

# HUMAN RESOURCE MANAGEMENT PRACTICES AND ORGANISATIONAL PERFORMANCE: EVIDENCE FROM SMALL AND MEDIUM-SIZED ENTERPRISES IN AUSTRALIA

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## Abstract

**How to cite this paper:** Mamun, M. (2022). Human resource management practices and organisational performance: Evidence from small and medium-sized enterprises in Australia. *Corporate Ownership & Control*, 19(4), 163–171.  
<https://doi.org/10.22495/cocv19i4art14>

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**ISSN Online:** 1810-3057  
**ISSN Print:** 1727-9232

**Received:** 30.06.2022  
**Accepted:** 03.10.2022

**JEL Classification:** L25, L8, M5  
**DOI:** 10.22495/cocv19i4art14

Small and medium-sized enterprises (SMEs) are the drivers of economic activities in Australia. The present study provides empirical evidence on the connexion between the four key dimensions of human resource management (HRM) practices and organisational performance, in response to the call by earlier researchers that the influence of specific HRM practices on organisational performance needs to be further investigated across different countries and organisational contexts. A survey among SMEs in the South-Western region of Sydney in Australia was conducted and self-reported measures were applied to attain data on HRM practice aspects and businesses' performance. Regression analyses were employed to assess the proposed relationships, and it was found that all dimensions except training and development exhibited positive relationships to organisational performance, as hypothesised. Discussion on the findings is underlined, so as are the implications of this study, limitations, and avenues for future researchers.

**Keywords:** HRM, SMEs, Performance, Australia

**Authors' individual contribution:** The Author is responsible for all the contributions to the paper according to CRediT (Contributor Roles Taxonomy) standards.

**Declaration of conflicting interests:** The Author declares that there is no conflict of interest.

## 1. INTRODUCTION

Small and medium-sized enterprises (SMEs) are crucial drivers of economic activities in world economies, especially in this age of globalisation and improved contest. The role of SMEs in the economic development of many countries has been widely acknowledged (Greenan, Humphreys, & McIvor, 1997) and there are no exceptions in their contributions to economic growth within developing and developed countries such as Australia. The World Bank (2019) estimates that SMEs provide up to 60% of total employment and about 40% of gross domestic product (GDP) in developing countries. In Australia, SMEs are also the backbone of this country's

economy, which generate around 7 million jobs and contribute to 57% of Australia's GDP (National Australian Bank [NAB], 2017).

However, despite the importance of SMEs to the world economy, the poor survival rates and underperformance of such businesses continue to be concerning. Organisation for Economic Co-operation and Development (OECD, 2016) observes that the existing rate of most SMEs is noticeably lower than larger firms, the collapse rates of SMEs appear to be higher within the first few years of their operations and a five-year SME's existence rate is at 50%. Sufficient capital budgeting, entrepreneurial approach, and thorough market research have usually been advised to tackle existence and underperformance issues, though the usage of human

resource management (HRM) features in SMEs to improve performance and existence rates has largely been disregarded and an informal tactic to manage employees has mostly been used in SMEs (Chaudhary & Singh, 2014; Tocher & Rutherford, 2009). While earlier empirical studies have directed that some HRM practices have a positive connexion with SMEs' performance, scholars in the field of HRM recommend that further empirical studies need to be conducted to determine and confirm those findings (Georgiadis & Pitelis, 2012; Brewster, 2004). Besides, the literature specifies that a skilled and well-motivated human resource is the most crucial determining factor of SMEs' capacity to continue business and stay competitive in these days business setting (Chaudhary & Singh, 2014), though there has been a shortage of data in Australia concerning the broad nature of practices in HRM and its relationship with performance of SMEs. Hence, the objective of this study is to find out the answers to the following research questions in the Australian context:

*RQ1: To what extent are HRM practices employed by SMEs in Australia?*

*RQ2: What empirical association lasts between HRM practices and SMEs' performance?*

*RQ3: Which HRM practices, if any, have greater associations with SMEs' performance?*

The present study is expected to contribute to the understanding of HRM practices in small and medium-sized enterprises and enrich the literature on the impact of HRM practices on the organisational level, which is an often-overlooked study zone in the management of SMEs and the impact of HRM practices on organisational performance.

Following the introduction, the rest of the paper is organised as follows. Section 2 provides literature review and hypothesis development. Section 3 presents research methodology. Section 4 is research results. Section 5 discusses the results and Section 6 concludes the paper.

## 2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

### 2.1. Resource-based theory

The underlying theory of this study is the resource-based theory. The resource-based perspective of an organisation proposes that improved organisational performance is the outcome of a characteristic blend of HRM practices (Voss, Tsikriktsis, Funk, Yarrow, & Owen, 2005; Wright, Dunford, & Snell, 2001). Likewise, some researchers see HRM practices as an approach where a set of interconnected practices are used concurrently to improve organisational performance (Wright et al., 2001; Lado & Wilson, 1994). A large number of scholars (Voss et al., 2005; Wright et al., 2001; MacDuffie, 1995; Huselid, 1995) have used resource-based theory in their studies to assess the relationship between various facets of HRM practices and organisational performance. The present study, hence, explores the connection between HRM practices and Australia's SMEs' performance through resource-based theory as an underlying theory.

### 2.2. Dimensions of HRM practices in SMEs and firm performance

While SMEs are recognised as an essential economic contributor in Australia and internationally, the definition of SMEs varies across countries and regions. The grouping of such businesses is mostly dependent on the specific country's socio-economic context (Lukacs, 2005). In Australia, there is no uniform legislative definition of an SME. Trewin (2002) defines a small business as a business employing less than 20 employees or, if the business is a manufacturing business, the business employs less than 100 employees, and a medium business ranges up to 200 employees. Authors such as Wiesner, McDonald, and Banham (2007) and Baron (1995) classify SMEs in their studies as those businesses employing between 20 and 200 employees. SMEs with a workforce within the range between 20 and 200 are likely to have a management structure, whereas smaller businesses tend to have informal organisational formations and management practices (Wiesner et al., 2007). The present study, hence, attempts to consider businesses with a workforce of between 20 and 200 for this study.

Regardless of the importance of SMEs to economic development, these businesses face numerous restraints that affect their performance, such as lack of financial capital, poor physical and technological infrastructure, lack of entrepreneurial approach, insufficient research and development, and poor managerial practices. Dookeran (2012) argues that poor management, among these constraints, is the most responsible constraint that is liable for SMEs underperformance. Likewise, Hornsby and Kuratko (2003), and Dun and Bradstreet, Inc. (2001) identify the key aspect of managerial incompetence in SMEs as the poor handling of these businesses' employees. Since a highly motivated and well-trained workforce is a key determinant of SMEs' success and helps these businesses to stay competitive in present-day business settings (Hodgetts & Kuratko, 2001), effectual employee management practice is a central management task for SMEs' performance and existence. This study, therefore, explores the connection between effectual HRM practices and SMEs' performance in the Australian context.

A growing body of empirical research has been carried out to assess the impact of HRM practices on organisational performance. While there is a long list of best HRM practices that can influence firm performance, some empirical studies have indicated that not every HRM practice can affect firm performance (Jones, 2005; Barringer, Jones, & Neubaum, 2005; Ahmad & Schroeder, 2003). Hence, to examine the influence of HRM practices on SMEs' performance in the Australian context, the present study has chosen to examine four HRM practices proposed by Huselid (1995) and adapted by Singh, Rigsby, and Ramgulam (2017), which can be expected to influence firm performance. The four HRM practices are 1) recruitment and selection, 2) training and development, 3) performance management, and 4) compensation. The following sections will develop hypotheses pertaining to the relationship between HRM practices and SMEs' performance in the Australian context.

### 2.3. Recruitment and selection practice and SMEs' performance

Recruitment is the process of inviting a group of candidates from which suitable applicants for job positions are fulfilled, and selection is the process of connecting human resources, firm, and employment purposes using diverse measures to choose the best candidate that suits the wants of the unfilled job (Stone, 2005). SMEs suffer challenges to recruit qualified job fits as they mostly use informal hiring channels where selection processes are mainly dependent on the personal decision of the manager/owner and recruitments occur through word-of-mouth as this process offers cost-effective ways of recruiting applicants (Barrett & Mayson, 2007). However, studies show that pursuing recruitment and selection approaches such as advertisements on job requirements, designed interviews, and formal processes to test candidates instead of informal practices for employing staff are associated positively with firm performance. Obasan (2012) found that formal and structured recruitment and selection approaches had a substantial positive influence on SMEs' performance in a sample of 100 businesses. Likewise, Shaharin (2012) studied a sample of 137 SMEs worldwide and found that formal recruitment in SMEs had a positive connection with organisational performance across the board of businesses. Therefore, based on the above discussion, this study proposes the following hypothesis in the Australian context:

*H1: Formal recruitment and selection practice are positively related to organisational performance in SMEs in Australia.*

### 2.4. Training and development practice and SMEs' performance

Organisational performance can be improved by employees' training and development in a number of ways. For instance, training improves employees' skills, knowledge, and capabilities, which subsequently boosts their productivity (Huselid, 1995), and hence organisational performance. Besides, like job security, an organisation that coaches its staff sends a signal to the staff that they are valuable assets to the organisation. As a result, employees are more prone to improve their commitment, and productivity, and reduce the possibility to leave the organisation (Barringer et al., 2005). In a similar vein, Storey (2002) has suggested, in his study among middle-sized businesses in the UK, to incorporate employees' training and development for improving organisational performance. In SMEs, employees' training and development are usually conducted on an on-going basis and informal ways due to the shortage of resources they acquire (Cardon & Stevens, 2004). However, studies that have been conducted in assessing the impact of training on SMEs indicate that formal training is essential because of its positive impact on workers' productivity and organisational performance (Fening, 2012; Guzzo, Jette, & Katzell, 1985). Thus, the following hypothesis, based on the above arguments, is proposed in the Australian context:

*H2: Formal training and development practice are positively related to organisational performance in SMEs in Australia.*

### 2.5. Performance management practice and SMEs' performance

Performance management is another form of HRM practice, and one key aspect of performance management practices is performance appraisal. Performance appraisal can be specified as the process and technique of formally evaluating someone's effort and giving feedback on performance over a certain time (Singh et al., 2017). In SMEs, the application of a formal performance management practice appears to be very unlikely as this practice is mostly informal in small and medium-sized businesses (Cassell, Nadin, Gray, & Clegg, 2002). In a similar vein, Rachmi (2013) argues that some forms of evaluations are exercised in SMEs, although formal practices are practically non-existent because of the lack of formal processes in small and medium-sized businesses for managing performance assessments, disciplinary actions, or the firings of workers. Authors such as Zakaria Zainal, and Nasurdin (2012) and Khan and Khan (2012) find that the managers/owners of SMEs can realise progress in overall firm performance if SMEs pursue a formal appraisal system as this practice permits for employee voice and empowerment if employees are discussed of their performance, and empowered employees influence positively to organisational performance. Hence, this study proposes the following hypothesis in the Australian context:

*H3: Formal performance management practice is positively related to organisational performance in SMEs in Australia.*

### 2.6. Compensation practice and SMEs' performance

Compensation is one of the leading HRM practices that businesses use to reward (monetary and non-monetary) employees as a formal performance appraisal of an employee (Collins & Clark, 2003). Cardon and Stevens (2004) find that compensation has an impact on both employees and firm performance. Paul and Anantharaman (2003) also find in their study that incentives and compensation directly affect operational performance. In a similar vein, Rachmi (2013) focuses on SMEs and specifies that compensation is a crucial issue for SMEs' success as it significantly affects recruiting and retention efforts of SMEs since appropriate compensation policies help to recruit and retain essential skills they need to operate effectively. Shaharin (2012) also finds that SMEs that do pursue formal compensation practices succeed through contented employees and SMEs flourish over time as they support their employees through proper compensation strategies and practices. Hence, this study proposes the following hypothesis in the Australian context:

*H4: Formal compensation practice is positively related to organisational performance in SMEs in Australia.*

### 3. RESEARCH METHODOLOGY

#### 3.1. Research sample and data collection

To achieve the purpose of this study, a survey was carried out between July and August 2019 amongst the local businesses in Campbelltown City as it is the economic heart of the South-Western region of Sydney in Australia. Campbelltown City Council maintains a database of businesses in the region, which it updates regularly. Among the 172 local businesses in the 2019 database, 67 were surveyed as these businesses were fallen under the SMEs categories used in this study. As mentioned earlier, the present study considered businesses with a workforce between 20 and 200 as SMEs. Hence, the initial sample size of this study was 67 businesses, and 48 owners/managers of those 67 SMEs agreed to take part in the research. Questionnaires were hand-delivered to the 48 SMEs and collected after two weeks. This technique for data collection was used as mail or online surveys have a greater possibility of non-response (Hudson, Seah, Hite, & Haab, 2004). Completed data were attained from 36 out of the 48 participants. A final sample of the 36 SMEs was, therefore, used as the final acceptable respondents, which were about 53.7% of the 67 businesses. Of the 36 SMEs, 66.7% were male-run SMEs, 16.7% were family-owned, and 55.6% were in business for 10 years or less.

#### 3.2. Measurement of the variables

The items used to measure *HRM practices* (independent variables) were adapted from Shaharin (2012) and Deshpande and Golhar (1994), and a short pilot study was conducted with businesses to assess its content validity. A five-point Likert scale was used to reveal research participants' agreement or disagreement with the statements from 1 = strongly disagree to 5 = strongly agree. The four *HRM practices* were measured by 13 items in total. *SMEs' performance* (dependent variable) was assessed using a quantitative measure of business performance, which was adapted from Chandler and McEvoy (2000). Since the sample SMEs were privately owned and published financial statements were unavailable, the SMEs owners/managers were asked to rate their performance on a three-point Likert scale (1 = good, 2 = average, 3 = poor) for a yearly return on assets, return on sales, and sales growth. All the items used in this study to measure HRM practices are presented in the Appendix.

#### 3.3. Reliability test and data analysis approach

A reliability test on scales is the best way to measure internal consistency between items on a scale. The alpha of Cronbach is widely used for measuring the scale's reliability (Cooper & Schindler, 2006; Hair, Black, Babin, Anderson, & Tatham, 2006). It should also be mentioned that the alpha value of Cronbach is ranged from 0 to 1, but to make the scale reliable the agreeable level must be more than 0.60 (Malhotra, 2002; Cronbach, 1951). The reliability statistics of this study are presented in Tables 1a, 1b, 1c, 1d, and 1e.

Multiple regression analysis was employed in this study to test the hypotheses as the purpose was to assess the relationship between the application of formal *HRM practices* (independent variables) and *SMEs' performance* (dependent variable). The *HRM practices* were listed as the predictor variables in the regression equation and *SME performance* as the criterion variable. To assess the significance of the hypotheses, the beta ( $\beta$ ) coefficients, the  $R^2$  values, and the associated probability values were also assessed.

**Table 1a.** Reliability statistics on scales:  
Recruitment and selection practice

<i>Case processing summary</i>			
		N	%
Cases	Valid	36	100.0
	Excluded <sup>a</sup>	0	0.0
	Total	36	100.0

<i>Reliability statistics</i>		
<i>Cronbach's alpha</i>	<i>Cronbach's alpha based on standardized items</i>	<i>N of items</i>
0.726	0.734	4

Note: a. Listwise deletion based on all variables in the procedure.

**Table 1b.** Reliability statistics on scales:  
Training and development practice

<i>Case processing summary</i>			
		N	%
Cases	Valid	36	100.0
	Excluded <sup>a</sup>	0	0.0
	Total	36	100.0

<i>Reliability statistics</i>		
<i>Cronbach's alpha</i>	<i>Cronbach's alpha based on standardized items</i>	<i>N of items</i>
0.774	0.763	3

Note: a. Listwise deletion based on all variables in the procedure.

**Table 1c.** Reliability statistics on scales:  
Performance management practice

<i>Case processing summary</i>			
		N	%
Cases	Valid	36	100.0
	Excluded <sup>a</sup>	0	0.0
	Total	36	100.0

<i>Reliability statistics</i>		
<i>Cronbach's alpha</i>	<i>Cronbach's alpha based on standardized items</i>	<i>N of items</i>
0.697	0.698	3

Note: a. Listwise deletion based on all variables in the procedure.

**Table 1d.** Reliability statistics on scales:  
Compensation practice

<i>Case processing summary</i>			
		N	%
Cases	Valid	36	100.0
	Excluded <sup>a</sup>	0	0.0
	Total	36	100.0

<i>Reliability statistics</i>		
<i>Cronbach's alpha</i>	<i>Cronbach's alpha based on standardized items</i>	<i>N of items</i>
0.840	0.840	3

Note: a. Listwise deletion based on all variables in the procedure.

**Table 1e.** Reliability statistics on scales: SME performance

<i>Case processing summary</i>			
		<i>N</i>	<i>%</i>
Cases	Valid	36	100.0
	Excluded <sup>a</sup>	0	0.0
	Total	36	100.0

  

<i>Reliability statistics</i>		
<i>Cronbach's alpha</i>	<i>Cronbach's alpha based on standardized items</i>	<i>N of items</i>
0.887	0.890	3

Note: a. Listwise deletion based on all variables in the procedure.

#### 4. RESEARCH RESULTS

Tables 2a and 2b present the means, standard deviations, and inter-correlations between the research variables, respectively. Based on the findings, it seems that most businesses agreed that formal HRM practices are important as shown by the high mean values. The inter-correlation results (Table 2b) also indicate that there were moderate to high correlations existed between the main variables.

**Table 2a.** Descriptive statistics

<i>Variables</i>	<i>N</i>	<i>Mean</i>	<i>Standard deviation</i>
<i>SME performance</i>	36	2.2597	0.61831
<i>Recruitment and selection</i>	36	3.9028	0.59545
<i>Training and development</i>	36	3.8519	0.62878
<i>Performance management</i>	36	3.6658	0.48417
<i>Compensation</i>	36	3.9544	0.58687
Valid N (listwise)	36		

**Table 2b.** Inter-correlations

<i>Variables</i>	<i>SME-P</i>	<i>R&amp;S</i>	<i>T&amp;D</i>	<i>P-M</i>	<i>Compensation</i>	
<i>SME performance (SME-P)</i>	Pearson correlation	1	0.648**	0.461**	0.732**	0.761**
	Sig. (2-tailed)		0.000	0.005	0.000	0.000
	N	36	36	36	36	36
<i>Recruitment and selection (R&amp;S)</i>	Pearson correlation	0.648**	1	0.742**	0.478**	0.437**
	Sig. (2-tailed)	0.000		0.000	0.003	0.008
	N	36	36	36	36	36
<i>Training and development (T&amp;D)</i>	Pearson correlation	0.461**	0.742**	1	0.385*	0.273
	Sig. (2-tailed)	0.005	0.000		0.020	0.107
	N	36	36	36	36	36
<i>Performance management (P-M)</i>	Pearson correlation	0.732**	0.478**	0.385*	1	0.648**
	Sig. (2-tailed)	0.000	0.003	0.020		0.000
	N	36	36	36	36	36
<i>Compensation</i>	Pearson correlation	0.761**	0.437**	0.273	0.648**	1
	Sig. (2-tailed)	0.000	0.008	0.107	0.000	
	N	36	36	36	36	36

Note: \*\* Correlation is significant at the 0.01 level (2-tailed). \* Correlation is significant at the 0.05 level (2-tailed).

As stated earlier, four hypotheses were proposed for this study, and these hypotheses were tested using multiple regression analysis. Multiple regression analysis is generally used to ascertain what proportion of the variance in the dependent variable is explained by the independent variables when these variables are inputted into the regression analysis (Cramer, 2003). As indicated in Table 3a, the four HRM practices were able to explain significantly 75.2% of the variance in organisational performance as the  $R^2$  is 0.752.

Of the four HRM practices, *recruitment and selection* ( $\beta = 0.340$ ,  $p < 0.03$ ), *performance management* ( $\beta = 0.393$ ,  $p < 0.018$ ), and *compensation* ( $\beta = 0.446$ ,  $p < 0.001$ ) were significant in influencing positively organisational performance, thus supporting  $H1$ ,  $H3$ , and  $H4$ . *Training and development*, on the other hand, did not seem to significantly influence organisational performance ( $\beta = -0.015$ ,  $p > 0.911$ ). The second hypothesis ( $H2$ ), therefore, is not supported (Table 3c).

**Table 3a.** Multiple regression analysis: Model summary

<i>Model</i>	<i>R</i>	<i>R<sup>2</sup></i>	<i>Adjusted R<sup>2</sup></i>	<i>Std. Error of the estimate</i>
1	0.867 <sup>a</sup>	0.752	0.720	0.32704

Note: a. Predictors: (Constant), recruitment and selection, training and development, performance management, compensation.

**Table 3b.** Multiple regression analysis: ANOVA<sup>a</sup>

<i>Model</i>		<i>Sum of squares</i>	<i>df</i>	<i>Mean square</i>	<i>F</i>	<i>Sig.</i>
1	Regression	10.065	4	2.516	23.527	0.000 <sup>b</sup>
	Residual	3.316	31	0.107		
	Total	13.381	35			

Note: a. Dependent variable: SME performance. b. Predictors: (Constant), recruitment and selection, training and development, performance management, compensation.

Table 3c. Multiple regression analysis: Coefficients<sup>a</sup>

Model		Unstandardized coefficients		Standardized coefficients	t	Sig.	Collinearity statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-2.212	0.483		-4.580	0.000		
	Recruitment and Selection	0.340	0.150	0.327	2.270	0.030	0.385	2.598
	Training and Development	-0.015	0.132	-0.015	-0.113	0.911	0.440	2.270
	Performance Management	0.393	0.157	0.308	2.496	0.018	0.526	1.901
	Compensation	0.446	0.127	0.423	3.507	0.001	0.549	1.821

Note: a. Dependent variable: SME performance.

## 5. DISCUSSION OF THE RESULTS

The objective of this study is to examine the relationship of the specific dimensions of HRM practices on organisational performance amongst small and medium-sized businesses operating in the South-Western region of Sydney in Australia. The study finds overall support for the influence of HRM practices namely recruitment and selection, performance management, and compensation but training and development on organisational performance.

The findings highlight the formal recruitment and selection as a predictor of organisational performance. This finding is consistent with the previous studies of Obasan (2012) and Shaharin (2012) who found that formal and structured recruitment and selection practices had a substantial positive influence on SMEs' performance across the board of businesses. The finding of the present study can be recognised as the fact that formal recruitment and selection practices were applied by the managers/owners in the sample of SMEs than informal practices. While informal recruitment and selection approaches are sometimes taken in some SMEs, a formal method must be used as the business develops in order to influence performance in a positive way. It is, hence, important for SMEs to hire their workforce through structured recruitment and selection approaches overtime to influence performance positively.

Contrary to the formal recruitment and selection approach (*H1*), training and development are not related to organisational performance, and *H2* is not supported. The findings show that formal training practices in this study are not analytically related to managerial strategies in the sample of SMEs. In fact, the literature on the positive impact of training practices on organisational performance has centred on the larger business setting (Huang, 2001; Loan-Clarke, Boocock, Smith, & Whittaker, 1999). Shaharin (2012) and Cardon and Stevens (2004) found, like this study, no substantial links between formal training and development practices and organisational performance. The authors' findings could be ascribed to the notion that formal training is commonly seen as a cost of SMEs' owners, which develops employees and makes them ready to become more marketable for big businesses to absorb. Another explanation could be aligned with the study of Cardon and Stevens (2004) who found that employees' training and development in SMEs are usually conducted on an on-going basis and informal ways because of the shortage of resources they possess.

Performance management, in particular, performance appraisals reveal significant and positive relations with SMEs' performance as hypothesised (*H3*) in this study. These positive

findings are consistent with the suggestions of Singh et al. (2017) and Jones, Morris, and Rockmore (1995) who found that performance appraisals are the crucial mechanisms for promoting entrepreneurship and growth in SMEs. In a similar vein, Zakaria et al. (2012) and Khan and Khan (2012) found that SMEs can realise progress in overall firm performance if it pursues a formal appraisal system as this practice allows employees' voice and empowerment by advising employees of their performance and influence positively to firm performance through empowered employees.

The findings of this study are also in line with previous studies (Cardon & Stevens, 2004; Collins & Clark, 2003) that underlined compensation as a predictor of firm performance. The task of compensation in affecting employee performance and subsequent firm performance has largely been acknowledged. Compensation, for employees, plays a crucial role in continuing their job and increasing work commitment to the organisation (Chew & Chan, 2008). It is firmly thought that employees will be more likely to replicate good behaviours and commitments if they were properly compensated by their employer. Moreover, Bergman and Scarpello (2002) argue that a good compensation policy can be applied for hiring, motivating, keeping, and enhancing employees' loyalty to the business which eventually influences organisational performance positively. The present study has revealed that the existing compensation policy used by the sample SMEs has an influence on business performance, and this finding is consistent with the studies of Shaharin (2012) and King-Kauanui, Ngoc, and Ashley-Cotleur (2006).

The findings of this study have shed some light on the importance of SMEs in employing specific HRM practices in enabling business performance and growth. Hence, these findings have significant implications for the task of HRM in SMEs, which are also endorsed in the literature on SMEs' performance. Authors such as Singh et al. (2017), Shaharin (2012), and Baron (2003) highlight the role of formal HRM practices in SMEs from the formation of an SME and argue that once an SME hires its first employee(s), HRM issues come into play to affect business performance, success, and survival. The failure to acknowledge that employee performance should be managed (performance management) and rewarded (compensation) in an equitable and ordered means as employee duties change with business change, can be a key aspect of SMEs' underperformance and low existence rates (Shaharin, 2012; Baron, 2003). The present study also echoes and stresses that HRM practices start at the beginning of employment relationships and SMEs can be benefitted from formal attempts in their appraisal and compensation practices to support organisational performance.

## 6. CONCLUSION

The primary objective of this study is to examine the relationship of specific HRM practices with organisational performance amongst SMEs in Australia. Despite the insignificant result of training and development, this study finds that formal recruitment and selection, performance management, and compensation practices are positively connected to SMEs' performance. This study, hence, offers insight into the effects of specific HRM practices on SMEs' performance in Australia, which may help the underperformed SMEs and poses some support for the idea that formal HRM practices not only work for large organisations but also SMEs.

The findings of this study should be interpreted cautiously by considering some limitations. Firstly, the study hypotheses were examined using cross-sectional data as the data was obtained at one point in time and the findings indicated that recruitment, performance evaluations, and compensation practices were substantially and

positively linked to SMEs' performance, but did not prove causality, which could be done with longitudinal data. Hence, there are scopes for upcoming researchers to explore causality between formal HRM practices and SMEs' performance at a greater level, using a longitudinal research design. Secondly, the study collected only 36 usable responses, and a larger usable response would have given the power to generalise. Thirdly, the data represented small and medium businesses only without taking into account the sectors they were in, and there could be different shapes of relationships that existed in different sectors. Finally, the data collection approach of this study concentrated on the distribution of questionnaires to a single manager/owner of the SMEs surveyed. These self-reported answers could reduce the reliability of the study findings. Hence, upcoming research could work on mixed research methods including interviews and surveys with employees as well as owners/managers, which would enhance the value of the findings and bring a balanced perspective on the usage of HRM practices in SMEs.

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**APPENDIX. USED ITEMS TO MEASURE HRM PRACTICES**

1. *Recruitment and selection:*

- Newspaper ads are used to recruit an employee.
- Online ads are used to recruit employees.
- A panel interview process is used to select an employee.
- Job probation period is used for a new hire.

2. *Training and development practice:*

- There are formal training plans to teach employees the skills needed to effectively perform their job.
- Training is provided to all employees on a recurring basis.
- Training plans are evaluated, monitored, and amended for the employees.

3. *Performance management practice:*

- Employees are appraised based on their work performance.
- Performance appraisals are based on an individual's quantifiable results.
- Employees receive a written performance appraisal.

4. *Compensation practice:*

- Pay increases are aligned to job performance.
- Incentive schemes are aligned to job performance.
- Job evaluations are used to determine compensation/wages.