

Understanding the Strategic Human Resource Management and Firm Performance: What Knowledge Can We Gain about Small and Medium Sized Businesses?

Yang Gu¹, Xinyi Luo^{2*}

¹University of Sussex, Falmer, Brighton, BN1 9QU

²Michael Smurfit Graduate Business School, University College Dublin

*Corresponding author: Xinyi Luo, University College Dublin, Email: xinyi.luo@ucdconnect.ie

ABSTRACT

Since the beginning of strategy studies, strategic aspects of human resource management among small businesses have been one of the most prominent topics in research publications. The article will fully investigate the influence of systematic human resources planning on corporate productivity, which claims that in addition to recognized factors of small company performance, high involvement SHRM will be favourably associated to small scale business efficiency. The influences of third factors on this relationship have been widely investigated in recent papers. Furthermore, in recent years, some academics have investigated and demonstrated the critical link between small businesses and management of personnel resources. This paper will examine the influence of the link across strategic HRM and corporate profitability on small businesses using secondary data.

Keywords: Strategic human resource management, firm performance, small and medium sized business

1. INTRODUCTION

1.1. Background

[1] Companies tend to be able to improve their performance by focusing on their employees and employee management methods. [2] Strategic HRM has proposed that a corporation's performance at least depends in on its workers and the workers' conducts in implementing the company's strategy. A HRM system that can effectively affect employees' behavior and motivation will improve organizational productivity and feasibility. Minor businesses ought to maximize the performance via HRM, but there is little research in this field.

This article will address the association between small enterprise efficiency and HRM, and the advantages of studying tactical personnel resources governance in a small business context. It is worth noting that each evaluation study found at least one important link between human resource system and performance. Obviously, based on the literature review, there is a growing consensus that HRM and firm performance are

related. Despite this agreement, the nature of the partnership remains controversial [2]. Whenever it comes to the company's growth, continuous scale improvement and any further development the company needs, strategic management is one of the most critical factors. The majority of studies have also revealed that regulation mainly depends on researchers in large companies. Only a few of them emphasized the importance of strategic administration in minor and medium-sized businesses. Minor and average-sized firms can achieve higher and faster growth because they have contributed to job creation, GDP growth and high-tech development of intensive industries. Its expansion has been hampered by inadequate links, particularly with the external market, as well as insufficient resources. As a result, SMEs need to improve their competitiveness, especially in this market, which can be achieved by formulating effective strategies.

[3] Although previous SHRM studies have repeatedly proved that various HRM ideas and company productivity have a positive relationship, this study will almost exclusively focus on small-scale enterprises. In similar research applied to minor businesses, little

emphasis has been devoted, and our present comprehension of the function of HRM in small businesses is likewise restricted. The link between HRM and corporate success in small businesses is examined in this study, which adds to our knowledge of SHRM. Small business model enables for a more in-depth analysis of the relationship between HRM and company success, as well as a latest test platform. [1] Different studies have successfully proved the link between HRM and performance, previous studies have not fully confirmed the premise that HRM will lead to performance. Previous studies have been difficult to control or exclude other performance determinants. Many of these problems are caused by the complexity of connections and the settings of large companies often used for investigation.

[4] SHRM research in large companies is complicated by a number of factors, making it tough to quantify and control for alternate success predictors, such as the service of top managers or the firm's operating environment. Large corporations are challenging by their very nature, which provides numerous research obstacles, like several stages, distinct goods, sophisticated tactics and procedures in various places. The lack of these complex factors in small enterprises makes it easy to evaluate HRM and other performance indicators for control purposes. As a result, examining the function of HRM in small businesses can help us better understand the link amongst HRM and organizational efficiency, as well as establish if HRM helps to small business success. Furthermore, and perhaps more importantly, studying the relationship in the context of small enterprises allows us to get a deeper comprehension of the HRM influence on corporate profitability as well as other defined performance determinants [3].

1.2. Research Objectives and Questions

Research questions and objectives essentially assist the researcher in determining the focus areas of research. They also help to achieve the desired results determined by the objectives. Therefore, the research questions and objectives of this study are as follows:

Research objectives

- To determine how small firms are affected by the association between tactical HRM and corporate productivity [4].
- To better understand the important parts of the business world that were ignored in the past.

Research questions

- What effect do tactical personnel resource management strategies have on the success of small businesses? [1]
- Why is human resource management vital for all small business owners and managers?

2. LITERATURE REVIEW

2.1. Strategic Human Resource Management

[4] SHRM is a set of organized people management operations and activities aimed to assisting a corporation in achieving its goals. This definition has two implicit assumptions. First, HRM can affect the results at the enterprise level. Second, the ability of HRM to affect business at the strategic level is defined by the collaborative system of HRM activities rather than a single practice. Despite some criticism, SHRM research shows that HRM has an impact on the results of the company and other levels. A growing number of studies have discovered that certain HRM and productivity measures have a substantial association. [5] Studies adopted the following HRM measures: a high-function task system with a big group of participants. Global competition, technological improvements, shortening of market cycle and the transformation from industrial market to knowledge-based market all affect the demand of company leaders for long-term competitive advantage. Organizations are facing strain to find fresh avenues of commercial advantage as a result of these shifts. Workers, as well as the systems that manage them, are progressively being viewed as a basis of comparative benefit.

[6] HRM has historically centered on the study of specific HR corporate functions, which are often split into recruitment, orientation, assessment, and remuneration based on the domain of industry and organizational behavior. These many HR service areas were previously investigated as methods and objectives in prior research. Training, for instance, is investigated independently from other services, with emphasis on the instructional function's inputs, processes, and outputs or outcomes. There are few studies on how training interacts with other human resource management operations (such as salary or selection), or how specific human resource roles affect business success.

The term "strategic administration" describes a series of executive strategic choices and actions that influence or decide how a company functions. The four components of the conceptual strategic management approaches are strategy valuation and control, strategy operation, strategy planning and analysis. Due to the scale, characteristics and nature of small and medium-sized enterprises, most scholars have put forward and adapted this concept to SMEs. A strong concept of strategic management of SMEs was formulated, which was divided into three stages: strategy implementation, strategy formulation and awareness, that is, the comprehension of the strategic situation.

2.2. Measurement of SHRM performance of small business

Understanding these performance outcomes might require a look at the general SHRM model. HRM has a wide impact on small firms [7]. The first is its direct impact on employees, that is, the impact of HR. Work satisfaction, worker helpful behavior, worker spontaneous actions, and staff absenteeism are all measured at this level. The practical stage is the subsequent level of influence. The level differs from the HR phase in that HR has no immediate impact on activities; rather, the HR structure has an impact on individuals, who in turn have an impact on operational processes. Output ratios, durability, quickness, workforce efficiency, client relations, and other factors would all be assessed at this level. Finally, financial results depend on operational impact. HR have an impact on employees, operations and financial performance. Profits gained, taxes, sales, or even more distant market indicators of company success can be used to determine this level because the market responds to operational and financial results, which affects stock value and other market-based performance indicators.

[8] Various criteria have been used to evaluate company performance in the past. When measuring a corporation's capacity to fulfil its objectives, corporate effectiveness is a statistic that incorporates both financial and non-financial factors. Non-budgetary indicators comprise measures of accomplishment such as customer base, competence, contentment, and efficient markets, whereas financial indicators involve economic aspects. Furthermore, workers' contributions to their jobs are critical to the company's growth and success. Companies can acquire a competitive advantage over their competitors by hiring talented and skilled personnel. Therefore, this study will use financial performance and personnel performance to evaluate business performance.

[1] HRM has an influence on HR or personnel outputs, which then have an influence on organizational results, which are then accompanied by economic and commercial results, which are detached from real HR practice at numerous levels. Although in fact, HR practice has the most direct impact on HR performance, most studies focus on financial and market performance due to strategic interests and measurement. This difficulty in assessing HR's impact on performance is magnified in large businesses. In these enterprises, the gap between HR system and financial performance indicators is greater, which puts forward the problem of appropriate research level. In addition, greater complexity makes it much more difficult to understand the relationship. Due to the intricacy of human resource management, researchers should pay attention to human resource management. Employee performance, operational performance, local small business units of large companies, departments within large companies

and small enterprises are all examples of short distance and low complexity between human resource management system and performance [10].

3. METHODOLOGY

[11] The purpose of research methodology is to create research methods for this thesis. It lists the strategies to be adopted in the paper to ensure that researchers collect correct data on the subject. This section selects a sample study, identifies the types of data to be investigated, outlines the research process, and discusses the limitations encountered throughout the study. It also includes ethical considerations that the researcher ought to keep in mind when presenting the findings of this study. This method will outline the strategies and processes used to achieve the research objectives.

As previously stated, secondary data sources would be collected from online databases. IEEE, Google Scholars, and Science Direct will be the primary databases to obtain these resources for research data collection. These databases will be accessed via the Internet and these files will be searched [2]. The search will be conducted mainly using key terms related to these materials. Human resource, strategic management, SMEs strategic management, manufacturing companies' strategy, and many other basic terms will be used. Following that, the data must be examined in order to provide the essential basic facts based on our research problems and objectives. Therefore, in this case, content analysis will be used, focusing on examining the main themes, texts and information provided by scholars in the sources they chose to use. Therefore, this will be one of the best use methods, because qualitative research based on secondary data requires less time and resources, and it is also one of the most commonly used methods in such research [6].

4. CONCLUSION

Small and medium-sized enterprises are less likely to implement high-performance HRM practices than larger companies. This firm size effect could be due to unmeasured differences in centralization, standardization, and specialization between small and large businesses. Firm size is frequently employed as a proxy for these structural dimensions, with firm size impacts regarded as a measure of their importance. Family-owned and operated enterprises, as well as businesses without a business plan, use less high-performance HRM practices. In addition, these companies are less likely to have an HR department or an HR manager. The presence of an HRM department or manager is linked to greater use of high-performance HRM techniques, implying that company size, family business, and the availability of a business plan are all

linked to the use of high-performance HRM methods, both directly and indirectly.

REFERENCES

- [1] Tichy, N. M. (2019). Strategic human resource management.
- [2] Wright, P. M., & McMahan, G. C. (2012). Theoretical perspectives for strategic human resource management. *Journal of management*, 18(2), 295-320.
- [3] Mello, J. A. (2014). *Strategic human resource management*. Cengage Learning.
- [4] Baird, L., & Meshoulam, I. (2018). Managing two fits of strategic human resource management. *Academy of Management review*, 13(1), 116-128.
- [5] Armstrong, M. (2019). *Strategic human resource management*. pdf drive. com.
- [6] Lengnick-Hall, M. L., Lengnick-Hall, C. A., Andrade, L. S., & Drake, B. (2009). Strategic human resource management: The evolution of the field. *Human resource management review*, 19(2), 64-85.
- [7] Truss, C., & Gratton, L. (2014). Strategic human resource management: A conceptual approach. *International Journal of Human Resource Management*, 5(3), 663-686.
- [8] Hendry, C., & Pettigrew, A. (2016). The practice of strategic human resource management. *Personnel review*.
- [9] Greer, C. R. (2021). *Strategic human resource management*. Pearson Custom Publishing. <http://dspace.vnbrims.org:13000/jspui/bitstream/123456789/4407/1/Strategic%20Human%20Resource%20Management%20view.pdf>
- [10] Lepak, D. P., Liao, H., Chung, Y., & Harden, E. E. (2006). A conceptual review of human resource management systems in strategic human resource management research. *Research in personnel and human resources management*.
- [11] Delery, J. E. (2008). Issues of fit in strategic human resource management: Implications for research. *Human resource management review*, 8(3), 289-309.
- [12] Wright, P. M., & McMahan, G. C. (2011). Exploring human capital: putting 'human' back into strategic human resource management. *Human resource management journal*, 21(2), 93-104.