

# Effect of Employee Participation in Decision Making On Performance of Selected Small and Medium Scale Enterprises in Lagos, Nigeria

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## Abstract

This study examined the effect of employee participation in decision making on performance of selected SMEs in Lagos, South Western Nigeria. Data was sourced from one hundred and twenty nine (129) employees and twenty seven (27) owner/managers of the randomly selected SMEs, with the aid of questionnaire. The data generated were statistically analyzed using descriptive and inferential statistical tools. Results showed that, overall, employee participation in decision making had significant positive impact on organizational performance in the SMEs, with ( $\beta = 0.597$ ,  $t = 6.572$ ,  $P < .01$ ). The implication of this finding is that Nigerian SMEs should pay attention to human resource management practices which, they have hitherto, largely ignored, in the course of running their businesses. Increasing employee participation in decision making will impact positively on their growth and potential for survival.

**Key words:** Employee participation, Decision making, Performance, SMEs and Nigeria.

## Introduction

Small and Medium scale Enterprises (SMEs) have been recognized globally as the engine of economy growth and development. SMEs contribute to improved living standards, bring about substantial local capital formation, and achieve high levels of productivity and capability. SMEs are recognized as the principal means of achieving equitable and sustainable industrial diversification and dispersal (Olowe, Moradeyo and Babalola, 2013). Ofoegbu, Akanbi and Joseph (2013) affirmed that SMEs are the panacea for the problem of slow economic development among developing countries like Nigeria. They believe that focus of interest on SMEs would contribute to creation of jobs, reduction in income disparity, production of goods and services in the economy, as well as providing a fertile ground for skills development and acquisition. Furthermore, it will serve as a mechanism for backward integration, and a vehicle for technological innovation and development, especially in modifying and perfecting emerging technological breakthroughs.

Employee participation in decision making has been recognized as a managerial tool for improving organizational performance by striving for the shared goals of employees and managers. This is actualized by way of allowing workers' input in developing the mission statement, establishing policies and procedures, pay determination, promotion, and determining perks. Employee participation in decision making has become a significant topic in human resource management (HRM), and is regarded as one of the chief ingredients of employee voice, which many management scholars have observed to be a growing management concept (UK Essays, 2013).

Several studies have shown that allowing employees to participate in decision making leads to increase in motivation, job performance, and organizational growth (Gollan and Wilkinson, 2007; Kim, McDuffie and Pil, 2010; Bhuiyan, 2010; and Brown 1982). However, many studies also have conflicting views on whether or not an increase in employee participation directly affects organizational performance. Some critics, such as Sashkin (1976) feel that participation is not only effective, but that its use by management is an ethical imperative. Locke and Schweiger (2001) believe that worker participation is merely a managerial technique that can be used effectively in certain situations.

In Nigeria, the institutionalization of worker participation within the nation's industrial relations system was championed by several scholars such as Adewumi, (1997), Fashoyin, (1992) and Imaga, (1994) who suggested that worker participation in management decision making will reduce industrial conflict, raise workers' productivity, ensure rapid grievance procedure and motivate workers. However, it must be noted that research on the adoption of human resource management practices by SMEs in developing countries like Nigeria, is still very scanty. Nonetheless, growing HR research, particularly in the developed world, has pointed

to the significant role that HR practices can play in enhancing the growth and survival of SMEs. It is on this premise that this study set out to examine the effect of employee participation in decision making on performance of SMEs in Lagos, Nigeria.

### **Literature Review**

The important role of small and medium scale enterprises in developing economies cannot be overemphasized. The ability of SMEs to generate employment, alleviate poverty and foster economic growth, have justified their intensive promotion in developing countries (Chijah and Forchu, 2010). Participation has been defined as a process which allows employees to exert some influence over their work and the conditions under which they work (Heller, Pusic, trauss and Wilpert, 1998) or alternatively, as a process in which influence on decision making is shared between hierarchical superiors and their subordinates (Wagner and Gooding, 1987). Newstrom and Davis (2004), cited in Bhuiyan (2010), describe participation as a mental and emotional involvement of people in group situations that encourages them to contribute to group goals and share responsibility for them. It is social processes by which people become self- involved in an organization and want to see it work successfully. McGregor (1960) contended that workers participation involves creating opportunity under suitable condition for people to influence the decisions that affect them. It is a special case of delegation in which the subordinate gains control, and has greater freedom of choice with respect to bridging the communication gap between the management and workers. This serves to create a sense of belonging among the workers, as well as a conducive environment in which the worker will voluntarily contribute to management efforts.

Employee participation in decision-making can be classified in terms of three properties (Locke and Schweiger, 1997). These are formal-informal, direct-indirect, and amount of influence. Formal participation has a system of rules to be followed, while informal participation can be casual like a conversation with a supervisor. Direct participation involves immediate personal involvement, while indirect participation involves some sort of employee representation. Cotton, Vollrath, Froggatt, Lengnick- Hall, and Jennings (1988) classified the types of employee participation in decision making into six different combinations- participation in work decisions, consultative participation, short-term participation, informal participation, employee ownership, and representative participation. Levine and Tyson (1990) distinguished between consultative and substantive forms of participation. In consultative forms, workers provide information or advice, but management retains the right to make decisions, while in substantive participatory system, workers have greater autonomous control over methods and pace of work.

### **Empirical Studies on Worker Participation and Organizational Performance**

Many studies have been carried out on worker participation and organizational performance (Kuye and Sulaimon, 2011; Ravenswood, 2011; Thornton, 2009; and Barringer and Bleudorn, 1999). They concluded that to increase workers' commitment and humanize the workplace, with the intention of improving firms' performance and good citizenship behavior, managers need to permit a high degree of employee involvement in decision making. Ray and Ray (2011) focused on SMEs and their findings showed that employee participation has positive impact on job satisfaction. Thornton (2009) established a significant relationship between frequency of employees' consultation and job satisfaction, while Spreitzer, Kizilos and Nason, (1997) found that workers who have greater choice concerning how to do their own work have high job satisfaction and consequently high job performance. The findings of Khattak, Igbal and Bashir, (2012) also indicated that employee involvement and participation at work has significant positive effect on job satisfaction, leading to improved organizational performance.

Based on the foregoing review, this study hypothesized as follows:

**H1:** Employee participation has significant effect on performance of SMEs

### **Methodology**

This study was based on a quantitative survey of 129 employees and 27 owner/managers of 27 randomly selected SMEs from the manufacturing and service subsectors in Lagos, South Western Nigeria. The sample included SMEs engaged in businesses such as bakeries, block making, nylon making, packaged water production, poultry, furniture making, transport, education and estate/property. Lagos was chosen because of its status as Nigeria's commercial nerve centre, while the sampled SMEs were purposively selected.

### **Measuring Instrument**

The employee participation questionnaire scale was developed by the researchers and it was subjected to a test and re-test process in order to establish the reliability of the instrument. Also to ascertain the validity of the

instrument, face and content validities were ensured .The instrument was given to professionals for scrutiny and evaluation. The result of the reliability test was 0.76 showing that the instrument is reliable. Performance questionnaire scale developed by (Hartenian and Gudmundson, 2000) was used and organizational performance was measured through the return on investment, incremental turnover, sales growth, and profitability. The scores on the items were summed up and averaged to determine the mean index of firms' performance. The scale was subjected to item analysis in order to ensure it is valid and reliable and it yielded reliability alpha of .862.

### Method of Data Analysis

Data collected from the respondents were analyzed by inferential statistics. Specifically, Product-Moment Correlation Coefficient and Simple Regression Analysis were used. The Product-Moment Correlation Coefficient was to examine the existence of relationship between employee involvement in decision making and organizational performance and regression analysis was used to ascertain the amount of variations in the organizational performance which can be associated with changes in the degree of employment involvement in decision making.

### Data Analysis and interpretation

Table 2. Correlation between employee participation in decision making and organizational performance

		Organizational performance	Employee participation
Organizational performance	Pearson Correlation	1	.597**
	Sig. (2-tailed)		.000
	N	129	129
Employee participation	Pearson Correlation	.597**	1
	Sig. (2-tailed)	.000	
	N	129	129

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Table 4 shows that there is significant relationship between employee participation in decision making and organizational performance with  $r = .597$  indicating that employee participation in decision making contributes 59.7% to organizational performance. This result is in support of Kingirand Mesci, (2010) and Singh, (2009) who affirmed that employees must be involved in decision making if they are to be committed to changing their behaviours at work in new and improved ways. Also, Noah, (2008) noted that involvement of workers in decision making is a tool for inducing motivation in the workers, leading to positive work attitude and high productivity.

Table3. Regression Analysis of employee participation in decision making and organizational performance

#### a) Model Summary<sup>b</sup>

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate	Durbin-Watson
1	.597 <sup>a</sup>	.356	.348		.40510	.531

a. Predictors: (Constant), Employee participation

b. Dependent Variable: Organizational performance

#### b) ANOVA<sup>a</sup>

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	7.088	1	7.088	43.189	.000 <sup>b</sup>
	Residual	12.800	127	.164		
	Total	19.888	128			

a. Dependent Variable: Organizational performance

b. Predictors: (Constant), Employee participation

**c) Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.800	.419		4.296	.000
	Employee participation	.600	.091	.597	6.572	.000

a. Dependent Variable: Organizational performance

**Interpretation of the result**

The result as shown in table 5, reveals that employee participation in decision making has significant effect on organizational performance ( $\beta = 0.597$ ,  $t = 6.572$ ,  $P < .01$ ). Also employee participation in decision making is a predictor of organizational performance ( $F(1, 128) = 43.189$ ;  $R^2 = 0.356$ ;  $P < .01$ ). The predictor variable single handedly explained 35.6% of the variance in organizational performance, while the remaining 64.4% could be due to the effect of extraneous variables. This result is in line with those of Drucker, (1954); Likert, (1967); Kuye and Suilaimon, (2011); Noah, (2008); Barringer and Bleudorn, (1999) and Cohen, Chang and Ledford, (1997) who concluded that to achieve increased workers' commitment and to humanize the workplace with the intention of improving job performance and good citizenship behaviour, managers need to permit a high degree of employee involvement in decision making.

**Conclusion**

This research work examined the impact of employee participation on organizational performance in a selected Small and Medium Enterprises in Lagos South Western Nigeria. Findings of this result revealed that employee participation has significant impact on organizational performance.

It can therefore be concluded that the importance of employee participation cannot be underestimated because it motivates employee to be committed to the organization. The implication of this for SMEs operators is that they need to pay particular attention to the need for involving their employees in decision making.

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