

STRATEGIC PLANNING AND HIGH PERFORMANCE HUMAN RESOURCE MANAGEMENT PRACTICES IN PAKISTANI SMES

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Abstract:

This study is concerned with the relationship between Strategic Planning and High Performance Human Resource Management Practices (HHRMP). The study was conducted in the context of Small & Medium-size Enterprises (SMEs) in the service and manufacturing sector in Pakistani. The primary data was collected through a survey of HHRMP and as such the study is quantitative in nature. The target population of the study consisted of SMEs operating in the city of Karachi, Pakistan. Stratified random sampling method was applied to collect data from 357 SMEs. An independent-sample t-test test was employed to see whether group means of Strategic Planning are significantly different in relation to prevalence of HHRMP. The overall results were mixed and partially supportive of a positive relationship between Strategic Planning and the adoption of HHRMP.

Keywords: Pakistan; Strategic Planning; High Performance Human Resource Management Practices; SMEs

INTRODUCTION

Small and Medium Enterprises (SMEs) play a significant role in the economic development of a country (Bacon & Hoque, 2005) both through employment creation and income generation (Lange, Ottens, & Taylor, 2000). Key to strengthening the SME sector is through the optimal utilisation of its human resources, technology and processes (Barney, 1991; Huselid, 1995). Within SMEs each employee constitutes a larger percentage of the total workforce (Hill & Stewart, 2000) emphasising the crucial importance of employing high performance human resource management practices (HHRMP) which create an environment within which the skills and capabilities could be optimised and contribute to firm performance (Golhar & Deshpande, 1997; Hornsby & Kuratko, 2003). Further to the latter, the focus of this paper is on the less examined position of SMEs in a developing country, Pakistan, and the relationship between contextual factors

(firm size, industry type, strategic planning, and the presence of a HR manager) and HPMP in Pakistani SMEs.

Pakistan's economy, like that of many developing countries is a direct reflection of its SME sector (Khalique, Isa, & Nassir Shaari, 2011). According to Economic Census of Pakistan 2005 (this is the latest census in Pakistan) , there are 3.2 million businesses in Pakistan. SMEs represent more than ninety percent of all private businesses and employ nearly 78 percent of the non-agriculture labour force in Pakistan (PBS, 2011). SMEs' contribution to Pakistan's Gross Domestic Product is more than thirty percent. Additionally, the sector represents 25 percent of exports of manufactured goods and thirty-five percent in manufacturing value added. Almost 53 percent of all SME activity is in retail trade, wholesale, restaurants and the hotel sector. Twenty percent of SME activity is in industrial establishments and 22 percent in service provision (PBS, 2011).

Recognising the significant contribution of SMEs to economic diversification, employment creation, income generation, and poverty alleviation, the Government of Pakistan (GoP) has been putting much effort and resources towards the promotion of the development of entrepreneurship and SMEs in general. For example, the GoP established a Small and Medium Enterprise Development Authority (SMEDA) in October 1998 with the aim of developing this sector. The GoP has also established a SME bank to finance this sector. Moreover, as per the directions of GoP, most commercial banks in the country have specialised departments for the SME sector (Bhutta, Arif, & Usman, 2008).

However, regardless their economic importance, SMEs in Pakistan suffer from a variety of shortcomings, which have confined their ability to adjust to the economic liberalisation measures introduced by the GoP and their capacity to take full advantage of the rapidly growing world markets. These shortcomings include for example a focus on low value-added products, absence of an effective business information infrastructure, an energy crisis, lack of strategic planning, low levels of financial literacy, unskilled human resources and non-aggressive lending strategies by banks (Bari, Cheema, & Ehsan-ul-Haque, 2005; Khawaja, 2006; Mustafa & Khan, 2005; Rohra & Panhwar, 2009; SBP, 2010).

The high performance human resource management practices (HPRMP) central to this study, include recruitment and selection, training and development, performance appraisal, remuneration and employee consultation. What makes a study on HPRMP in Pakistan important? Pakistani SMEs are facing a big challenge in managing their human resources (SMEDA, 2007). For example, the higher education institutions and the technical training infrastructure are the only two educational providers, both of which are not familiar with the unique requirements of SMEs nor are

they equipped to deal with the challenges associated with SMEs. In addition, the limited financial resources of SMEs significantly limit their human resource development (Bari et al., 2005).

Moreover, the Human Resource Management (HRM) systems employed in Pakistani firms is in a developing phase (Yasmin, 2008). Many businesses have renamed their personnel and administration departments to Human Resource (HR) departments, while in reality they still tend to practise reactive HRM approaches (Yasmin, 2008). Khilji (2001), argues that HRM practices are not applied in a systematic and integrated way in Pakistani firms. As a result, low motivation, lack of commitment and high turnover in employees are common problems within these organisations. Hence, there are very few businesses that have followed a systematic approach to HRM. In a recent study, Memon et al. (2010) argue that the lack of a formal HR policy and HR department have resulted in informal recruitment, selection, training and compensation practices. Due to these SMEs are facing difficulty in entering and competing in the international market (Akhtar, Raees, & Salaria, 2011). In another regional study, HafizUllah (2011) mentioned that the failure rate of SMEs in Pakistan is 90-95% in the initial stages. They identified a lack of training and education (before initiating a business), entrepreneurial skills, and characteristics as causes of failure of Pakistani SMEs. With the expansion of the economy and foreign direct investment, there are however, signs that businesses are adopting a new perspective to their HRM systems. For example several private sector organisations tend to encourage employee involvement in decision making and team work (Yasmin, 2008, p. 56).

Only a few studies (Khilji, 2001, 2004; Yasmin, 2008) have briefly highlighted the HRM scenario in Pakistan. However, these studies have been conducted in the context of large organisations and ignored an important sector – the SME sector. Keeping in mind the importance of SMEs to the economic

development of Pakistan (Khalique et al., 2011; PBS, 2011; SBP, 2011; SMEDA, 2007) and their unique characteristics (Heneman & Tansky, 2002), efforts are needed to identify the broad nature of the patterns and developments in human resource management and more particularly the relationship between contextual factors and the adoption of HPMP in Pakistani SMEs.

LITERATURE REVIEW

High Performance Management

Practices

Research in the past has primarily focused on the relationship between 'individual' human resource (HR) practices and firm performance, while recent research studies are based on 'bundles', 'systems' or 'configurations' of HR practices and their impact upon performance outcomes (De Kok & Hartog, 2006; Drummond & Stone, 2007). Such configurations of HR practices have been shown to lead to better firm performance (Delery & Doty, 1996). These bundles of HR practices are called high performance human resource management practices (HPRMP) in the current study. The recent literature has used the term HPRMP in various ways. For example, high involvement (Bryson, Forth, & Kirby, 2005; Gollan, 2005; Guthrie, Spell, & Nyamori, 2002), high commitment (Whitener, 2001), high performance work systems (Beltrán-Martín, Roca-Puig, Escrig-Tena, & Bou-Llusar, 2008; Chow, 2005; Datta, Guthrie, & Wright, 2005; De Kok & Hartog, 2006; Drummond & Stone, 2007; Hartog & Verburg, 2004; Murphy, Dipietro, & Murrmann, 2007; Takeuchi, 2009; Tsai, 2006; Way, 2002), high performance work practices (Bae, Chuma, Kato, Kim, & Ohashi, 2011; Connolly & McGing, 2007; Huselid, 1995; Zhang & Li, 2009) and high performance management practices (Wiesner, McDonald, & Banham, 2007). Although various terms are employed and they are used interchangeably, they all refer to the

same philosophy (Evans & Davis, 2005; Pfeffer, 1998; Wiesner et al., 2007).

Ichniowski et al. (1993) are among the first authors to assert that 'bundles' of specific HRM practices have a greater impact on organisational performance than isolated involvements (Huselid, 1995). HPMP therefore constitutes complementary bundles of HRM practices (Marchal & Kegels, 2008). This begs the question: how is HPMP defined and what specific practices constitute HPMP or how is HPMP measured in research studies? These issues are explored by Raziq (2012) with the following working definition for HPRMP.

HPRMP is a set of human resource management practices (Recruitment, Selection, Training, Remuneration, and Performance Appraisal) and managerial practices that enhance employee involvement and participation, which positively impact upon HR outcomes and organisational performance and/or competitive advantage.

Relationship between Strategic Planning and HPMP

Planning plays a vital role in business. Numerous studies have confirmed this (e.g. Fening, Pesakovic, & Amaria, 2008; Gibbons & O'Connor, 2005; Rue & Ibrahim, 1998; Wiesner & Millet, 2012). For instance, Fening et al. (2008) confirmed this in their study of 200 SMEs in Ghana by finding a positive relationship between strategic planning and firm performance. Moreover, Rue and Ibrahim (1998) examined the planning practices of small firms in the US and found positive relationship between planning sophistication and growth in sales. However, their study did not find significant relationship between planning sophistication and return on investment (ROI). Gibbons and O'Connor (2005) found formalised methods of strategic planning in entrepreneurial firms. They argue that formalised methods tend to help firms to learn about their environment and capabilities. They further

suggest that such formalised planning can help SMEs to get competitive advantage over their competitors (Gibbons & O'Connor, 2005).

A number of studies have also found a positive relationship between strategic planning and the adoption of HPHRMP (e.g. Banham, 2006; De Kok, Uhlaner, & Thurik, 2003; Wiesner & McDonald, 2001; Wiesner et al., 2007). For instance, De Kok et al. (2003) found that organisations with business plans are more likely to implement HPHRMP. Moreover, Wiesner and McDonald (2001) and Wiesner et al. (2007) noted a significant positive relationship between strategic planning and the adoption of HPMP in SMEs. Their studies found that firms with a strategic

plan tend to use more formal practices related to recruitment and selection, training and development and performance appraisal practices. Their studies however indicated that SMEs face problems in planning and responding to a volatile environment in comparison to larger firms (Wiesner & McDonald, 2001). In addition, the study of Banham (2006), reported a strong positive relationship between the existence of a strategic plan and the implementation of organisation change practices. The impact of the existence of a strategic plan on HPHRMP has not been examined in the Pakistani context.

In view of the discussion above, the following hypothesis was developed.

H₁: SMEs with a strategic planning adopt HPHRMP to a significantly greater extent than those SMEs without a strategic plan.

METHODOLOGY

Data Collection

It was not possible to collect data in the 'normal' postal survey method and the researcher had to utilise a team of 10 individuals to collect data from the selected sample owing to the following reasons: (1) security was an issue, (2) data collection commenced shortly after a major flood occurred in Pakistan, (3) SME managers who represented the target sample may not have a good command of the written English language, and (4) education levels of SME managers are low. The data collection team consisted of postgraduate research students at University of Karachi. The researcher is a senior university lecturer and was able to identify suitable individuals. The researcher provided a 2-day training course to the data collection team on the content of the survey itself and collection of the data through filling out the questionnaires by face-to-face collaboration with survey respondents. The team was continuously monitored by the researcher. To seek participation from the selected organisations, the research team contacted the organisations first by telephone and through their personal

interaction with the management of trade associations. The selected organisations were first asked about the size of their workforce and the number of employees they employ since the databases were not designed specifically for SMEs (as mentioned above).

A total of 703 firms were selected, contacted by phone and invited to participate in this survey. Of these firms, 357 SMEs (50.78 percent response rate) accepted the invitation to fill out the survey questionnaire. Most of the respondents who agreed requested that the researcher visit their organisations personally, and only a few respondents (from services sector) agreed to fill questionnaire by email (five firms). In the end, 357 questionnaires were collected. Of the 357 responses collected from SMEs, 243 were from the manufacturing sector and 114 responses from the service sector. A total of 227 responses were collected from small firms (145 from manufacturing and 82 from service sector) and 130 responses from medium sized firms (98 from manufacturing and 32 from service sector).

Sample

To examine the relationship between strategic planning and HPHRMP in Pakistani SMEs, a large scale questionnaire survey was conducted in the industrial city of Karachi, Pakistan. This city was selected due to its economic importance and industrial development (KCCI, 2010). Karachi is the capital of Sindh province, and the largest city located in the south of Pakistan. Karachi is the commercial and financial capital of Pakistan. It contributes 25 percent to national GDP. It also shares 65 percent in national revenue such as federal and provincial taxes, customs and surcharges (CDGK, 2011).

The sampling frame was based on the following data bases: Karangi Association of Trade and Commerce (KATI) Karachi; Karachi Chamber of Commerce and Industry (KCCI) and Jamal's Yellow pages, Pakistan. However, the three databases were not specifically designed for SMEs. Nevertheless, these data bases were deemed to be the most reliable and updated databases in Karachi, Pakistan. A random sample of 703 firms was selected. The population was stratified by industry sector (manufacturing and services). These two sectors were selected based on their economic importance (Economic Survey, 2010-11) and their likelihood to have some management structure.

Measures

HPHRMP Questionnaire: The survey instrument was adapted from Wiesner et al. (2007) and was applied in the Pakistani context of this study. In addition, the language of survey questionnaire was English as this language is commonly used in most of the Pakistani organisations. However, the instrument was also translated into Urdu (national language of Pakistan) to ensure the validity of the survey. Moreover, the translated version of the instrument also some SME managers who did not have

good command on written English language. This survey questionnaire was originally developed and validated by Wiesner et al. (2007) for the study of 'high performance management practices' in Australian SMEs during 2007. The survey instrument comprised HPHRMP such as recruitment; selection; training and development; performance appraisal; and employee consultation in decision making. The content validity and reliability of the updated questionnaire were also addressed. The *content validity* of the revised questionnaire was determined by interviewing and presenting the questionnaire to 10 SME owner-managers in different SMEs within Karachi, Pakistan. In addition, five managers from SMEDA (Small and Medium Enterprise Development Authority Pakistan) were invited to comment on the questionnaire. The purpose of these interviews was to determine which aspects of 'HPMP' in the questionnaire are of practical importance to the Pakistani context and suitable to Pakistani SMEs. This was followed by a pilot survey conducted in 20 different SMEs in Karachi, Pakistan. On the basis of the interview feedback and results from the pilot survey, the survey instrument was revised and presented to the selected sample. A *reliability analysis* indicated a Cronbach Alpha Coefficients of between 0.62 and 0.80 for each component of HPHRMP.

Results

An independent sample t-test was conducted to compare the adoption of HPMP with that of existence of a strategic planning (YES and NO) in SMEs. The results shown in Table1 below provide the Mean (M), Standard Deviation (S.D), t statistics, and its significance. The hypothesis, H_1 : *SMEs with a strategic planning adopt HPHRMP to a significantly greater extent than those SMEs without a strategic plan, is tested in this section.*

The results regarding the prevalence of the *Recruitment* component indicate

that firms with a strategic plan compared to firms without a strategic plan, do not significantly differ with regard to any of the Recruitment and Selection components ($p > 0.1$). However, with regard to the *Training & Development, Performance Appraisal and Compensation* components, firms with a strategic plan use such practices to a significantly greater extent than those firms without a strategic plan ($p < .01$). It is evident from

Table 1 that firms with a strategic plan and firms without strategic plan did not differ significantly with regard to the degree to which they consult their employees on strategic or operational issues ($p > 0.1$).

Based on the discussion above, the hypothesis, H_1 : *SMEs with a strategic planning adopt HPHRMP to a significantly greater extent than those SMEs without a strategic plan*, is only partially supported.

Table 1

Relationship between Strategic Planning and HPHRMP

HPMP Component	Strategic Planning				Independent sample t- test	
	No N = 227		Yes N = 130		t	Sig.
	Mean	S.D**	Mean	S. D**		
Recruitment	1.3921	.17394	1.4136	.18956	1.182	0.238
Selection	1.3683	.22328	1.3889	.21649	0.948	0.344
Training & Development	1.3437	.26057	1.4604	.35849	3.059	0.003*
Performance Appraisal	1.4452	.23742	1.4962	.27272	1.98	0.041*
Compensation	1.6286	.21610	1.6755	.24673	2.077	0.032*
Consultation	3.2556	.51854	3.1788	.55279	1.460	0.145

* $p < .05$, ** S.D = Standard Deviation

DISCUSSION

This paper examines the relationship between existence of strategic planning and the prevalence of HPHRMP in SMEs. A mixed picture emerged regarding the overall picture of the relationship between Strategic planning and HPMP. The overall the results were mixed and partially supportive of a positive relationship. A significant positive relationships between strategic planning and *Training & Development, Performance Appraisal and Compensation* were evident. However, *Recruitment and Selection* practices

were adopted to a greater extent by firms without a strategic plan.

The results of Wiesner et al. (2007) are consistent with these findings. They found positive relationship between strategic planning and training and development, and performance appraisal practices. Interestingly, a positive significant relationship between strategic planning and informal training practices was also found where one would rather have expected a relationship between strategic planning and formal training. This may be owing to the overall informal training practices trend in Pakistani SMEs rather than formal practices. Strategic

planning also had a positive impact upon the prevalence of traditional performance appraisal practices, normative compensation and companywide incentives.

The non-significant relationships between strategic planning and *Recruitment* and *Selection* practices may be indicative of the overall informal nature of strategic planning in Pakistani SMEs. Hutter and Wiechmann, (cited in Wiesner & Innes, 2012, p. 102) argues that firms utilising an emergent strategy can be likened to a 'pattern in a stream of decisions and actions, where the strategic relevance of the pattern is identified in retrospect'. He further argues that emergent strategies are therefore intention-interpreted, not intention-driven. This seems to be case in Pakistani SMEs where sixty-five percent of SMEs do not use strategic planning in developing operational plans and as such may not go as far as delineating plans for HPMP issues.

Joyce and Wood (2003) argue that strategic planning tend to bring change and innovation and is positively related to the growth of SMEs. Prior research has also acknowledged the positive relationship between formal strategic planning and firm performance (Fening et al., 2008; Gibbons & O'Connor, 2005; Rue & Ibrahim, 1998). Gibbons and O'Connor (2005) argue that formal strategic planning facilitates the firm to know about its environment and capabilities. They further suggest that such formalised planning can help SMEs to gain a competitive advantage over their competitors. Similarly, Poole and Jenkins (1996) argue that strategy formulation may affect the development of HR strategies which are used to attract and retain human resources for competitive advantage. Moreover, studies have also shown a positive effect of formal strategic planning on the adoption of HPMP (e.g. Banham, 2006; De Kok et al., 2003; Wiesner & McDonald, 2001; Wiesner et al., 2007). Thus, within the context of this

study, strategy formalisation could affect the adoption of HPMP which ultimately lead to organisational performance. The latter could be an area for further research.

CONCLUSION

There is no significant relationship between recruitment and selection practices and strategic planning. However, positive significant relationships were found between training & development, performance appraisal and Compensation and strategic planning. The results also show that SMEs do not consult their employees even with the presence of strategic planning.

Like any other research, this study is not without its limitations. First, the data has been obtained from a single person in the form of owners/managers who rated their HPMP in their organisations (Gerhart, Wright, McMahan, & Snell, 2000). However, collecting data from owners/managers, managing directors or the chief executive officer (CEO) as the self-reporting person is a common approach since CEOs are well informed about all strategic and operational activities within the organisation (Frost, Birkinshaw, & Ensign, 2002) Within the SME context it is specifically appropriate since the SMEs owner/manager is the key person who run most of the affairs of business and take most of the strategic decisions (Rana, Khan, & Asad, 2007). Nevertheless, in order to enhance the internal validity of the research, an extension of this study to collect data from employees within the organisations may be beneficial (Shih, Chiang, & Hsu, 2006).

This study has been conducted in the Pakistani context and the data for this research study was collected from SMEs in service-based and manufacturing firms in a single city (Karachi) within Pakistan. Thus, caution should be applied for interpreting the generalisability of results. However, Karachi is the biggest industrial city of Pakistan. It contributes 25 percent to national GDP. It also shares 65

percent in national revenue such as federal and provincial taxes, customs and surcharges (CDGK, 2011). Furthermore, the data was collected from 13 major industries (within the two major categories of manufacturing and services). Future research including other parts of Pakistan (rural and urban) would add significantly to the generalisability of the results within

Pakistan. In addition, the transferability of the findings of the current study may not be transferable and applicable in other cultural contexts. However, since there has been such limited information of HPMP in Pakistan and other countries, the current study represents an important contribution.

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