

Role of human resources management and Organizational learning in Small and medium enterprises

¹Marzieh Taheri Sinaki, ²Davood Gharakhani, ³Sajjad Jalalifar, ⁴Hamid Bahrami

¹Department of business Management, Abhar branch, Islamic Azad University, Abhar, Iran

² Young Researchers and Elite Club, Zanjan Branch, Islamic Azad University, Zanjan, Iran

^{3,4}Department of Industrial Management, Qazvin Branch, Islamic Azad University (IAU), Qazvin, Iran

Davood Gharakhani (Corresponding author). Email: davoodgharakhany@yahoo.com

Abstract: Enterprise development is almost universally promoted in developing countries, and is often justified on the grounds that the emergence of entrepreneurs is an important mechanism to generate economic growth. Small and Medium Enterprises (SMEs) play a vital role in the economy of Iran. Human resource management (HRM) is seen as crucial for innovation and firm performance in Iran. Effective management of human capital might improve market performance of firm, and the impact of HR on organizational outcomes might improve organizational performance. Employees who have needed knowledge, skills and abilities required for individual performance contribute more to business results such as sales, market share, profits, quality of products and new product development.

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1. Introduction

Rapid environmental change, globalization, competition to provide innovative products and services, changing customer and investor demands have become the standard backdrop for organizations. To compete effectively, firms must constantly improve their performance by reducing costs, enhancing quality, and differentiating their products and services. Enterprises are successful when they generate new knowledge by converting of implicit knowledge into explicit knowledge and put emphasis on the importance of linking internal and external sources of information (Nonaka and Takeuchi, 1997). The small and medium enterprises (SMEs) sector has an important role to play in developing economies not only in economic development, but also in poverty alleviation and job creation. Also, SMEs have been recognized as an important strategic sector in Iran for generating high economic growth, reducing unemployment, inequality and poverty. SMEs stimulate private ownership and entrepreneurial skills, are flexible and can adapt quickly to changing market demand and supply situations, generate employment, help diversify economic activity, and make a significant contribution to exports and trade.

Several researchers have noted that HRM leads to firm sustainable competitive advantage and superior performance, and HRM is an important means of gaining this competitive advantage (Schuler and MacMillan, 1984; Barney, 1991; Wright et al., 1994). Powers and Hahn (2002) found that skill and resource-based competitive methods impact on firm performance. Accordingly, HR practices help firms

select and implement skills and resources that will create marketplace uniqueness. Skills can be defined in terms of staff capability, systems, or marketing savvy not possessed by a competitor (Powers, Hahn, 2002). The relationship between HRM and firm performance has received considerable attention from HRM researchers and innovation researchers in recent years. A vast amount of research has proved the positive relationship between HRM and a given firm performance (Huselid, 1995). Waal (2007) suggests that, an employee's ability to see the connection between his or her work and the organisation's strategic objective is a driver of positive behaviour. This clarity is achieved by formulating and using personal objectives derived from strategy. Delaney and Huselid (1996) found impact of HR on organizational performance. In addition, humancapital- enhancing HR practices have main effect on performance when firms link HR systems with quality manufacturing strategy (Yound et al., 1996). OP is an indicator which measures how well an enterprise achieves their objectives (Hamon, 2003). Ho (2008) defined OP in terms of how well an organization accomplishes its objectives. Schermerhorn et al. (2002) point out that performance refers to the quality and quantity of individual or group work achievement. In response to these potential problems, many forward-thinking organizations are striving to create a positive organizational climate in an attempt to retain valuable employees through various human resource management (HRM) initiatives. Some of these practices include ensuring that there is a good fit

between the individual employees' values and the organization's values in the recruitment and selection phase (Van Vianen, 2000).

Organizational learning means sensitivity to employees and their potential, and therefore, provides implications for a talent management program. Moreover, a staffing and selection process can recruit employees based on characteristics for jobs that involve continuous learning (Kraiger et al., 2004). Scholars have also developed and proposed different models of HRM both between and within nations (Boxall, 1995; Legge, 1995; Truss & Gratton, 1994). Interestingly, most models of HRM have an Anglo-Saxon base. As such, from a global perspective, principles of HRM have been developed from a restricted sample of human experience. During the infancy stage of HRM literature, such an ethnocentric approach was understandable and unavoidable.

2. HRM

Recent theoretical works on business strategy have indicated that firm competitive advantage could be generated from firm human resources (HR). According to the resource-based view (Barney, 1986), the firm could develop sustained competitive advantage through creating value in a manner that is rare and difficult for competitors to imitate. Traditional sources of competitive advantage, such as natural resources, technology and economics of scale have become increasingly easy to imitate. The concept of HR as a strategic asset has implications for this issue. HR is an invisible asset that creates value when it is embedded in the operational system in a manner that enhances firm ability to deal with a turbulent environment.

SHRM is becoming ever more popular. Today, human resources are seen as "the available talents and energies of people who are available to an organization as potential contributors to the creation and realization of the organization's mission, vision, strategy and goals" (Jackson and Schuler, 2000).

SHRM, therefore, can be considered as an overall process to deal with long-term human resources issues as part of the strategic management of the organisation. This includes comprehensive concerns about structures, values, culture, quality, commitment and performance and the development of the human resources through whom the goals of an organisation are accomplished. SHRM has the following two main perspectives.

- (1) Human resource management as an integral part of an organisational strategy, "which is chiefly about ensuring that the organisation has the skilled, committed and well-motivated workforce it needs to achieve its business objectives. It can be achieved by

linking HR strategies to basic competitive strategies" (Armstrong, 2000).

- (2) Human resource management as a strategy in itself, which means developing staff in order to face the challenges of a rapidly changing world.

Human resource management (HRM) refers to the policies, practices and systems that influence employees' behavior, attitudes and performance (De Cieri et al., 2008). Human resource practices include determining human resource needs, recruiting, screening, training, rewarding, appraising and also attending to labor relations, health and safety and fairness concerns (De Cieri et al., 2008; Dessler, 2007). Although there have been previous studies on best practices in HRM (Barney and Wright, 1998), most of these studies have been fragmented in identifying an effective mix of practices that could improve organizational commitment and intention to stay. There is also a large human resource management (HRM) literature that emphasises the influence of so-called "high-performance workplace practices" on job satisfaction and hence employee performance. Providing employees with sufficient training opportunities is an investment strategy for job stability (Shaw et al., 1998). Such actions by the organization constitute a crucial part of its fulfillment of the informal contract between itself and employees.

3. Organizational learning

Beginning in the 1980s, the concept of a learning organization was articulated by scholars and practitioners. LO is defined as a place where knowledge is fully utilized, capacity is expanded, behavior is changed, and competence is gained (Garvin, 2000). Even though many theorists have viewed LO as a successful foundation for contemporary organizations (Robbins, 2001) and have been addressing its importance and plausible relationship to competitiveness in terms of quality, innovation and business performance (Baker & Sinkula, 1999). Organizational Learning In bringing together firms with different skills and knowledge bases, alliances create unique learning opportunities for the partner firms (Inkpen 1998). Organizational Learning is a process in which members of an organization detect errors or anomalies and correct it by restructuring organizational theory of action, embedding the results of their inquiry in organizational maps and images.

Organizational Learning is a process by which knowledge about action outcome relationships between the organization and the environment is developed. Organizational learning is the acquisition of new knowledge by the actors, who are able and willing to apply that knowledge in making decisions or influencing others in the organization (Miller

1996). Organizational learning is both a function of access to new knowledge and the capabilities for using and building on such knowledge. Interactive learning allows managers to exchange a good deal of information with one another which fosters more realistic collaboration (Das & Kumar, 2007). A difference between two related yet distinct constructs—the learning organization and organizational learning. The construct of the learning organization normally refers to organizations that have displayed these continuous learning and adaptive characteristics, or have worked to instill them. Organizational learning, in contrast denotes collective learning experiences used to acquire knowledge and develop skills”. All organizational learning directly or indirectly draws on experience. This recognition has given rise to studies which explore how different types of experience affect if, when, and what organizations learn. Performance feedback (the subject of the preceding section) is just one type of experience. Several other types of experience have been explored. One type is learning from rare experiences (March, Sproull and Tamuz, 1991), for example, fatal airplane accidents or nuclear power plant accidents. In such situations, organizations can use a number of strategies to learn, including attention to multiple observers and multiple interpretations, simulating experience, and learning from near-accidents. Disrupted experience represents a second type. It was explored in a study of large-scale, strategic change and organizational failure (Amburgey, Kelly and Barnett, 1993). A third characteristic of experience, its diversity, is usually regarded as an important facilitator of learning.

4. Small manufacturing enterprises

SMEs play an increasing role in international trade and economic growth. Small manufacturing enterprises (SME) have significant intangible assets but typically have limited capital and other resources to support their manufacturing and marketing. In addition, their product market is constantly changing and globalizing so that their competency in getting and managing scarce resources becomes critical to their survival. Wiklund and Shepherd (2003) focused on the relationship between knowledge-based resources, entrepreneurial orientation and the performance of 384 Small and Medium Sized Enterprises in Sweden. Findings supports that EO enhances the positive relationship with performance if the firm has a bundle of knowledge-based resources. Miller (1983) and Covin and Slevin (1989) adopted entrepreneurial orientation as a one-dimensional construct. They insisted that these three dimensions can be combined into a single scale. Runyan et al., (2008) examined entrepreneurial orientation versus small business orientation, and their impact on small

business performance, as well as whether these effects are moderated by longevity of 267 small firms in USA. Small firm success is often a result of the firm’s ability to match a quality product with a well-run firm. Customers wanting long-term partnerships with small manufacturers are interested in getting quality products at reasonable prices, but for these small firms to accomplish this goal they must generally be run by experienced managers with well-trained and motivated employees. The firms must be healthy and properly capitalized in order to be able to take advantage of any reasonable opportunities presented in the marketplace. Successful SMEs have a similar competitive advantage factor that allows them to create a niche in the market by changing their product mix to satisfy customer needs (Gadenne, 1998).

5. HR in SMEs

The different HR needs and practices between small and large firms tend to be stratified by business characteristics represented by these firms (Deshpandé and Golhar, 1994). Smaller firms are arguably managed predominantly by their founders or owners with potentially centralized decision making in resource allocation (Watson et al., 1994). Small firms, in particular those family-owned businesses may also be rather time and cost-conscious. Smaller firms may have inherent flexibilities, an ability to respond quickly and the potential to innovate (Edwards et al., 2007), but their size may also act as a constraint when it comes to the development and implementation of more complex working arrangements.

6. Learning organization and SMEs

Wiklund and Shepherd (2005) studied the relationship between entrepreneurial orientation and small business performance. Marsick and Watkins (2003) proposed the dimensions of the learning organization questionnaire, which portrays the strategic dimension of the studied phenomenon. The authors identified seven separate but correlated dimensions of a learning organization.

7. Discussion

A learning organization is an organization in which all objectives, strategies, aims, and activities are in line with learning of the staff and the organization as a whole. The behavioral dimension of organizational learning and its relationship with the effectiveness of human resource practices were the subject of research carried out by Perez Lopez et al. (2005), who studied Spanish companies with more than 200 employees. Their key findings show that high performance human resource practices have a positive effect on organizational learning (which in turn has a positive influence on business performance). SMEs have been recognized as an important strategic sector in Iran for generating high economic growth, reducing unemployment, inequality

and poverty. SMEs stimulate private ownership and entrepreneurial skills, are flexible and can adapt quickly to changing market demand and supply situations, generate employment, help diversify economic activity, and make a significant contribution to exports and trade. Enterprise development is almost universally promoted in developing countries, and is often justified on the grounds that the emergence of entrepreneurs is an important mechanism to generate economic growth. Small and Medium Enterprises (SMEs) play a vital role in the economy of Iran. Human resource management (HRM) is seen as crucial for innovation and firm performance in Iran. Effective management of human capital might improve market performance of firm, and the impact of HR on organizational outcomes might improve organizational performance. Employees who have needed knowledge, skills and abilities required for individual performance contribute more to business results such as sales, market share, profits, quality of products and new product development. SMEs play an increasing role in international trade and economic growth. Small manufacturing enterprises (SME) have significant intangible assets but typically have limited capital and other resources to support their manufacturing and marketing. The conception of learning as a self-limiting process is a prevalent one in this field. A prototypical self-limiting learning process is the competency trap, introduced by Levitt and March (1988). Organizations can develop competencies with routines and thereby improve performance, yet they also can become trapped by their own competencies when returns from using a routine are sufficiently large to prevent experimentation with alternatives.

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