

Research article

MIXED CONTRACTING STRATEGY: A NEW PARADIGM IN HUMAN RESOURCES MANAGEMENT; A STUDY OF FAMILY OWNED BUSINESSES IN KENYA

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1.0 ABSTRACT

Family owned businesses in Kenya develop from small outfits and grow to businesses which contribute positively to the growth of the economy. To establish these businesses, families undertake risks by putting together family resources to establish the businesses.

As businesses develop, a key factor in the growth is the human resource and identifying the right employees with the skills and knowledge required is crucial to the growth and development of the business. The business environment is usually dynamic and businesses must adapt to the constant changes. This may arise out of the environmental changes and the human resource becomes key in influencing the competitive advantages that may be experienced in the market.

Family owned businesses are usually characterized by lean bureaucratic structures and work-force structures that are not complex, and for this reason, it is easier for the Human Resources department to implement the Mixed Contracting Strategy program. Family owned businesses should engage different Human Resource Contracting strategies as key tools to enable it as an organization to grow and become large corporate firms in the market. It is therefore important for the management of the Family owned businesses to consider the employment of different personnel all under different type of contracts so as to increase the output of the organization, and at the same time, maximize on the profits.

This study aims to look into the impact that will be felt by family owned businesses in Kenya that use different types of contracts on different employees under the same organization, and what influence this will have in the growth of this organizations to become large corporate firms. This paper starts by looking at the contracting strategies situation by Family owned businesses in Kenya, and this is followed by a look at different theories that are related to the Mixed-Contracting Human Resources strategies in Kenya.

Key Words: Mixed Contracting Strategy; Growth; Family Owned businesses, Human Resources.

2.0 INTRODUCTION

Family owned businesses are proving to be key sectors in the development of national and regional economies throughout the world. They have been recognized globally as key ways of creating employment opportunities where the capital investment held by the business is of a small amount (Kiran, Kishore & Majumdar, 2012). In developing countries, cottage and small-scale industries are especially important in context of employment opportunities, equitable distribution of national income, balanced regional growth and development of rural and semi-urban areas (Rahman, 2006). They ensure large-scale employment is distributed equally across most sectors in the economy, and also ensure that the resources that would have been under-utilized are fully utilized, and these resources are in terms of capital and skills (ICSI Herald, 1998). According to Baruha (2000), even in the industrialized and advanced countries like the U.S.A, the U.K, Canada and Germany, there is an important role played by the small-Scale industries in the growth of their economies. This sector is considered to be an engine of growth, especially in developing countries like India, Brazil, South Africa and Kenya due to their contribution to income generation, employment, GDP and export earnings (Kiran et al., 2012).

3.0 Background

As per the Kenya Bureau of Statistics Data, the Kenyan GDP grew by 0.3 percent from 4.4 percent in 2011 to 4.7 percent 2012, and it is expected to rise to 6.0 percent in 2013. There has been a growth in the G.D.P in Kenya from the year 2008 to 2010, and this can mostly be attributed to the growth of small-scale sector in the economy.

With the growth of the economy highly evident, a lot of effort should focus in making family owned businesses to grow so as to make them more prominent, and their presence felt as well as convert the visions of the small-scale

entrepreneurs into reality. In the last two decades, there have been certain spaces where many family owned businesses have not grown either by choice or by challenges in capabilities to transform their business (Kiran et al., 2012). Family owned businesses compete with the big companies in the industry for their share of the market, and they aspire to grow so that they can compete at the same level. Large businesses form strategic alliances and collaborative partnerships so as to get hold of the technological opportunities that present themselves in the market, to strengthen their building of important resources, have their capabilities of competing favorably increased, make them more efficient when it comes to the supply chain, and to ensure that the products delivered to their customers is of the highest value (Kaplan & Hurd, 2002).

Kenya, like other developing countries, is characterized by high unemployment rates, the closing down of major businesses from time to time, the slow down and declining of economic growth, and with this, comes a decline in the standards of living of the citizens, and therefore, new strategies need to be employed, especially when it comes to the employment of skilled and semi-skilled labour, more-so in the Family owned businesses sector. Family owned businesses are considered to be very important tools used in the employment creation and economic growth of most economies, and therefore, the government should take special interests in their promotion and growth. These Small and Medium-sized Enterprises (SMEs) should be given the freedom by the governments to vary their employment strategies as long as they increase the employment rate percentages in the country. An environment that is appropriate for the employment of labour under different contracts is required, and this has in turn necessitated an investigation to look into how employing different contracting strategies by SMEs can reduce the unemployment rates in developing countries.

In most situations, the Human Resource strategies that involve small-scale firms are one of the least researched areas (Mankelov, 2008). Whenever we think of employment contracts we think of large firms. However, small firms also need to employ labour under different types of contracts. This will enable them know specifically which might be the best strategy to employ so as to reduce the unemployment rates in the country by hiring as many people as possible. However, the SMEs may be hindered by constraints such as limited access to resources, and lack of expertise on the part of the owner/manager (Kiran, et al., 2012). As much as entrepreneurs are out to reduce on this state of inertia, strategic management and HR also play a key role in looking at how the SMEs growth can be enabled by the use of different employment strategies.

The aim of this paper is to investigate and analyze how the family-owned SMEs can apply innovative human resource management practices so as to have a share in consumer market. A focus on intellectual capital, human capital, social capital, core competencies and capabilities is becoming increasingly recognized as a critical success factor for businesses (Kiran et al., 2012; Pfeffer, 1998). A lot of research has been carried out on HR practices of S.M.Es (Heneman, Tansky & Camp, 2000; Leng, 2003; Hayton, 2003), however, no research has been made concerning how the application of different HR strategies by family-owned SME owners in Kenya leads to their

eventual growth to become large corporate organizations, and how they can be able to sustain themselves in the market. This study therefore speaks on how different HR strategies can be effective in family-owned SMEs, and how their use can lead to their growth and even sustain this growth during the turbulent times.

4.0) Literature Review

SMEs usually encounter distinct challenges when it comes to how effective they become, especially when it comes to how they manage their labour force, and this can largely be attributed to their size. As much as economies of scale allow the large firms to contract a team of specialists to look into the complexities that come with the managing of human resource programs and the type of contracts offered by employees, this is not a viable option for many family-owned SMEs. Many family-owned SMEs may be hindered from hiring the highly trained HR professionals who would otherwise have advised on the best type of contracts to offer to employees; however, because they are very expensive, mostly family-owned SMEs do not opt for them (Arthur, 1995). This therefore leads to the hiring activities in family-owned SMEs to be left in the hands of general managers to handle (Longenecker, Moore & Petty, 1994).

The human resource is an important part of any organization since it can directly or indirectly affect the performance of an organization (Pfeffer, 1998). It is therefore very important to comprehend ways in which management of human resource under different terms may lead to an eventual growth of the family-owned SMEs through creativity enhancement, with the main aim of maximizing productivity (Combs, Liu, Hall & Ketchan, 2006; Dart, Nag & Sakar, 1990). The use of different HR strategies when it comes to hiring will give important basics when it comes to the growth of increasing number of SMEs (Sethakaset & Santimataneedol, 2008).

The SME sector generally relies on the promotion given to it by different stake-holders. The problem that the SMEs face is that, their growth, other than the fact that they will be dependent on the amount of promotions given to them, but will also be as a result of the dedication levels of their employees. This becomes a critical aspect in the process of business growth. This is why there is a need for the employers to understand the need to use different Human Resource strategies when it comes to the hiring of new employees and how it will impact on their growth plans. Therefore, the importance of the HR increases because of its two-fold roles: To continually make the owner know the need for organizational culture change; and to manage the need for organizational culture change.

SMEs are often faced with the challenge of offering competitive packages to their employees. By so doing, and for the sake of growth, the managers should consider using different HR strategies in hiring of employees. These strategies may include:

4.1) Zero-Hour Contracting Strategy

Zero-hour contracts are employment contracts that are awarded to employees where the employee is not guaranteed work, and is paid only for the work carried out (McGuinness & Pyper, 2013). These types of contracts are used

increasingly where the employee is not guaranteed of work at the end of a specified period, but they have to be available as and when needed upon by the employer. This type of contracting strategy is common in the U.K., but it is fast gaining popularity across the world, Kenya included. In U.K., statistics on the zero-hour contracts are collected as part of the LFS conducted by Office of National Statistics (ONS) (McGuinness & Pyper, 2013). According to the authors, the respondents who are in employment are asked what type of work arrangements they have, and for the fourth quarter of 2012, they suggested that two hundred and fifty thousand people are on zero-hour contracts (a figure that represented 0.8% of the total population).

In the context of an ageing population in the U.K (according to the ONS, 2012), the domiciliary care sector is one of continuing growth (Bessa, Forde, Moore & Stuart, 2013). A report by Skills for Care (2010) show that there were six hundred and seventy five thousand jobs in the domiciliary services in England in the year 2009, and the U.K. commission on employment and skills (2010) has identified it as a sector where there is likely to be more demand in the future for care assisted roles (Bessa et al., 2013). According to U.K.'s Low Pay Commission (L.P.C), social care is basically an employment area that is low-paying in nature, but the number of workers who are on minimum wages is quite high. Their research suggests that, the proportion of employment opportunities where the employees are paid on or below the minimum wage rate required of an adult rose from 6.2% in the year 2009 to 7.9% in 2011 (Low Pay Commission, 2012: 3a).

Based on the above literature, family owned SMEs should try and adopt the zero-hour contracting strategy as one of the strategies to use in the hiring of different employees in the organization, which will ensure growth in the organization. Though the wages received may not be the most competitive in the market, the zero-hour contracting ensures that there is a high employment rate in the organization, and hence, an increase in the productivity levels in the organization. This will lead to an eventual growth in the amount of wages earned and an overall growth of the organization from the SME sector to the large corporate sector; which will enable them to compete favorably in the market.

4.2 Knowledge Management

One can define knowledge management(KM) as “an emerging set of organizational design and operational principles, processes, organizational structures, applications and technologies that helps knowledge workers dramatically leverage their creativity and ability to deliver business value”(Gurteen,1998). KM is fast becoming an important part of business activities for firms as the acknowledge that, competitiveness rotates around how well they manage to manage Knowledge (Groves&Davenport,2001). There is a very small contribution of the KM adoption towards the growth of the SME sector.

According to Kiran et al (2012), the important three factors that family-owned SMEs should practice are: - senior management support and leadership; A knowledge-friendly and sharing culture; and a clear strategy for managing knowledge

In addition to the above list, the following factors also play an underlying role in success factors for SMEs as well (Wang & Aspinwall, 2005):- Development of a technological infrastructure; Incentives to encourage KM practices; and Measuring the effectiveness of KM

For family-owned SMEs in Kenya to successfully implement the KM strategy, then the entrepreneurial support should be highly positive and the leadership qualities from the owner of the business should be highly evident; at the same time, a balanced strategy should also be formulated and implemented. The qualities of leadership that the owner of the business possess should be one that lays a lot of emphasis on the co-operation and the sharing of knowledge by the employees in the organization. They, the leaders, should also create a conducive environment for knowledge creation and in this way; learning in the organization will succeed. For the family-owned SME's, the training of the employees and the development and promotion of the qualities of leadership is important to enable them grow their overall skills and productivity.

5.0 Theoretical Review

From an angle of strategy, the Human Resource Strategies are viewed as an expression of “intent” in a firm in accordance to how the organization is going to run its own financial affairs. “These intentions provide the basis for plans, developments and programs for change”. From this perspective, the Human Resource Strategies mainly focus on “development of capability within the company, in order to give the business a competitive advantage” (Tyson & York, 2000). The HR Strategy is therefore viewed as an input into the organization. Other authors like Purcell and Ahlstrand (1994) viewed HR strategy as an ‘outcome’, an action, on a ‘Mechanism for achieving a desired objective’ (Tyson & York, 2000).

Family owned SMEs can take advantage of the following classification into several main approaches and they include:

5.1: The Matching Approach

According to the matching approach principle there must be some form of fit between the competitive strategy and the internal strategy undertaken by the HR department; and at the same time there must be some fit between the different elements of the HR strategy. The strategy that the business undertakes and its relation to the HR strategy should be one that is ‘reactive’ in that, for the HR strategy to be successful, it is subject to ‘product market logic’ and the strategy at the corporate level. The corporate strategy is assumed to be the independent variable (Purcell & Ahlstrand, 1994).

This matching model approach suggests that for strategies to work, there must be combinations of :- **Vertical Integration** (where the HR and business strategies integrate with each other) and **Horizontal Integration** (This is mainly between the individual departments in the institutions, that is, the different HR policy areas).

There are however some set-backs to this approach in that, it is hard for the strategy to comply with a rationalist, planning model for the strategy of the organization and the HR department strategy; and also the formulation and implementation strategies will be hard to comply with Family-Owned SMEs should undertake the Matching Approach model when it come to their growth plan. This will enable them to use both vertical and horizontal integration approached in their growth plans and in the process it is left upon them to make decisions on varying the employment strategies they have, and the type of contracts they issue, then, the organizations will tend to grow in the short and long run. These sentiments were supported by organizations should be managed differently depending on the stage of growth that the organization is at the general structure of the firm, and at the same time, how flexible the firm is in terms of its hiring capacity.

5.2 The Control-based Approach

This perspective suggests that the structures of the management and the HR strategy should be considered as tools and techniques that value the aspects of work so as to ensure that the productivity of the human resource increases and therefore, a corresponding increase in profitability (Sayedjavadin & Zaden, 2009). According to the authors there should also be focus on monitoring and controlling employee behaviour as a basis for distinguishing different HR strategies.

The control- based approach focuses more on the nature of the workplace control and more specifically on managerial behaviour to direct and monitor employee role performance (Sayedjavadin&Zadeh, 2009). According to these authors there are many factors that may make an organization vary the HR strategy that they intend to use and this may be variations brought about by the form of the organization (that is, the size, age and structure), the competition from other organizations and how it is stable in the labour market, and all this is being mediated by the relationship between the manager and the subordinates and also how the managers handle workers resistance (Thompson & McHugh, 2002). According to Bamberger and Meshoulam (2000), the degree to which HR strategies vary is not random occurrence, but will be a reflection of two management logics. The first of these logics is the direct, process-based control, where according to the authors, focuses mainly on the efficiency and how costs are contained (managers are therefore required to monitor and control the performance of the worker carefully). The second logic, of the indirect outcomes-based control, and here, more emphasis is laid on the actual results, where managers need to engage the workers more on their intellectual capital, how committed they are to the organization at the Same time, their cooperation to the organization.

5.3 The Resource-Based Approach

According to this approach, the resources that are fundamental for the existence of a company's human capital represents one of the key strategic factors that are possessed by the firm (Barney,1991), and this was specifically the individual capabilities that employees possess (Pfeffer,1994).

According to Barney (1991), sustained competitive advantage is achieved through keenly paying attention to the skills and capabilities that individuals in the firm possess and not through looking at the external factors and the position of the firm in the market. It may also be achieved through having characteristics that will make competitors unable to imitate. So the origin of the competitive advantage of a company lies within the company itself, in the resources and capabilities that the organization possesses and controls (Sayedjavadin & Zadeh, 2009).

This approach looks deeper into the characteristics that organization possess as compared to its competitors, in terms of resources and capabilities. This is bearing in mind that for the organizational qualities to have distinctive competencies, it must have resources that are valuable and are totally unique. For its capabilities, the organizational skills collectively possessed should be well coordinated with the resources.

Since organizational capabilities are constructed by effectively combining the organization's assets with the competencies of its employees, the workforce effectively becomes the foundation and location of competitive advantage through the employees' contributions to the development and maintenance of the core capabilities (Barney, 1991; Pfeffer, 1994; Sayedjavadin & Zadeh, 2009).

In this aspect, the HR strategy needs to be constructed in such a way as to promote employees to come up with those competencies that are needed in the building of the organization's core competencies, and the organization should struggle to maintain those employees that pass the valuable competencies that are sought-after by the organization's competitors (Colbert, 2004).

5.4 Typological Approach

This type of approach proposes the different typologies of approach to different HR strategies. Studies carried out by Dyes & Holder (1988) show that, there are three ideal types of HR strategies that can be used by senior management in the organization and they are inducement, investment and involvement.

Studying HR strategies in terms of typologies is interesting, especially its contribution to academics, since conceptual framework or models give HR researchers the ability to compare and contrast the different configuration or clusters of HR strategy and practices and further develop and test theory (Bamberger & Meshoulam, 2000; Sayedjavadin & Zadeh, 2009). According to the authors, many models have been proposed to differentiate between what are termed as 'ideal types' of HR strategies. Different conceptualization of employment systems were hatched from this line of research, for example, Bamberger & Meshoulam (2000) integrated the two main models of HR strategies where one laid emphasis on the reward-effort exchange while the other had emphasis being skewed towards the strategy underlying logic of managerial control. The integration of these two models assists in coming-up with a single model that characterizes the two main dimensions of HR strategy as involving 'acquisition and development' and the 'locus of control' (Sayedjavadin & Zadeh, 2009).

5.5 Integrative Approach

Lepak & Snell (1999) came up with a model that was viewed to be the solution to this problem. This model looked deeply into how the human capital had an influence in organizations. According to these authors, employees could be classified into four categories, depending on their values and uniqueness, and with that, they recommended different HR strategies for each case. The characteristics of employees (that is, the value and uniqueness) are consistent with resource-based view, so that we may expect that organizations developing very valuable and firm specific human capital will enjoy competitive advantage and organizational capabilities (Sayedjavadin & Zadeh, 2009).

5.0) CONCLUSION

There is a lot of pressure on family owned SMEs to grow in both the short-run and the long-run. This pressure is mainly from the concerned stakeholders like the owners of the business and the government. The HR professionals are therefore put under a lot of pressure from family owned SMEs in Kenya to prove their advantages to the organization and how their contributions lead to the success of the organizations. Kenyan Family owned SMEs should ensure that they understand how traditional approaches to talent attraction differ from the more recent conventional approaches, and through this understanding enable them carry out the required changes when it comes to effective hiring of employees. Family owned SMEs should focus more on the recruitment of employees who possess the necessary skills required, and should ensure that the hiring procedure will verify the expertise that the employees possess. According to some individuals, family-owned SMEs in Kenya are faced with certain financial conditions which may be difficult and complicated; however through HR transformations, there may be successful transformations in terms of the impact that the employees will have on the organization that will lead to the growth, development and well-performance of the organization.

The uses of different HR hiring strategies contribute greatly to the growth plans of family owned SMEs, especially those in Kenya. Even when organizations put into place systems that ensure that the family-owned SMEs in Kenya grow to become large corporate firms, there is need for both the management and the HR professionals to employ different hiring strategies when it comes to the hiring of employees. The type of employment contracts and hiring strategies should be varied from one employee to another to ensure continued growth from being family owned SMEs to being large corporate sectors. The bureaucracy levels in family owned SMEs are low and the same also applies to the workforce structures, which are usually found to be lean; therefore, it is very easy for the HR to put into place and implement the different change management programs. This will eventually enable the organization to grow to be large corporate firms and in the process help achieve one of Kenya's Vision 2030, that is, the growth of the entrepreneurial sector.

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