

MANAGEMENT & **M**ARKETING

Volume XII, issue 2/2014



EDITURA UNIVERSITARIA
Craiova, 2014

Editor in Chief

Professor PhD NISTORESCU Tudor, University of Craiova

Deputy Chief Editor

BARBU Mihail Catalin, University of Craiova

Editorial Assistants

BOCEAN Claudiu, University of Craiova

GIURCĂ VASILESCU Laura, University of Craiova

OGARCA Radu, University of Craiova

The Journal is printed under the patronage of:

- University of Craiova
Department of Management-Marketing-Business Administration
- Romanian Academic Society of Management

The Journal is indexed in international databases:

- Cabell's Directories of Publishing Opportunities
- Central and Eastern European Online Library - CEEOL
- Directory of Open Access Journals - DOAJ
- EBSCO Publishing
- Research Papers in Economics - REPEC
- Romanian Editorial Platform - SCPIO

Editura Universitaria

Str. A.I. Cuza, nr 13, 200585, Craiova

Website: www.mnmk.ro

Contact person: Catalin Barbu

Tel. 0727-761287

Email: revista_management_marketing@yahoo.ro

The views expressed in these articles are the sole responsibility of the authors

ISSN 1841-2416

Scientific Council

Professor PhD BACHELARD Olivier,
Ecole Supérieure de Commerce Saint-Étienne

Professor PhD BĂGU Constantin,
Academy of Economic Studies Bucharest

Professor PhD BENSEBAA Faouzi,
Université of Reims

Professor PhD BERÁCS József Corvinus,
University of Budapest

Professor PhD BERNATCHEZ Jean-
Claude Université du Quebec

Professor PhD BIBU Nicolae,
West University of Timișoara

Professor PhD BURLEA Șchiopoiu,
Adriana, University of Craiova

Professor PhD CÎRSTEA Gheorghe,
Academy of Economic Studies Bucharest

Professor PhD CONSTANTINESCU
Dumitru, University of Craiova

Professor PhD DUGULEANA Liliana,
University Transilvania of Brașov

Professor PhD FOLTEAN Florin, West
University of Timișoara

Professor PhD IGALENS Jacques, IAE
de Toulouse

Professor PhD ILIEȘ Liviu, Babeș-Bolyai
University of Cluj-Napoca

Professor PhD IONESCU Gheorghe,
West University of Timișoara

Professor PhD Jain Rajendra, Shri
Govind Ram Sakseria Institute of
Management & Research, Indore, India

Professor PhD KHAN Himayatullah,
Institute of Information Technology,
Abbottabad

Professor PhD MEGHIȘAN Gheorghe,
University of Craiova

Professor PhD MUNTEANU Corneliu, A.
I. Cuza University of Iași

Associate Professor PhD NĂSTASE
Marian, Academy of Economic Studies
Bucharest

Professor PhD NICOLESCU Ovidiu,
Academy of Economic Studies Bucharest

Associate Professor PhD OCLER
Rodolphe, ESC Chambery Business
School

Professor PhD OLTEANU Valerică,
Academy of Economic Studies Bucharest

Professor PhD PLĂIAȘ Ioan, Babeș-
Bolyai University of Cluj-Napoca

Professor PhD POPA Ion, Academy of
Economic Studies Bucharest

Associate Professor PhD TUFAN Ekrem,
Canakkale Onsekiz Mart University

Professor PhD VERBONCU Ion,
Academy of Economic Studies Bucharest

Professor PhD WOODS Timothy,
University of Kentucky

Professor PhD ZAHARIA Răzvan,
Academy of Economic Studies Bucharest

Professor PhD ZENTES Joachim,
Saarland University

Members of the Reviewers Body

AHMED Ishfaq, University of the Punjab, Lahore, Pakistan

AFSAR Bilal, Hazara University, Pakistan

ASHRAF Imam, Aligarh Muslim University
BAMORIYA Prerna, Govindram Seksariya
Institute of Management & Research,
Indore, India

BĂBUȚ Raluca, Babeș-Bolyai University
of Cluj-Napoca

BĂCILĂ Mihai Florin, Babeș-Bolyai
University of Cluj-Napoca

BĂLOI Cosmin Ionuț, University of
Craiova

BERTEA Patricia Elena, A. I. Cuza
University of Iași

BOGAN Elena, University of Bucharest

BUDICĂ Ilie, University of Craiova

CIUMARA Tudor, Romanian Academy

CRĂCIUN Liviu, University of Craiova

CONSTANTIN Cristinel Petrișor,
University Transilvania of Brașov

CORTINI Michela, University G.
D'Annunzio of Chieti – Pescara

CRIȘAN Cătălina Silvia, Babeș-Bolyai
University of Cluj-Napoca

CRIȘAN Emil, Babeș-Bolyai University of
Cluj-Napoca

CRIVEANU Ion, University of Craiova

DABIJA Dan Cristian, Babeș-Bolyai
University of Cluj-Napoca

DOGARU Tatiana Camelia, Școala
Națională de Studii Politice și
Administrative

DRAGOLEA Larisa Loredana, University
1 Decembrie 1918 of Alba-Iulia

GĂNESCU Mariana Cristina, Constantin
Brancoveanu University of Pitești

GÎRBOVEANU Sorina, University of
Craiova

HEMANT Bamoriya, Acropolis Institute of
Technology & Research, Indore, India

IODACHE Maria Carmen, Constantin
Brancoveanu University of Pitești

ISAC Claudia Adriana, University of
Petroșani

KHAN Naveed Rehman, Universiti
Pendidikan Sultan Idris, Perak, Malaysia
MEGHIȘAN Mădălina, University of
Craiova

MOISĂ Claudia Olimpia, University „1
Decembrie 1918” Alba Iulia

MOISESCU Ovidiu, Babeș-Bolyai
University of Cluj-Napoca

MUHAMMAD Ishtiaq Ishaq, Global
Institute, Lahore, Pakistan

NEȘTIANU Stefan Andrei, A. I. Cuza
University of Iasi

POPESCU Daniela, University of Craiova

POPESCU Ruxandra Irina, Academy of
Economic Studies Bucharest

PUIU Silvia, University of Craiova

RADU Cătălina, Academy of Economic
Studies Bucharest

SAFARI Mohammad, University of Tehran

SIMION – MELINTE Cezar Petre,
Academy of Economic Studies Bucharest

STANCU Ion, University of Craiova

SCRIOȘTEANU Adriana, University of
Craiova

SIMIONESCU F. Mihaela, Academy of
Economic Studies Bucharest

SITNIKOV Cătălina, University of Craiova

SPERDEA Natalița Maria, University of
Craiova

UDDIN Mohammed Belal, Comilla
University

VĂRZARU Mihai, University of Craiova

TOADER Cosmina-Simona, USAMVB
Timișoara

WEI-LOON Koe, Universiti Teknologi
MARA, Melaka, Malaysia

ZAHARIE Monica Aniela, Babeș-Bolyai
University of Cluj-Napoca

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

Dr. Abdul RAZIQ

Balochistan university of IT, Engineering & Management Sciences Quetta Pakistan
Email: araziq85@yahoo.com

Abstract:

This study is concerned with the relationship between Strategic Planning and High Performance Human Resource Management Practices (HPRMP). 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 HPRMP 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 HPRMP. The overall results were mixed and partially supportive of a positive relationship between Strategic Planning and the adoption of HPRMP.

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 (HPRMP) 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 (HPHRMP) in the current study. The recent literature has used the term HPHRMP 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 HPHRMP.

HPHRMP 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 Table 1 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			
	Mean	S.D**	Mean	S. D**	t	Sig.
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