

Enhancing SMME effectiveness in South Africa through Human Resource Management practices

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Abstract

Small, Medium, and Micro Enterprises (SMMEs) play a critical role in national economic growth, yet their survival and competitiveness are significantly influenced by management practices and pressures from globalization. While SMMEs are often recognized for their adaptability, close customer relationships, flexibility in operations, and early adoption of technology, they remain vulnerable to failure, primarily due to inadequate Human Resource (HR) practices.

This study investigates strategic Human Resource Management (SHRM) practices that South African SMMEs can adopt to mitigate failure risks and enhance organizational sustainability. It assumes that human capital is the most vital asset for SMMEs and that effective recruitment, selection, retention, and performance management strategies can foster productivity and sustainable competitive advantage.

Through analyzing the relationship between training, skills development, and organizational performance, the study demonstrates a clear link between employee capabilities and SMME effectiveness. Findings provide empirical evidence supporting the positive impact of strategic HR practices on profitability and overall organizational performance. Furthermore, the study extends the Resource-Based Entrepreneurship Theory (RBET) by emphasizing the role of human resources as a foundational driver of SMME effectiveness. This paper underscores that robust HRM practices are indispensable for enhancing the performance and sustainability of SMMEs.

Keywords: Resource Based Entrepreneurship Theory (ABET), Resource Based View (RBV), SMME, Management practices

1. Introduction

1.1 Introduction

This paper provides background information, identifies the research problem, and highlights the significance of the study. It also includes a literature review to establish the theoretical framework by examining prior research and identifying gaps in knowledge. The paper further discusses research methodology, procedures, implications, and draws conclusions based on the findings.

1.2 Background of the study

Small, Medium, and Micro Enterprises (SMMEs) are increasingly recognized as vital instruments of national development. Globally, SMMEs constitute over 95% of enterprises and employ approximately 60–70% of the workforce (Vuba, 2019). Human Resource Management (HRM) can be approached from two perspectives: control and commitment. The control approach aims to enhance organizational efficiency through rewards, while the commitment approach focuses on shaping employee attitudes by fostering alignment between individual and organizational goals. Empirical evidence demonstrates a strong link between commitment-based HRM practices and organizational performance (Collins & Clark, 2003; Collins & Smith, 2006). HRM practices are a central area of interest within organizational management. Gooderham et al. (1999)

distinguish between calculative and collaborative HRM practices. Collaborative practices aim to enhance both employee and employer outcomes, while calculative practices focus on optimizing workforce efficiency.

Extensive research has highlighted the significance of HRM practices. Pfeffer (1994) identifies sixteen HRM practices—such as information sharing, participation, empowerment, training, employment security, recruitment, incentives, and employee ownership—that can enhance organizational performance. Similarly, Delaney and Huselid (1996) emphasize seven progressive HRM practices involving training and incentives to boost firm performance. Huselid (1995) categorizes HRM factors into employee motivation, skills development, and organizational structure, identifying thirteen practices directly linked to productivity, turnover, and performance.

In SMMEs, HRM practices are crucial for improving efficiency, performance, employee relations, and satisfaction. Key practices include human resource planning, recruitment, selection, training, development, performance management, rewards, career planning, and compensation.

This study views HRM as a multifaceted approach: (1) enhancing human resource efficiency; (2) improving individual employee performance to drive overall organizational performance; (3) managing employee-organization

relationships through strategies such as training and career planning; and (4) promoting job satisfaction, which fosters positive organizational behaviors and attitudes.

1.3 Problem statement

Despite government support, many South African SMMEs continue to fail. The primary objective of this study is to examine the impact of management practices on organizational effectiveness. According to the Global Entrepreneurship Monitor (GEM, 2013), SMMEs in developing nations experience the highest failure rates globally, despite UN recommendations advocating for maximum support to stimulate economic growth and improve living standards (UN, 2014).

Previous research identifies financial constraints as a key challenge for SMMEs (Akiwane & Ogundiran, 2014; Philips, Moss & Nieman, 2014; Olwane & Garwe, 2010). However, limited studies have explored the effect of HRM and management practices on SMME survival, creating a knowledge gap. Evidence suggests that effective HRM practices can drive SMME growth and sustainability (Castrogiovanni, 2014; Long, Ajagbe & Kowang, 2014).

In more developed countries, HRM practices such as recruitment, employee motivation, promotions, and compensation are guided by regulations, benefiting SMME owners. In contrast, South African SMMEs operate in environments similar to large enterprises but face challenges like inadequate human capital (Smit & Watkins, 2012). SMME employees often perform informal, multifaceted roles, limiting specialization and decision-making involvement (Kynobe, 2004; Kazooba, 2006). Mismanagement, poor communication, and misuse of authority are also common (Bowen, Morara & Mureithi, 2009).

The Socio-Technical Systems Theory (SST) (Emery & Trist, 1969) highlights the link between organizational design, productivity, technology, strategy, and HRM practices. The absence of structured HRM and organizational strategy in SMMEs hampers skill development, organizational capabilities, and overall growth.

1.4 Research objectives

- To examine the relationship between human resource management practices and the effectiveness (growth and survival) of SMMEs in South Africa.
- To determine the impact of management practices on SMME survival.

The study argues that SMMEs globally are susceptible to failure due to inadequate management practices (Bannock, 2005). Understanding the characteristics and management practices essential for SMME growth is critical for promoting sustainability.

1.5 Research question

This study seeks to answer the following question:

- What is the relationship between human resource management practices and the effectiveness of SMMEs in South Africa in terms of growth and survival?

1.6 Significance of the study

This research provides an opportunity to advance understanding of HRM practices in SMMEs. Evidence suggests that effective HRM contributes to improved work practices and organizational outcomes (Whyman & Petrescu, 2011). While debates exist regarding which HRM practices are most effective, the universalistic approach argues that certain best practices consistently improve outcomes (Delery & Doty, 1996). The contingency approach emphasizes that HRM practices must align with organizational conditions.

This study contributes to the body of knowledge by examining the impact of HRM practices on the effectiveness of South African SMMEs, demonstrating that strategic human resource management is a prerequisite for growth, survival, and long-term organizational sustainability.

2. Review of literature

2.1 Introduction

The purpose of this literature review is to provide a systematic overview of what is currently known about Human Resource Management (HRM) practices and to highlight the key theories and concepts that underpin this field. Work practices encompass rules, processes, procedures, and methods used in organizational and human activities. Although the concept of work practices has multiple perspectives, Brown (2005) defines HRM practices as organizational activities aimed at managing human capital effectively. In this study, work practices are considered as HRM practices, including human actions, relationships, and other factors that influence employee performance within the workplace. This study specifically explores the integration of HRM practices with strategic business strategies in Small, Medium, and Micro Enterprises (SMMEs). Empirical studies indicate that there is limited research on HRM practices in SMMEs (Dun & Bradstreet, 2001; Mazzarol, 2003; Cardon & Stevens, 2004; Gilman & Edwards, 2008).

2.2 Theoretical framework

The theoretical framework provides a foundation for the implementation of HRM systems and practices to achieve desired organizational outcomes (Tan, 2011). Wright and Snell (2009) emphasize that managers have a range of strategic HRM (SHRM) practices to select from, including those that facilitate selection, recruitment, development, motivation, and retention of employees. These practices aim to produce behaviors that align with organizational goals.

Several theoretical perspectives guide HRM practices, including Systems Theory, Opportunity-Based Theory (OBT), Resource-Based View (RBV), Multiple Stakeholder Theory, Strategic Reference Point Theory, Firm Theory, Resource-Based Entrepreneurship Theory (RBET), Contingency Theory, and Configurational Theory.

The Resource-Based View (RBV) posits that competitive advantage is sustained when organizations strategically leverage their unique resources (Schmit, 2013; Srivastava, 2013). The Resource-Based Entrepreneurship Theory (RBET) extends RBV by emphasizing that firms are profit-maximizing

institutions guided by effective management practices to achieve superior performance (Kraaljenbrink, Spender & Groen, 2010). RBET asserts that sustainable competitive advantage arises from acquiring, retaining, and managing unique resources more effectively than competitors (Eccles, Lannow & Serafein, 2013).

RBET has three key components as categorized by Muogbo (2013): the Liquidity Theory of Entrepreneurship (LTE), Human Capital Theory (HCT), and Social Network Theory (SNT). Human capital, in this study, refers to the knowledge, skills, experience, and capabilities that drive organizational performance. Similar to RBV, HCT emphasizes that human resources are the most critical assets due to their flexibility and cognitive capacity. Strategically managed human resources enable organizations to achieve sustainable competitive advantage.

2.3 Empirical literature

Research has highlighted the significant impact of HRM practices on SMME performance. Fabling and Grimes (2007) found that SHRM practices positively influence organizational outcomes. Karami, Jones, and Kakabadse (2008) demonstrated that SHRM specialists enhance organizational competitiveness. Wang, Walker, and Redmond (2010) observed that strategic planning practices are prevalent in successful SMMEs. Syed et al. (2012) confirmed the positive effect of SHRM on organizational performance in South African SMMEs, corroborated by Bhatti, Syed, Shah, and Shaikh (2012), who noted that many SMMEs struggle with HR challenges.

Sustainability in organizations is defined as the ability to survive and thrive in a competitive environment (Noe, Hollenbeck, Gerhardt & Wright, 2012). Sustainable firms demonstrate innovation, maintain competitive advantage, and implement effective management practices. Key HRM elements supporting sustainability include employee learning, engagement, performance management, leadership development, and organizational change (Chan, 2010). Globalization, technological advancements, and evolving stakeholder needs further increase the strategic role of HRM. Organizational effectiveness is often mediated by HR outcomes, yet few studies have examined this relationship in SMMEs (McMahan et al., 1999). Positive links between SHRM and organizational effectiveness have been established in previous research (Becker & Huselid, 2006), with outcomes arising from the interaction between HR behaviors and other organizational resources (Lawler, 2012).

2.4 Human resources management practices

HRM practices encompass policies and procedures for recruiting, training, appraising, and rewarding employees (Dessler, 2003). Bratton (2007) emphasizes that developing employee capabilities is central to achieving competitive advantage. Zheng, O'Neil, and Morrison (2009) highlight that HR outcomes, such as competency, commitment, low turnover, and cost-effectiveness, result from employee involvement and training, subsequently improving market share and growth

potential. Armstrong (2012) stresses that human capital is critical for organizational performance.

HRM in SMMEs includes human resource planning, recruitment, training, compensation, performance management, reward management, and knowledge management (Kotey & Folker, 2007; Osman, Ho & Galang, 2011; Bratton et al., 2007).

2.4.1 Human resources planning

HR planning ensures that organizations effectively utilize their human resources to achieve strategic goals. In SMMEs, HR planning is often informal or absent, leading to inefficiencies and reduced job satisfaction (Ivancevich, 2001; Smit & Watkins, 2012). Key HR planning objectives include maintaining adequate quality employees, sustaining competence, forecasting training needs, and budgeting for HR costs (Strommer, 1999).

2.4.2 Recruitment and selection

Recruitment and selection are critical HRM practices in SMMEs, directly impacting organizational survival and competitiveness (Ongori, 2010; Agarwala, 2007). Effective recruitment aligns employee capabilities with strategic demands, enhances flexibility and innovation, and supports organizational culture. Modern recruitment extends beyond job descriptions to include selection, training, and performance evaluation (Toucher & Rutherford, 2009). Poor recruitment strategies hinder skill development and organizational growth (Van Sheers, 2011; Long, Ajagbe & Kowang, 2014).

2.4.3 Training and development

Training involves planned interventions to enhance employees' knowledge, skills, and competencies (Armstrong, 2012; Blanchard & Thacker, 2014). SMME training programs contribute to sustainable competitive advantage by developing human capital, fostering learning, mentoring, coaching, and encouraging self-managed learning (Klapper, Lewin & Delgado, 2009; Long et al., 2013).

Three theoretical models underpin this study: the Resource-Based View (RBV) highlighting resources as sources of competitive advantage (Wright, Dunford & Snell, 2001); the Behavioral Perspective linking employee behavior to firm performance (Van De Voorde, Paauwe & Van Veldhof, 2012); and the Cybernetic Systems Model, emphasizing the input-throughput-output process in HR training.

2.4.4 Performance management

Performance management involves goal setting, resource allocation, strategy development, and reward systems to enhance individual and organizational outcomes (Heinrich, 2002; Garengo & Bernardi, 2007; Schuler, Jackson & Tarique, 2011). Effective performance management in SMMEs promotes continuous improvement, resource retention, high-quality outputs, innovation, and knowledge sharing (Bezuidenhout & Henungwi, 2012; Vichitdhanabadee et al., 2009).

2.4.5 Reward management

Reward systems serve as motivational tools that promote employee engagement, commitment, trust, cooperation, and alignment with organizational objectives, ultimately enhancing organizational performance and sustainability.

2.4.6 Knowledge management

Work knowledge, as a product of creativity and human intellect, drives organizational performance and competitive advantage (Roger, 2003). Organizations that effectively manage knowledge and implement innovative work practices enhance employee competence and adapt successfully to competitive environments (Franssila, Okkonen, Savolainen & Talja, 2012; Kheng & Mahmand, 2013).

3. Research methodology

3.1 Research design

This study adopted a quantitative research design to examine the impact of Human Resource Management (HRM) practices on the effectiveness of Small, Medium, and Micro Enterprises (SMMEs) in Limpopo Province, South Africa. Quantitative research is concerned with collecting numerical data and testing hypotheses through statistical analysis. The deductive and particularistic approach of this study allows for hypothesis testing and theory validation, reducing subjectivity in data interpretation. The design facilitated systematic collection and analysis of data from SMME managers to establish relationships between HRM practices and organizational outcomes.

3.2 Sampling procedure

A random probability sampling method was employed to select the study sample. From a population of 1,000 SMMEs in Limpopo Province, 100 SMMEs were selected, representing a 10% sample fraction as recommended by Welman et al. (2009). This approach ensured that each SMME in the population had an equal chance of being included, enhancing the representativeness of the sample.

3.3 Population of the study

The population of this study consisted of South African SMME owners and managers who were directly involved in business operations and HRM practices. These participants were the primary respondents of the research questionnaire.

3.4 Data collection instruments

Data were collected using self-administered questionnaires, chosen for their simplicity and ability to encourage candid responses from SMME managers. The questionnaires captured information on HRM practices, organizational performance, and business sustainability. Collected data were analyzed using descriptive and inferential statistical techniques with the aid of SPSS (Statistical Package for the Social Sciences), allowing for robust interpretation of patterns, relationships, and trends.

4. Research finding

Table 1: Selection and recruitment impact on business performance

Annual income of small enterprises in R 000						
Owner qualification	±50	±300	±1 000	±3 000	±6 000	Total
Grade 8 certificate	5	4	0	0	0	9
Grade 12 certificate	14	10	4	3	6	37
Diploma certificate	0	9	10	17	14	50
Degree graduate	0	0	0	0	4	4
Total	19	23	14	20	24	100

It is apparent from this table that selection and recruitment impact on business performance. Results indicate that 76% managers, realizing low income of between fifty thousand Rands and three million Rands, had grade 8, grade 12, or a diploma certificate. The 24% managers who received above six million Rands were university graduate.

Table 2: Training effects on business turnover

Annual income of small enterprises in R 000						
Frequency of training	±50	±300	±1 000	±3 000	±6 000	Total
Weekly	0	0	0	0	20	20
Monthly	0	0	0	23	1	24
Quarterly	1	3	9	3	0	16
Yearly	18	20	2	0	0	40
Total	19	23	11	26	21	100

Table II indicates that a large number of SMMEs were training once every year and the got little income of plus or minus R300 000. The SMME that received training four times a year realized been R1 million and R3 million as income and the SMME that received training every week enjoyed above R6 million as income. The results reveal Strong evidence that prosperous small businesses train more frequently and keep abreast of changing market environment.

5. Conclusions

Human Resource Management (HRM) practices offer significant benefits to Small, Medium, and Micro Enterprises (SMMEs). These practices contribute to the achievement of organizational goals, support business survival, and facilitate the implementation of strategic objectives. Additionally, effective HRM fosters a sustainable competitive advantage by enhancing employee responsiveness, innovation, and overall performance.

A clear relationship exists between the management of employees and organizational outcomes. Understanding the causal link between HRM practices and organizational performance enables managers to design policies, programs, and procedures that effectively leverage human capital to achieve organizational goals.

6. Study contribution

This study makes several key contributions to the understanding of HRM practices in SMMEs:

- a) **Human capital recognition:** Employees are recognized as vital human capital within strategic HRM, emphasizing their role as a critical resource for organizational performance.
- b) **Positive organizational attitudes and behaviors:** The cultivation of positive attitudes and behaviors enhances employee commitment. These factors are essential for successful implementation of strategic HRM practices.
- c) **Integrated strategic HRM framework:** Strategic HRM practices are composed of HRM policies, human capital development, HR systems, governance, and performance management. This integrated framework supports the alignment of employee capabilities with organizational objectives, promoting sustainability and growth in SMMEs.

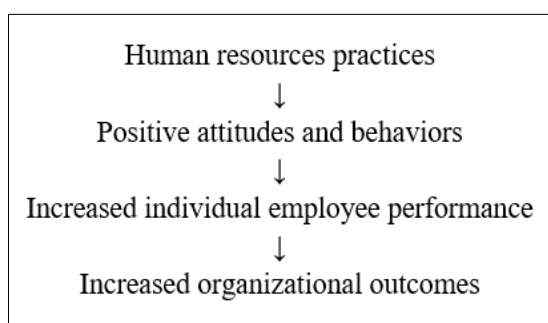


Fig 1: Advanced HR Practices Model

Human Resource Management (HRM) practices foster positive employee attitudes and behaviors, which enhance individual commitment and performance. This, in turn, translates into improved overall organizational performance.

7. Managerial implications

The findings of this study indicate that employment models integrating HRM practices with organizational strategies are more likely to succeed. Specifically, HRM practices related to selection, recruitment, training, motivation, and performance management have a direct impact on organizational outcomes. Small, Medium, and Micro Enterprises (SMMEs) serve as vital sources of employment. Ensuring stable employment through effective HRM is essential for promoting SMME growth and sustainability, thereby maintaining consistent employment opportunities. Given that many SMMEs operate as family businesses, owners and managers require enhanced knowledge, skills, and competencies, which can be developed through targeted training programs. Training not only equips employees with necessary skills but also motivates and inspires them, leading to higher performance and organizational success.

8. Recommendations

Based on the study findings, the following recommendations are proposed:

- SMMEs should adopt HRM practices that contribute to effective organizational outcomes.

- South African SMMEs are encouraged to implement an established institutional framework incorporating clear policies, procedures, and practices (Fedderke & Luiz, 2008).
- SMMEs should invest in HRM initiatives and best management practices to sustain competitiveness, enhance employee performance, and support long-term growth.

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