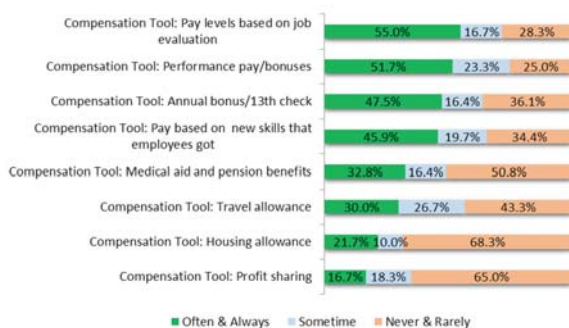


Compensation

Of the eight listed HR compensation tools, two are used ‘Often’ or ‘Always’ by more than 50%

of the respondents. They are: Pay levels based on job evaluation (55%) and Performance pay/bonus (52%) (Figure 3). Three of the Compensation tools which are least used by SMEs included in the study, are: Medical aid and pension benefits, Housing allowance and Profit sharing with more than 50% of the respondents using it ‘Never’ or ‘Rarely’.

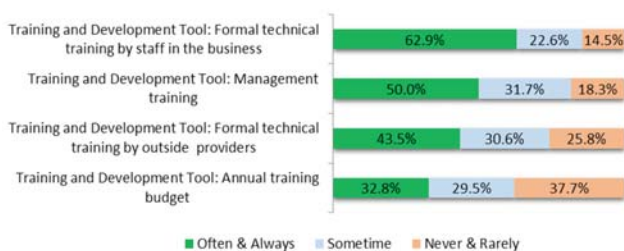
**FIGURE 3:
THE FREQUENCY OF THE USE OF DIFFERENT
HR COMPENSATION TOOLS**



Training and development

Formal technical training by staff in the business and management training are used ‘Often’ or ‘Always’ by 50% and more of the SMEs (Figure 4). Formal technical training by outside providers and an annual training budget are tools that are used least frequently but still used by more than half of the SME’s either ‘Always’, ‘Often’ or ‘Sometimes’.

**FIGURE 4:
THE FREQUENCY OF THE USE OF DIFFERENT
HR TRAINING AND DEVELOPMENT TOOLS**

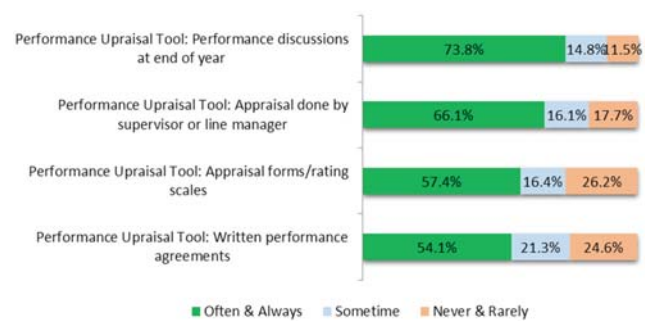


Performance appraisal

All four listed performance appraisal tools are used ‘Always’ or ‘Often’ by more than 50%

of the respondents (Figure 5). These tools are: Performance discussions at end of year, Appraisal done by supervisor or line manager, Appraisal forms/rating scales and written performance agreements.

**FIGURE 5:
THE FREQUENCY OF THE USE OF DIFFERENT
HR PERFORMANCE APPRAISAL TOOLS**



**FIGURE 6:
HR RESPONSIBILITIES**



The focus and extent of responsibility of HRM in the SME

The majority (more than 50%) of the owners or managers of the SMEs in the study takes full responsibility for six of the seven listed HR responsibilities (Figure 6). These responsibilities are: Selection (Getting the right employees), Placement (Deciding where in the business employees can best be used), Performance Appraisal (Evaluating individual performance and telling employees how well they do and where they must do better), Reward management (Doing the payroll and deciding on increases and bonuses), Recruitment (Getting the right employees) and

Employee Relations (negotiating with union representatives and handling disciplinary matter and staff complaints). The HR responsibility that is mostly delegated to someone else in the business is Training and Development, although 49.2% of the managers reported that they have full responsibility for it.

DISCUSSION OF FINDINGS

The study aimed to determine the prevalence of systematic or formal HR systems and practices in a sample of SME's in the retail and marketing industry in South Africa by establishing the levels of utilisation and formalisation of HR Systems and the focus and extent of responsibility of HRM practices by owner/managers in the SME.

Overall the findings are consistent with other empirical evidence of HR practice differences where the effect of organisation size was reviewed (Burke, 2011; Cardon and Stevens, 2004; CIPD, 2012; Dabic, Ortiz-De-Urbina-Criado, and Romero-Martínez, 2011; Rauch, 2011).

The focus on highest level of own responsibility for the critical HRM areas associated with employee productivity, commitment and retention (selection, performance appraisal placement and reward management) provide support for the notion that critical 'fundamental' HR practices are likely to be formalised first. More specialised HR functions are added as a growing staff complement will also foster the higher incidence rate of staff problems and the resultant need for more complex and context specific mechanisms for appropriate HR solutions. The indications of some formalisation of practices in our sample of SMEs are consistent with findings by Kotey and Slade (2005) and van de Woestyne, Dewettinck and van Bruystegem (2010) suggesting that formalisation of some practices happens even in the initial stages of growth. In the South African context one might speculate on the impact that the pressures towards compliance with the administrative regulatory regime of complex labour legislation may have on this early loss of informal management practices in small entrepreneurial firms.

Furthermore, confirmation is found of the role that resource poverty may play in the utilisation

of specific tools in functional HR practice areas, e.g. the less expensive, the less sophisticated HR practices are in the areas of staff recruitment and selection. The constraints of relative resource poverty during the early start-up and growth phase are also visible from the owner/manager lack of delegation found in most HR responsibility areas, given that the overwhelming majority of respondents were from firms less than five years in operation.

In discussing the findings for the individual HRM functional areas, it is clear that the HR tools for recruitment, which are most often used by the respondents, are referrals from staff members, business partners and friends. The three recruitment tools which are being used least frequently are: Recruitment agencies or labour brokers, Newspaper job advertisements and Walk-ins with more than 50% of the respondents using these tools 'Never' or 'Rarely'.

The overwhelming reliance on referrals by sources that are likely to be trusted by the owner/manager can be understood from the typical resource and time constraints faced by owner/managers. Hornsby and Kuratko (2003) found preferred recruitment sources for SMEs to be low-cost, convenient and directly controllable by the firm. Newspaper advertisements are clustered into this category of sources but our findings indicate a low level of reliance on this source. A possible reason for this anomaly may be found in the nature of our sample tending towards representing an early growth phase (less than 5 years). This notion is supported by findings of Leung, Zhang, Wong and Der Foo (2006) suggesting that entrepreneurs seeking new staff to join the firm rely on strong ties from their social and business networks during both start-up and growth phases of their venture. Relying predominantly on known personal and trustworthy sources for suitable candidates could mitigate the inherent risks of inappropriate appointments. This is informed by SMEs having lower tolerances for inefficiencies and the impact of a single employee (either good or bad) likely being far greater in a smaller firm than in a larger firm (van de Woestyne, Dewettinck and van Bruystegem, 2010).

HR tools for selection which are used 'Always'

or 'Often' by more than 50% of the respondents are: Interviews, Probation periods before permanent appointment, Written job description and Application forms. External consultants and Psychological test are the two least frequently used HR selection tools. These findings are supported by studies (Heneman, Tansky and Camp, 2000; Leung et al., 2006) suggesting that in SMEs greater attention is placed on trying to match the characteristics of potential staff to the values and organisational culture than in matching knowledge and competencies of persons to the specific job requirements as traditionally found in large organisations.

The two most often used HR compensation tools are: Pay levels based on job evaluation and Performance pay/bonus. Medical aid and pension benefits, Housing allowance and Profit sharing are used 'Rarely' or 'Never' by more than half of the respondents. Small businesses usually cannot afford the wage levels paid by large firms (Rankin et al., 2013) and the high frequency of utilisation of compensation tools related to ensuring competitive pay and incentive rewards underscore the imperatives for South African SME owners/managers to recruit and retain critical skills in a market of scarce resources in the artisan and high-level professional skills market. This finding is consistent with literature reviews confirming the importance of reward practices in SMEs due to their direct relationship with recruitment and retention efforts and overcoming potential candidates' ambiguity concerns on job security related to the well-known lower survival rates and shorter life cycles of entrepreneurial firms (Cardon and Stevens, 2004).

Formal technical training by staff in the business and management training are HR training and development tools which are used 'Often' or 'Always' by the majority of the SMEs with Formal technical training by outside providers and an Annual training budget are tools that are used least frequently but still used by more than half of the SMEs either 'Always', 'Often' or 'Sometimes'.

According to the OECD (2010) participation in the training activities is 50% lower in SMEs than in large firms across OECD countries. Small

enterprises have the lowest participation rates in vocational education and training (VET) across all countries. Most surveys and data across OECD countries show that SMEs are 50% less likely to participate in training activities than large firms. Policy analysis confirms that formal training policies and measures targeting workers are less effective on SMEs. In the South African context Strydom (2005) found corroborating evidence of this lack of awareness and uptake of training opportunities by small businesses in the township retail sector, lending support to the notion of inadequate marketing and communication of government provided support programmes. The prevalence of investing in technical training by SMEs in our sample would suggest a recognition and response to specific skills and competency needs important for operational requirements, but the limited use of a formal annual training plan may indicate that the training tends to be a reactive practice rather than a systematic workforce development or career developmental initiative. This is consistent with the findings of Rankin, et.al. (2012) indicating that training of their own staff presents a potential investment risk due to the heightened likelihood of key staff being lost or 'poached' by higher paying large businesses or government.

The Performance appraisal tools are used 'Always' or 'Often' by more than 50% of the respondents. These tools are: Performance discussions at end of year, Appraisal done by supervisor or line manager, Appraisal forms/rating scales and written performance agreements.

The findings support the high level of importance ascribed to the managing and measuring employee performance in both large and small enterprises (CIPD, 2013). Furthermore, the use of written performance contracts by more than 50% of the firms suggests a strong drive to formalise this area of HRM practice. Cassell, Nadin, Gray and Clegg (2002) similarly found performance management as the third highest implemented HR function after the staffing practices of recruitment and selection.

The majority of the owners or managers of the SME's in the study takes full responsibility for Selection, Placement, Performance Appraisal, Reward management, Recruitment and Employee

Relations. The HR responsibility that is mostly delegated to someone else in the business is Training and Development, although 49.2% of the managers reported that they have full responsibility for it.

RECOMMENDATIONS

Given the findings of SMEs in South Africa showing stagnation in employment and turnover growth in the latest 2015 SME Growth Index survey and an increasingly hostile business climate that militates against the capacity of labour absorption and job creation, (Rankin, Darroll and Corrigan, 2013; SBP, 2015) the call for greater competitiveness of South African smaller firms and the facilitation of economic plans conducive to the entrepreneurial and SME sector clearly calls for enabling business practices that lessen the risks of small business failure. The contribution that human resource management practices can make as a source of competitive advantage should be strongly affirmed and included in the many advisory and training programmes aimed at potential entrepreneurs and small business owners/managers.

South African studies exploring the sources of small business failures and problems experienced by SMEs consistently highlight the need for training and advisory support related to managerial and business skills (Van Eeden, Viviers and Venter, 2003; Strydom, 2005; Wright, 2012).

Barrett and Meyer (2010) argue that the 'people problem' so often highlighted as a potential source for business failure in SMEs and the resultant attention to HRM practices as a solution, generally emanate from a lack of skills and knowledge about people management or from the increasing owner/manager realisation that the prevalence of people issues experienced in the SME grows together with the firm's increasing staff complement. This means that owner/managers perceiving HRM as a problem are those that may be most receptive to receiving assistance from support programmes and government agencies. A greater understanding of the interrelation of HRM practices with other internal contextual factors of the SME, (for example, business strategy, stage of firm growth, owner/manager characteristics) hence could go a

long way in customising interventions to support individual small businesses in a targeted way beyond the common one-size-fits-all approaches.

The significance of the findings of this study is found in the affirmation of the need for South African SMEs to become more competitive and exploit the potential benefits of adopting appropriate business practices and human resource management policies and practices to leverage the potential of their human capital. Beyond the calls for greater advocacy by business, HRM professional bodies and associations such as the SA Board for People Practice (SABPP) and Institute for People Management (IPM), and greater attention to HRM issues by consultants to SMEs and curriculum designers of entrepreneurship and small business management programmes, the need for further research is well articulated by Burke (2011:54) in his comprehensive review of the challenges of HRM in SMEs: "More research is needed to confirm what we think we know and what we don't yet know about HRM practices and SME performance".

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