ABSTRACT

Small and medium-sized enterprises (SMEs) require effective human resource management practices to sustain their competitiveness. However, the small business literature indicates the focus on human resource management practices as a mean to improve effectiveness and competitiveness of SMEs has received little research attention. The purpose of this paper is to contribute to a better understanding of human resource management practices among SMEs. Following the views presented in the literature, this paper prescribes six useful human resource management practices that can assist SMEs to improve their competitiveness as well as performance.

INTRODUCTION

Human resource management continues to attract much interest and attention in the literature. The emphasis on human resources management resulted from the growing empirical evidence that suggests effective human resource practices can not only help to improve organizational performance, but also contributes to the competitiveness of the organization in terms of its talents, skills, knowledge, experience, and innovation.

Despite the various benefits of human resource management, studies have indicated that small and medium-sized enterprises (SMEs) do not fully understand the importance of this area of management. Small and medium-sized enterprises need to adopt effective human resource management practices in order to improve their effectiveness and competitiveness.

More recent studies conducted in the area of small business have indeed indicated the need for more research attention on issues related to human resource management within small and medium-sized enterprises (Fabi, Raymond, & Lacoursiere, 2007; Kerr, Way, & Thacker, 2007; Singh & Vohra, 2005; Hashim and Abdullah, 2000; Hashim, 1999; Wagar, 1998; Purell, 1993; Marlow and Patton, 1993; Hornsby and Kuratko, 1990; and Gatewood and Field, 1987).

The adoption of effective human resource management practices in SMEs is considered critical, particularly when these firms are faced with issues such as globalization, stiffer competition, and maturing domestic markets. Confronted with these new challenges, SMEs have little choice but to improve their competitiveness. Small businesses can improve their competitiveness through the adoption of effective human...
resource management practices. By utilizing effective human resource practices, SMEs would be able to not only acquire new skills, knowledge, and talents, but also become more innovative.

Despite the importance of human resource management to SMEs, limited attempts have been made to examine the human resource practices that are relevant and applicable to improve the competitiveness of SMEs. Drawing from views presented in the literature, this paper prescribes six human resource management practices important to SMEs. For this purpose, the paper is presented as follows. The following Section Two begins by explaining the relevance and applicability of human resource management to SMEs. Next, Section Three provides the literature on human resource management practices and organizational performance. In Section Four, the paper explains as well as discusses the six human resource management practices useful to SMEs. Finally, Section Five presents a brief conclusion of the paper.

**Human Resource Management and SMEs**

Although most business organizations practice some form of human resource management, the adoption differ from one firm to the other. The differences in human resource practices occur in organizations due to factors such as business philosophy, management styles and the size of the organizations. For instance, evidence suggests that the human resource practices being adopted in large companies are most often more advanced as well as more formal than those being utilized in smaller firms (Fabi, Raymond, & Lacoursiere, 2007; Jackson & Schuler, 1995; and Ng & Maki, 1993).

In addition, although the literature emphasizes on the importance of human resource management practices in organizations, previous theoretical and empirical contributions in this area of management have primarily focused on big corporations. Nevertheless, lately, the literature appears to indicate that increasing numbers of studies are beginning to recognize not only the relevance but also the applicability of human resource management practices to small businesses.

Furthermore, recent studies conducted in the area of small business have indeed suggested the need for more research attention on issues related to human resource management within the context of small and medium-sized enterprises (Fabi, Raymond, & Lacoursiere, 2007; Kerr, Way, & Thacker, 2007; Hashim and Abdullah, 2000; Hashim, 1999; Marlow and Patton, 1993; Hornsby and Kuratko, 1990; and Gatewood and Field, 1987).

The need to adopt effective human resource management practices in SMEs is considered critical, especially when these firms are faced with issues and challenges such as globalization, stiffer competition, and maturing domestic markets. Confronted with these new challenges, SMEs have little choice but to improve their competitiveness and effectiveness. One of the ways the small businesses can improve their competitiveness and effectiveness is through the adoption of effective human resource management practices. By practicing effective human resource management, the SMEs would be able to not only acquire new skills, knowledge, and talents, but also become more innovative.

**Human Resource Management and Organizational Performance**

Since the introduction of human resource management, this area of management has evolved and changed significantly. Considered as good business practice, human resource management involves managerial activities such as planning, attracting,
developing, and retaining of an effective workforce in an organization. Human resource management is a comprehensive approach to management of people at work and it seeks to achieve integration and coordination with overall planning and other managerial functions (Dunn, 1985; and Kinicki and Williams, 2008).

More significantly, there appears to be agreement among researchers as well as practitioners concerning the positive impact of effective human resource practices on organizational performance. Findings of previous studies have indicated that good human resource management practices can help improve the productivity, efficiency, and effectiveness of organizations (Lado and Wilson, 1994; Becker and Gerhart, 1996; Harel and Tzafrir, 1999; Nankervis, Compton & Savery, 2002; Fabi, Raymond, & Lacoursiere, 2007; and Kerr, Way, & Thacker, 2007).

A business organization’s approach to managing its human resources can have a direct and indirect influence on its performance. The study by Harel and Tzafrir (1999) suggested that the direct effect of a firm’s human resource management efforts is through the improvement of employees’ skills, knowledge, attitudes, and behaviors whereas the indirect effect of such practices is through the enhancement of employees’ motivation.

Based on the study of 221 small manufacturing firms in Australia, Kotey and Meredith (1997) found that SMEs with above average performances emphasized on executing certain important human resource practices. In the study, the researchers discovered that SMEs with the above average performances adopted practices such as unambiguous personnel policies, focused on employee welfare, performed employee appraisal, and stressed on job satisfaction.

The study involving 446 SMEs in United States conducted by Way (2002) indicated that firms which implemented human resource practices encountered not only a decreased in the rate of employee turnover, but also experienced an increased in productivity.

Kerr, Way and Thacker (2007) conducted a study based on 497 small businesses in Canada. According to the study, positive relationships existed between the organizational effectiveness of the small businesses and human resource practices. The findings of the study specifically showed that staffing practices were related to the performance of the small businesses.

Fabi, Raymond and Lacoursiere (2007), in another recent study, reported positive association between human resource practices and performance as measured in terms of employee retention, growth, and innovation. The results of the study demonstrated not only positive relationship between incentive compensation and employee retention, but also suggested that involvement in decision making is linked to innovation.

Human Resource Management Practices in SMEs

The logical and universality of human resource management makes it not only relevant but also applicable to smaller firms. In fact, smallness presents a unique opportunity for the adoption of human resource management practices. Unlike the large firms, SMEs would be able to benefit from adopting appropriate human resource management practices in a less formal fashion and less rigid manner.
Earlier on, Broom and Longenecker (1975) have emphasized on the benefits of human resource management to small businesses. According to these authors, the test of effectiveness of human resource management in a small business is not its complexity or the degree to which it mimics that of large firms. It is however found in the manner in which human resources are utilized and in the degree of harmony achieved.

A review of previous studies indicated little argument as to the importance of human resource management practices in the determination of organizational performance (Harel and Tzafrir, 1999). Based on the generally accepted best practice approach, researchers such as Osterman (1994), Delery and Doty (1996) suggested that certain human resource practices are superior and recommended that organizations adopted these best practices. These authors believed that greater use of the best human resource management practices will result in increased organizational effectiveness.

The study by Cardon and Stevens (2004) indicated that staffing in SMEs is not only important, but also problematic. More specifically, the findings of the study suggested the following; SMEs give greater emphasis to total rewards perspective than do big companies, training employees is considered important in SMEs, and formal appraisals are normally not carried out in SMEs.

In a another study of 262 small businesses in the United States of America, Hornsby and Kuratko (2003) found that 70% of the SMEs adopted human resource practices such as recruitment, selection, and training. Nevertheless, findings of the same study showed that less than 50% of the SMEs focused on practices such as incentive plans, performance appraisal, and job analysis.

Cassel, Nadin, Cray and Clegg (2002) in their empirical study discovered that SMEs did adopt some form of human resource practices. In the study, the researchers found 61% of the SMEs used selection process, 58% utilized appraisal systems, and 40% employed incentive schemes in their firms.

Earlier studies by Ellis (1982) and Fombrun (1982) found changes in the economic factors such as such as raw material price increases, supply shortages, rapid changes in demand, inflation, and international competition can influence the human resources practices employed by organizations, particularly compensation alternatives and employee training.

Having discussed and provided the evidence to indicate the importance of human resource management to SMEs, the section below presents and explains briefly the six important human resource management practices that are relevance and applicability to SMEs. More significantly, if adopted and implemented effectively, these practices can help SMEs to become not only more competitive but also more efficient as well as effective.

CONCLUSION
This paper emphasizes on the need for SMEs to adopt effective human resource management practices. The paper begins by explaining the relevance and applicability of human resource management to SMEs. Following this explanation, the paper prescribes six essential human resource practices for improving the performance and competitiveness of SMEs. More specifically, the six human resource practices include;
recruitment, selection, compensation, employee empowerment, training and development, and performance appraisal.

REFERENCES


