

Human Resource Management Of Small Enterprises In India And Its Impact On Performance Of The Enterprises

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Citation: Mr. Kuldeep Goala & Dr A.S. Yarso (2023), Human Resource Management of Small Enterprises in India and its Impact on Performance of the Enterprises, *Educational Administration: Theory and Practice*, 29(4), 2752-2759

Doi: 10.53555/kuey.v29i4.7398

ARTICLE INFO

Received-13/07/2023

Revised-26/08/2023

Accepted-10/09/2023

ABSTRACT

In Northeast India, small enterprises play a pivotal role in regional economic development by providing employment and fostering innovation. This research investigates the impact of various human resource management (HRM) practices on the performance of these enterprises. The study explores key HRM elements including human resource planning (HRP), recruitment and selection (R&S), organizational climate (OC), training and development (T&D), performance evaluation (PE), and employee compensation (EC). Employing a sample of 50 small enterprises from Silchar, Assam, the research utilizes descriptive statistics, Spearman rank correlation, and ordinal logistic regression models to analyze the relationship between HRM practices and enterprise performance. Findings indicate that HRP, R&S, OC, and EC have significant positive effects on performance, while PE and T&D show weaker correlations. Specifically, effective HRP and competitive EC are strongly associated with increased profitability, aligning with previous research by Huselid (1995) and Pfeffer (1994). Conversely, a more positive organizational climate paradoxically correlates with lower profitability, suggesting potential issues with balancing employee satisfaction and performance pressure. The study highlights the need for small enterprises to prioritize strategic HR planning and competitive compensation while reassessing the efficacy of performance evaluations and training programs. These insights contribute to the broader discourse on enhancing small enterprise performance through refined HRM practices and provide a foundation for future research in this domain.

Keywords: Human Resource Management, Small Enterprises, Performance, Northeast India, HR Planning, Employee Compensation

Introduction

In Northeast India's diverse economic landscape, small enterprises are crucial for regional development and employment, showcasing agility and innovation amid cultural and geographical challenges. Despite their importance, the HR practices within these businesses are often underexplored, especially regarding their impact on performance. These enterprises balance traditional cultural values with modern business strategies, creating a unique context for examining HR practices. Issues such as limited formal training, financial constraints, and a lack of standardized performance evaluation systems hinder the implementation of effective HR practices. Understanding these practices is essential as they significantly influence the growth and efficiency of small enterprises. By exploring the link between HR practices and performance, this research aims to provide insights that can enhance operational effectiveness and support sustainable growth, contributing to the broader discourse on regional economic development in Northeast India.

Literature Review

Research into human resource (HR) practices and their influence on the performance of small and medium enterprises (SMEs) reveals several key insights. Formal strategic HR planning is shown to significantly enhance SME performance. Gibbons and O'Connor (2005) highlight that SMEs with structured strategic planning achieve better outcomes, a finding supported by Schwenk and Shrader (1993), who observed a positive impact

of formal planning on small business success. Additionally, Varma et al. (2006) argue that proactive HR planning, which emphasizes developing both current and potential employees, is crucial for improving organizational performance. Rathnaweera (2019) further confirms this by demonstrating a positive correlation between HR planning and both profitability and market share growth in SMEs. Further research supports the link between HR planning and enhanced firm performance. For instance, Huselid (1995) found that HRM practices, including strategic HR planning, positively influence organizational performance by improving employee productivity and retention. More recent studies, such as those by Becker and Huselid (2006), reinforce this by showing that strategic HR planning contributes to competitive advantage by aligning HR practices with business goals, thereby enhancing overall performance.

Recruitment and selection (R & S) are also critical to SME growth. Singh et al. (2019) note that effective R & S practices are integral to SME success, though financial limitations often hinder formal procedures. Agarwal and Jha (2015) point out that a significant proportion of MSMEs face a shortage of skilled workers, which poses a threat to their expansion. Research by Varma et al. (2006) and Gamage (2014) supports the notion that well-executed R & S strategies improve financial performance. This underscores the importance of systematic recruitment and selection in enhancing SME performance. The impact of recruitment and selection on firm performance is well-documented. Terpstra and Rozell (1993) found that effective recruitment and selection processes significantly impact job performance and organizational success. They argue that rigorous selection methods lead to better employee fit, which improves organizational outcomes. Additionally, studies like those by Wright et al. (2001) demonstrate that comprehensive recruitment and selection practices enhance organizational performance by ensuring that employees' skills and attributes align with organizational needs. Organizational climate plays a significant role in linking HR management with firm performance. Fulmer et al. (2003) argue that a positive workplace attitude and an attractive organizational climate contribute to improved performance. Gelade and Ivery (2003) suggest that the interplay between organizational climate and HRM outcomes has a substantial impact on performance. Varma et al. (2006) further illustrate that positive changes in organizational culture lead to better financial and operational results, reinforcing the notion that a favorable HR climate is beneficial for SME performance. The role of HR climate in influencing performance is supported by various studies. For example, Schneider et al. (2003) highlight that a positive HR climate fosters high levels of employee engagement and satisfaction, which in turn drives better performance outcomes. Their research suggests that an inclusive and supportive HR climate can lead to improved employee motivation and organizational effectiveness. Moreover, the work of Koys (2001) emphasizes that a positive organizational climate is associated with higher levels of customer satisfaction and financial performance.

The role of performance evaluation in improving firm performance is complex. Although Zheng et al. (2007) found limited impact in some contexts, other research offers a more positive view. For instance, Cardy and Dobbins (1994) argue that well-structured performance appraisal systems can lead to improved employee performance by providing clear feedback and development opportunities. Additionally, DeNisi and Pritchard (2006) suggest that performance evaluations are crucial for aligning individual goals with organizational objectives, thereby enhancing overall performance. Mounesha and Chalawadi (2019) observe that while performance evaluations are regularly discussed, Zheng et al. (2007) find that such practices have a limited effect on performance in Chinese SMEs. This suggests that the effectiveness of performance evaluation practices may vary across different contexts.

Training and development (ET&D) are essential for boosting SME performance. Yang (2006) highlights that training enhances employee quality and productivity, while Wright et al. (2005) and Mounesha and Chalawadi (2019) demonstrate that SMEs with regular training programs see improved performance. Armstrong (2001) supports this by showing that investment in training fosters employee cooperation and improves overall performance.

The benefits of employee training and development are well-documented in the literature. For example, Noe et al. (2014) show that investing in employee development leads to higher job satisfaction, improved performance, and increased organizational commitment. Their research suggests that training programs that are tailored to employees' needs and aligned with organizational goals contribute significantly to performance improvements. Similarly, the study by Salas et al. (2012) emphasizes that ongoing development opportunities enhance employees' skills and adaptability, which positively impacts firm performance.

Compensation also significantly affects performance. Bhattacharjee and Bhattacharjee (2015) emphasize that appropriate compensation aligns with job value and skill level, while Kim and Jang (2020) find that increased compensation can initially decrease revenue but ultimately lead to higher performance through improved employee output. This suggests that compensation strategies are crucial for optimizing SME performance. Overall, while HR planning, recruitment and selection, organizational climate, and employee training are consistently linked to improved SME performance, the effectiveness of performance evaluation practices is more variable. Compensation remains a critical factor in influencing employee motivation and firm performance. Research by Milkovich and Newman (2008) highlights that competitive compensation packages are essential for attracting and retaining top talent, which directly affects organizational performance. Additionally, research by Wright and Boswell (2002) shows that compensation strategies linked to performance outcomes can drive higher levels of employee effort and organizational success. This suggests that compensation, when effectively managed, contributes to enhanced firm performance by motivating employees and aligning their efforts with organizational goals.

The literature study indicates that effective HRM practices, including strategic HR planning, recruitment and selection, HR climate, performance evaluation, employee training, and compensation, as crucial force in driving enterprises' performance. While some areas, such as performance evaluation, may show varied results depending on the context, the overall evidence supports the significant role of HRM in enhancing organizational outcomes.

Objectives of the Study

- 1) To study the impact of human resource planning (HRP) on the performance of the small enterprises.
- 2) To study the impact of recruitment and selection (R&S) on the performance of the small enterprises.
- 3) To study the impact of organizational climate (OC) on the performance of the small enterprises.
- 4) To study the impact of training and development (T&D) on the performance of the small enterprises.
- 5) To study the impact of performance evaluation(PE) on the performance of the small enterprises.
- 6) To study the impact of employees' compensation (EC) on the performance of the small enterprises.

Hypothesis of the Study

The null hypothesis in accordance to the objectives of the study are:

H_{HRP} : There is no significant impact of human resource planning (HRP) on the performance of the small enterprises.

$H_{R\&S}$: There is no significant impact of recruitment and selection (R&S) on the performance of the small enterprises.

H_{OC} : There is no significant impact of organizational climate (OC) on the performance of the small enterprises.

$H_{T\&D}$: There is no significant impact of training and development (T&D) on the performance of the small enterprises.

H_{PE} : There is no significant impact of performance evaluation(PE) on the performance of the small enterprises.

H_{EC} : There is no significant impact of employees' compensation (EC) on the performance of the small enterprises.

Research Methodology

Data Collection: The study is taken up on small enterprises (SEs) registered under District Industries Centre (DIC), Silchar. Silchar is town located on southern part of India's northeast state Assam. Primary data has been collected from a sample size of 50 SEs using an interview schedule. The data was collected by using 5-point Likert scale to measure perceptions of managers on impact of HR practices on performance of SEs.

Data Analysis: The data has been analysed using descriptive statistics, including means and standard deviations, to provide an overview of HR practices and performance levels. Further, to explore the relationships between HR practices and performance, Spearman rank correlation will be employed. To analyse the impact of HR practices on performance, an ordinal logistic regression model will be used. This model will estimate the influence of each HR practice on the ordinal performance variable, considering the ordered nature of the dependent variable. The methodology will provide insights into how various HR practices affect the performance of small enterprises, guiding improvements in HR strategies.

Data Analysis and Interpretation

Descriptive Statistics: The table 1 shows the mean perception of the managers along with the median and mode.

Table 1: showing mean, median and mode

Variables	N	Mean	Median	Mode
PHR	50	4.180	4.000	4.0
R&S	50	3.740	4.000	4.0
OC	50	3.920	4.000	4.0
PE	50	3.040	3.000	1.0
T&D	50	3.160	3.500	4.0
EC	50	4.340	4.000	4.0

The data reveals that Human Resource Planning (PHR), Recruitment and Selection (R&S), Organizational Climate (OC), and Employees' Compensation (EC) are generally well-regarded, with average scores around 4, suggesting positive feedback. However, Training and Development (T&D) has a lower average score of 3.16, indicating that there's room for improvement in this area. Most notably, Performance Evaluation (PE) has the lowest average score at 3.04 and a mode of 1, pointing to considerable dissatisfaction or negative views among

respondents. While most variables show similar median and mode values, PE stands out due to its significant variation and lower ratings.

Spearman Rank Correlation Analysis between Variables:

The spearman rank correlation analysis is conducted to investigate the relationship between various variables and the performance(profit) of the enterprises.

Table 2: showing correlation among variables

Correlations			PHR	R&S	OC	PE	T&D	EC	Profit	
Spearman's rho	PHR	Correlation Coefficient	1.000							
		Sig. (2-tailed)	.							
	R&S	Correlation Coefficient	.791**	1.000						
		Sig. (2-tailed)	.000	.						
	OC	Correlation Coefficient	.775**	.749**	1.000					
		Sig. (2-tailed)	.000	.000	.					
	PE	Correlation Coefficient	.165	.218	.369**	1.000				
		Sig. (2-tailed)	.252	.129	.008	.				
	T&D	Correlation Coefficient	.188	.359*	.242	.262	1.000			
		Sig. (2-tailed)	.191	.010	.091	.066	.			
	EC	Correlation Coefficient	.752**	.625**	.822**	.363**	.079	1.000	.831**	
		Sig. (2-tailed)	.000	.000	.000	.010	.585	.	.000	
	Profit	Correlation Coefficient	.886**	.826**	.802**	.218	.166	.831**	1.000	
		Sig. (2-tailed)	.000	.000	.000	.128	.250	.000	.	
	**.			Correlation is significant at the 0.01 level (2-tailed).						
	*.			Correlation is significant at the 0.05 level (2-tailed).						

Using the table 2 the hypothesis are tested:

Objective 1: Planning of Human Resources (PHR): There is a strong positive correlation between effective planning of human resources and the performance (profit) of the subject entities, with a correlation value of 0.886. The low p-value of 0.000 indicates high statistical significance, suggesting that effective planning of human resources positively impacts performance.

Objective 2: Procedure of Recruitment and Selection (R&S): There is a moderate positive correlation between a well-defined procedure for recruitment and selection and performance, with a correlation value of 0.826. The low p-value of 0.000 suggests high statistical significance, implying that a well-defined recruitment and selection procedure positively influences performance.

The result indicates that the null hypothesis 'H_{0c}: To study the impact of organizational climate (OC), on the performance of the small enterprises.

Objective 3: Organisational Climate (OC): There is a moderate positive correlation between a positive Organisational Climate and performance, with a correlation value of 0.802. The low p-value of 0.000 indicates high statistical significance, suggesting that a positive Organisational Climate contributes to better performance.

Objective 4: Performance Evaluation (PE): While there is a positive correlation between performance evaluation processes and performance, the correlation value of 0.218 suggests a weaker relationship compared to other factors. The p-value of 0.128 is higher than the commonly accepted threshold of 0.05, indicating less statistical significance in this relationship.

Objective 5: Training and Development (T&D): There is a positive correlation between investing in employee training and development and performance, with a correlation value of 0.166. However, the correlation value is relatively low compared to other factors, suggesting a weaker relationship. The p-value of 0.250 further indicates that this relationship may not be statistically significant.

Objective 6: Employees' compensation (EC): There is a strong positive correlation between providing adequate EC and performance, with a correlation value of 0.831. The low p-value of 0.000 suggests high statistical significance, implying that providing adequate workmen compensation and benefits positively impacts performance.

In summary, while all examined variables show a positive impact on performance, the effects are particularly significant and reliable for Planning of Human Resources, Procedure of Recruitment and Selection,

Organisational Climate, and Employees' compensation. Performance Evaluation and Training and Development also show positive correlations but to a lesser extent and with less statistical significance.

Ordinal Regression Analysis(ORA):

ANOVA					
	Sum of Squares	df	Mean Square	F	Sig.
Regression	43.229	12	3.602	19.685	.000
Residual	6.771	37	.183		
Total	50.000	49			
Dependent Variable: Profit					
Predictors: PHR R&S PWC PE T&D EC					

The results of the Analysis of Variance (ANOVA) showed that the regression model had a significant effect, with $F=19.685$ and $p<0.01$. This indicates that the regression results were deemed valid for the analysis.

Coefficients

Variables	Standardized Coefficients		df	F	Sig.	Hypothesis
	Beta	Bootstrap (1000) Estimate of Std. Error				
PHR	.266	.224	2	7.073	.002	Reject null hypothesis
R&P	.100	.338	1	6.808	.012	Reject null hypothesis
OC	-.269	.309	2	5.914	.005	Reject null hypothesis
PE	.264	.355	2	.703	.500	Accept null hypothesis
T&D	-.135	.295	1	.210	.650	Accept null hypothesis
EC	.367	.312	1	4.995	.030	Reject null hypothesis

Dependent Variable: Average Profit

Objective 1: Planning of Human Resources (PHR): The coefficient for PHR is 0.266, indicating that for every one-unit increase in the planning of human resources, the average profit of small enterprises is expected to increase by 0.266 units. The associated p-value of 0.002 is less than 0.05, indicating that the relationship between PHR and average profit is statistically significant.

The result indicates that the null hypothesis " H_{HRP} : there is no significant impact of human resource planning (HRP) on the performance of the small enterprises" is rejected (p -value < 0.05), signifying positive impact of PHR with the performance of the small enterprises.

Objective 2: Procedure of Recruitment and Selection (R&S): The coefficient for R&S is 0.100, suggesting that for every one-unit increase in the procedure of recruitment and selection, the average profit increases by 0.100 units. The associated p-value of 0.012 is less than 0.05, indicating that this relationship is statistically significant.

The result indicates that the null hypothesis " $H_{R&S}$: There is no significant impact of recruitment and selection (R&S) on the performance of the small enterprises" is rejected (p -value < 0.05), signifying positive impact of R&S with performance of the small enterprises.

Objective 3: Organisational Climate (OC): The coefficient for OC is -0.269, suggesting that for every one-unit increase in OC, the average profit decreases by 0.269 units. The associated p-value of 0.005 is less than 0.05, indicating statistical significance.

The result indicates that the null hypothesis " H_{OC} : there is no significant impact of organizational climate (OC), on the performance of the small enterprises" is rejected (p -value < 0.05), signifying negative impact of R&S with performance of the small enterprises.

The significant negative coefficient suggests that a more positive or favourable organizational climate is associated with lower profit. (Homburg & Stock, 2004)

Objective 4: Performance Evaluation (PE): The coefficient for PE is 0.264, suggesting that for every one-unit increase in performance evaluation, the average profit increases by 0.264 units. However, the associated p-value of 0.500 is greater than 0.05, indicating that this relationship is not statistically significant.

This indicates that the null hypothesis “ H_{PE} : there is no significant impact of performance evaluation(PE) on the performance of the small enterprises” is accepted suggesting that managers disagree that performance evaluation can improve the performance of the SEs.

Objective 5: Training and Development (TD): The coefficient for TD is -0.135, implying that for every one-unit increase in employee’s training and development, the average profit decreases by 0.135 units. The associated p-value of 0.650 is greater than 0.05, indicating that this relationship is not statistically significant.

The result indicates that the null hypothesis “ $H_{T\&D}$: There is no significant impact of training and development (T&D), on the performance of the small enterprises” is accepted (p -value > 0.05) signifying T&D does not have significant impact on the performance of the enterprises.

This result is also because of the fact that managers choose to recruit those employees who already have required training and experience. (Field study)

Objective 6: Employees compensation(EC): The coefficient for EC is 0.367, implying that for every one-unit increase in the EC, the average profit increases by 0.367 units. The associated p-value of 0.030 is less than 0.05, indicating statistical significance.

This indicates that the null hypothesis “ H_{EC} : there is no significant impact of employees’ compensation (EC) on the performance of the small enterprises” is rejected, since the p-value is less than 0.05. The positive and statistically significant coefficient indicates that better employee compensation is likely to improve performance

The ORA showed, planning of human resources, procedure of recruitment and selection, employees’ compensation, and organisational climate have statistically significant positive impacts on average profit in small enterprises. However, performance evaluation, and employee’s training and development do not show statistically significant impacts on average profit.

Findings and Implications of the Study

Following are the findings and implications of the study:

- 1) PHR positively impacts profit of small enterprises as it ensures right people at the right positions (Fayol,1949), which enhances overall efficiency and productivity. This finding goes with Huselid’s (1995) study that found strategic HR practices positively influence organizational performance.

Implication: Small enterprises should prioritize strategic HR planning to drive performance improvements and profitability.

- 2) Adequate employee compensation is strongly associated with higher because competitive compensation packages can attract and retain top talent, which enhances performance and productivity. (Gerhart & Milkovich, 1992).

Implication: Small enterprises should ensure that their compensation strategies are competitive to boost employee performance and profitability.

- 3) A more positive organizational climate is negatively correlated with profit. A positive organizational climate might lead to increased employee satisfaction but could also reduce pressure on performance or lead to complacency. Homburg and Stock (2004) found complex relationships between organizational climate and performance metrics.

Implication: Enterprises should balance a positive climate with maintaining performance-driven goals to avoid potential negative impacts on profitability.

- 4) Performance evaluation has a weak correlation with profit. The possible reason may be that PE may not be effectively linked to actionable improvements or could be perceived as merely formalities. Aguinis (2009) discusses limitations of performance evaluation systems in driving significant performance improvements.

Implication: Small enterprises might need to enhance their performance evaluation systems to make them more impactful for profitability.

- 5) Training and development have a low correlation with profit. Managers are reluctant in spending on T&D. Rather, prefer to hire those employees who already have training (Field Study). Noe (2010) highlights that training’s impact on performance varies, and need to align with organizational goals.

Implication: Small enterprises should carefully assess the return on investment for training and development programs to ensure they align with strategic objectives.

- 6) Effective recruitment and selection procedures are positively correlated with profit as it ensures that high-quality candidates are hired, leading to better performance and profitability. (Pfeffer,1994)

Implication: Investing in robust recruitment and selection processes can enhance the quality of hires and improve overall business performance.

Conclusion

This study sheds light on the essential role that human resource management (HRM) practices play in shaping the performance of small businesses in Northeast India. The research underscores that thoughtful human resource planning (HRP) and competitive employee compensation (EC) are key drivers of profitability, echoing findings from previous studies. It shows that when small enterprises invest in effective recruitment and selection processes, they significantly improve their chances of hiring top talent, which in turn boosts performance.

Interestingly, the study also reveals that while a positive organizational climate (OC) is usually seen as beneficial, in this context, it appears to be associated with lower profits. This could be because a very positive atmosphere might inadvertently lead to complacency or reduced performance pressure. Moreover, the impact of performance evaluation (PE) and training and development (T&D) on profitability was less clear, suggesting that these practices might need to be better aligned with the specific needs of the business.

In essence, while HRP and EC are clearly important for enhancing performance, small businesses should also review and refine their approaches to organizational climate, performance evaluation, and training. By doing so, they can create a more effective HR strategy that supports long-term success and growth. Future research could offer more insights into these areas, helping businesses make more informed decisions.

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