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SME Performance: Examining the Relationship Between Training and Development, Employee Performance Evaluation and Rewards

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Abstract

SME performance has been viewed in many aspects. This concept paper will highlight human resource management among SME. In managing its human resources, SME needs to at least practice the important parts such as training and development, employee performance evaluation, and rewards. This study's objective is to identify which human resource practice can contribute to firm performance of SMEs. Using the simple random sampling method, the data will be collected by distributing questionnaires to SME's human resource managers and top executives responsible for managing human resources. Data will be analyses for reliability, multiple regression, Pearson's Correlation test, and using PLS-SEM to estimate the model with multiple constructs, indicator variables and structural paths. This study will fill in the gap to identify which HR practices are the most important for SMEs to focus on. It will benefit the SMEs as they can identify which HR practices influence the most in firm performance. HR practitioners can use the findings to support the case for implementing HR practices in organizations. This is in line to help the SMEs to remain in the business and able to expand it.

Keywords: SME Performance, Training and Development, Employee Performance Evaluation, Rewards, Human Resource Management.

Introduction

The study about firm performance specifically focusing on small medium enterprise (SMEs) is widely done in various areas. This is considering the huge SMEs contribution for the country. In Malaysia, SMEs contributed 38.2% of GDP for year 2020 (Department of Statistics Malaysia, 2021). Since a few years back, SME has been the focus of research because in finding the factors to help them find the best approach, technic, and strategy in improving the performance. Human resource management (HRM) is an element that small organizations such as SMEs neglect. HRM is an important element in SME (Chabbouh & Boujelbene, 2020). Managing an organization either big or small requires the owner or manager to have good human resource practices. With specific human resource practices, it will motivate employees,

and thus will help to sustain firm performance. Surviving in the current market requires the SME to learn and change accordingly. The firm's ability to adapt to technological changes will make their business remain competitive in a dynamic market. To have these technological skills, owners, managers, and employees need to equip themselves with knowledge and related skills.

A lot of incentives by government to help SME to grow their business. To remain competitive in the market, SME needs to move along with technology. However, since the nature of the business is small, they lack the financial skills and knowledge to adapt to the current technology. Smart Automation Grant (SAG) has been introduced by the government in Budget 2021 especially for SMEs in manufacturing and services sector to use technology in their business operation (Budget, 2021). The 11 programs by government and a few have been implemented such as Tekun's Online Marketing Programme, Tunas Usahawan Belia Bumiputera Programme (Tube) and Micro Entrepreneur Development Programme (BizME) Micro Connector (Daim & Yunus, 2021). To ease the financial burden of micro small and medium enterprises, government through budget 2021 has introduced Geran Khas Prihatin (GKP), PERMAI, and PEMERKASA (Budget, 2021). In National Entrepreneurship Policy (NEP) 2030, there are seven elements to help SMEs entrepreneur: market, policies, funding, support, culture, skills and talent, and technology and innovation (MDEC, 2021). Even though there are a lot of initiatives by government, it is up to the business owner motivation and determination in growing their business.

SMEs are struggling to maintain their business because of various factors. In 2021, 26,007 micro-entrepreneurs and 2,738 SMEs shut downed their business because of movement control order 3.0 (MCO 3.0) in Malaysia. Many SMEs faced few problems such as lack of talent, lower cash-flow, and adoption of technological tools (Vaghefi & Yap, 2021). Lack of skills among the workers is what makes the SMEs' performance stagnant and unable to grow further.

SME need to think seriously on how they manage human resources to be competitive and survival in the market (Moustaghfir et al., 2020). Human resource management is relevant to SMEs even though the organization is small and medium. This is because SMEs have HR problems in employee development and retention, and the capability of owners and managers of SMEs to stay competitive because HR is an important issue to handle that will affect firm performance. According to Asemokha (2019), issues related to SMEs performance are still unanswered. The dynamic market force SMEs to become agile to remain competitive, thus required study about how SMEs can improve their performance by focusing on factors that they can control (Aragón-Sánchez & Sánchez-Marín, 2005).

Focus on human resources is crucial since it will allow the SMEs to compete against their competitors (Knezović et al., 2020). Usually, HR practices are focused on large organizations compared to SMEs (Wuen et al., 2020). Therefore, this study will fill in the gap to identify which HR practices are the most important for SMEs to focus on. HR practices are important for firm performance because it affect the internal environment such as processes, resources, and operation (Hooi & Ngui, 2014). SMEs need to seriously focus on HR practices especially related to training and development if they want to remain competitive in the market (Jalil, 2021). Since the business is small and medium size, the owners and managers tend to practice

HR informally. However, according to Belsito & Reutzel (2019), when performance evaluation is done formally, it can increase employees trust in leadership thus lead to increase in firm performance. To maintain employee's motivation, rewards either in financial or non-financial are important (Řehoř & Vrchota, 2018). Therefore, this study objectives are

1. To identify which human resource practices that can contribute to firm performance of SMEs in Malaysia.
2. To examine the relationship between human resource practices and firm performance of SMEs in Malaysia.

This study will focus on SMEs firm performance in Malaysia. It will discuss the aspect of managing human resources of SME. This is because humans are one of the significant factors in determining firm performance. The internal environment of the firm, such as human resource management, will affect a firm's performance. That is why it is critical for the business to act in this area to develop the organization. Jalil (2021) stated that to innovate and improve firm performance, they must make use of their employees. Employees contribute to firm high performance; therefore, it is important for the firm to keep their employee motivated by rewarding them accordingly (Řehoř & Vrchota, 2018).

Literature Reviews

Many researchers that study SMEs performance especially on firm performance. According to Fening (2008), firm performance can be measured through profitability, sales growth, customer satisfaction, employee morale, and market share. Two types of how performance is measured in SMEs are in terms of financial performance and non-financial performance (Neely et al., 2000). SMEs' performance is assess based on sales growth; market share; profitability; introduction of new production systems or managerial practices (Hooi & Ngui, 2014). In this study, firm performance is measured through its sales growth and employee morale. Diamantidis & Chatzoglou (2011) investigated HR involvement and firm performance. Since employees play an important role, their contribution brings an impact on the firm. SMEs often have limited resources, and the contributions of employees are critical to the success and growth of the business. Employees bring their skills, knowledge, and experience to the organization, which can help to drive innovation, increase productivity, and improve the quality of products or services. In addition, SMEs often operate in dynamic and fast-paced environments, and employees who are flexible and adaptable can help the organization respond quickly to changing market conditions and customer needs. They can also take on multiple roles and responsibilities, which can be particularly important for small businesses with limited resources. Employees play a critical role in ensuring that customers are satisfied with the products or services provided by the SME. They are often the first point of contact with customers and can help to build relationships and ensure that customer needs and expectations are met. The performance and behavior of employees can have a significant impact on the reputation of the SME. Employees who are professional, courteous, and knowledgeable can help to build a positive image for the organization and attract new customers. Employee turnover can be particularly costly for SMEs, and it is important to retain high-performing employees. SMEs that invest in their employees by providing training, development, and career advancement opportunities can help to improve employee retention and reduce turnover costs. Generally, employees are critical to the success of SMEs. By hiring, developing, and retaining high-performing employees, SMEs can improve productivity, increase customer satisfaction, build a positive brand reputation, and drive

growth and success. To understand how human resource practices impact firm performance, the resource-based view (RBV) is used as the underpinning theory. RBV explained how a business can remain competitive by applying appropriate HR practices (Wuen et al., 2020).

There are several human resource practices that SMEs need to focus on to improve performance. HR formal practices such as employee development, and rewards, are important for firm performance (Lai et al., 2017). However according to Wuen et al (2020), training and development process and performance evaluation are significant towards SEMs performance but, rewards are not significant towards SME performance. Hooi & Ngui (2014) agree that all HR practices such as rewards, training, and development; and performance evaluation will enhance SMEs. In Malaysia context, HR practices for SMEs that will affect the firm performance consists of performance evaluation, and training and development only (Zakaria et al., 2018). Contrary to Kitchot et al (2021), to improve the firm's performance, HR practices such as training and development, performance evaluation, and rewards, are important for SME. HR formal practices such as employee development, performance management and reward, grievance and dismissal procedure and communication are important for firm performance (Lai et al., 2017). HR practices such as selection and recruitment; reward and compensation; training and development; and performance evaluation will enhance SMEs performance through organizational learning (OL) capability as the mediator (Hooi & Ngui, 2014). HRM practices for SMEs in Malaysia that affect the firm performance consists of communication and information sharing, compensation, performance appraisal, recruitment and selection, and training and development (Zakaria et al., 2018). To improve the firm's performance, HR practices such as training and development, teamwork, evaluation, and reward, are important for SMEs (Kitchot, et al., 2021). SMEs need to practice a set of HR strategies even though they have financial constraints. The HR practices are selection and recruitment, reward and compensation, training and development, and appraisal (Aragón-Sánchez & Sánchez-Marín, 2005; Fening et al., 2008). Knezović et al (2020) mentioned that by applying the set of best strategies of human resource practices such as career development, training, results oriented appraisal, job security, employees' participation, job descriptions, and profit sharing, will influence the firm's financial performance, organizational performance, and human resource management outcome. According to Kafetzopoulos (2021) SMEs performance is mostly studied in terms of the organizational strategy, innovation, and knowledge-learning, while more focus needs to address about human resources, and organizational context.

Many researchers agreed that training and development are the most important practices (Lai et al., 2017; Wuen et al., 2020; Hooi et al., 2014; Zakaria et al., 2018; Kitchot et al., 2021). Training and development process, employee's engagement session, human resource specialist and performance appraisal are significant towards SEMs performance however, recruitment and selection, rewards and incentives, communication are not significant towards SME performance (Wuen et al., 2020). Training and development are a process to add employee's skills, knowledge, attributes to improve employees' capabilities (Wuen et al., 2020). Employee training and development is an important aspect of human resource management that helps employees improve their skills, knowledge, and abilities to perform their jobs more effectively. For SMEs, employee training and development can be particularly important because these organizations often have limited resources and need to maximize the productivity and efficiency of their workforce. SME needs to do a needs assessment to

identify the skills and knowledge that employees need to improve their job performance. This can be done through surveys, interviews, or performance evaluations. Based on the needs assessment, SMEs can design training programs that are tailored to the specific needs of their employees. This could include classroom training, on-the-job training, coaching, mentoring, or e-learning. Since SME has a limited budget, they can explore and apply funding options such as government grants or partnerships with training providers. SMEs should ensure that the training program is effectively implemented, which includes scheduling and coordinating training sessions, communicating with employees, and monitoring attendance and participation. The evaluation of the effectiveness of the training program should be made through feedback from employees, assessments of improved job performance, and other metrics. Overall, employee training and development can help SMEs improve employee performance, reduce turnover, and increase productivity, which can ultimately lead to increased profitability and growth. In this study, training and development referred to the process of management to enhance employees' skills and knowledge to grow their capabilities.

One of the HR practices that owners and managers of SMEs need to do is performance evaluation of their employee to assess their performance which directly impact the firm performance (Wuen et al., 2020; Hooi et al., 2014; Zakaria et al., 2018; Kitchot et al., 2021). Employee performance evaluation is an important aspect of managing employee performance in SMEs. Performance evaluation is a process to monitor employees' performance (Wuen et al., 2020). Performance evaluation provides employees with feedback on their job performance, which helps them understand their strengths and areas for improvement. This feedback can also serve as recognition for a job well done, which can be a motivating factor for employees. Performance evaluation helps SMEs align employee goals with the organization's overall goals and objectives. This ensures that employees are working towards the same goals as the organization and can help improve organizational performance. Performance evaluation helps SMEs identify areas where employees need additional training or support to improve their job performance. This can help SMEs improve employee performance and ultimately improve the organization's overall performance. Performance evaluation provides SMEs with valuable information that can be used to make decisions about promotions, salary increases, and other rewards. It can also be used to identify employees who may be struggling and need additional support or training. Performance evaluation can help SMEs retain employees by providing them with feedback and recognition for their job performance. This can help employees feel valued and motivated to continue working for the organization. Overall, performance evaluation is an important tool for SMEs to manage employee performance, improve organizational performance, and retain employees. By providing employees with feedback, aligning goals, identifying areas for improvement, and supporting decision making, SMEs can create a positive work environment and achieve their business goals. The appropriate training programs can be identified when the firm did the performance evaluation towards their employees (Kitchot et al., 2021). In this study, performance evaluation is a process where the management appraises and monitors an employee's performance.

Even though SMEs operate in limited financial, rewards can motivate employees and increase firm performance (Lai et al., 2017; Hooi et al., 2014; Kitchot et al., 2021). SMEs can offer a variety of rewards to employees to recognize and incentivize their performance and

contributions to the organization. Rewards can be monetary or non-monetary to retain and motivate employees (Wuen et al., 2020). To reward and encourage exceptional performance, SMEs may provide financial incentives like pay raises, bonuses, profit sharing, or stock options. SMEs can also provide non-cash incentives like more time off, flexible work schedules, or possibilities for training and advancement. Awards, public acclaim, or a thank-you message are all ways to acknowledge an employee's contribution. Management can provide staff members with opportunities to grow professionally inside the company, such as promotions or new duties. Social outings or other team-building exercises can foster camaraderie and raise morale among the workforces. SME's must prioritize employee perks like health insurance, retirement programs, or employee discounts despite having a tight budget to help recruit and retain workers. Employees who receive tailored awards, such as gift cards to their favourite eateries or gym memberships, where management tailors the rewards according to specific employee preferences, will feel appreciated. The rewards given to employees in this study can be monetary or non-monetary. When choosing rewards for their staff, SMEs must consider their unique demands and preferences. SMEs may foster a great work environment, raise employee motivation and engagement, and ultimately enhance organizational performance by providing a variety of rewards. Figure 1 shows the theoretical framework of the study.

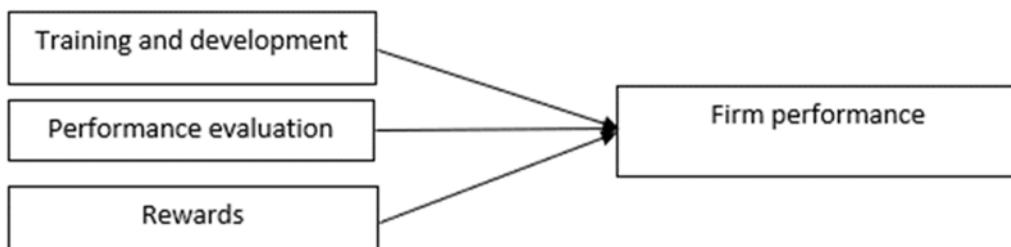


Figure 1: Propose theoretical framework involves firm performance as dependent variable, and three independent variables that are training and development, performance evaluation, and rewards

Methodology

Many studies have been done on the performance of SMEs. Several performance-related metrics, such as company performance, financial performance, global performance, innovation performance, export performance, customer satisfaction, entrepreneurial success, and social capital. Although there are many potential elements that could affect a firm's success, this study will concentrate primarily on human resource practices. In this study, firm performance is the dependent variable, and the independent variables are the elements that can affect firm performance which is the HR practices that focuses on training and development, employee performance evaluation, and rewards. The data will be collected using a questionnaire which will be distributed to SME's human resource managers and top executives responsible for managing human resources. The questionnaire for training and development, employee performance evaluation, and rewards will be adopted and adapt from Geringer et al (2002), and firm performance from (Geringer et al., 2002; Delaney & Huselid, 1996). For this research, a few analyses will be run. For internal reliability of each variable, Cronbach's alpha will be used. According to Creswell and Creswell (2017), the Cronbach's alpha between .70 and .90 showed consistency and reliability. The profile analysis

and descriptive analysis will be used to analyze the demographic of the sample. Multiple regression analysis will test the relationship of firm performance with training and development, performance evaluation, and rewards. Pearson's Correlation test to assess the correlation between the two variables. By using the PLS-SEM, researchers will be able to estimate the model with multiple constructs, indicator variables and structural paths (Hair, 2019). This research should focus on one industry to see the relationship which is specific in that industry only. Focusing on a single industry will make the results of this study more concentrated (Knezović et al., 2020).

Conclusion

One of the objectives of this study is to identify which human resource practices that can contribute to firm performance of SMEs in Malaysia. This study also examines the relationship between human resource practices and firm performance of SMEs. This research will find the most important practices between training and development, performance evaluation, and rewards which according to various researchers, the result are different according to organization. The research findings will help the SMEs to choose among the human resource practices, which of them are the most important to be implemented in their organization. Since SMEs are concerned about expenses, they can identify which human resource practices that influence the most in firm performance. The implementation of these human resource practices will help the SME to sustain and make the organization stay relevant and able to compete in the market. Human resources are the main element in the organization and by focusing on them, both the organization and employee will gain the benefit. This is in line to help the SMEs, especially in the fish crackers industry, to remain in the business and able to expand it. It is related to government strategic trust number five in NEP 2030, which is to strengthen entrepreneurial capabilities and performance of SMEs. Therefore, this study will help the government in achieving NEP 2030 by increasing the SMEs contribution to GDP from currently 38.3% in 2021 to 45% in 2025, and 50% in 2030. This can be achieved when SMEs focus on their employees through HR practices, managerial skills, and cultural intelligence. It will also fulfil the government target to have 72% in 2025 and 80% in 2030 job opportunities generated by SMEs. The study should focus on specific industry to know if each industry will get a different finding. The demographic factor might also influence the result, so the study should be done in different states.

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