# Effect of Recruitment and Selection of Employees on The Performance of Small and Medium Enterprises in Kisumu Municipality, Kenya

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## Abstract

*The study investigated the effect recruitment and election on the performance of SMEs in Kisumu Municipality, Kenya. Kenya has 1.6 million SMEs, constituting 96% of business enterprises, employing 75% of the labour force and contributing 20% to GDP. But their performance has been poor in the last decade. Hence the need to determine the suitable recruitment and selection strategies that could increase their performance. The study found that the overall average performance of SMEs in Kisumu Municipality was 60.71%. There was a significant positive correlation between recruitment and selection, and performance of SMEs at α = .01. The average performance of SMEs with good recruitment and selection was 81.90%; with moderate was 67.94%, with poor was 53.90%. Recruitment and selection account for 40.8% of the total variance in performance of SMEs. The study concludes that recruitment and selection has a significant effect on the performance of SMEs in Kisumu Municipality.*

## Key Words
Recruitment, selection, performance, SMEs, Kisumu, sourcing, attracting, screening

## 1.1 Introduction
Human Resource management is the management function that implements strategies and

policies relating to the management of individuals (Patterson, 1987). In the United States as well as multinational or international corporations, human resource reflects a quantitative and strategic approach to workforce management demanded by corporate management to gain a competitive advantage, and to utilize limited and highly skilled workers (McLean, Osman-Gani & Cho, 2004). However, over time, usefulness and effectiveness of human resource practices in the performance of small and medium enterprises (SMEs) have not been clearly defined and focus of HRM practices has mainly been on multinational or international corporations. Yet the outlook of all organizations, regardless of sizes and types, are directly linked to their personnel. According to Ominde (1964), human resource is the most important asset of an organization because it is the one that manipulates all other resources (which are inert), to function according to some plan. And as Macgregor (2011) also points out, the backbone or foundation of an organization is its core staff. The performance of SMEs in Kisumu Municipality should therefore be a reflection of the performance of their staff, and how they are managed, and more specifically, how they are recruited and selected for the available positions.

SME covers a wide range of meaning and measures, varying from country to country and between the sources reporting statistics on SMEs (Wright & Paul, 2005). The term small or medium sized business has also become standard in some countries (Grameen Foundation, 2007). But despite its wide usage, there is no universally agreed definition of an SME. However, among the most common definitions in developing countries is the number of employees and size of assets or turnover in an SME: SMEs are business units whose headcount or turnover falls below certain limits (KAM, 2008; Grameen Foundation, 2007). The traditional definition in Germany has a limit of 500 employees while, in Belgium, it is 100. But the European Union has now standardized the definition to companies with fewer than 50 employees as small and those with fewer than 250 as medium. But in the United States, when small business is defined by the number of employees, then it refers to those with less than 100 employees, and medium-sized business to those with less than 500 employees (Flyvbjerg, Holm & Buhl, 2002, 2005). However, the most widely used American definition is the same of that of European Union: up to 10 employees (*Harold, 2003).* Kenya SMEs Bill (2009) also defines SMEs in terms of number of employees and the enterprise turnover. Generally, and as adopted in this study, an SME is an enterprise with not more than ten employees.

The SMEs sector in Kenya has undergone a lot of structural transformation in the last three decades. The government through several sessional and policy documents, acknowledges the role of this sector in poverty reduction and employment and wealth creation (GOK, 1995, 1999, 2000). The potential of SMEs in employment creation and raising incomes for many people make them an important factor in national development. There are 1.6 million registered SMEs in Kenya, constituting 96 percent of all business enterprises in the country, and employing 5.1 million people which accounts for 75 percent of the total labour force and contributes 20 percent to Kenya's GDP. SMEs are the dynamic engines through which society-wide developmental objectives can be achieved (Kibas, 2004; Paauwe, 2009; Pandey, 2007). Considering the high unemployment in Kenya, high rates of school dropout and the increasing number of retrenches that have deepened the levels of poverty and helplessness (Kibas, 2004), SMEs have emerged as reliable alternatives to poverty alleviation and employment and income guarantee especially among women and the youth (GOK, 1999). Hence the need for them to adopt and practice prudent recruitment and selection of their human resource.

In Kisumu Municipality, a total of 168 new small enterprises were registered by the beginning of 2009 (Kisumu Municipal Office, 2010), but by the beginning of the year 2012, the

number had reduced to 123. Majority of SMEs in Kisumu Municipality do not develop to full maturity. According to Acharya (2008), a constant characteristic among SMEs is their premature collapse. SMEs, just like other business organizations, need to be prepared for what may lie ahead through development of contingencies and flexible processes. Their future must be shaped by the consequences of their own planning and actions as effected by the human resource force (Acharya, 2008). According to Flyvbjerg et al. (2000) SMEs must take hold of their future through proper HRM, and in particular, through effective recruitment and selection practices.

Recruitment is the process of attracting, screening, and selecting qualified people for a job (Hoover, In Press). According to Montana and Charnov (2000), recruitment includes sourcing candidates by advertising or other methods, screening potential candidates using tests and interviews, selecting candidates based on the results of the tests or interviews, and on-boarding to ensure that the candidate are able to fulfill their new roles effectively. Recruitment form a major part of an organization's overall resourcing strategies, which identifies and secures people needed for an organization to survive and succeed in the short to medium-term (Elwood & James, 1996). Moreover, as Zheng (2006) and Croucher (2008) point out, there is a positive and significant relationship between recruitment and selection and the performance of a firm. Sang (2005) also discovered a positive association between recruitment and selection and business performance. Ichniowski and Shaw (1999), Katou and Bedhwar (2006), and Wright et al. (2005) also reported similar positive results between recruitment and selection and performance in Canada, in Finland and in New Zeeland. However, these studies and reports focused mainly on large corporate organizations, and not SMEs. But more particularly, the case of recruitment and selection and performance of SME in Kenya and in Kisumu town in particular still needs to be investigated.

Vision 2030 intends to create a globally competitive and adaptive human resource base to meet the requirement of the country (GOK, 2008). Its potential lies in the people's creativity, work ethic, education, and entrepreneurial skills based on human resource practices of well qualified and flexible personnel for effective competition in the global economy. SMEs are one of the ways of empowering the common person in order to contribute better towards the attainment of vision 2030 and the Millennium Development Goals in Toto. But while recruitment and training practices have been promoted in large and corporate organizations, its effect on the performance of SMEs have not been intensively investigated. Yet SMEs account for over 65 million people (79%) globally and over 75 percent of the total labour force in Kenya. This scenario called for an investigation into the effect of recruitment and selection on the performances of SMEs, with a view of recommending suitable practices for improving their performance. As pointed out already, effective recruitment and selection are crucial for good performance of SMEs. But the actual effects of recruitment and training on the performance of SMEs have not been highlighted. Thus they cannot aid the development of appropriate combination of techniques for improving the performance of SMEs in Kisumu Municipality.

## 1.2 Statement of the Problem

SMEs are one of the most effective and flexible strategies in the fight against global poverty because of their sustainability and capacity of implementation on massive scales to respond to the urgent needs of the world's poorest, with a positive impact far beyond the individual client. Their growth and development, and performance in general, is therefore significant not only to the individual beneficiaries, but to the country as a whole. However, the performance of SMEs in Kisumu Municipality has been poor, and SMEs in Kisumu Municipality have witnessed relatively low performance in contrast to SMEs in neighboring municipalities,

and even with itself. Some newly registered 45 collapsed between 2009 and 2012, reflecting a collapse rate of 26.78% in three years, or 8.92% per year; and indication that most newly started SMEs in Kisumu Municipality do not develop to full maturity. Further, their profit margins also decreased by 12% and sales turnover by 9% within the same period. With the resultant increase in the levels of poverty and dwindling chances of formal employment, the contributions of the informal sector cannot be taken for granted, and one way to turn this around is to ensure that SMEs adopt and practice prudent recruitment and training practices. There was therefore need to determine the effect of recruitment and training practices on the performance of SMEs in order to determine the suitable recruitment and training practices that could increase their performance, and identify the recruitment and training practices that make negative contributions to the performance of SMEs in Kisumu Municipality.

## 1.3 Research Hypotheses

The main hypothesis of this study was recruitment and training practices is a significant determinant of the performance of the SMEs in Kisumu municipality ($H_A$ $\beta_{is} \neq 0$). The study further tested the hypotheses that:

1. None of the elements of recruitment and selection (sourcing, attracting, and screening) are significant determinants of the performance of the SMEs in Kisumu municipality.
2. One or more of the elements of recruitment and selection (sourcing, attracting, and screening) are significant determinants of the performance of SMEs in Kisumu municipality; thus ($H_o$: $B_{is} = 0$; $H_A$ $B_{is} \neq 0$).

## 2.0 Methodology

The study employed a cross sectional survey research design, on a sample of 260 SMEs selected from all the 777 SMEs from all clusters of SMEs Kisumu municipality. Stratified sampling was used to determine the proportions of each cluster of SMEs since SMEs in Kisumu municipality were mutually and exclusively divided into clusters, and it was necessary to capture the characteristics of each cluster in the sample. The individual SMEs in each cluster were selected through a simple random procedure (using random numbers technique) using a sampling frame of SMEs obtained from Kisumu municipal office. Purposive sampling technique was used to select the managers of SMEs, who being the accounting officers of the SMEs, were deemed to be in better positions to describe their recruitment and selection practices as well as the performances of SMEs than their employees. Data was collected using semi-structured questionnaires of ranking and Likert scale type, and Focus Group Interviews. The instruments were piloted in Ahero town Council because of its proximity to Kisumu, and because it had been part of the large Kisumu District until just recently. The instruments had a content validity index of 0.911, and readability coefficient of 0.848.

Quantitative data was analyzed using percentages and multiple regression techniques. The percentage distribution technique was used to show the face values of the effect of each element of HRM practice on the performance of SMEs. Regression was used to predict the performance of the SMEs from recruitment and selection. The study determined the magnitude of the relationships between recruitment and selection and performance (R), and coefficients of determinants ($R^2$) - which is variance in performance that is predictable from the each element; and additional variances in performance that could be explained by adding new determinants to the multiple regression. The study also determined prediction equation of the form $P^1 = a_o + \beta_1 D_1 + B_2 D_2 + B_3 D_3 + \ldots + B_n D_n + \varepsilon$; such that $P^1$ is the estimated performance; $a_o$ - the regression

constant; $B_{is}$ - the un-standardized regression coefficients; $D_{is}$ - the determinants of performance, and ε - the error of estimate. Through analyzing variances, the study determined whether $B_{is}$ were equal to zero. The study also determined whether all the elements of recruitment and selection practice were significant determinants of the performance of the SMEs or not, by testing subsidiary null hypotheses on $B_{is}$ using t values, at .05 level of significance. The ANOVA statistic (F) was used to determine the overall significance of the regression.

## 2.1 Measurements

Performance of SMEs was measured from life span, profits, sales volumes, and expansion in SMEs. Each of these elements of performance was assessed individually for each SME, and the result used to measure the overall performance of the SME. The responses on performance were scored such that the lowest score was 5 and the maximum possible score was 36. The scores were then expressed as a percentage of 36 to enable equitable comparison. On this wise, the maximum possible score on performance was 13.80% and the maximum was 100.0%. Data on recruitment and selection was collected on sourcing, attracting and screening and scored on a range of 0-22 or 0%-100% and converted into poor - good scale such that scores of 0-6 or 0.0-33.0% was rated poor and coded 3, 7-13 or 33.0% - 65.0% was rated moderate and coded 2, while 14-22 or 66.0%-100.0% were rated as good and coded 1.

Qualitative data was measured thematically, by classifying the responses into broad categories. The interview responses were read several times over and through constant comparisons, consistencies present were noted. The consistencies that were deemed to be themes were identified and coded. A theme was considered present in the data if it occurred at least three times across all interviewees. This cut-point of three was used because it represented a 10 percent endorsement which is the lowest permissible effect based on Cohen (1988) non-linear arcsine transformation criteria. This procedure eliminated the factors that occurred only a few times across the eight focus group interviews. A value 2 was assigned when a theme appeared, or was deemed present, and 1 when the theme did not appear (was deemed to be absent) on a respondent responses. Hence, all interviews had a series of 1s and 2s for all themes determined to have occurred at least three times. This created an inter-respondent theme matrix which was analyzed statistically as reported in the next section.

## 3.0 Findings
## 3.1 Overall Performance of the SMEs

This study investigated the overall performance of SMEs based on the scores of each SME on life span, profits, sales volumes, and expansion. The performance of each SME was rated on a score of 5-36 or 13.8% to 100.0%. The average performance of the SMEs were obtained from the average of all the 208 SMEs and from each of the categories of SMEs investigated. The results are summarized in Table 1. Table 1 shows that the overall average performance of SMEs in Kisumu Municipality is 60.71% with a standard deviation of 13.59, but the best performing sector of SMEs are the industrial plants with an average performance of 68.68% and a standard deviation of 12.23. This is followed by transport sector with an average performance of 68.40% and a standard deviation of 15.38. However the least performing sectors include agriculture with an average performance of 55.70% and a standard deviation of 15.83, and professional services with an average performance of 59.23% and a standard deviation of 14.34. The rest of the sectors perform as shown in the Table 1.

## 3.2 Correlation Matrix for Recruitment and Selection and Performance of the SMEs

The study proceeded to investigate the correlations between the elements of recruitment and selection themselves and performance as a prerequisite to regression analyses. The correlation matrix is summarized in Table 2. Table 2 shows that there are six significant bivariate correlations at .01, but there are no significant bivariate correlations at .05. There are also significant positive associations between the elements of recruitment and selection themselves: sourcing and attracting, and sourcing and screening; and attracting and screening have significant positive associations at .01; and sourcing, attracting, and screening all have significant negative associations with performance appraisal at .01. But interestingly, the associations have negative values which seem to suggest that an increase in sourcing, attracting, and screening reduce the overall performance of SMEs in Kisumu Municipality. This could suggest that these elements of recruitment and selection are not implemented in the correct manner, or are just used for decorations.

## 3.3 Relationship between Recruitment and Selection and Performance of SMEs

Having ascertained that there are significant associations between some elements of recruitment and selection, and performance of the SMEs in Kisumu Municipality, the researcher proceeded to determine relationships between recruitment and selection, and performance of the SMEs. From the correlations in Table 2, there was reason to suspect that recruitment and selection, and performance are related, and that knowing the value of recruitment and selection could enable a corresponding value of performance of SME to be determined using a general model of $P^I = a + BH$; where $P^I$ is the predicted value of performance, H the HRM practice, a is the regression constant, and B is the coefficient of regression. Recruitment and selection was measured from sourcing, attracting and screening procedures of each SME on a scale of 0-22 and interpreted as described earlier. The status of recruitment and selection for each SME was classified as good, moderate or poor based on the criteria above. The average performance of the SMEs with each status of recruitment and selection was then worked out, and the results summarized in Table 3 were obtained. Table 3 shows that SMEs with good recruitment and selection have higher performances (81.90%) than SMEs with moderate status of recruitment and selection (67.94%), or SMEs with poor recruitment and selection (53.90%). This seems to suggest that the performance of an SME is associated with the status of recruitment and selection in an SME; and that the better the recruitment and selection, the higher the performance of SMEs. However, only 6.73% of an SME in Kisumu Municipality were found to have good recruitment and selection while majority (58.17%) of SMEs had poor recruitment and selection practices. This suggest that majority of SMEs in Kisumu Municipality may not be benefiting from good recruitment and selection.

The data was further analyzed using regression technique to determine if there is a significant association between recruitment and selection, and the performance of SMEs, and to test the hypothesis that recruitment and selection does not affect the performance of SMEs in Kisumu Municipality.

$H_o$: All elements of recruitment and selection practice (sourcing, attracting, and screening) taken together are not significant determinants of the performance of the SMEs in Kisumu municipality.

The results of the analysis are summarized in Table 4. The data on the last row (model summary)

of Table 4 gives information on all the elements of recruitment and selection taken together and performance, and provides the overall significance of the regression. The F value is significant ($F_o$ = 109.50 > $F_{(5, 202)}$ = 2.230; $\alpha_o$ = .000 < $\alpha_c$ = .05) which gives a strong evidence against the null hypothesis that all $B_{is}$ are equal to zero. The hypothesis that sourcing, attracting, and screening taken together are not significant determinants of the performance of the SMEs in Kisumu Municipality was therefore rejected. This means that at least one of the elements of recruitment and selection is a significant determinant of the performance of the SMEs in Kisumu Municipality, as not all $B_{is}$ are equal to zero.

Having established that not all $B_{is}$ were equal to zero, and that at least one of the elements of HRM practice was a significant determinant of the performance of SMEs, the significant determinant(s) of performance were then investigated by investigating the of significant effect.

$H_A$:     one or more of the elements of recruitment and selection (sourcing, attracting, and screening) is a significant determinants of the performance of the SMEs in Kisumu municipality.

The significant determinants were investigated by investigating $H_{oj}$: $\beta_j = 0$ against $H_1$: $\beta_j \neq 0$ for j = 0, 1, 2, 3, 4, 5, by using t values. The column of t values confirms that only three elements of recruitment and selection are significant determinants of the performance of SMEs. These are (i) sourcing ($t_o$ = 5.529 > $t_{(202)}$ = 1.968; $\alpha_o$ = .000 < $\alpha_c$ = .05); (ii) attracting ($t_o$ = 4.672 > $t_{(202)}$ = 1.968; $\alpha_o$ = .000 < $\alpha_c$ = .05); and (iii) screening ($t_o$ = 9.611 > $t_{(202)}$ = 1.968; $\alpha_o$ = .000 < $\alpha_c$ = .05); which all indicate significant relationships. The hypothesis that at least one of the elements of recruitment and selection is a significant determinant of performance of SMEs in Kisumu Municipality was therefore accepted. The study therefore established that sourcing, attracting, and screening taken together are significant determinants of the performance of SMEs in Kisumu Municipality.

A general model for determining the performance of SMEs was then developed from the coefficients as $P^l$ = 114.40 − 5.45$H_1$ - 0.449$H_2$ - 10.9$H_3$; where $H_1$ is the status of sourcing, $H_2$ is the status of attracting, and $H_3$ is the status of screening in an SME. The adjusted R square statistic (Adj.$R^2$ = .724) gives the proportion of the total variance in performance of SMEs explained by this model. The total variance in performance of the SMEs in Kisumu Municipality explained by the model is 72.4%. In other words sourcing, attracting, and screening together account for 72.4% of the variance in the performance of SMEs, with only 27.6% of the total variance being accounted for by the elements of recruitment and selection specific to the determinants, and by errors due to measurements, as well as by other factors not investigated in this study.

## 4.0 Discussion

The finding that recruitment and selection is a significant determinant of the performance of the SMEs in Kisumu Municipality; and that recruitment and selection accounts for 72.4% of the variance in the performance of the SMEs. The findings fits well with the sentiments of Hoover (In Press) and the views of Montana and Charnov (2000) that recruitment as the process of attracting, screening, and selecting qualified people for a job, has a direct impact on performance. This being the case, it should, if done well, bring in the best people to the organization, and enhance performance of the organization. Recruitment and selection, as Elwood and James (1996) point out, and as confirmed by this study, is a major part of an organization's overall resourcing strategies, as it identifies and secures people needed for an

organization to survive and succeed in the short to medium-term.

This finding is also in tandem with the views of Holton and Trott (2005) that recruitment and selection provides a cost-effective source for recruits if the potential of the existing pool of employees is enhanced through training, development and other performance-enhancing activities.   It also concurs with Behling (1990) that whether an individual joins an organization based the objective factor, subjective factor and critical contact; such a choice should depend on objective assessment of certain tangible factors, such as pay and perks, location, opportunity for career growth, nature of work and educational opportunities. It should be understood from the basis of this finding, and as pointed out by Barney (2001), that employees of an organization create an important source of competitive advantage for the organization, and so it is vital for firms to adopt recruitment and selection that make best use of its employees.

## 5.0  Conclusion

The purpose of this study was to determine the effect of recruitment and selection on the performance of SMEs, through specifically investigating the effect of sourcing, attracting, and screening collectively, on the performance of the SMEs in Kisumu Municipality. The study found out that the overall average performance of SMEs in Kisumu Municipality is 60.71%; and that sourcing, attracting, and screening are significant determinants of the performance of the SMEs in Kisumu Municipality. Based on these findings, the study concludes that recruitment and selection have a significant effect on the performance of SMEs in Kisumu Municipality, and the better the recruitment and selection, the higher the performance of the SME. In fact, the performance of SMEs can be influenced by up to 72.40% through proper recruitment and selection and more particularly through proper recruitment and selection.

## 6.0  Recommendations

Based on the findings and conclusion drawn above, the study recommends that:
1. The Ministry of Trade and Industry, in collaboration with the Local Government and the Municipal Council develop guidelines for recruitment and selection of new staff to be recruited by the SMEs.
2. A proof that such guidelines have been adopted and followed should be advanced during application for renewal of licenses.
3. Application of new licenses and renewal of old licenses should be based on evidence of effective practices of recruitment and selection in an SME.

## 7.0  Tables

Table 1

*Performance of SMEs by Sector*

| Sector | N | Average Performance | Std. dev | Percent - N |
|---|---|---|---|---|
| Industrial Plants | 5 | 68.68 | 12.23 | 2.40 |
| Transport | 5 | 68.40 | 15.38 | 2.40 |
| Financial Services | 4 | 65.42 | 15.65 | 1.92 |
| Accommodation | 32 | 64.04 | 15.23 | 15.38 |
| Private Education & Health | 8 | 61.68 | 15.41 | 3.84 |
| Trade | 141 | 59.40 | 12.94 | 67.78 |
| Professional Services | 11 | 59.23 | 14.34 | 5.28 |
| Agriculture | 2 | 55.70 | 15.83 | 0.96 |

| Total | 208 | 60.71 | 13.59 | 100.00 |

*Note.* N is the number of SMEs; Std. Dev, is the standard deviation.

Table 2

*Correlation Matrix for Elements of Recruitment and Selection and Performance*

|  | Sourcing | Attracting | Screening | Performance |
|---|---|---|---|---|
| Sourcing | 1 | .393** | .582** | -.641** |
| Attracting |  | 1 | .647** | -.660** |
| Screening |  |  | 1 | -.811** |
| Performance |  |  |  | 1 |

*Note.* n = 208; Pearson correlation, 2-tailed. The table is symmetrical along the diagonal. The values below the diagonal are excluded because they are mirror images of the values above the diagonal, with the diagonal as the mirror line. Asterisks * and ** indicate significant correlations at .05 and .01 respectively.

Table 3

*Average Performance of SMEs based on Recruitment and Selection*

| Status of Recruitment and Selection | N | Average Performance | Std. Dev | N - Percent |
|---|---|---|---|---|
| Good | 14 | 81.90 | 5.48 | 6.73 |
| Moderate | 73 | 67.94 | 8.65 | 35.09 |
| Poor | 121 | 53.90 | 11.82 | 58.17 |
| Total | 208 | 60.71 | 13.59 | 100.00 |

*Note.* N is the number of SMEs in each status of HRM practice; Std. Dev, is the standard deviation.

Table 4

*Statistics of Multiple Regression of elements of Recruitment and Selection, and Performance*

| Element of HRM practice | Coefficients | | R values/proportions | | | | F statistic | | t-statistic | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | B | β | R | $R^2$ | Adj. $R^2$ | Std. ε | $F_o$ | $F_c$ | $t_o$ | $t_c$ | Sig. |
| Constant | 114.20 | | | | | | | | 36.64 | | .000 |
| Sourcing | -5.45 | -.249 | | | | | | | -5.52 | | .000 |
| Attracting | -4.49 | -.225 | | | | | | | -4.67 | | .000 |
| Screening | -10.90 | -.521 | | | | | | | 9.61 | | .000 |
| Model Summary | - | - | .885 | .730 | .724 | 7.14 | 109.50 | 2.23 | - | 1.968 | .000 |

*Note*. B is un-standardized coefficients; β is standardized coefficients; R is multiple correlation coefficient; $R^2$ is the proportion of the total variance; Adj.$R^2$ is improved approximation of $R^2$; Std ε is standard error of the estimate; $F_o$ is the observed ANOVA statistic; $F_c$ is critical ANOVA statistic $F_{(5, 202)}$; $t_o$ is observed t statistic; $t_c$ is critical t statistic $t_{(202)}$; and α = .05.

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