



## **REGRESSION FACTORS OF SMALL BUSINESSES PERFORMANCE: CONCEPTUAL MODEL**

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### **ABSTRACT**

This study represents an attempt to develop a model that demonstrates the relationship between HRM Practices, Governmental Support and Organizational performance of small businesses. Furthermore, this study assay to unfold the socalled “Black Box” to clarify the ambiguous relationship between HRM practices and organizational performance by considering the pathway of logical sequence influence. The model of this study consists two parts, the first part devoted to examining the causal relationships among HRM practices, employees’ outcomes, and organizational performance. The second part assesses the direct relationship between the governmental support and organizational performance. It is hypothesized that HRM practices positively influence organizational performance, and that employees’ outcomes mediating the relationship between HRM and organizational performance. Also, it is hypothesized that the governmental support impact positively organizational performance. The expected results of this study demonstrate that employee outcomes partially mediating the relationship between HRM practices and organizational performance. And governmental support fully impact organizational performance.

**Keywords:** Small businesses, HRM practices, Employee Outcomes, Governmental Support, Organizational Performance

### **INTRODUCTION**

All economic point of views has shown consensus about the growing importance of small business, whether in the industrially developed countries or developing countries. In Malaysia, The importance of small businesses in Malaysia rises through its active contribution in generating income and valueadded. In 2003, small businesses achieved a net income of RM 405 billion and RM 154 billion value added (UNDP, 2007). The latest statisticsindicate that SMEs contribute 99.2% of the total business establishments, and contribute about 32% of GDP and 59% of total employment National SME Development (Council, 2010). Currently, small businesses are facing many challenges and problems due to rapid environmental changes represented by the diversity of the labor market, development of information systems, globalization, and the constant change in product demands.

These hasty changes are confronted by the inability of most of these businesses to keep up with these changes as well as utilizing them in their favor, due to the weakness of available resources for small businesses such as (necessary funding, advanced information system and active human resource). To achieve success, businesses in general and especially the smaller ones must have the ability to improve performance by creating products and new work strategies, reducing costs, improving quality and productivity (Luthans, K. W., and S. M. Sommers, 2005), through using available resources and facilities such as the human resources by focusing on the ways and means that can help improve the ability of the workforce. Many researchers have called for taking care of HRM in small businesses of its decisive influence to creating and increasing knowledge, motivation, trust, involvement and commitment, which is reflected in turn as a source of sustainable competitive advantage.

Huselid (1995) has confirmed the fact that HRM practices represent a single path that can be used by businesses to conform attitudes and behaviors of their employees in order to serve the desired goals through the creation of conditions that make their employees on a high degree of engagement and thus making all efforts to achieve the organizational objectives (Huselid, 1995). Studies mostly concentrated on HRM and its impact over organizational performance in large firms (Delaney, J.E., and M.A., Huselid, 1996; Paul, A.K., and Anantharaman, 2003; Den Hartog, D.N., P. Boselie, and J. Paauwe, 2004). However, few studies have looked at the influence of HRM practices over organizational performance in small businesses (Collins, C., J. Ericksen, and M. Allen, 2005). The importance of HRM practices lies in their power to influence the organizational performance not directly but through the positive influence on the employees' performance known as (employees' outcomes). Many studies have been conducted to examine the relationship between HRM practices and employees' outcomes which tend to have influence on the organizational performance, but a few of those studies were dedicated to small businesses. Also, many of those studies were devoted to examining the relationship between HRM practices and one variable of the employees' outcomes such as trust, commitment, engagement and involvement (Becker, E.B. and M.A. Huselid, 1998; Wright, P. M. and S. A. Snell, 1998; Guest, D. J. Michie, and M. Sheehan, Conway, N. and Metochi, M., 2000). The study of Cornell University/ New York along with Gevity institution is regarded a pioneer study that highlighted the importance of human resources in small businesses, and on the effective strategies followed by HRM in these businesses and their impact on the employees' outcomes and then on the organizational performance.

Based on Cornell University study, the main objective of this study is to examine the relationship between HRM practices and organizational performance of small businesses through the mediator variable (employees' outcomes). In spite of the growing importance of small businesses in the economies of most countries in the world, these businesses suffer many difficulties that limit their capabilities to succeed and withstand the challenges faced and which sometimes lead many to fail and withdraw from the market. These problems are seen in the difficulties of obtaining the necessary funding, legal restrictions and bureaucratic procedures that govern the work of these businesses and the lack of managerial qualifications which can deal with these constraints effectively, and the difficulty to take advantage of

opportunities for innovation due to lack of the necessary skills to turn creative ideas into commercial products that bring profit back to the businesses (Cosh, A., and A. Hughes, 2003; Vinnell, R. and R. T., Hamilton, 1999). Based on their strong belief in the positive importance of small businesses, most countries (developed, transitional, and developing countries) undertook to put forward various programs and policies to support small businesses in order to improve their ability to grow and step up their performance in innovation, promoting managerial skills, and to adopt the best practices to improve the efficiency of their human resources. Since independence Malaysia has achieved many national development goals and nearly all of the Millennium Development goals (MDGs). For example the MDGs target to reduce the proportion of the population living below the poverty line by 50% between 1990 and 2015 was achieved in 1999, when the poverty rate fell from 16.5% in 1990 to 7.5%. By 2006 the poverty rate was just 5%.

The growth and development of small businesses in Malaysia have contributed significantly in creating employment and thus in reducing the poverty rate. The full realization of the importance of small businesses may incite the government to set up several institutions, incubation centers and banks allocated to these businesses, such as NSDC, SMIDEC, MECD, HRD portal. Malaysia has given priority to small businesses and developed policies that meet the development needs. Strategies of the Eight Malaysia plan (2001-2005) have focused on the development of small businesses operation in the manufacturing sector, and large allocations used in order to confront the basic challenges and problems facing the development of small businesses and through arrange of institutions. Despite the fact that there is a broad governmental support for small businesses, the researches that concern with studying the influence of this support on the organizational performance for small businesses is still scarce, if not non-existent. The need is still urgent to examine the feasibility of the various forms of government support for small businesses from the point of view of those businesses.

### **MODEL OF STUDY**

This study consists of two parts, the first part devoted to examine the causal order of the relationship between HRM practices and organizational performance, by illuminating the indirect influence of the mediating variables that is so-called employees' outcomes. The second part of the study dedicated to highlight the vital role of governmental support for small businesses, through testing the direct relationship between governmental support and organizational performance. The model of this study had been adapted from the earliest model developed by Cornell University/ New York and Gevity institution, and had been examined on a sample of small businesses in USA in 2005. Also it had been tested on a sample of small businesses in Iraq in 2007.

As shown in Figure 1;

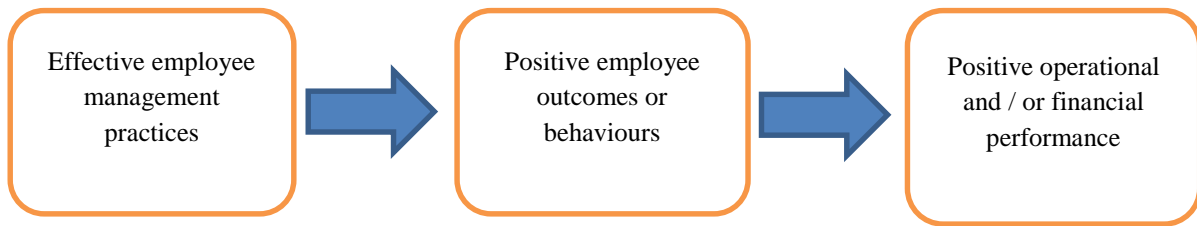


Figure 1: Cornell University Model

As there is no consensus about a standard set of HRM practices in the HRM literature, three groups of practices has been identified as one bundle may directly affect the employee outcomes, and indirectly the organizational performance. So in this study, three different HRM practices (sub-bundles of HRM practices) would be examined to clarify their effects on organizational performance. These sub-bundle of HRM practices are: selection practices, management practices, and Retention and motivation practices.

Many previous researches examined the relationship between either the whole system of HRM practices and organizational performance or selected individual HRM practices and organizational performance. Becker & Huselid (1998) indicated that, it is more suitable to study the influence of each element of HRM practices on organizational performance. Simultaneously in one model because examining each element in isolation the effect of the rest HRM practices is not controlled (Becker and Huselid, 1998). This study follows the same approach and examined a bundle of HRM practices with quite understanding that each individual HRM practice would have a different effect on organizational performance, but jointly would influence organizational performance.

To trace the causal order relationship between HRM practices and organizational performance the study examined how HRM practices affect organizational performance by inserting employees' outcomes as the mediating variables, considering that HRM practices can enhance these outcomes (Guest, D. E., 1997). Most theorists supposed that the causality relationship between HRM and performance (Becker, B.E., M.A., Huselid, P.S. Pickus, and M.F. Spratt, 1997; Delery, J., and J. Shaw, 2001) would be as shown in Figure 2;

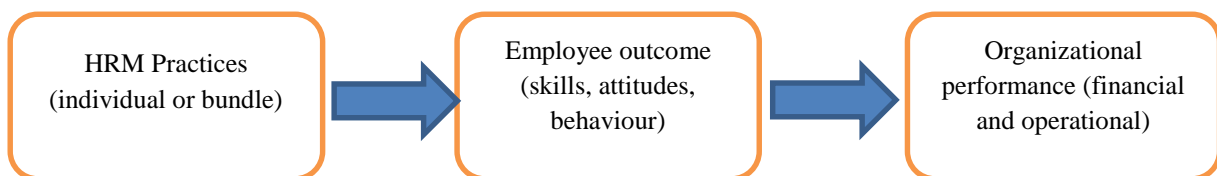


Figure 2: Cornell University Model

The general framework of mediating models indicates an indirect relationship through employee outcomes, between HRM practices and organizational performance. Nevertheless, many direct relationships may observe between individual HRM practices and organizational performance (Edwards, P. and M. Wright, 2001). But these relationships may not simultaneously present, and even the possibility of the absence of these direct relationship,

some practices positively enhance organizational performance through the intervening process.

The success of any organization (including small business) depends on a number of factors. The special characteristics which small businesses have and the difficulties that hinder their progress make them in dire need of governmental support. In Malaysia, government with its strong belief of the vital role of small businesses adopted many supporting programmes for backing up small business sector. As the review of literature about governmental support revealed that there is a scarcity of empirical researches devoted to trace the influence of governmental support on the organizational performance of small businesses, so as to clarifying the extent that small businesses benefit from the governmental support. The sub-model concerning the relationship between governmental support and organizational performance is as follows:

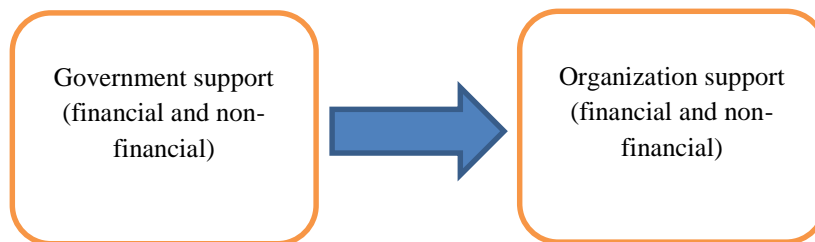


Fig 3: Sub-Model of the Conceptual Model of Study

The general conceptual model for this study is as shown in Figure 4;

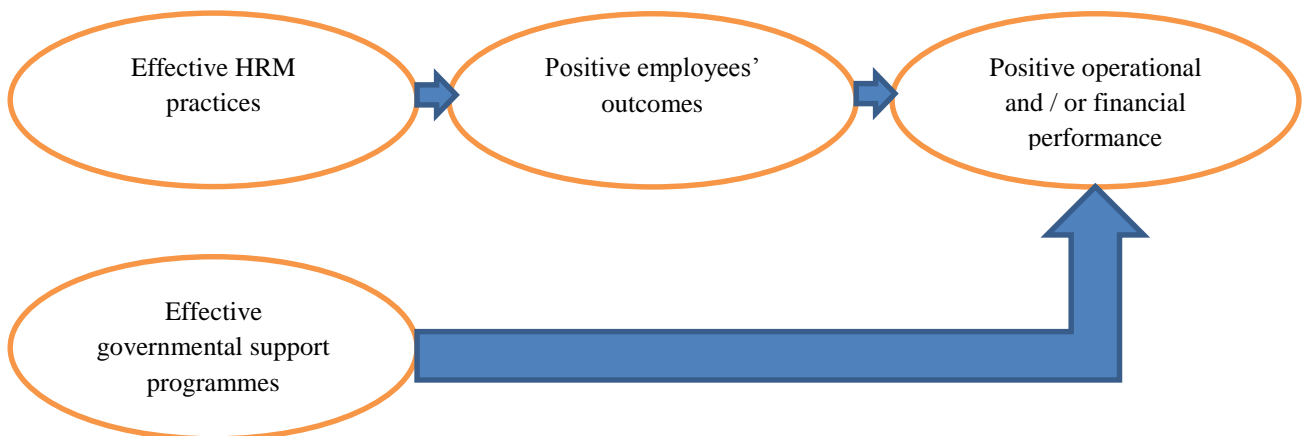


Figure 4: Conceptual Model

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