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## **The Impact of Strategic Human Resource Management on Competitiveness of Small and Medium-scale Enterprises in the Nigerian Hospitality Industry**

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### **Abstract**

Strategic human resource management (SHRM) has become increasingly important to the competitiveness of firms. Despite the widespread practical and academic interests in SHRM and its impact on the competitiveness of firms, few empirical contributions on small and medium-scale enterprises (SMEs) could be found. Thus, this study aimed

at providing empirical evidence on the impact of SHRM practices on the competitiveness of SMEs in the Nigerian hospitality industry, one of the attractive and fastest-growing industries in the country. This study conducted a survey on 120 small and medium-scale hospitality companies. Primary data were collected through structured questionnaire administered to the human resource managers of the companies. Data collected were analysed using frequency, percentage, correlation and multiple regression analysis. The findings showed that SHRM practices had a positive relationship with the firms' market share and a significant effect on the profitability. However, the implementation of SHRM practices in the SMEs could be generally described as fair. The study concluded that SHRM had positive and significant impact on the competitiveness of SMEs in the Nigerian hospitality industry. Therefore, SMEs, irrespective of the industry, should pay more attention to SHRM practices with a view to improving their implementation.

**Key words:** Strategic human resource management, SME, competitiveness, Nigeria

### **Introduction**

The present business environment is changing rapidly due to phenomena such as globalisation, rapid environmental change, changing customer and investor demands, and competition to provide innovative products and services. To compete successfully in the environment, firms need to constantly improve their competitiveness by reducing costs, enhancing quality, and differentiating their products and services. The key to sustaining enviable competitiveness is the productivity of the workers. People are the most valuable resource of firms. Apart from the people, all the assets of an organization are passive resources which require human application to generate value (Fitz-enz, 2000). Thus, having the right human resources (personnel) at the right place and at the right time is of utmost importance to the survival and success of any firm.

Strategic human resource management (SHRM) is concerned with the management of human resources as a means of improving firm performance and creating competitive advantage. Wright and Snell (1991) defined SHRM as "organizational systems designed to achieve sustainable competitive advantages through people". It lays more emphasis on a proactive, integrative and value-driven approach to human resource management (Schuler, 1989). Truss and Gratton (1994) considered SHRM as the linkage of HR functions with strategic goals and organizational objectives to improve business performance and cultivate an organizational culture that fosters innovation and flexibility. Wright and McMahan (1999) described SHRM as the pattern of planned HR deployments and activities intended to enable an organization to achieve its goals.

According to Chang and Huang (2005), the central feature of SHRM involves designing and implementing a set of internally consistent policies and practices to ensure that firm human capital contributes to achieving business objectives. The set of policies and practices of SHRM include formal training system, broadly defined jobs, results-oriented appraisal, performance-based compensation, employee voice/participation, recruitment and selection, career planning, and employment security (Delery and Doty, 1996; Abdulkadir, 2012). Studies have revealed that successful HR policies and practices increase firm competitiveness in different areas such as productivity, quality and financial performance.

Small and medium-scale enterprises (SMEs), on the other hand, are globally acknowledged as the oil required to lubricate the engine of socio-economic transformation of any nation (Obokoh, 2008; National Policy on MSMEs, 2010; Monday and James-Unam, 2013). National Policy on MSME (2010) defined small enterprises as those businesses whose total assets (excluding land and building) are above five million naira, but not exceeding fifty million naira, with a total workforce of between 10 and 50 employees; while medium enterprises are businesses which have total assets (excluding land and building) to be above fifty million naira, but not exceeding five hundred million naira and with a workforce of between 50 and 200 employees.

SMEs play significant roles in economic development as they have the ability to stimulate entrepreneurship and create employment for the teeming masses. They also have the flexibility to respond quickly to fluctuating demands of the market due to their size and innovativeness. SMEs promote industrial development through the utilization of local resources, production of intermediate goods, and contribute immensely to the gross domestic products (GDPs) of many countries (Udechukwu, 2003; Asaolu et al., 2012). Thus, such enterprises as SMEs require SHRM to gain competitive advantage in today's rapidly changing competitive business environment.

Since 1990 when SHRM came to limelight, numerous researches have been conducted on the relationship between SHRM and firm competitiveness. Trying to provide a solid theoretical foundation to the field of SHRM, Delery and Doty (1996) examined the effect of SHRM on firm financial performance using universalistic, contingency, and configurational performance perspectives in 1,050 banks. The results showed that each of the perspectives was viable and led to different assumptions about the relationships among HR practices, strategy, and organizational performance. Also, the findings revealed that in each perspective there was a strong relationship between SHR practices and measures of financial performance.

Huang (1998) employing General Linear Model (GLM) and Scheffe multi-range test showed that a positive relationship existed between the amount of capital resources available to firms and the extent to which they practiced SHRM, and firms

engaging in SHRM performed better in organizational morale, financial performance and overall performance.

Chang and Huang (2005) investigated the moderating effect of product market strategy (PMS) on the relationship between SHRM and firm performance. A survey of 235 Taiwanese firms was conducted and hierarchical regression analysis was performed. The results failed to support the “universalistic” SHRM perspective. Only the interaction between an innovative PMS and SHRM exerted a significant effect on firm performance, which support the argument of the “contingency” perspective. The study implied that coping with innovation needs, the degree to which traditional human resource management (THRM) is transformed into SHRM determines how well a firm is able to sustain and enhance growth.

On the relationship between SHRM and firm performance within the context of a developing country, Tessemer and Soeters (2006) conducted a research in Eritrea, Africa’s youngest and poorest country. The study revealed that successful implementation of HR practices could enhance performance of individual and civil service organization of Eritrea, but the economic and political environment within which HR practices operate are not conducive.

Oladipo and Abdulkadir (2011) investigated the extent to which SHRM impact on organizational performance in the Nigerian manufacturing sector. Correlation and regression analysis were performed and the results showed that SHRM was moderately practiced by the companies operating in the Nigerian manufacturing sector. Results also indicated that SHRM practices had positive and significant effect on organizational performance in the Nigerian manufacturing sector. Akindele et al. (2011) further corroborated the findings of Oladipo and Abdulkadir in the Nigerian Food, Beverage and Tobacco Industry.

Abdulkadir (2012) examined whether the effectiveness of SHRM practices on organizational performance is contingent on organizations’ work place climate in the Nigerian Insurance Industry. Employing descriptive statistics and correlation analysis, the results suggested that the relationship between SHRM practices and organizational performance in the Nigerian insurance industry is moderately influenced by organizational climate. Also, the results showed that strategic HRM alignment, Line management training in HR, selection system, career planning, and job definition were significant to organisation’s performance.

Muogbo (2013) investigated the impact of SHRM on manufacturing SMEs in Anambra State Nigeria using 17 paint manufacturing firms. Employing correlation analysis, the results indicated that there was a strong positive correlation between SHRM and performance level of competition in SMEs. However, the study showed that majority of the SMEs in Anambra state Nigeria does not adopt SHRM.

From the foregoing empirical analysis of previous studies, it is obvious that companies in developed economies are known to employ SHRM more frequently and passionately than those in developing countries (Huang, 1995). However a small body of knowledge exists alluding to SHRM practices in African countries, but its tenacity and performance-oriented outcomes are yet to be properly documented (Oladipo and Abdulkadir, 2011). Besides, in SMEs which is the key driver of economic growth and development, there is dearth in literature as to how SHRM influences their performance. This study is therefore, an attempt to fill this gap using SMEs in the Nigerian hospitality industry, which is today one of Nigeria's attractive and fastest growing industries.

### **Methodology**

The current study was conducted in a single industry to control for between-industry differences. The hospitality industry was selected because it is one of the attractive and fastest-growing industries in Nigeria. This study was carried out in Osun State, a home to several of Nigeria's most famous landmarks, including the campus of the famous Obafemi Awolowo University, Erin Ijesha Waterfalls, *Osun* Shrine which was declared World Heritage Site in 2005. Osun State is a home of tourism and this stimulates the development of hospitality SMEs in the state. This study was conducted between October 2014 and February, 2015.

The method of investigation for this study was the survey research method. Primary data were employed in the study using structured questionnaire. Three major commercial centres (Osogbo, Ile-Ife, and Ilesa) in the state were purposively chosen because of the prevalence of hospitality SMEs which were mainly hotels in this study. From each, 40 hospitality SMEs were selected using convenience sampling techniques. Thus, 120 hospitality SMEs were selected. Purposive sampling technique was employed to select the respondents who were the HR Managers or their Assistants since they involve in HR policies and practices of the companies. Therefore, a sample size of 120 respondents was examined in this study.

The independent variable of this study is SHRM which was measured by variables such as job descriptions (JOB), recruitment and selection system (RES), training and development system (TRD), performance appraisal system (PAP), compensation system (CMP), career planning system (CAR), employee participation (EMP). The dependent variable is Competitiveness which refers to a firm's ability to sustain its long-term performance better than its competitors in the market, as measured by profitability (PRF) and market share (MKTS) in the study (Chong, 2008; Turyakira et al., 2014).

Each of the variables of SHRM was rated on a 5-point scale ranging from 1 'Not at all' to 5 'To a great extent', while competitiveness was rated on a 5-point scale

ranging from 1 ‘strongly disagree’ to 5 ‘strongly agree’. The scale was tested for reliability by using Cronbach’s Alpha. The overall value of Cronbach’s alpha of the variables was about 0.8 which indicates high internal consistency among the measurement items. Data obtained were analysed using frequency, percentage, mean and standard deviation, correlation statistic and multiple regression analysis. The relationship between SHRM and competitiveness of SMEs is given by the multiple regression model:

$$\text{Firm competitiveness} = f(\text{JOB}, \text{RES}, \text{TRD}, \text{PAP}, \text{CMP}, \text{CAR}, \text{EMP}) \dots\dots\dots (3.1)$$

$$\text{PRF} = \beta_0 + \beta_1\text{JOB} + \beta_2\text{RES} + \beta_3\text{TRD} + \beta_4\text{PAP} + \beta_5\text{CMP} + \beta_6\text{CAR} + \beta_7\text{EMP} + \varepsilon \dots\dots\dots (3.2)$$

Where

$\beta_0$  = constant,

$\beta_i$  = slope of the estimated parameters, and

$\varepsilon$  = the ‘error term’ reflecting other SHRM variables.

### Results and Discussion

Data analysis and interpretation were done based on the data obtained from the retrieved copies of questionnaire. Of the 120 copies of the questionnaire administered, 114 copies were thoroughly filled and returned; giving a very high response rate of 95%. The analysis on socio-demographic characteristics of the respondents showed that the respondents were matured (more than 30 years of age) and well-educated to supply reasonable information on the subject matter. Also, the respondents were top management staff who have spent at least five years in the business and so they are experienced employees who should know more about the HRM practices of their respective companies

Table 1 presents the extent of implementation of SHRM practices in the small and medium-scale firms. The analysis showed that majority of the respondents (about 60%) indicated that, to a great extent, the tasks and responsibilities of every employee were clearly specified and distinct as well as to whom to report (job description). This was confirmed by a high mean value of 4.18 in a 5-point scale, depicting a great (85.6%) extent of implementation of job description in the SMEs. However, majority of the respondents (49.1%) indicated that recruitment and selection was practiced to a little extent. Employee recruitment and selection system recorded a mean score of 2.49,

confirming a low level (49.8%) of implementation of a highly scientific and rigorous recruitment and selection system in small firms.

**Table 1: The Extent of Implementation of SHRM Practices in the SMEs (%)**

	Not at all	To a little extent	To a some extent	To large extent	To a great extent	Mean	SD
The tasks and responsibilities of every employee is clearly specified and distinct as well as to whom to report	0.0	14.0	3.5	22.8	59.6	4.28	1.06
The recruitment and selection system is highly scientific, sophisticated and rigorous	17.5	49.1	10.5	12.3	10.5	2.49	1.22
Employees in each job normally go through training programmes every year or periodically	24.6	22.8	24.6	12.3	15.8	2.72	1.38
The performance of the employees is measured on the basis of objective qualifiable results	5.3	19.3	0.0	35.1	40.4	3.86	1.28
Salaries and other benefits of the company are comparable to what is generally obtainable in the industry.	3.5	21.1	8.8	26.3	40.4	3.79	1.27
Company provides clear career path information to employees.	5.3	35.1	36.8	8.8	14.0	2.91	1.10
Employees are usually given the opportunity to suggest improvement in the ways things are done.	0.0	29.8	0.0	38.6	31.6	3.72	1.20

The analysis further revealed that majority of the respondents (52.7%) indicated that, to moderate extent, employees in each job normally go through training programmes every year or periodically. This was confirmed by a mean score of 2.72 in a 5-point scale, indicating a moderate level (54.4%) of implementation of training and skill development in the small and medium-scale hospitality companies. Also, a high

proportion of respondents (75.5%) indicated that, to a high extent, the performance of the employees in the SMEs is measured on the basis of objective qualifiable results. This was confirmed by a mean score of 3.86, depicting a high level (77.2%) of implementation of performance appraisal system in the SMEs.

Furthermore, the mean scores of 3.79 and 3.72 revealed high levels (75.8%) and (74.4%) of implementation of compensation system and employee participation system respectively in the small and medium firms. These were attested to by over 70% of the respondents. In the same vein, a mean score of 2.91 out of possible maximum score of 5.00 suggested that there was a moderate level of implementation of career planning system in the selected SMEs.

The results in Table 1 revealed that the implementation of SHRM practices in the selected hospitality SMEs could generally be described as fair. This is consistent with the findings of Muogbo (2013) which showed that majority of the paint manufacturing SMEs in Anambra State does not adopt SHRM practices. Therefore, it can be inferred that majority of Nigerian SMEs fairly implement SHRM policies and practices. This may have strong negative implications on the competitiveness of SMEs as it can foster high employee turnover, poor quality performance, low productivity and abysmal financial performance. For SMEs in Nigeria to be able to compete favourably, SHRM practices must be given a top priority especially in the area of scientific selection system and formal training which produces the right personnel and install the requisite skills to perform well to boost the firms' competitiveness.

**Table 2: Correlation Matrix of SHRM Practices and Market Share of SMEs**

	1	2	3	4	5	6	7	8
JOB	1.000	-0.066	0.115	0.238*	0.018	0.521**	0.327**	0.496**
RES		1.000	0.209*	0.067	0.227*	0.164	0.119	0.181
TRD			1.000	0.758**	0.047	0.485**	0.390**	0.428**
PAP				1.000	0.090	0.367**	0.285**	0.430**
CMP					1.000	0.214*	0.386**	0.240*
CAR						1.000	0.115	0.427**
EMP							1.000	0.255**
MKTS								1.000

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

\* Correlation is significant at 0.05 level (2-tailed)

Table 2 presents the relationship between SHRM practices and market share of SMEs. Pearson Correlation Analysis was employed to determine the direction of the relationship. The analysis showed that, at 0.01 level of significance, profitability of the SMEs was positively related to job description ( $r = 0.486$ ), training and skill development ( $r = 0.428$ ), performance appraisal ( $r = 0.430$ ), career planning ( $r = 0.427$ ), and employee participation ( $r = 0.255$ ), while it was positively related to compensation system ( $r = 0.240$ ) at 0.05 level of significance. With the exception of recruitment and selection practice, all other variables of SHRM were positively related to the market share of the firms.

The analysis in Table 2 showed that SHRM practices are positively related to the competitiveness (measured by the market share) of SMEs. However, it can be seen that the firms need to adopt a scientific and sophisticated approach in recruitment and selection system. A rigorous, valid and sophisticated selection system helps in identifying a right candidate with potential to perform. This generates a sense of elitism, creates high expectations of performance, and signals a message of importance of the people to the organization (Pfeiffer, 1994).

**Table 3: Regression Results Showing Effect of SHRM Practices on Profitability**

Independent Variable	$\beta$ -Coefficient	Std. Error	t-Statistic
C	2.576	0.600	4.297
JOB	0.238	0.095	2.512*
RES	0.115	0.058	1.977
TRD	0.240	0.085	2.828*
PAP	0.133	0.086	1.553
CMP	0.006	0.067	0.090
CAR	0.069	0.091	0.752
EMP	0.304	0.081	3.740*
R	0.721	Durbin-Watson	2.147
R-squared	0.509	F-statistic	15.718
Adjusted R-squared	0.477	Prob. (F-statistic)	0.000
S.E. of Estimate	0.699	Sig. KS	0.572

Dependent Variable: PRF      C = Constant

Table 3 presents the effect of SHRM on the profitability of SMEs using multiple regression analysis. Testing the individual significance of the variables of SHRM, it was found that job description was statistically significant to the profitability of the SMEs ( $t = 2.512, p < 0.05$ ). Also, employee training and skill development was statistically significant to the profitability of the companies ( $t = 2.828, p < 0.05$ ). Employee participation was also significant to the firms' profitability ( $t = 3.740, p < 0.05$ ). Only three out of the seven elements of SHRM were significant to the profitability of the selected SMEs. This may be quite different in Nigerian large-scale firms where selection system, performance appraisal, compensation, and career planning amongst others were statistically significant to profitability (Oladipo and Abdulkadir, 2011). However, the F-statistics which measures the overall significance of the model variables revealed that SHRM practices had significant effect on the firms' profitability ( $F = 15.718, p < 0.05$ ). This suggests that SHRM practices are interwoven and when put together in organisations, profitability is positively influenced.

The analysis through the Beta ( $\beta$ ) coefficients indicated that all the variables of SHRM were positively related to the profitability of the SMEs. Furthermore, the  $R^2$  value of 0.509 implies that strategic human resource management practices could explain as high as about 51% of the change or variation in the profitability of the SMEs.

The regression assumptions were also checked for normality and autocorrelation (see Table 3). The model meets the assumptions of normality, because the Kolmogorov-Smirnov (KS) test is not significant at 0.05, accepting the null hypothesis that the distribution of the series tested is normal. The result of the Durbin Watson (DW) was satisfactory (approximately 2.00), indicating no autocorrelation between the residuals from the regression model.

### **Conclusion and Recommendations**

This study examined the impact of SHRM on competitiveness of SMEs. This study revealed that hospitality SMEs in Nigeria engaged the systems of job description, recruitment and selection, training and skill development, performance appraisal, compensation, career planning, and employee participation as their SHRM practices, which had collective impact on the profitability and market share of the selected SMEs. However, the extent of the implementation of these practices could generally be described as fair. The findings of this study support the universalistic perspective, suggesting that SHRM is a source of sustainable competitive advantage in any SME in Nigeria. Therefore, we concluded that SHRM is a veritable tool for boosting the competitiveness of SMEs to gain competitive advantage in today's dynamic market.

We recommended that Nigerian SMEs, irrespective of the industry, should pay more attention to the SHRM practices identified in this study with a view to improving their implementation. This will foster employee commitment to work which will

consequently enhances productivity and profitability. According to Green et al. (2006), SHRM practices directly and positively influence individual performance which in turn impact on the organisational performance. Also, entrepreneurial centres and business schools in Nigeria should also incorporate strategic human resource management principles into their curricula. Owners and managers of SMEs who attend such centres and schools will be taught the benefits of integrating HR function into their strategic operations.

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