

**ENHANCING ORGANIZATIONAL COMPETENCE  
THROUGH HRM PRACTICES IN SMEs:  
A QUANTITATIVE ANALYSIS IN APEC REGION**

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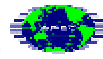
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## **ENHANCING ORGANIZATIONAL COMPETENCE THROUGH HRM PRACTICES IN SMEs: A QUANTITATIVE ANALYSIS IN APEC REGION**

### **ABSTRACT**

The ever-expanding scope of global competition is forcing continuous reexamination of how human resource can best support the accelerating pace of business globalization.

The SMEs in the APEC region have been experiencing tremendous changes especially in the 90s which include not only the growth of service industries but also the economic upheaval in late 1990s. All these issues urged SMEs especially in the APEC regions to adopt appropriate human resource management practices for future success.

In this paper, the author examine the relationship between corporate performance of SMEs in APEC countries and their human resource management practices in aspects of recruitment and selection; training and development; compensation and benefits; and performance appraisal. It is hypothesized that all these human resource management practices would have positive correlation with corporate performance indicators. The understanding of the human resource management practices and corporate performance in SMEs provide valuable insights to senior executives of SMEs, academic researchers, administrators and practitioners on future direction in the area of human resource management. The main methodology used in this study would be quantitative approach using questionnaire. It is expected that findings in this study would be beneficial to those who are committed to enhancing organizational competitiveness of SMEs through successful human resource management practices in the 21<sup>st</sup> century.



## BACKGROUND

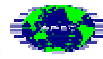
The practice of effective human resource management is one that small and medium size businesses need to develop and improve as they expand and grow. The vast majority of business in the Asian area today employ fewer than 100 people. In Chinese Taipei, SMEs constitute 96.5% of the approximately 935,000 business establishments and employ 78.6% of the total work force (Chinese Taipei Medium and Small Business Administration, 1995). In Hong Kong, the majority of establishment are in the form of SMEs (Table 1). Yet, current research conducted in the human resource field tends to focus on the larger firms that employ full-time human resource specialist.

Table 1: Share of SMEs in different sectors in Hong Kong as at January 1999

Sector	% share of SMEs
Industry sector - mining and quarrying - manufacturing - electricity, gas & water - construction	97.14%
Services sector - import/export - wholesale, retail, restaurants & hotels - transport, storage & communications - financing, insurance, real estate & business services community, social and personal services	98.32%

*Source: Quarterly Report of Employment, Vacancies and Payroll Statistics (Census & Statistical Department, Hong Kong)*

In fact, SMEs exert a strong influence on the economies of all countries, particularly in the fast-changing and increasingly competitive global market (Aharoni, 1994; Drillhon and Estime, 1993). They have been a major engine of economic growth and technological progress (Mulhern, 1995; Thornburg, 1993). Carrier (1994) commented that SMEs triumphed over larger firms in terms of innovation. The characteristics of SMEs such as flexibility, innovativeness, and problem-solving action orientation are now being considered as vital for success in the 1990s. This is especially true in the Asian region which has enjoyed a tremendous growth in the last decade. Even large companies have attempted to implement entrepreneurship and have learned to think like a small business (Chittipeddi and Wallett, 1991). Simon (1996) investigated five hundred SME champions in Germany and commented that they have much to teach companies of all sizes and all regions about commercial success. The success of SMEs in Chinese Taipei has been well acknowledged (Hannon, 1996; Liu, Liu, and Wu, 1995). They have played a vital role in promoting rapid growth during the economic transition of Chinese Taipei (Hannon, 1996; Liu, Liu, and Wu, 1995). The scale, scope, organization, and management of SMEs have changed over time in response to evolving markets, technologies, and economic conditions.



Not only that SMEs have been the drive for economic success, it is also the primary source of employment creation worldwide over the last decade (Mulhern, 1995). In the United States, firms with fewer than 500 employees account for more than 99% of all business establishments and employ over 80% of the work force (Aharoni, 1994). In Holland, 95% of firms are SMEs (Bijmolt and Zwart 1994); SMEs also comprise 95% of the total establishments in the Philippines (De la Pena, 1995).

In many cases, the owner of a small business handles the human resource function since they are usually limited when the firm employs only a few people. Obviously, an extremely small firm with two or three employees may not develop sophisticated human resource systems; however, there are numerous businesses that are categorized as “small and medium” that employ a large number of people and need effective human resource policies for their workforce. In this study, enterprises employing less than 500 people are classified as SMEs.

The purpose of this study to examine how the relation between human resource practices and the overall organizational performance of the SMEs in the Asian region. It is hypothesized that there is positive correlation between the human resource practices and the main corporate performance indicators.

The sample of this study is drawn from Hong Kong and their ownership include Mainland China, Hong Kong, Chinese Taipei, Japan, Korea, Indonesia, Philippines, Singapore, Malaysia, India and Thailand. This study focused upon three key human resources management practices: recruitment and selection, incentive compensation, training and development, and performance appraisal. Organisational performance was measured in terms of overall business performance, customer satisfaction, staff turnover, profit growth and sales growth.

## **METHODOLOGY**

Quantitative research method was used in this survey. Five hundred sets of questionnaires have been mailed to SMEs in Hong Kong. The return rate of is 58.2% (291 sets of returned questionnaires)

## **RESULTS AND DISCUSSION**

The distribution of ownership of responding companies is shown in the following table.



Table 2: Distribution of ownership

Ownership	%
Hong Kong	35
Mainland China	21
Chinese Taipei	24
Japan	9
Singapore	5
Indonesia	1
Philippines	1
Malaysia	1
Korea	1
India	1
Thailand	1

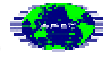
Hypothesis 1: The use of recruitment and selection strategy is positively related to organizational performance in terms of overall business performance, customer satisfaction, staff turnover, profit growth, and sales growth.

Table 2: Correlations between organizational performance and the recruitment and selection practice

	No. of candidate interviewed per each employee hired	No. of selection tests candidates required to test	Effectiveness of recruitment and selection strategy
Overall business performance is high compared to others in the same industry	0.12	0.011	0.14
Customer satisfaction is high compared to others in the same industry	0.29	0.044	0.139
Staff turnover rate is highly satisfactory compared to others in the same industry	0.46*	-0.135	0.47*
Profit growth compares favourably with that of competitors	0.038	0.053	0.12
Sales growth compares favourably with competitors	0.12	0.05	0.16

\* correlation is significant at the 0.05 level (1-tailed)

Results indicated a positive effect upon organizational performance in terms of staff turnover with the use of recruitment and selection strategy. The satisfactory rate in terms of turnover is positively correlated with the number of candidates interviewed per employee hired (0.46). It may imply that the more candidates being interviewed, the more appropriate candidate would be selected and the longer that they will stay with the



company. The overall effectiveness of the recruitment and selection strategy also has a positive correlation with staff turnover. Other organizational performance indicators also have a slight positive correlation with the recruitment and selection practices.

Hypothesis 2: The use of training and development strategy is positively related to organizational performance in terms overall business performance, customer satisfaction, staff turnover, profit growth, and sales growth.

The training and development index include the number of trainees participated in such formal training and the effectiveness of such training.

Table 2: Correlations between organizational performance and the training and development practice

	No. of employees participated in formal training	Effectiveness of employee training
Overall business performance is high compared to others in the same industry	0.065	0.32
Customer satisfaction is high compared to others in the same industry	0.571**	0.56**
Staff turnover rate is highly satisfactory compared to others in the same industry	0.66**	0.269
Profit growth compares favourably with that of competitors	-0.038	-0.045
Sales growth compares favourably with competitors	0.012	0.05

\*\* correlation is significant at the 0.01 level (1-tailed)

Results indicate that the value scores of training and development and the performance of organisation are highly positively related in various aspects. The correlation coefficient between customer satisfaction and the number of trainees is 0.571 while the correlation coefficient between effectiveness of training and profit growth is 0.56. This implies that the more employees received employee training and the more effective the training programme, it may lead to better customer satisfaction. Results also indicate a high positive correlation between the staff turnover rate and the number of trainees (0.66). It may imply that one way to retain employees is to provide training and development programmes. Negative correlation is found between profit growth and the number of trainees and the effectiveness of training programmes. This may imply the training budget may cause burden to the profit growth.

Hypothesis 3: The use of incentive compensation strategy is positively related to organizational in terms of overall business performance, customer satisfaction, staff turnover, profit growth, and sales growth.



The incentive index consists of the importance of job performance in determining the earnings of managerial staff, supervisory staff, non-managerial professional staff and frontline staff.

Results indicate there is positive correlation between the compensation strategy and organizational performance specially the staff turnover which has a highly significant correlation for the managerial (0.64) and frontline staff (0.69). It may imply that when formulating compensation strategy, attention has to be given to importance of job performance.

Table 3: Correlations between organizational performance and importance of job performance in determining incentive compensation

	Importance of job performance in determining earnings of managerial staff	Importance of job performance in determining earnings of supervisory staff	Importance of job performance in determining earnings of non-managerial professional staff	Importance of job performance in determining earnings of junior/ frontline staff
Overall business performance is high compared to others in the same industry	0.264	0.23	0.291	0.189
Customer satisfaction is high compared to others in the same industry	0.07	0.048	0.039	0.041
Staff turnover rate is highly satisfactory compared to others in the same industry	0.64**	0.23	0.316	0.69**
Profit growth compares favourably with that of competitors	0.172	0.16	0.142	0.16
Sales growth compares favourably with competitors	0.18	0.04	0.23	0.124

\*\* correlation is significant at the 0.01 level (1-tailed)

Hypothesis 4: The use of performance appraisal strategy is positively related to organizational in terms of overall business performance, customer satisfaction, staff turnover, profit growth, and sales growth.

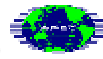


Table 4: Correlations between organizational performance and performance appraisal practice

	Performance appraisal is closely related to promotion and reward	Effectiveness of appraisal performance
Overall business performance is high compared to others in the same industry	0.035	0.011
Customer satisfaction is high compared to others in the same industry	0.051	0.06
Staff turnover rate is highly satisfactory compared to others in the same industry	0.474*	0.269
Profit growth compares favourably with that of competitors	0.103	0.107
Sales growth compares favourably with competitors	0.014	0.001

\* correlation is significant at the 0.05 level (1-tailed)

Results indicate there is positive correlation between the overall business performance and the performance appraisal practice (0.035) although such correlation is only a slight one. While the staff turnover index is highly correlated with the performance appraisal practice (0.474) indicating that if performance appraisal is properly monitored, there will be lower staff turnover rate.

### RECOMMENDATIONS

Today the challenge of organizations whether small or large is to use human resource in the planning and problem solving process. Human resource practitioners are expected to act as change catalysts in making organization more productive. The trend reflects a growing awareness of the contribution that effective human resource practices can make to the success of the organization. Although SMEs employ fewer number of employees, effective human resource practices need to be adopted in the organizations in order to ensure organizational success. The population of employable workforce is not only increase in quantity but has improved in terms of quality as education becomes more common. In order to recruit and select the best candidates fit for the SMEs, human resource practitioners of SMEs need to widen their recruiting and selection strategy. Web-based recruiting is one possible means of widening the applicant pool. Use of critical selection tests is also crucial in matching the personnel specification and organizational needs. For incentive compensation, it is recommended that SMEs should take into consideration of employees' performance in formulating the compensation

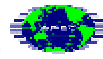




strategy. Although performance appraisal may not have direct impact on the profit and market growth, it can be used as one effective way to retain capable employees which can be one crucial success for SMEs.

### **CONCLUSION**

Results in this study have indicated that there is positive correlation between the human resource management practices of the SMEs and most organizational performance indicators. Following Hess's (1987) study which indicated human resource management as the second most important management activity in SMEs, this study further illustrated the importance of human resource practices in enhancing organizational performance of SMEs.



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