The Impact of Human Resource Management Practices on SMEs Performance: An Exploratory Study in Brunei Darussalam

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ABSTRACT

There is currently a dearth of knowledge for human resource management under an SMEs context. As a result, it is assumed that human resource management based on large business organizations is applicable for SMEs at a smaller scale. From the resource-based view, this article investigates the impact of human resource management practices towards the SMEs in Brunei Darussalam. By conducting an exploratory study, a questionnaire survey of 296 was collected from the local SMEs to ascertain how the human resource management practices impact their performance. This is followed by the analyzing the result via the Pearson Correlation and Multiple Linear Regression which suggests that specific human resource management practices have a significant impact on the SMEs. As part of the contribution, the article extends the knowledge of human resource management in SMEs context by understanding their impact towards the SMEs performance.

KEYWORDS

Brunei Darussalam, Exploratory Study, Human Resource Management, Resource Based View, SMEs, Strategic Management

INTRODUCTION

Currently, the globalized business environment is hindering many small-medium enterprises (SMEs) from achieving their full potential (Hanson, Melnyk, & Calantone, 2011) and, in some cases, cease their operation entirely (Rodriguez-Gutierrez et al., 2015). This is due to the SMEs being content with their local business environment (Peschken et al., 2016). However, such threat can be overcome by utilizing the resources efficiently (Dabie et al., 2011). To achieve this, it is recommended that the SMEs implement the human resource management (HRM).

The HRM is known for their impact towards the business performance (Buller & McEvoy, 2013; Quiros, 2009). From this statement, it can be debated that the HRM is beneficial for the SMEs...
(McEvoy & Buller, 2013). Past findings by Fabi et al. (2009) reported that (i) world-class SMEs enhanced their innovative aspects through training and development process; and (ii) international SMEs improved their employees’ development and motivation with performance appraisal as well as rewards and incentives system. This supports the findings from Hassan (2010) who observed that SMEs experienced fast growth when invested in (i) recruitment and selection process; (ii) training and development; (iii) performance appraisal; and (iv) rewards and incentives system. Despite these relationships, the exact relationship between the HRM practices and SMEs performance remain ambiguous (Hooi & Ngui, 2014).

This is due to the majority of the HRM research is based on large business organizations (Kasturi et al., 2006; Montoro-Sanchez & Soriano, 2011). As a result, there is a lack of informal HRM practices documented within the SMEs (Kasturi et al., 2006). Such details are fundamental for the SMEs to formulate the proper HRM practices due to their limited resources (Zheng et al., 2009). With this limited information, this study would address the core question of “To what extent do HRM practices impact the SMEs performance in Brunei Darussalam?” By doing so, this study would narrow the knowledge gap by expanding the ignored HRM knowledge within the SMEs. To begin, the resource-based view (RBV) as the underpinning theory to understand how the HRM practices impact the SMEs performance.

BACKGROUND

Resource Based View

The main idea of RBV is many business organizations are competing with similar goods and services due to the similar source of resources (Peteraf & Bergen, 2003). Although it is essential to gain access to the source, it is equally important to manage and synchronize them effectively (Holcomb et al., 2009). The RBV is one of the strategic management theories which describe how business organizations achieve competitive advantage by configuring their resources to become (i) rare; (ii) difficult to imitate; and (iii) difficult to substitute (Costa et al., 2013; L’Ecuyer & Raymond, 2017). This reasoning explains how different business organizations in terms of size, are able to thrive by relying their internal factors (Kasturi et al., 2006).

This implies the importance of linking key resources with the business performance (Kunc & Morecroft, 2010). Based on the RBV, the business organizations can achieve sustainable competitive advantage by implementing the proper HRM practices (Batt & Hermans, 2012). This is due to the value of HRM practices are derived from the employees’ knowledge and capability (Newman & Sheik, 2014). Therefore, this study will further analyze how the HRM practices are significant to the SMEs performance.

SMEs in Brunei Darussalam

In Brunei Darussalam, one of the main objectives in relation to Brunei Vision 2035, is becoming a sustainable economy with the average Gross Domestic Product (GDP) growth rate of 5.0% to 6% per annum (Department of Economic Planning and Development, 2012). With the recent GDP growth of Brunei Darussalam for 2018 being 2.5% (Trading Economics, 2018), this depicts Brunei Darussalam as a growing economy. However, this is due to the oil and gas product which accounted for 60% of the GDP and 90% of the total exports (Darwish et al., 2017). As a result, it is important to diversify by strengthening the SMEs development.

The SMEs in Brunei Darussalam are identified based on their number of employees, in which, their size are categorized into (i) micro (1 – 4); (ii) small (5 – 19); (iii) medium (20 – 99); and (iv) large (100+) (Department of Economic Planning and Development, 2017). This depicts the employees as crucial aspects of the Brunei SMEs. This is supported by past observation by Low et al. (2012) who reported how HRM practices are efficient in the Brunei SMEs when the SMEs leaders (i) gained
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