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**EXPLORING HIGH PERFORMANCE HR PRACTICES AND HR ATTITUDE
AS DIRECT AND INDIRECT PATHWAYS FOR SME SUSTAINABILITY
PERFORMANCE**

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Abstract

In management literature and practice, high performance human resource practices (HPHRP) and its impact on organizational performance is a hot topic for research. The literature proposes that link between HPHRP and organizational performance which is largely focused on large organizations and the results are varying in different contexts. It is also suggested that this relationship is needed to be looked into through mediating or moderating effect for the clarity of relationship. Therefore, this paper is intended to explore the connection amongst HPHRP and SME sustainability performance through literature survey and propose that human resource attitude (HR attitude) characterized by employee commitment and job satisfaction has a critical part in this relationship. The paper concludes by proposing a conceptual framework of proposed relationships.

Introduction

Small-and medium-sized enterprises (SMEs) plays an important part in all types of economies, developed, developing and emerging by generating employment opportunities for the masses and contributes in wealth generation, through local business and foreign exchange, which ultimately lead to overall national prosperity (Barkat-Ullah, Aziz &Yousaf, 2015; Faizal, Nor & Yusoff, 2018; Ivars &Martínez,

2015). However, the extant research indicates that SME sectors' growth is facing two main hindrances i.e. high failure rates and poor performance levels (Khan, Awang, Rohra & Zulkifli, 2013; Volery & Schaper, 2007). Academic and professional literatures have highlighted many problems hindering sustainability of SMEs including external or environmental challenges and internal organizational factors. The organizational internal factors that challenging the sustainability and growth of SMEs include, lack of strategic orientations, lack of appropriate strategic planning, HR skills deficiency/ HR capabilities (Hussain, et al, 2012; Ivars, Martínez, 2015; Lu, Chen, Huang, & Chien, 2015; Roomi & Hussain, 1998).

Literature proposes that among others factors, effective use of HR plays an integral role in SME growth and success (Barney, 1991; Gómez-Mejía, Cruz, Berrone, & De Castro, 2011; Huselid, 1995). Every member in SMEs creates a large proportion of the aggregate workforce emphasizing the pivotal significance of utilizing HPHRPs that helps making an environment in which skills and abilities could be upgraded, which in turn leads in enhancing the higher organizational performance (Camps & Luna-Arocas, 2012; Ivars & Martínez, 2015; Lu et al., 2012; Lu et al., 2015). Nevertheless, lack of clarity in the relationship between HPHRP performance have been reported (Becker & Huselid, 2006; Guest, 2011; Messersmith, Patel & Lepak, 2011), which triggered advocacy of scholars for further investigation of the relationship, without which the clarity of relationship could not be comprehended (e.g. Katou & Budhwar, 2007; Yahya, Othman & Shamsuri, 2012). Forgoing literature reflects that further investigation is required to address the HPHRP- sustainability performance relationship and more specifically in SME context.

Considering the prevailing gap in literature, this conceptual paper, therefore, is aimed to deliberate the presence of the connection amongst HPHRP and SME sustainability performance through literature survey and suggest that HR attitude has a critical part in this relationship. To broaden this contention, this paper in the subsequent sections will clarify the four comparatively important factors of HPHRP (Training & development, compensation, employee participation and performance appraisal) identified though extant literature and establish its link with SME sustainability (economic) performance. Afterwards the intervening role of HR attitude (i.e. commitment and job satisfaction) will be proposed to explain the HPHRP- SME sustainability performance relationship. Finally, the study will conclude with propose conceptual framework for further examination.

1. SME Sustainability Performance

Performance is a contextual concept connected with the phenomenon being studied with different connotations and usually as final dependent variable (Richard, Devinney, Yip, & Johnson, 2009). In an organizational context, performance is defined as organizational ability to accomplish its objectives by utilizing resources in properly structured fashion (Daft, 2000; Ricardo, 2001). Moullin (2003) extends the definition of being well-managed organization and its deliverance value to the customers and different stakeholders. Hence, the core of performance is the formation of value. Insofar as the value made by the utilization of the contributed resources is equivalent to or more

prominent than the value expected by the investors, the advantages will keep on being influenced accessible to the organization and the organization will keep surviving and sustaining (Carton, 2004). Therefore, sustainability is the crucial overall performance criteria for any business organization and essence of most empirical research in management.

In border spectrum sustainability performance is concerned with “meeting the needs of the present without compromising the ability of future generations to meet their own needs” (Brundtland, 1987). It was also defined as an organizational or a societal concern to economic, environmental and social aspect (Munck & Souza, 2009). In organizational perspective, Chang, Mills and Newhouse (2007) are in opinion that sustainability is a collection of methodologies, business models and best practices to enable organizations establishing long-term business operations and funding. It is also defined as the organizational ability to maintain its survivability and keep the business going (Colbert & Kurucz, 2007; Tascioglu, 2015; Wales, 2013). Therefore, it can be concluded that sustainability performance is concerned with the word ‘sustained’ which is synonymous with long-term success within the context of management and business literature.

Based on the literature, within the context of this study, SME sustainability performance is defined as the organizational capability to create long-term economic value on a sustainable basis through application of available resources efficiently for achieving both sustainable financial and operational performance.

2. High Performance Human Resource Practices and SME Sustainability Performance

Earlier literature has largely focused on establishing the association between individual or micro human resource practices (HRP) and organizational performance; however, the recent trend has shifted towards holistic or configurational human resource practices approach and their influence on organizational outcomes as such configurations lead to better organizational performance (De Kok & Hartog, 2006; Delery & Doty, 1996; Drummond & Stone, 2007; Fey, 2000; Marchal & Kegels, 2008).

In the extant literature different studies have used various terms such as high commitment practices (e.g., Kwon, 2010; Latorre, 2016; McClean & Collins, 2011), high involvement practices (e.g., Benson, 2013; Doucet, 2015; Gollan, 2005; Guthrie, 2001), high performance work systems (e.g., Boxall, 2012; Datta et al. 2005; Jiang, 2015; Takeuchi, 2009; Wei, 2010), high performance work practices (Bae et al. 2011; Kroon, 2013; Karatepe, 2015; Zhang & Li, 2009) and high performance human resource practices (Chahal, Jyoti, Rani, 2016; Esch, Wei & Chiang, 2016; Hou & Butt, 2017; Kehoe & Wright, 2013). Nevertheless, these terms are interchangeably used with the same philosophy and meanings (Pfeffer, 1998; Wiesner et al. 2007). For the uniformity and relevance, this study will use HPHRP, which is defined as a set of HR practices aimed in developing workforce abilities and skills, encouraging their participation in decision-making, and motivating them to expend discretionary effort towards organizational task and goals (Sun, Aryee, & Law, 2007).

HPHRP has many factors that have been discussed in the literature, however, this study will focus on four integral and comparatively important factors i.e. training and development, compensation, employee participation and performance appraisal and link these factors with SME sustainability performance, in the following sections.

3.1 Training and Development and SME Sustainability Performance

Among other factors, human resource development (HRD) has key role in influencing the firm performance in SMEs (Chahal, Jyoti, Rani, 2016; Hou et al, 2017; Kehoe & Wright, 2013; Pansiri & Temtime, 2008). According to Stone (2008), HRD comprises of two components i.e. training and development where training denotes “activities that teach employees how to better perform in their present job” and development is meant for “activities that prepare an employee for future responsibilities” (p. 353).

Training and development is linked to HRD strategy and considered critical activity by both practitioners and academics aiming to develop and enhance workforce’ knowledge, skills and capabilities. However, earlier studies (e.g. Cassell et al., 2002; Kotey & Slade, 2005; Lange et al. 2000; Pansiri & Temtime, 2008) focusing on small firms have reported that human resource development in these firms predominantly use informal training method. Regarding the dominance of T&D in SME sector, varying trends exist in the literature. For example, studies conducted in UK, reported a little care of T&D and specificity in training in SMEs were found (Cassell et al., 2002; Duberley & Walley, 1995). The study carried out by Lange et al (2000) has highlighted four key hurdles in developing skills including cultural, financial, accessibility to skill development opportunities and awareness barriers. Focusing on the role of consultants, Pansiri and Temtime (2008) has reported that usually the consultants’ services for HRD are not acquired by SMEs due to less familiarity about consultants’ role and extra cost involved for hiring them (Temtime & Pansiri 2004).

As far as HRD and organizational performance link is concerned, studies have found a positive influence (e.g. Ichniowski & Shaw, 1999; Katou & Budhwar, 2007; Michie & Sheehan 2003; Van de Wiele, 2010). Katou and Budhwar (2007), for instance, have argued that for realizing high performance, organizations need to have skilled employees which could be possible through effective training process. This notion is supported by Ichniowski and Shaw (1999) by justifying that the skilled HR responds proactively in changing production and market environment. Further, studies (e.g., Van de Wiele 2010; Shih et al. 2006), have also maintained that HR participation in training sessions is positively associated with firm performance. Elaborating the importance of HR skills, Lange, Ottens and Taylor, (2000) claimed that these skills are crucial for improving competitiveness and sustaining growth of an organization.

Further, the study conducted by Michie and Sheehan (2003) resulted with inverse link between low training level and innovation performance. Huang (2000), in his comparative study on individuals’ performance level, noted that high performers give more importance to T&D compared to low performers. Chand and Katou (2007) in their study in Indian hospitality firms have reported significant relationship between T & D and improved service quality. Similar results have been reported by Akhtar et al. (2008) on both service and product quality and firms’ financial outcomes. It has been also

reported that T&D helps in increasing efficacy, effectiveness, overall productivity (Armstrong & Baron, 1998; Holbeche, 2001; Dirani, 2009; Holloway, 2009; Longnecker & Fink, 2005) personal growth, organizational consistency and financial improvements (Wright et al., 1994; Moingeon & Edmondson, 1996). Based on this review, it can be concluded that HRD (training & development) have positive association with SME sustainability performance. Hence, following proposition is proposed:

P1: There is a positive association between Training & Development and Sustainable Financial Performance.

P2: There is a positive association between Training & Development and Sustainable Operational Performance.

3.2 Compensation and SME Sustainability Performance

A reward system paid by organization to its members against performing various job-related tasks and assignments in favor of the organization is termed as compensation (DeNisi & Griffin, 2001). Compensation appropriateness and equity is prerequisite considering their skills, abilities and their contribution for organization (Fisher et al., 1999). Compensation can be in different modes, as reported by Pfeffer & Veiga (1999), ranging from gain sharing, profit sharing, stock ownership, pay for skills, and individual or team incentives. The ultimate purpose of compensation in any mode is to improve organizational performance. Therefore, considering competitive business environment, organizations may carefully determine innovative compensation strategies (Steven & Loring, 1996; Denis & Michel, 2011).

A reasonable amount of literature establishes significant relationship between compensation with individual as well as organizational performance (e.g., Akhtar et al. 2008; Ine's & Pedro, 2011; Mayson & Barret, 2006; Singh, 2004). For instance, Mayson and Barret (2006) concluded that organizational ability to attract, motivate and retain employees by offering competitive and appropriate monetary rewards tend to results in better performance and growth. Relatedly, Ine's and Pedro (2011), linking compensation with individual and organizational sales performance, reported significant effect of compensation on both salesperson performances at individual level as well as overall sales effectiveness at organizational level. Additionally, Akhtar et al. (2008) reported significant positive relationship between profit sharing on organizational financial performance. Further, Singh (2004) reported positive relationship between a performance-based compensation system and enhanced firm performance. Therefore, we conclude that compensation may positively correlate with SME sustainability performance. Therefore, following is proposed:

P3: There is a positive association between Compensation and Sustainable Financial Performance.

P4: There is a positive association between Compensation and Sustainable Operational Performance.

3.3 Employee Participation and SME Sustainability Performance

Employee participation is defined in many ways. For instance, Adel-Mohammad, (2010) defined it as a mechanism of work-related dialog among organizational members, aimed to provide them opportunities for information and ideas sharing. It is also defined as purposive arrangement for opportunity providing to organizational members to influence management decisions directed towards organizational performance (Abdulkadir et al., 2012). A similar but with different angle, Alexander and Lewer (1996) defines it as consideration of employees' views before decision-making by the management. However, they refuted joint decision-making, as in their view the responsibility of decision making rests on management and they remain accountable for its consequences. On the other hand, scholars (Antonio et al., 2000; David et al., 2006; Denton, 1994) agree that it is maximization of employees' role in the decision-making process which would lead to organizational effectiveness.

Irrespective of the view taken on the degree of the employee participation in the decision making, literature suggest that it enhances the organizational performance (David et al., 2006; Jan, Kees & Michiel, 2002; Morishima, 2002; Nigera, Kuye & Sulaimon, 2011; Shih et al., 2006; Zwick, 2004). For example, Shih et al. (2006) found a positive relationship between employee involvement and enhanced organizational performance. Relatedly, David et al. (2006) in a study focusing on manufacturing found that among other factors employees' involvement and participation at different levels predicts competitiveness and organizational continuous innovation. Additionally, Kato and Morishima (2002) argue that employee participation both at the decisional level and implementation level may yield better organizational productivity. Further, Nigera et al., (2011) have also found support for the employee participation–performance relationship. Their study concluded that organizations with high employee participation and involvement perform better against the organizations with low tendency in employee participation in decision making. Further, to support their augment, Jan et al., (2002) coded the example of TQM organizations where these organizational consider the participative approach in decision making results into various benefits. Finally, Zwick (2004) reported strong positive association between employee participation in decision making and organizational productivity. His study further highlighted that team work (more participation), independent work groups and low level organizational hierarchy provide productivity advantage for the organizations. Based on these arguments we expect that employee participation will positively affect the sustainability performance in SMEs. Accordingly, following is proposed:

P5: There is a positive association between Employee Participation and Sustainable Financial Performance.

P6: There is a positive association between Employee Participation and Sustainable Operational Performance.

3.4 Performance Appraisal and SME Sustainability Performance

Performance appraisal denotes the procedure carried out to by management to determine employees' input to the organization during a specific period against the set

targets (Glidden & Whelan 1996). The logic behind this process is backing objective setting and seeking feedback and establishing plans in pursuance of enhancing employees' outcome/performance (Byars & Rue, 2004; Lee et al., 2010; Young et al., 1995). Therefore, workforce performance management process formulates an integral part of an organization and reflects how it is managing the human capital (Meyer & Kirsten, 2005).

Akhtar et al. (2008) argued that result-based appraisal system offers incentives to employees in pursuance of goals achievement (Akhtar et al. 2008). Commenting on result-based performance appraisal system, Huang, (2000) proposed that apart from its importance in decisions for compensation and promotion, it is also valuable in improving other practices such as recruitment, selection, orientation and training. In a study conducted in Irish hospitality sector by Connolly and McGing (2007) reported that sector uses monetary and non-monetary awards for high performing employees. In comparative study, Jackson and Schuler (1992) found that organizations in service sector use more formal appraisals and customers' inputs to evaluate the results and determine compensation. Their study also revealed that due to nature of job in service sector, employees need diverse skills and abilities hence they receive more training compared to other sectors and nature of jobs. Similar results were found by Othman (1999) and Yahya et al., (2012) in Malaysian context.

Literature reported positive connection between the predominance of performance assessments and performance outcomes (Abdullah et al., 2009; Akhtar et al., 2008; Bartel, 2004; Chang & Chen, 2002; Khan, 2010; Lee & Lee, 2007; Qureshi et al., 2010). For instance, Akhtar et al. (2008), in study on service and manufacturing SME, observed a significant effect of performance evaluation (result-based) on firm's financial and productivity outcomes. Similar argument came from Brown and Heywood (2005) that balancing HRM practices, i.e., formal training and incentives improve performance appraisal leading to a greater influence on productivity. In addition, studies found positive connection between the nature of evaluation, feedback mechanism (Bartel, 2004) and personnel skills and abilities (Collings et al., 2010) on firm outcomes. It has also been cautioned that inappropriate appraisal mechanism leads to certain undesired outcomes including low employee morale, decrease productivity and poor organizational performance (Osman et al., 2011). Therefore, performance appraisal in an overall framework that enables and ensures the entire process is functioning for the attainment of higher performance (Giles et al., 1997).

Based on above review of literature, it can be concluded that performance appraisal is positively linked to sustainability performance in SMEs. Correspondingly, the following is proposed:

P7: There is a positive association between Performance Appraisal and Sustainable Financial Performance.

P8: There is a positive association between Performance Appraisal and Sustainable Operational Performance.

3. HR Attitude as Mediator

We argue that HPHRP may likewise affect SME sustainability through indirect path, through HR attitude i.e. employee commitment and job satisfaction. The connection amongst HPHRP and HR attitude has been shown in previous studies (Datta et al., 2005; Takeuchi, 2009; Whitener, 2013). For instance, Takeuchi (2009) reported positive connection between HPHRP and job satisfaction and commitment. Furthermore, the studies conducted by Datta et al., (2005) and Whitener (2013) have also demonstrated positive connection amongst HPHRP and commitment. Similarity, Green, Wu, Whitten and Medlin (2006) and Khan (2010) found that integrated approach to HR practices will increase employee satisfaction and commitment which consequently lead to higher performance. Katou (2008) reported that employee participation through open communication and idea sharing foster fast decision making. He also reported that employee participation also influences commitment and job satisfaction among employees.

Further it has been reported (Morrow, 2011) that performance appraisal is an important factor that helps in changing employees' attitude such as commitment (Vigneswaran, 2005). Kuvaas (2006) asserted that employees will show higher commitment if they perceive that performance appraisal activities carried out by the management care about employee's development. Further, Roberts and Reed (1996) noted that employee participation and perceived clarity of goals within the performance appraisal process will enhance the satisfaction and commitment. In addition, Weerakkody and Mahalekamge, (2013) reported that satisfaction with performance appraisal will positively enhance employee motivation, commitment and performance.

Earlier research has additionally shown significant connection between HR attitude and firm outcomes (Ton & Huckman, 2008). For instance, Koys (2011) discovered positive connection between job satisfaction and consumer loyalty. Batt (2002) contended that HPHRP influences firm performance straightforwardly. He suggested that this could be achieved by equipping employees through customer services training and by building their commitment which in turn enhance firm overall productivity. On theoretical underpinning of resource based view of firm, he claimed that making knowledge workers for products, customers, and procedures may create resource that are unprecedented, significant, and difficult to be imitated by contenders/competitors that will yield competitive edge for the firm (Batt 2012).

Based on this discussion, it can be concluded that HR attitude characterized by job satisfaction and commitment may have intervening effect on the relationship between HPHRP and sustainability performance, which requires to be investigated empirically and more specifically in SMEs. Hence, following is proposed:

P9: HR attitude characterized by Employee Commitment will mediated the relationship between Training & Development and Sustainable Financial Performance.

P10: HR attitude characterized by Employee Commitment will mediated the relationship between Training & Development and Sustainable Operational Performance.

- P11: HR attitude characterized by Job Satisfaction will mediated the relationship between Training & Development and Sustainable Financial Performance.*
- P12: HR attitude characterized by Job Satisfaction will mediated the relationship between Training & Development and Sustainable Operational Performance.*
- P13: HR attitude characterized by Job Satisfaction will mediated the relationship between Compensation and Sustainable Financial Performance.*
- P14: HR attitude characterized by Job Satisfaction will mediated the relationship between Compensation and Sustainable Operational Performance.*
- P15: HR attitude characterized by Job Satisfaction will mediated the relationship between Employee Participation and Sustainable Financial Performance.*
- P16: HR attitude characterized by Job Satisfaction will mediated the relationship between Employee Participation and Sustainable Operational Performance.*
- P17: HR attitude characterized by Job Satisfaction will mediated the relationship between Performance Appraisal and Sustainable Financial Performance.*
- P18: HR attitude characterized by Job Satisfaction will mediated the relationship between Performance Appraisal and Sustainable Operational Performance.*

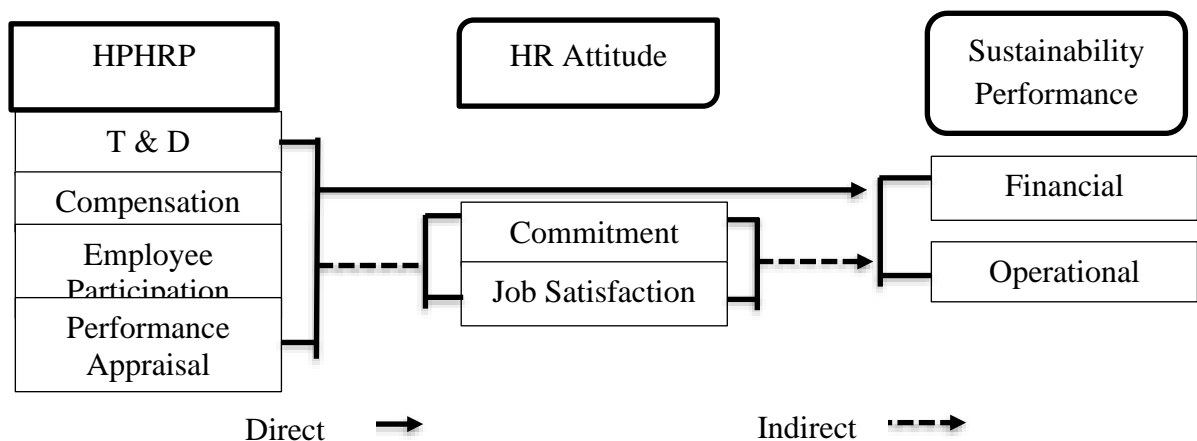


Figure: Proposed Research Framework

4. Conclusion

Earlier literature has largely focused on establishing the association between individual or micro Human Resource (HR) practices and organizational performance; however, the recent trend has shifted towards holistic or configurational human resource practices approach and their influence on organizational consequences reasoned that such configurations lead to better organizational performance.

This study adopted this conformational approach by selecting key factors (training and development, compensation, employee participation and performance appraisal) and proposed their link on multi-dimensional i.e. financial and non- financial aspect of SME sustainability performance. This study argues that these factors my effect on both

financial and non-financial of organizational performance. As the balance between the dimension may yield SME sustainability performance. Further, this study proposed that although HPHRP may have direct relationship with SME sustainability performance but also proposed mediating influence of two primary HR attitude (job satisfaction and employee commitment) on the relationship between HPHRP factors (training and development, compensation, employee participation and performance appraisal) and SME sustainability performance may further explain this relationship.

Although this proposed framework can be tested for any types of organization, however, we encourage that the anticipated relationships in this study are needed to further be verified quantitatively for generalizability in SME sector, as SME face more sustainability performance issue compared to the larger counterparts. Further, quantitative investigation of this model in comparative studies such as large v/s small or manufacturing v/s services sectors will be handy idea to proceed for generalization of presented framework.

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