The Effects of Human Resource Development in Promoting Entrepreneurial Leadership Performance in Small and Medium Enterprises (SMEs)

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Abstract

The main objective of the study was to investigate human resource development for youth leadership in Kenyan Small and Medium Enterprises SMEs. The population of study was drawn from North Rift region of Rift valley province in Kenya. The study targeted a population of 120 enterprises managed by youth entrepreneurs (< 35yrs) in three locations, namely Eldoret, Kachibora and Kapcherop. The data collection instruments included a questionnaire that contained Likert scale questions. Both qualitative and quantitative analysis were used in the study. Pilot testing was done to ensure validity was achieved. Also, randomization was used to ascertain consistency of responses in order to achieve reliability of data. The study showed that, textiles business was popular in all the three regions. Specifically textile was more popular among the youths in Eldoret, hardware and textile were the key SME"s in Kapcherop while textile and general retail shops were the most popular SME"s amongst the youths in Kachibora location. Correlation analysis indicated that all the four independent variables (Entrepreneurial Performance, Management Styles, Motivation, and Training & Development) could be used in forecasting the values of the dependent variable (Youth Leadership in Kenyan SME"s) as there was no problem of multicollinearity amongst them. The coefficient of determination R^2 = 79.1, that is, Entrepreneurial Performance, Management Styles, Motivation, Training and Development explain 79.1 percent of the variations in Youth Leadership in Kenyan SME"s hence the regression model was significant. This was also supported by the P- value of 0.000. Individual statistics based on the p-values, indicated that each of the independent variables was linearly related to the dependent variable that is the P- values were less than 0.05. The study concluded that Entrepreneurial Performance, Management Styles, Motivation, Training and Development influences Youth Leadership in Kenyan SME"s. This is confirmed by the coefficient of determination, R^2, value of 79.1 percent.

Key Terms: *Human Resource Development, Small and Medium-Sized Enterprises, Motivation, Training and Development*

INTRODUCTION

Human Resource Development (HRD) is the frameworks for helping employees develop their personal and organizational skills, knowledge, and abilities (Ariyo, 1999). Human Resource Development includes such opportunities as employee training, employee career development, performance management and development, coaching, succession planning, key employee identification, tuition assistance, and organization development (Paauwe, 1998).

Human Resources Development can be defined simply as developing the most important section of any business human resource by, ―attaining or upgrading the skills and attitudes of employees at all levels in order to maximize the effectiveness of the enterprise‖ (Kelly, 2001). The people within an organization are its human resource. From a business perspective, it is not entirely focused on the individual‘s growth and development, ―development occurs to enhance the organization's value, not solely for individual improvement. Individual education and development is a tool and a means to an end, not the end goal itself‖ (Elwood & Holton, 2001).

The focus of all aspects of Human Resource Development is on developing the most superior workforce so that the organization and individual employees can accomplish their work goals in service to customers. Human Resource Development can be formal such as in classroom training, a college course, or an organizational planned change effort. Human Resource Development can also be informal such as employee coaching by a manager. Healthy organizations believe in Human Resource Development and cover all of these bases. A successful Human Resources Development program prepares the individual to undertake a higher level of work, organized learning over a given period of time, to provide the possibility of performance change, (Kouzes & Posner, 2007). The objective of human resource development is to foster human resourcefulness through enlightened and cohesive policies in education, training, health and employment at all levels, from corporate to national.

Although the productivity and survival of small and medium-sized enterprises (SMEs) may be enhanced if they adopt human resource management (HRM) practices, there is a far greater degree of informality in employment practices in SMEs than in larger workplaces. The SME sector itself can be classified into micro enterprises, small enterprises and medium enterprises. SMEs are the starting point of development in the economies towards industrialization (Cole, 2002).

One of the significant characteristics of a flourishing and growing economy is a booming and blooming small and medium enterprises (SMEs) sector. Small and medium enterprises play an important role in the development of a country. SMEs contribute to economic development in various ways: by creating employment for rural and urban growing labor force, providing desirable sustainability and innovation in the economy as a whole. In addition to that, a large number of people relies on the small and medium enterprise Most of the current larger enterprises have their origin in small and medium enterprises (Rosemary, 2005). SMEs are different from large scale enterprises in three main aspects; uncertainty, innovation and evolution. This vindicates the need for human resource development on two accounts: so that the workforce is equipped with the requisite knowledge to effectively deal with the challenges of running a start-up over uncharted territories and, two, because this country needs a thriving SME sector to move it into the next development level (William *et al.,* 2004).

According to the United Nations Industrial Development Organization (UNIDO) for developing countries, integration into the global economy through economic liberalization, deregulation, and democratization is seen as the paramount way to triumph over poverty and inequality. Important to this process, is the development of an animated private sector, in which small and medium enterprises can play a central role (Derek, Laura& Stephen, 2004). SMEs have a propensity to employ more labor-intensive production processes than large enterprises. Consequently, they contribute significantly to the provision of productive employment opportunities, the generation of income and eventually, the reduction of poverty. According to statistics, in industrialized countries, SMEs are major contributors to private sector employment. Empirical studies have shown that SMEs contribute to over 55% of GDP and over 65% of total employment in high income countries. SMEs and informal enterprises, account for over 60% of GDP and over 70% of total employment in low income countries, while they contribute about 70% of GDP and 95% of total employment in middle income countries (William, 2005).

SMEs play significant contribution in the transition of agriculture-led economies to industrial ones furnishing plain opportunities for processing activities which can generate sustainable source of revenue and enhance the development process (William *et al.,* 2004). North Rift is a significant agricultural region in Kenya. SMEs shore up the expansion of systemic productive capability. They help to absorb productive resources at all levels of the economy and add to the formation of flexible economic systems in which small and large firms are interlinked (Cohn *et al.,* 2005). Such linkages are very crucial for the attraction of foreign investment. Investing transnational corporations look for sound domestic suppliers for their supply chains. SMEs are the major growing force behind the fastest growing economy of China, in terms of contribution to the national GDP (accounting for 40%), scale of assets, diversification of products, and the creation of employment. China is a model for developing countries; it is likely that Kenya will follow her footsteps in her journey towards national prosperity. Similarly, the role of SMEs is well acknowledged in other countries such as Japan, Korea, and all other industrialized economies in terms of creating employment, reducing poverty and increasing the welfare of the society (William, 2005).

Experts and economists are unanimous about the role and importance of small and medium enterprises in the development of the Kenyan economy. The statistical data and empirical studies about SMEs highlight the bulk share of SMEs in the economy. According to the Ministry of Trade, SMEs constitute nearly 90% of all the enterprises in Kenya; employ 80% of the non-agricultural labor force; and their share in the annual GDP is approximately 40% (Walczak & Voss, 2006).

There are a number of factors responsible for the importance of SMEs in Kenya. First, SMEs bolster an entrepreneurial spirit and put forward suppleness in the economy. Second, SMEs emanate the fastest growing export sub-sectors, such as handicrafts. Third, they can support the poverty alleviation endeavors through employment generation process (Johnson, 2009). Above all, SMEs are more efficient in resource allocation as compare to that of large scale industry from a social point of view. It is a fair projection to say that Kenyan economy will soon be an economy of SMEs. The significant role of SME is plainly indicated by research and statistics. However, efforts have remained restricted focusing on the large enterprises, and neglecting small and medium enterprises which are the back-bone of the economy. SMEs are a distinctive mainstay of the economy that requires but still lack professional and institutional support. The prevailing world economic recession hit the SMEs particularly hard yet they are ill-equipped to cope (William, 2005). The effects would have been mitigated had the owners and staff of SMEs been HRD compliant. Large scale firms can cope better as they possess sound HRD capabilities and superior financial position. SME due to their small size and the resulting peculiarities, are far less capable of adjusting and carrying on successful business. While spared direct statutory or administrative discrimination, SMEs are still lagging in HRD thus lessening their competitive edge and survival chances in business (Collings & Wood, 2009).

Bearing in mind the aforementioned importance of SMEs and challenges facing them, it is justified to term HRD as one of the most critical element that can help turn SMEs into an effectual instrument for the enhancement of economic growth and employment. Furthermore, the environment for SME is incessantly changing, especially in the scenario of globalization and openness of the economies (Johnson, 2009). Therefore, HRD becomes an important tool for tackling attendant issues. According to UN Human development report _People are the real wealth of nations‘. This underscores the importance that human resources play in the development of a country. In economics, Human capital is the single most important factor of production hence its development is undoubtedly critical for the development of this country (Rosemary, 2005).

HRD practice in small business is undoubtedly quantitatively and qualitatively different from those in larger organizations. The growing small businesses need to develop their HRD practices, as increasing size inevitably brings increased complexity, necessitating a more professional approach towards managing the personnel and as they do so leadership is a key factor to their entrepreneurial performance. The study attempted to establish a nexus between Human Resource Development and the leadership success of SMEs in Kenya particularly the North Rift Valley region of Kenya with a bias on youth run SMEs (Merkle, 2010).

The increasing attention on human resource development (HRD) in small and medium enterprises (SMEs) is a comparatively recent phenomenon. HR-researchers have largely ignored the SMEs, even though smaller companies could be fruitful subjects for empirical investigation in leadership development, because their numbers, their growth-rates and not least diversity in the qualitative aspects of management practices (Johnson, 2009; Cole, 2002).

The lack of interest for the phenomenon is however two-sided. The practitioners, the managers and or owners of the SME‘s, have on their side often ignored personnel or HR-issues like training and development, motivation, performance management, employee counselling, resource management, recruitment, selection and retention etc. From such a case it seems managers have had the view, that HRD is unresponsive or not tailored enough to their needs, and it is considered too costly an activity to carry for a small organization (Merkle, 2010). The lack of appropriateness, expectation of the activities being too bureaucratic, time consuming and the lack of clarity concerning direct effects etc., has resulted in very limited attention to the approach and the technique of HRD hence poor leadership traits in most SMEs characterized by collapse, high turnover and conflict in the management of the enterprise. The question is however whether this type of SMEs perhaps have practiced personnel management, i.e. they have (not yet?) taken the step towards HRD. Secondly, the lack of consultation between research and SME‘s undermines the accountability and legitimization of HRD toward leadership enhancement in these enterprises. An unresponsive HRD may discourage businesses from opening, continuing or expanding, all of which would have a negative impact on the community at large. This trend must be broken if healthy growth is to be realized in SME‘s and HRD as a domain is to be more efficient and viable (Cole, 2002).

There are about 500,000 youth who graduate from various tertiary institutions ready to enter the job market every year. However, due to the slow economic growth and demand for experience by potential employers, 75% remain unemployed. The unemployed youth turn to the informal sectors which with time turn to medium sized businesses. The management is done informally hence the need to develop Human resource and other management structures that could help them develop further (Kouzes & Posner, 2007).

Many SME owners or managers lack managerial training and experience. The typical owner or managers of small businesses develop their own approach to management, through a process of trial and error. As a result, their management style is likely to be more intuitive than analytical, more concerned with day-to-day operations than long-term issues, and more opportunistic than strategic in its concept (Hall, 1995). Although this attitude is the key strength at the start-up stage of the enterprise because it provides the creativity needed, it may present problems when complex decisions have to be made. This is particularly so for the youth who are in their early stages of their entrepreneurial career. When programmes are found, owners/managers are often reluctant to proceed because of the high costs involved and the absence of support. As a consequence, they are likely to adopt 'off the shelf' training packages with a more reasonable cost and guaranteed support despite being more general than the ideal requirements. Training is informal, reactive, and aimed at solving immediate workplace problems rather than long-term development of employees. There is a tendency to justify the absence of training rather than the active promotion of a development strategy (Kelly, 2001).

Other areas of management and technologies as in the ICT sector are being addressed at the moment and mushrooming of small business sector suggests that more personalized management is expanding. Individuals who may have not initially been leaders are increasingly drawn into leadership positions with inadequate knowledge and skills. The main purpose of this study was to investigate the effects of human resource development (HRD) for youth leadership in Kenyan SMEs.

MATERIALS AND METHODS

The study adopted an exploratory approach using a descriptive survey design to investigate human resource development for youth leadership in SME‘s in Kenya. The population of study was drawn from North Rift region of Rift valley province in Kenya. The study targeted a population of 120 enterprises managed by youth entrepreneurs (< 35yrs) in three locations, namely Eldoret, Kachibora and Kapcherop. Some key informants were selected from the area. They were the youths in the area and their enterprises.
Multistage stratified and simple random sampling designs were used. In the first stratification it was spatial whereby the area was divided into 3 strata. Each of these strata was stratified into business sectors identified as hardware, textiles, restaurants and general retail shops. Each of these business strata, owned by youth (< 35years) were subjected to simple random sampling procedures as shown on the table 1. A representative sample of 50% was considered.

Table 1. Sub-division of the study area

Category	**Strata**	**Target Pop**	**Sample 50%**
Location 1: Eldoret	Hardware‘s	10	5
	Textiles	12	6
	Restaurants	7	4
	General retail shops	11	5
Location 2: Kapcherop	Hardware‘s	10	5
	Textiles	12	6
	Restaurants	7	4
	General retail shops	11	5
Location 3: Kachibora	Hardware‘s	10	5
	Textiles	12	6
	Restaurants	7	4
	General retail shops	11	5
Total		**120**	**60**

The data collection instruments included a questionnaire. The questionnaires contained Likert scale questions. The questionnaire consisted of two sections A and B. Section A sought for general information on the respondents and their businesses, while section B focused on the study information.

Both qualitative and quantitative analysis was used in the study. Pilot testing was done to ensure validity was achieved. Also, randomization was used to ascertain consistency of responses in order to achieve reliability of data.

Before analyzing the responses, the completed questionnaires were edited for completeness and consistency. Descriptive statistics such as mode, means, standard deviations and percentages were used to analyze the data. Tables and Charts were used to summarize the outcome of the research. Other techniques used in data analysis were; factor analysis; this assisted in decomposing information in a set of variables for meaningful factors that are underlying latent dimensions of the problem. The factors summarize the larger set of original variables /question variables into a smaller set of meaningful factors. Regression analysis was also used to come up with the model expressing the relationship between the dependent variable (Youth Leadership in Kenyan SMEs) and independent variables (Motivation, Training & Development, Management Styles and Entrepreneurial Performance). Both Excel spread sheet and statistical package for social science (SPSS) were used in the analysis.

RESULTS AND DISCUSSIONS

Demographic data of the respondents

The findings in figure 1, shows that majority (58%) of the respondents were male while female were 42% of the total respondents.

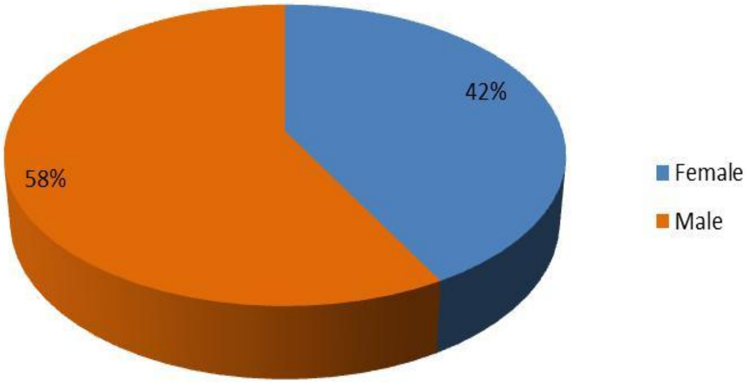

Figure 1: Gender of the respondents in %

The respondents were categorized into three main age brackets, that is, 21% were of age below 18 years, 54% were of age bracket 19 to 35 years and the rest (25%) belong to an age set of above 35 years. The responses were also categorized based on the occupation of the respondent. The findings in figure 2 shows that, textiles were more popular among the youths in Eldoret, hardware and textile were the key SME‘s in Kapcherop while textile and general retail shops were the most popular SME‘s amongst the youths in Kachibora location.

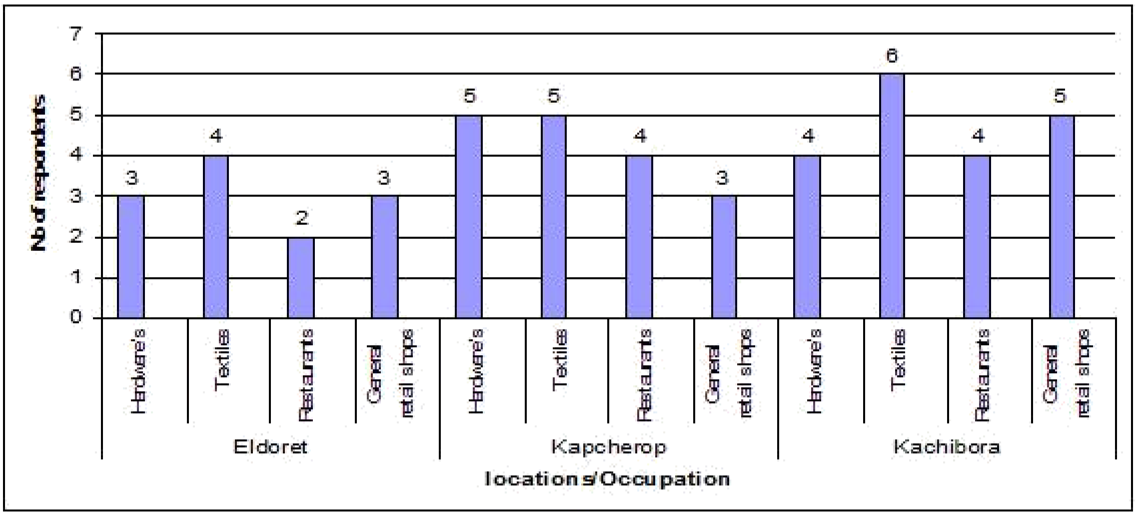

Figure 2: Nature of the SME of the respondents

A correlation matrix was used to check the multi-collinearity between different paired predictor variables. A factor of 0.5 was used to check on possibility multicollinearity so as to drop one of the two independent variables which are related to each other. The finding in table 2 shows that there was no problem of multicollinearity hence all the four independent variables can be used in explaining the variation on Youth Leadership in Kenyan SMEs.

Table 2. Multi-collinearity between different paired predictor variables

	Youth Leadership in Kenyan SMEs	**Motivation**	**Training & Development**	**Management Styles**	**Entrepreneurial Performance**
Youth Leadership in Kenyan SMEs	1.000				
Motivation	.297	1.000			
Training & Development	.605	.320	1.000		
Management Styles	.591	.205	.441	1.000	
Entrepreneurial Performance	.616	.124	.377	.254	1.000

Table 3. Summary of correlation analysis

R	**R^2**	**Adjusted R^2**	**Std. Error**	**Change Statistics**				
				R Square Change	**F Change**	**df1**	**df2**	**Sig. F Change**
.8888	.791	.785	.84474	.791	24.452	4	43	.000

The coefficient of determination (R^2) equals 0.791. This shows that Entrepreneurial Performance, Management Styles, Motivation, Training & Development explain 79.1 percent of the variations in Youth Leadership in Kenyan SMEs leaving only 20.1 percent unexplained. The P- value of 0.000 implies that the model of Youth Leadership in Kenyan SMEs is significant at the 5 percent significance

Analysis of variance (ANOVA) was carried out to test the hypotheses of the study.

Ho: There is no significant relationship between Entrepreneurial Performance, Management Styles, Motivation, Training & Development and Youth Leadership in Kenyan SMEs at p= 0.05. The p value for the correlation between Entrepreneurial Performance, Management Styles, Motivation, Training & Development and Youth Leadership in Kenyan SMEs was 0.00 and hence this null hypothesis was rejected.

Table 4. ANOVA results

	Sum of Squares	df	Mean Square	F	Sig/P-value.
Regression	69.795	4	17.449	24.452	.000(a)
Residual	30.684	43	.714		
Total	100.479	47			

The factor equation for the independent variables was also deduced. The trend line for multiple regression equation was obtained from the unstandardized coefficients (B).

$$\mathbf{Y = 1.32 + 1.168X_1 + 1.750\ X_2 + 1.563\ X_3 + 2.031\ X_4 + e}$$

Table 5. Regression coefficients for the independent variables

		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
(Constant)	bo	1.320	.373		3.541	.001
Motivation	X_1	1.168	.189	1.067	6.190	.000
Training & Development	X_2	1.750	.473	1.579	3.699	.001
Management Styles	X_3	1.563	.329	1.525	4.752	.000
Entrepreneurial Performance	X_4	2.031	.322	1.731	6.300	.000

Where 1.320 is a constant- meaning that at least Youth Leadership in Kenyan SMEs takes the rating 1.320 when all independent variables take the value zero. For every one unit increase in motivation, Youth Leadership in Kenyan SMEs increases by 1.168. For every one unit increase in Training & Development, Youth Leadership in Kenyan SMEs increases by 1.750. For every one unit increase in Management Styles, Youth Leadership in Kenyan SMEs increases by 1.563. For every one unit increase in Entrepreneurial Performance, Youth Leadership in Kenyan SMEs increases by 2.031.

CONCLUSION AND RECOMMENDATIONS

In summary, the study shows that, textiles business was popular in all the three regions. Specifically textile was more popular among the youths in Eldoret, hardware and textile were the key SME‘s in Kapcherop while textile and general retail shops were the most popular SME‘s amongst the youths in Kachibora location.

Correlation analysis indicated that all the four independent variables (Entrepreneurial Performance, Management Styles, Motivation, and Training & Development) could be used in forecasting the values of the dependent variable (Youth Leadership in Kenyan SME‘s) as there was no problem of multicollinearity amongst them.

The coefficient of determination R^2 = 79.1, that is, Entrepreneurial Performance, Management Styles, Motivation, Training and Development explain 79.1 percent of the variations in Youth Leadership in Kenyan SME‘s hence the regression model was significant. This was also supported by the P- value of 0.000. Individual statistics based on the p-values, indicated that each of the independent variables was linearly related to the dependent variable that is the P- values were less than 0.05.

The study concluded that Entrepreneurial Performance, Management Styles, Motivation, Training and Development influences Youth Leadership in Kenyan SME‘s). This is supported by the R^2 value of 79.1 percent. The study also found that Entrepreneurial Performance was the main determinant of Youth

Leadership in Kenyan SME‘s, followed by Management Styles , Training and Development and Motivation respectively.

The Kenya Government policy of Vision 2030 regards SMEs as a pivotal mechanism in wealth creation. HRD should be considered among the youth and other management practices that can create a Win-Win situation for all. There is need to equip the young and emerging leaders in the SME sector with adequate skills in HRD for them to be successful.

Training institutions should help in improving youth leadership in SME sector, by establishing programmes that would develop leaders among the entrepreneurs as it contributes a lot to proper management of businesses.

The relationship between HRD and SMEs is new and there is need to embrace human resource practices as they lead to good management practices in any venture in the world.

In the process of carrying out the study, it was observed that there is massive potential among small-scale business in Kenya which has the power to propel double digit economic growth. Therefore there is need for such institutions to address capacity development issues amongst its staff if the country is to remain on track of sound economic growth.

Small scale businesses are great avenues of nurturing talent because of the great number of young people who join such ventures at an early age without the basic management skills. The giant leader in them will only be realized if an enabling environment is offered. There is therefore need for leaders to work on building these essential skills and create a dynamic professional image that benefits the team, the company and ultimately themselves.

Potential leaders are often recruited by employers and promoted to supervisory roles with little or no instructions at all and thus are forced to learn the ropes of leadership through trial and error. In the process performing their duties, they make mistakes that hurt morale, anger teams, strain relationships or stifle productivity. This is a training gap for supervisors that should be bridged by training them soft skills.

Finally through training organizations can minimize the cost of hiring new staff but fail to retain them after they unleash them to the incompetence of untrained supervisor.

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BIO-DATA

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