



NEAR EAST UNIVERSITY
INSTITUTE OF GRADUATE STUDIES
BUSINESS ADMINISTRATION PROGRAMME

**THE IMPACT OF HUMAN RESOURCES MANAGEMENT ON SMALL
TO MEDIUM ENTERPRISES IN PALESTINE**

ODAY ABU GWELAH

MASTER'S THESIS

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MASTER'S THESIS

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ÖZ

İNSAN KAYNAKLARI YÖNETİMİNİN FİLİSTİN'DEKİ KÜÇÜK VE ORTA İŞLETMELER ÜZERİNDEKİ ETKİSİ

Bugün iş ortamı, piyasalardaki ticari kuruluşlar arasında daha rekabetçi olmaya devam ediyor. Dünyanın kaynakları sınırlı hale geliyor ve teknolojik gelişme dünyanın her yerine yayılıyor. Bu nedenle başarılı işletmeler, kaynaklarını ve varlıklarını optimize edebilen işletmelerdir. İş organizasyonlarındaki çalışanlar, organizasyonel büyüme ve gelişmeyi yönlendirmenin yanı sıra rekabet avantajı elde etmek için gerekli olan çok önemli varlıklar olarak kabul edilir. İnsan kaynakları yönetimi (İKY), çalışanların ihtiyaçlarına dikkat ederken örgütsel başarı amacıyla çalışanların performansını optimize etmek için kullanılan stratejilerdir. Bununla birlikte, dünya çapındaki birçok KOBİ, farkındalık eksikliği veya karmaşıklık nedeniyle İKY uygulamalarını benimsemeyi zor bulabilir. Bu, çoğu KOBİ'nin iki nesilden daha uzun süre dayanamamasının nedenlerinden biri olabilir. İKY'nin KOBİ'ler üzerindeki etkisini anlamak için Filistin'de çok az araştırma yapıldı.

Bu çalışmada 101 katılımcıdan toplanan birincil verileri istatistiksel olarak analiz etmek için tasarlanmış tanımlayıcı bir çalışma kullanılmaktadır. Katılımcılar, Filistin'deki iki önemli şehirdeki (Ramallah ve Batı Şeria) farklı ticari kuruluşlardan çalışanlar (işçiler), yöneticiler, denetçiler ve iş sahiplerinden oluşuyordu. Verilerin analizinde SPSS yazılımı kullanılmıştır. ana sonuç, insan kaynakları yönetimi düzeyinin KOBİ'ler üzerinde önemli bir etkiye sahip olduğunu göstermektedir. Bu nedenle hem hükümet politikalarında hem de Filistin'deki KOBİ'lerde dikkate alınmalıdır.

Anahtar Kelimeler: İnsan kaynakları yönetimi (İKY), KOBİ'ler, Filistin, Çalışanlar.

ABSTRACT

THE IMPACT OF HUMAN RESOURCES MANAGEMENT ON SMALL AND MEDIUM ENTERPRISES IN PALESTINE

The business environment today continues to be more competitive among business organizations in the markets. The world's resources are becoming limited and technological development is surging to every part of the world. Therefore, successful businesses are the ones who can optimize their resources and assets. The workers in business organizations are considered as very important assets that are needed to drive organizational growth and development as well as gain competitive advantage. Human resource management (HRM) is the strategy used to optimize the performance of workers for organizational success while paying attention to worker's needs. However, several SMEs across the world may find it challenging to adopt HRM practices due to lack of awareness or due to complexity. This could be one of the reasons why most SMEs are not able to last longer than two generations. Hence, this study has been investigated the positive effect of HRM on SMEs in Palestine.

This study uses a descriptive study designed to statistically analyze primary data collected from a sample size of 101. The participants consisted of employees (workers), managers, supervisors, and business owners from different business organizations in two important cities in Palestine (Ramallah and West Bank). The SPSS software was used to analyze the data. the main result shows that the level of human resource management significant effect on SMEs. Therefore, there should be taken into consideration both with government policies and the SMEs in Palestine.

Keywords: Human resources management (HRM), SMEs, Palestine, employees.

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ABBREVIATIONS

CEOs:	Chief executive officer
ECU:	European currency unit
<i>f</i>:	frequency
ICT:	information communication technology
<i>r</i>:	Pearson Product Moment Correlation
SPSS:	Statistical Package for Social Sciences
SMEs:	Small Medium Scale Enterprises

INTRODUCTION

Background of the study

Human resources are considered the most important asset an organization has in regards to the skills and professional abilities they individually and collectively contribute to realize organizational goals and objectives. Therefore, human resources are an important area of concentration that must be given adequate time and attention. Through the years, human resources and its management approaches have become a hot topic in academia and have attracted the interests of prominent researchers such as Young (2009), Moorthy et al. (2012), and many other researchers. One of the major focuses is in the interest of optimization approaches in the management of human resources in organizations and businesses. Several studies including the studies of Young (2009), Katou & Budhwar (2010), Moorthy et al. (2012) to mention only a few have found a positive and significant relationship between the practices of human resource management (HRM) and organizational performance.

However, the majority of the HRM studies are predominantly observed concerning large organizations. The literature of HRM concerning small organizations is significantly deficient. This devastating reality is not only in the field of research, it is also adamant in practice. It is widely believed that HRM practices should only be practiced by larger organizations and not smaller ones. The situation is even worst for small and medium enterprises (SMEs). Some perspectives believe in the notion that HRM is unnecessary for SMEs and it only incurs extra organizational cost on SMEs. Studies have shown that management of small or even medium enterprises are negligent of the significance of HRM. Some of the neglected characteristics of HRM include the following; professional and objective selection, employee training and development, performance appraisal, etc. The consequences of neglecting

key characteristics of HRM may result in direct or indirect performance-related issues. Therefore, the perspective of neglecting HRM is wrong as proven by prominent studies.

In today's competitive business environment, companies, organizations, and businesses are in a complex interrelated competition with each other. For this reason, organizations must set up organizational goals and objectives that must be adhered to by all members of the organization (from the management to the workers) to achieve it. However, if employees are not motivated and do not feel valued by the organization, it may begin to negatively impact their attitude, involvement, job satisfaction, thereby affecting overall organizational performance needed to achieve organizational goals and objectives. Therefore, HRM is an important part of any organization or business to improve employee organizational performance and manage the limited resources available. Certain important conditions in the modern market provides a competitive environment. Such market conditions may include information asymmetry, uncertainty, and turbulence. These market conditions are likely to affect the performance of SMEs the most compared to large scale enterprises.

Because of the vulnerability of SMEs in the modern competitive market, HRM can help not only in mitigating the vulnerability and weaknesses, but it will also encourage them to thrive and succeed. It is highly recommended that SMEs with prospective and projected positive future, adopt HRM practices to realize the commercialization of their innovations. Employees working within a business organization should be trained not only on how to work effectively to meet organizational goals and objectives, but they should also update their current knowledge, skills, and expertise to keep up with current trends in the competitive market. HRM practices ensure that employees participate adequately in organizational training and development. This is because training and development of employees within a business are considered preconditions needed for SMEs to survive, grow, and thrive in the modern

business market. According to Fraza (1998), there are several upcoming SMEs with potential prospects that may find it challenging to recruit as well as retain highly competent employees. However, the HRM system can breach such challenges by providing effective and efficient human resource practices as solutions (Combs et al., 2006; Huselid, 1995; Ostroff, 1995). Their respective studies show that there are some implications associated with the adoption of HMR practices in SMEs. However, such studies have not been given much-needed application among SMEs in developing countries such as Palestine (Williamson, 2000). According to a report from Williamson (2000), Palestine is among the countries that are witnessing a growing number of SMEs, especially in the manufacturing sector. For this reason, necessary attention is needed to study the implications of HRM adoption on the business performance among SMEs in Palestine.

Research problem

The importance of HRM has also been emphasized alongside large businesses, however, it only in the last few decades that the concept of HRM practices were beginning to gain attention in regards to SMEs. In academia, only limited studies have been done on the adoption of HRM and its resultant impact on business performance. The study of Heneman and Berkley (1999) investigated the number of published articles related to HRM and SMEs between 1984 and 1999. They discovered that no more than 17 articles were published in relevant publication journals. However, the last decade has recorded a tremendous increase in the number of publications related to HRM and SMEs. Within this decade, researchers have studied the adoption of HRM in among SMEs and the resultant impact it has on their financial performance (Maierhofer, Kabanoff & Griffin, 2002; Mazzrol, 2003; Omolo, Oginda & Oso, 2012; Patton, 2005; Patton & Marlow, 2000).

Meanwhile, much needs to be done concerning determining if there are any considerable differences in the implementation of human resources

management by SMEs in the manufacturing sector and SMEs in other sectors. This is because studies consider the implementation of HRM practices to vary by the size of the firm (large corporations, small corporations, or SMEs) and by the nature of operational activities undertaken (manufacturing or services), (Mazzrol, 2003; Omolo, Oginda & Oso, 2012; Patton, 2005). Furthermore, there is also a greater need to identify probable limitations undermining the implementation of sustainable human resources management practices (SHRM) by SMEs in Palestine. Little has been done to examine such limitations though there exist ideas which only suggest that such limitation in any form of business corporation (Maierhofer, Kabanoff & Griffin, 2002). Additionally, ways must be offered to increase the adoption of sustainable human resources management practices by SMEs in Palestine. Therefore, this study seeks to address these issues on a broader level and cover related empirical gaps.

Aims of the study

Given insights disclosed by the research problem, the study is aimed at achieving the following aims;

Mean aims:

Investigation if HRM enhances or impede SMEs performance in Ramallah and West Bank, Palestine.

Sub-aims:

- Determining if HRM training and development enhances or impede SMEs Performance in Ramallah and West Bank, Palestine.
- Identifying if HRM Compensation enhances or impede SMEs Performance in Ramallah and West Bank, Palestine.
- Clarify if HRM planning enhances or impede SMEs Performance in Ramallah and West Bank, Palestine.

Research questions

In light of the above-given details, this study, therefore, seeks to answer the following questions; Main question:

Does HRM enhances or impede SMEs performance in Ramallah and West Bank, Palestine? Sub- questions:

- Does HRM training and development enhances or impede SMEs performance in Ramallah and West Bank, Palestine?
- Does HRM compensation enhances or impede SMEs performance in Ramallah and West Bank, Palestine?
- Does HRM planning enhances or impede SMEs performance in Ramallah and West Bank, Palestine?

Research hypotheses

In light of the above-given details, this study, therefore, seeks to hypothesized the following hypotheses;

Main hypothesis:

H1: HRM has positively effect on SMEs

Performance. Sub-hypotheses:

H1a: HRM training and development has positively effect on SMEs Performance. H1b: HRM compensation has positively effect on SMEs Performance.

H1c: HRM planning has positively effect on SMEs Performance.

Scope of the study

The study is confined to the examination of SMEs and specifically considers SMEs activities that are operationally based in Ramallah and West Bank, Palestine. Moreover, only SMEs engaged in manufacturing activities were considered in this study. This is because there has been a considerable growth in the number of manufacturing SMEs in Ramallah and West Bank,

Palestine over the past five years. The study also revolves around the use of primary data which was collected using questionnaires and relies on the use of quantitative data analysis methods to answer the formulated questions.

Structure of the study

The study is structured into six chapters. The first chapter provides introductory insights about SME activities and human resources management. The second chapter proceeds to address the underlying theoretical notions surrounding SMEs operational activities and HRM strategies. A detailed analysis of SMEs' operational activities and HRM developments in Palestine is catered for in the third chapter. Chapter four deals with the methodological aspects of this study while chapter five focuses on the analysis of the obtained findings. Chapter six concludes the study and offers recommendations and suggestions for future studies.

Significance of the study

It is undeniable that SMEs play a vital role in an economy and the reasons are attached to employment creation, poverty alleviation, economic growth, and social development. For these reasons, the study contributes towards the attainment of these targets by offering solutions that enhance the contribution of SMEs towards meeting these targets. Additionally, the study also provides detailed ways of making effective use of adopting sustainable human resources management practices by business corporations in Palestine and around the world at large.

CHAPTER 1

LITERATURE REVIEW

1.1 The Concept of Small to medium enterprises (SMEs)

This chapter reviews the underlying theoretical and empirical insights on the impact of HRM on SMEs. The main emphasis of this chapter is to find empirical gaps that can be used to enhance studies on SMEs and HRM.

There is no specific definition reaching a consensus by researchers globally across academia. This is the same case with practical applications across countries and industries where there is no specific definition of SMEs. Each country or region has a distinct definition of SMEs. For example, the European Union provided a simple definition of small businesses based on the number of human laborers employed. This definition is what is applied across all countries of the union. In their definition, the EU refers to small businesses as any business that employs less than 50 workers. However, in Australia, the government considers small businesses as any business that employs less than 15 workers within the business. The Australian definition was reached upon during the Australian Fair Work Act in 2009. On the other hand, the united states of America (USA) considers medium scale businesses as businesses that employ less than 500 employees to work in achieving the organizational goal and objectives of the business. Moreover, medium scale enterprises in Australia have fewer than 200 employees working in the organization.

SMEs can so be classified based on annual recorded sales or turnover, total net profit, and total assets alongside their respective values. Australia in 2001, categorized small enterprises as businesses that have employees' numbers ranging from 11 to 100 including a total cost of than \$50,000. Whatever the definition is for any country or industry, it was achieved after a thorough analysis of vital factors such as the nature of the market environment in the country and the availability of resources as well as manpower, etc. All countries in the world have SMEs and are considered a vital segment of the economy. SMEs globally range can be seen as restaurants, bakery, fashion designers/tailors, small-scale manufacturers, salons, photography, hotels, software design, and other online businesses to mention only a few. Although most developed economies of the world have a good proportion of both large enterprises and SMEs, Fadahunsi (1992) found that 90% of businesses found in underdeveloped economies were found to be SMEs. Furthermore, the report shows that SMEs responsible for about 70% of the employment of human labor as well as the continuous promotion of local technology strive to run their enterprises. In another study focusing on the role of SMEs in the private sector, SMEs were found to provide more than half of the private workforce with about 53% of employment opportunities (Kuratko and Hodgetts, 2001). Additionally, Kuratko and Hodgetts (2001) uncovered that SMEs were responsible for 47% of annual sales as well as an impressive 57% of GDP in the private sector. Both of these studies are a clear indication of the importance of the roles played by SMEs in an economy especially in developing countries.

1.2 Performance

The evaluation of the general business performance requires a diverse and broad consideration of several factors. The performance of a business can be based on operational performance, marketing performance, human resource performance, customer satisfaction, etc. These individual concepts can be

used individually or collectively to evaluate general business performance. This is why the concept of performance has received contributions from diverse perspectives. According to Sang (2005), the performance of a business can be evaluated based on the following indicators of organizational performance; increase yield in productivity, employee efficiency, and turnover, performance relating to finances, market share, projected profit of the business, customer satisfaction, and loyalty, as well as economic performance. In regards to the increase in productivity yield, it can be evaluated in the form of an increase in productivity yield in regards to employees' efforts, as well as output from business operations. Furthermore, the financial performance of a business can be evaluated in the form of return on investment (ROI) and return on asset (ROA).

Through the past 20 years, the evaluation of the performance of organizations has gone through tremendous transformation. This can be seen in the number of continuous contributions in academia and non-academic agencies that are presented in conferences, publications, seminars, forums, and symposiums, etc. It has gained substantial interest among researchers who prepare and publish valuable contributions to improving the evaluation of financial performance (Neely, 2004). The financial performance evaluation is popularly referred to as business performance measurement (BPM). If we consider business performance measurement (BPM) from an operational angle, we can regard it as a group of matrices that are utilized to measure the effective and efficient organizational actions of a business quantitatively (Neely et al., 1996). Therefore, financial performance evaluation is used extensively to determine the competency of an organization and its projections in the future whether it will survive, thrive, or eventually fail in a competitive business environment. This is usually the main perspective of researchers in evaluating organizational performance which is dependent on specific indicators from financial and accounting points of view.

It is important to also understand that the evaluation of the non-financial performance of an organization can be utilized to understand the performance of an organization. There are non-financial indicators relating to the workers which include employee turnover, the concept of productivity, such as rework cost, scrap rate, defective rate, sales per employee, etc. From this, it is clear that human resources have both direct and indirect effects on organizational performance. Previous studies by prominent researchers have studied how the adoption of HRM practices influences or impacts some of the indicators in the non-financial indicators used in organizational performance evaluation. For example, Huselid (1995) studied the impact of HRM adoption on the rate of employee turnover, while the researchers Delery & Doty (1996) and Huselid et al. (1997) studied the impact of adopting HRM practices on financial performance. Additionally, Koys (2003) studied the influence HRM adoption has on the level of customer satisfaction, while the following researchers Ahmad & Schroeder (2003) and Jayaram et al. (1999) investigated the effect of HRM adoption on the operational performance of an organization.

On another hand, there is no consensus regarding a single definition of business performance measurement (BPM). Because of the lack of a generally acceptable definition of BPM, there is some degree of vagueness regarding this dimension due to the presence of definition provided from different perspectives. According to Franco-Stantos (2007), despite the unavailability of a single definition reached upon by the majority of researchers, there is some degree of agreement to the main components or features/characteristics associated with business performance measurement (BPM). Researchers have recommended three categories that can be used in the evaluation of business performance measurement (BPM) that is used extensively in research across academia. These categories are represented in the chart in figure 2.1. Studies such as the study of Eleyan (2010) explored a balance and systematic comprehension of diverse performance measures types. The performance measures used in the study included operational, nonfinancial, and financial performance measures for evaluating

organizational performance. A combination of these measures has the probability of contributing to the management of a business effectively which may result in improved overall performance of an organization or business.

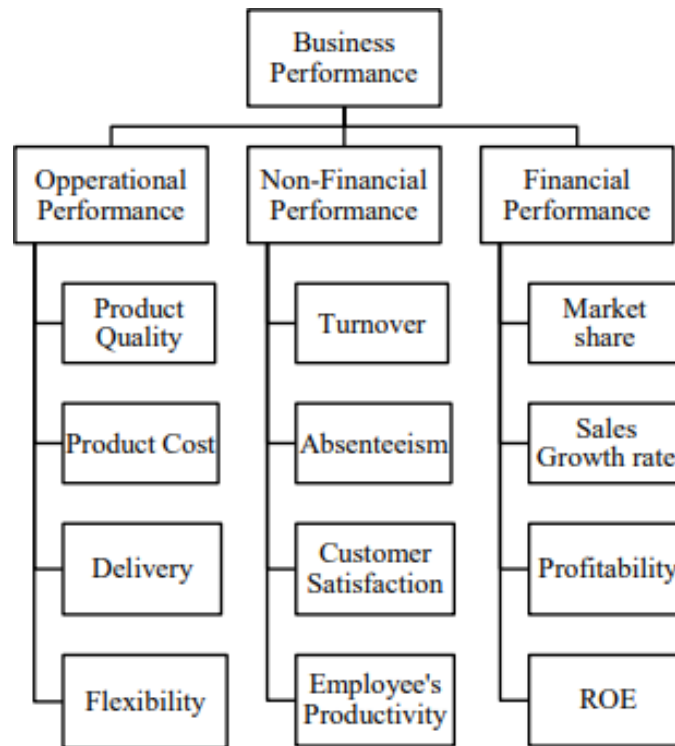


Figure 2.1: Three categories of business performance classification (Eleyan, 2010)

1.2.1 Operational Performance

There is debate among scholars regarding the number of criteria needed for measuring operational performance. One of such scholars is Ahmad and Schroeder (2003), whose contributions were in various dimensions of operational measures. These measures contributed by Ahmad and Schroeder (2003) included the dimensions of cost, quality, delivery, and flexibility. Another contribution was by Vickery et al. (1997) who introduced another dimension of operational performance as a rate of new product launching (speed). On the other hand, Wheelwright (1978) contributed his quota by emphasizing associated efficiency, dependability, quality, and flexibility operational

performance. Other researchers who have made significant contributions include Ferdows & DeMeyer (1990) and Youndt et al. (1996). In the study of Youndt et al. (1996), it was suggested that the operational performance of an organization is divided into four dimensions. These four dimensions of operational performance include cost, quality, delivery flexibility, and scope flexibility. In regards to delivery flexibility, it refers to the period of introducing the public to a new product and the swift or on-time delivery of such products to the consumers. On the other hand, scope flexibility refers to the diversity or variety in things including adjusting product mix, handling non-standardized orders, and producing products (Jayaram et al., 1999). Previous studies enumerated four popular dimensions of operational performance of an organization including product quality, delivery, and flexibility. These four dimensions are briefly discussed in the following subsections.

1.2.2 Product Quality

Products can be in the form of physical products or services offered by a business. The quality of products and services is crucial for customer satisfaction, retention, and loyalty. In the study of Madu et al. (1996), it was noticed that there exist eight dimensions associated with the measurement of the quality of a product. These eight dimensions include specifications of product features, performance of product functions, reliability of products, product serviceability (reparability of service), product durability (period of product), product conformance, product esthetics, and perceived performance. One of measuring customer perception of the quality of a product, it to use customers perceived value (CPV). Customers' perceived value (CPV) in this case is mostly sourced from four main sours which are product, services, personnel, and image. The higher the value of CPV is from the average, the more superior the product quality is compared to other products. According to kotler (2006), customers perceived value (CPV) can be realized when the contrast between prospective customers' evaluation of both associated cost and benefits of a specific product has been established as

lower compared to an alternative product.

Porter (1980) explained that the cost associated with production is one of the master plan businesses use to compete with their alternatives. It is important to remember that, the business environment is a competitive market with a lot of alternative products and services. Similarly, businesses are highly likely to use the same raw materials and produce the same products. Therefore, they can generally be thought of as having similar production plans, costs, and objectives. However, in a competitive market where there are several alternatives, the competition for survival and thriving requires intelligent decisions and management of limited resources. This means the cost of production should be reduced as low as possible to produce lower-cost products without compromising quality. Businesses that operate this way against their competitors may gain more competitive advantage by attracting more customers, satisfying them, and subsequently retaining them.

The study of Porter (1980) utilizes the approach of the value chain system to explain how organizations can minimize the cost of production from the incept of raw materials procurement to the last stage of delivery of products to the consumers (customers). This requires management at all levels of the organization including cautious processes taken in handling raw materials and the cost associated, the cost associated with inventory, and another cost such as overhead and input utilization cost to mention but a few. Cost leadership provides an interesting perspective on the nature of the competition in the modern market environment. This was explained in the study of Hussey (1998). According to him, two associated merits can be derived from cost leadership. These two merits are;

- A business that is regarded as a cost leader among its nearest competitors (alternative businesses within the same price range or market segment) has the merit of capturing more associated benefits as a result of efforts put in place for the intelligent careful decision about low-cost structure.

- A business that is regarded as a cost leader among its nearest competitors may charge a lower price for a specific product offered to their customers compared to the price offered by their competitors. This in return attracts more customers and business advantage which ultimately results in higher market share gain.

Operational cost management usually saves an organization unnecessary cost and provides channels that can see to the possibility of reducing cost from the start to finish of procuring and processing a product as well as delivering them. This claim is supported by Vickery et al. (1997) who emphasized that low-cost production of an organization is the capacity of an organization to minimize the cost of operation by observing effective and efficient operations, processes technology, and or scale economics without compromising product quality and customer expectation.

1.2.3 Product Delivery

Competition between alternative businesses is not only limited to operational costs as mentioned previously. Product delivery is another dimension that represents indicates the competitive nature of a business among its competitors. Kotler (2003) indicated that competition in the modern market environment is not only about the production of goods and services in respective factories, it also involves the additional touch on products from factories to the delight of the consumers (customers) which speaks volumes of the integrity and competence of the business. Competition in product delivery can be in the form of product packing, pleasant service delivery, effective and efficient advertising, customer care, financing, arrangement of delivery processes, and warehousing, etc. (Kotler, 2003). In general, the delivery processes and their outcomes should both be cost-effective and have (appeal) to the customers (consumers). The market environment in the 90s used value as the slogan or motto of marketers. However, such a slogan has undergone tremendous transformation due to the changing perspective in the

demand from customers. consumers (customers) demand is quite different from what they have demanded in previous decades.

In today's modern competitive market, consumers demand a mixture of quality of product, good service as well as swiftness of delivery. These can be facilitated by the ever-growing trend in technological development that businesses can exploit to their advantage. This statement about change in the perspective of consumer demand was predicted by Jain (1995). According to Kotler (2006), businesses can distinguish their products and services from their alternative competitors by simply organizing a swift delivery network that will reduce customer waiting time. There is no significant difference in the concept of product and service delivery which is why they can be both used in similar or the same context. Service-buying customers demand on-time delivery or even fast, so do product-buying consumers. Regardless of any of the two, products of any organization should be delivered on time to customers so that they can add to the evaluation matrix of the business performance. If a product has great quality but high delivery time, there is the likelihood it may lose popularity among customers (customer retention) when there is an equal or slightly less quality alternative product with lesser delivery time and vice versa.

1.2.4 Production Flexibility

Flexibility in any business is important for on-time adjustment to both internal and external shocks that may appear suddenly. Researchers believe that production flexibility is an unavoidable dimension that that is needed for subsisting any changes that may arise from both external and external market environment (Yadav et al., 2000). It is always expected that businesses may experiences changes either suddenly or with time (after showing some manifestation signs). It is a form of risk that may be uncertain and unexpected and vice versa. an example is the COVID-19 pandemic where several businesses have lost valuable assets due to the economic impact (external shocks) of lockdown and other strict measures that were imposed. Therefore,

this external disturbance on the performance of a business is unexpected and as a result of something external to the business. On the other hand, internal disturbances may occur either as a result of change in revenue or capital, customer demand or suggestion, availability of raw materials, and so on. Whatever type of disturbance or shock it is, a business should have production flexibility to be able to subsist the impact of the disturbances to survive and thrive from it.

On another hand, the concept of production flexibility according to Meyer et al. (2013) refers to the act of reducing production lead and setup times, the various new steps needed for the creation of new products, as well as proposing a diverse set of tasks to employees. With production flexibility, businesses have the ability for producing products without unnecessarily adding major capital equipment. There are three division parts production flexibility is categorized (Vickery et al., 2012) which are enumerated below;

- Product flexibility is the ability to handle difficult, non-standard, or special orders
- Process flexibility is the ability to change product mix quickly and easily and achieve efficient cost production
- volume flexibility is the ability to scale the production process up and down quickly to meet market demand

1.3 Human resources management (HRM) and their implications on SMEs

The management of human resources for any organization is crucial to realizing organizational goals and objectives. How it works is that it takes care of employees' welfare to reiterate their valuable position in the organization. This in turn motivates employees to contribute their efforts to the best of their ability and capacity individually and collectively to achieve the set goals of the organization. According to Gilley et al. (2009), HRM can be described as various tasks that are beneficial for optimizing the performance of an organization's employees. It is regarded as an active and advancing practice

employed by individuals serving active roles as leaders and managers within an organization or business to optimize effective and efficient productivity as well as quality of employees.

A long time ago, workers in the organization were considered as an additional cost that is required to be minimized as low as possible. This means not much is being valued in regards to the role of workers in an organization (Eleyan, 2010). However, such perceptions have significantly transformed through the years and have helped shaped the current nature of the competitive world. In today's competitive business environment, workers in businesses are considered an asset to an organization instead of another liability to the organization or a country. Most successful organizations perceive their workers as an asset that needs investment. This is what has resulted in the human resource management (HRM) and is a main force in the competitive nature among alternative businesses in the market. It is believed that human and asset or resources that can bore profit and turnover through dynamic individual and collective skill and knowledge application in the various process of the organization to achieve organizational goals

Hasan (2005), expresses that workers can only be considered resourceful and can only contribute to the organization if they actively apply their skills/knowledge, experience, capabilities, as well as getting the necessary preparation needed to actualize specified functions of the organization. The human resource can achieve wealth or income through the use of his skills and knowledge, not through a process of transformation and change, which occurs for physical resources to achieve wealth, without these skills and knowledge, the individual will become incapacitated, that prevent him from transformation and change.

Organizations that wish to perform better than their competitors must ensure that the individual and collective efforts of their employees are maximized. The maximization of employees' performance is not only in regards to their skills and knowledge, it also includes other performance indicators such as

competencies, attitude, and perception of the employees towards organizational goals and objectives. This makes employees of such organizations viable and an asset. According to Gilley et al. (2009), the knowledge/skills, competence, attitude, etc. of employees in organizations have measurable values that can be seen in organizational performance such as quality products, general productivity, effective and efficient operations, as well as better customer service delivery and vice versa.

As the market environment continues to rapidly change, so are the working conditions and demand of workers change. Human resources management should be designed to help the organization and its workers adapt to the continuously changing variables in the modern competitive market. This will help prevent or neutralize any internal or external shock that may arise as a result of the changes. To achieve effective and efficient HRM, it requires comprehension of the various implications accompanied by globalization, technology changes, labor shortages, changing skill requirements, workforce diversity, decentralized work sites, the contingent workforce, and employee involvement (Decenzo and Robbins, 2005). The nature of HRM is dependent on an organization's strategy. What this means is that the organization must first develop its organizational strategy that is the ways and approaches to attain organizational goals and objectives. After that, the organization then formulate the functional strategic plans such as marketing, production, financial strategy, and of course human resources strategy, to achieve the organization's strategy. According to the researchers' Durra and Sabbagh (2008), all formulated strategies of an organization that has been established may not be effective if they work independently, however it is an integration of all strategies with each other that an organization can truly gain sustainable competitive advantage among its competitors.

The ways organizations operate in a knowledge-based economy makes them prone to two major challenges that are related to each other (Audretsch and Thurik, 2001). These challenges are briefly discussed below;

- Organizations in a knowledge-based economy are in constant need of highly trained workers in their respective fields.
- Organizations in a knowledge-based economy have challenges of the limitation of qualified and trained workers

This challenge may even hit SMEs more than larger businesses. This is because SMEs are usually not aware of these two challenges and how they can affect their performance in a knowledge-based economy. According to Eleyan (2010), SMEs are not aware of the demand for employees with specific profiles that may arise in the future. This means that most SMEs are not in the habit of planning and managing human resources on time before any challenge may arise. It is commendable that SMEs already have a practice of developing their business plan, however these business plans do not usually contain a space for including human resources and its management. The implications of this clearly show that SMEs do not project future challenges that may arise as a result of human resources (especially in terms of the needed number as well as competent workers), thus they may have a problem managing them. Eleyan (2010) further stated that some SMEs do not necessarily develop business plans from their interest or because they find it relevant, rather, they only develop business plans due to compulsory requirements from external funders.

Most larger organizations use very sophisticated techniques for human resources planning that provides them with future projection of the challenges of employees in the future. However, SMEs do not necessarily require sophisticated techniques (which are usually expensive and complex) for analyzing their developed vision and the estimated requirement of workers in the future. Entrepreneurs (owners of SMEs either sole or partnership) and the management of businesses are required to place high concentration on providing solutions to workers deficits. This should even be profound when there is a prediction on the lack of high-profile workers who are deficient in the labor market. Therefore, this significant challenge facing SMEs in a

knowledge-based economy or labor market requires effective and efficient planning with the purpose of developing already current employees to new levels of positions within the business.

It is believed that some of the special challenging times of entrepreneurs and their businesses are the growth and development stage, concerning transformation from entrepreneurial to professional management. This is referred to as succession or at least replacement planning in human resource management or planning and it is considered to be a significant issue that should be handled with care. Succession planning in human resource planning is an extensively used process in large organizations and is held in high regard. However, SMEs do not take succession planning seriously, therefore, they usually overlook it in their processes. If the SMEs are developed in a family setting (family business), then the lack of using effective succession planning provides an even greater challenge. By definition, Schein (1997) defined succession planning as a deliberate and structured attempt by owners or management of an organization to guarantee continuity in leadership, retention, and development of knowledge/skills and prospective intellectual capital, as well as motivating individual and collective growth and development of organizational workers (Caruso et al., 2005).

Although succession planning is usually advocated for application in the processes of SMEs, it is without a doubt, not a simple technique to be reckoned with. The complex nature of successive planning must be run with a series of factors taken into consideration. Some of the factors to be taken with high regards include the following;

- Determining the value of the business, choosing and working with potential successor(s)
- Communicating the succession plan with interested parties, etc.

It can be clearly understood that the process that is required to set up a succession plan for SMEs is quite complex and delicate. Moreover, it can even be traumatic to the responsible parties since owners or entrepreneurs of

SMEs are usually emotionally connected to their business. Additionally, owners or entrepreneurs of SMEs may be faced with a greater challenge of achieving an effective and efficient succession plan if they solely or majorly take all the responsibilities as well as the controls on themselves. The consequence is catastrophic to the business because it threatens or endangers the chances of the business's survival.

Although there are some challenges SMEs may face in regards to implementing succession planning, it is still crucial for enterprises to adopt and implement succession planning to ensure continuity of the business. In general, the lack of adopting and implement an effective and efficient succession plan for SMEs will consequently result in many of them not able to keep up with their competitors over time (not more than two generations) and will result in their business failing. Therefore, a business owner must make timely and proper planning and development of a competent successor.

1.3.1 Human resource management functions

The main goal of practicing human resource management (HRM) is to make sure that businesses can be successful through individual and collective efforts of people. According to Mondy (2008), HRM is also be referred to as the use of personnel to achieve set goals and objectives of an organization. Another researcher Mathis and Jackson (2004) also described HRM as the development of a design of formal systems in organizations to optimize human capabilities in realizing goals of organizations. the traditional way of practicing HRM usually involves an organization trying to manage the activities of their staff. However, these traditional HRM practices are becoming obsolete. This is because it does not pay much attention to workers as important assets that see to the realization of organizational goals and objectives (Fulmer, 1990).

The human resources department in an organization is considered a voice or advocate for employees in the organization, especially among top

management meetings. Human resources department provide management and stake/shareholders about the concern, challenges, and request of employees. Traditionally, human resources professionals were always considered as an organization's morale representatives who are usually not well acquainted with the realities associated with organizational business motives and are therefore not considered as major contributors to the success of the organization strategically. This perception even leads to some professionals suggesting that human resources departments should be completely dismantled because of their little to no contributions to organizational productivity and growth (Mathis and Jackson, 2004). Furthermore, entrepreneurs or owners of businesses usually had the traditional practice of mostly or only paying intuitive attention to organizational roles in terms of financial functions, the capacity or magnitude of production processes, as well as the various marketing strategies (Eleyan, 2010). Additionally, Eleyan (2010) indicated that high availability resources and capabilities are the most common and preferable forms of achieving organizational goals and objectives. Consequently, human resources were given little to no attention. The human resource department in organizations was not operated as initiators of processes leading to the achievement of organizational goals, rather it was considered as a follower. So, the HRM department was considered as a mere intangible resource in contributing to organizational growth and development. According to Ahmad and Schroeder (2003), today's modern technological advancement as well as the trending innovation in the process of manufacturing is incapable of providing all the enhancement needed in operational performance. However, it is the competition of these and effective/efficient human resource management (HRM) practices that result in a compatible system of socio-technology

The significance of human resources management has spread widely among organizations around the world. Its functions, policies, and practices are realized as very important not only among practical organizations/businesses but among a broad field of academia. Professionals

in academia continue to research the new ways to improve the functions of HRM to be compatible with the ever-changing competitive business environment, while organizations may put the findings from academia into consideration (whether to test it or implement it). According to Mondy (2008), individuals who have adopted the practices of human resources management do so by establishing an integrated human resources management (HRM) system. To practice effective and efficient human resource management (HRM) practices, the following five functional areas of requirement shown in figure 2.2 should be met; Staffing, Human resource development, compensation, Safety and Health, and employee and labor relations (Mondy, 2008). These five functional areas are related to the functioning of an effective human resource management (HRM) practice.



Figure 2.2: Human resource management functions (Mondy, 2008)

Although each of the functional areas of human resources management have their distinct characteristics, they are quite related to each other. All of the functions have interrelated functions. What this means is that a change in the function will result in changes in one or more of the other HRM functions.

Therefore, it is an important responsibility of organizational management to comprehend the effect of one facet of functional areas in HRM on another. At the end of the day, the overall output is to contribute substantially to organizational goals and objectives which will give a competitive advantage and lead to success. An overview of the functional areas of human resource management are presented below;

- Staffing:

Refers to an approach used by organizations or businesses to make sure the right number of workers needed to run organizational processes to achieve the goals and objectives of the organizations. Staffing also requires that workers have the substantial or appropriate number of workers with enough knowledge and skills in the right job and time (Eleyan, 2010). Furthermore, Mondy (2008) expressed that staffing as a process is inclusive of the process of analyzing jobs, therefore, it is a well-organized processing of discovering skills duties, as well as knowledge level needed for workers to perform substantially in the organization. The impact of organization staffing can be felt in all aspects of human resources management (HRM) such the aspect of planning, recruitment, and selection.

In another definition provided by Gilley et al. (2009), staffing as a functional area of human resources management (HRM) is an organized way of making a match between the internal and external supply of individuals with job openings awaited in an organization for a given time duration. Lastly, staffing in human resources management (HRM) can also be regarded as a center of excellence for the human resources that are aimed at keeping the supply of qualified individuals (human assets) need to achieve organizational goals and objectives as well as maintain and make progress among its competitors in the market environment (Gilley et al, 2009).

- Human Resource Training and Development (TD):

Among the functional areas of human resource management (HRM), human resource training and development (HRTD) takes a major role. It involves the major functions of training and developing individuals as well as crucial functions such as planning careers for individual workers as well as development activities, organization development, and performance appraisal (Mondy, 2008). In the human resource development (HRD) unit, workers can be provided with expert training help as well as coordination. This is because the unit is commonly comprised of the long-range perspective of workers' career interests and its link to developing the organization through processes that favor the goals and objectives of the organization. This is a major distinction between human resource practitioners and individual operating managers. The interest of workers is not far-fetched from the interest of the organization; therefore, it should be both fused with significant causing deficiency on another, in the processing of optimizing organizational success.

According to Eleyan (2010), since workers needs and organization are not regarded as separate and different from each other, the organization should take the responsibility of planning their workers' careers according to their interest, so that workers, in turn, can provide the necessary manpower to drive organizational development to success. This way organizational success will be reached and workers will be satisfied. If we consider performance appraisal, we can see how it is important because it empowers workers to capitalize on their individual as well as collective strengths on other to scale through obstacles and develop their deficient strengths and weaknesses. This will help workers become more satisfied and productive in the work environment.

- Compensation:

workers should be compensated for several reasons such as exceptional performance, honesty and loyalty, occupational hazards, and so on. An

organization's compensation system or policy will greatly affect workers perception of how the organization values them. The compensation policy of an organization can be an important determinant of whether new workers intend to work or existing workers intend to remain and vice versa. It is also used as a weighting factor to compare the compensation policies from one organization to another which is crucial in workers' decision-making process of choosing an organization in which to work. For these reasons, organizations are in competition with each other on who offers the most favorable compensation benefits to existing and prospective workers. Competitive compensation policies among organizations are related to workers recruitment, retention, and reward performance.

Furthermore, the system of rewarding workers based on their performance in the organization should be based on compensation and reward policy. This way, both the organization and its workers understand that the things that are included in the performance-based reward system get done. This leads to workers motivation and possible organizational commitment. On the other hand, when an organization fails to reward or compensate exceptional performance from workers, workers may begin to exhibit negative performance such as negative attitude, behavior, perception, and general decline in motivation and productivity. According to Gilley et al. (2009), an organization's compensation and reward policy should take into consideration individual steps of the performance management process that contribute to organizational success.

- **Safety and Health:**

Over the years occupational health and safety have gained increased attention. This is because several occupational accidents and other related risks organizations expose workers throughout history could have been easily prevented. In today's business environment, it is an obligation on all organizations to abide by local, national, regional, and international occupational health and safety policies. This is to ensure workers safety,

health, and to provide a safe and conducive working environment for workers. When workers feel secure in all organizational processes and the organizational working environment in general, then they more likely to exhibit positive working attitudes. Although the health and safety of workers is an important goal for all organizations to meet, however, it cannot be generally meet completely and easily. According to Mathis and Jackson (2004), the general goal of workers' safety and health is not easy, and not all circumstances that may influence workers health, safety, and security always be awaited.

According to Eleyan (2010), some of the safety measures organizations should take on their workers should include protection from injuries that may arise as a result of work- related accidents. This description constitutes the meaning of safety in an organization. On the other hand, health in an organization can be described as a worker right away from physical or emotional illnesses. An organization that meets the standards of safety and health will provide workers with a productive and safe environment that will in turn result in long-term benefit for the organization. If health and safety standards are practically neglected in an organization, workers are exposed to vital health and safety risks that may result in accidents and health issues. The worker (s) becomes affected physically, emotionally, or both which may result in suffering and loss to the worker (s) and their dependents. Moreover, the organization is not safe from the consequences of negligence in terms of health and safety standards in the organization. When workers become affected as a result of negligence to health and safety standards, productivity becomes less, and other negative behaviors such as reduced job satisfaction, absenteeism, lateness, and workers leave tec. This will result in low productivity, increased cost for the organization, and other damaging trends to the organization. Therefore, Armstrong (2006), emphasized that health and safety management as a human resource management function should be a priority to the organization.

- Employee and Labor Relations:

An organization's management (managers) must learn to co-exist simultaneously with workers to achieve the common goals of the organization. There the management worker relationship is very crucial for maintaining peace and driving organizational growth and development. The management is responsible for addressing the fundamental rights of the workers whether the workers are represented by workers union or any other relevant authority/association. The human relations (HR) policies must be reviewed either monthly, quarterly, or annually to keep up with trends and most importantly, to make expectations clearer for both managers and the workers. In some organizations, managers must also establish relations with union/management and must follow the set-out standards.

Of the functions of human relations (HR) in this sense is to provide guidance as well as training to workers. Furthermore, the human relations (HR) are responsible for developing and helping in the introduction of formal processes to the workers, however, they are not responsible for line managers 'jobs for workers. According to Armstrong (2006), since human resources (HR) practitioners have a pivotal role as industrial relations specialists, they are sometimes likely to be directly related to unions as well as their representatives. By brief description, a union in this context refers to a formal association that is organized by workers to promote the interest of its members by observing collective actions. The relation between unions and the management of organizations is governed differently from one country to another. This is due to the variation in different cultures and laws across countries. Workers can design to use unions as their formal representatives in negotiating with the management of their organization, although this practice is beginning to lose its popularity today than usual (Mathis and Jackson, 2004).

Among the responsibilities of human resources (HR) practitioners may include the maintenance of workers participating and involving in organizational

processes as well as managing workers' communications. Armstrong (2006) emphasized some important responsibilities of human resources (HR) practitioners on workers in the organization. According to him, they should play a pivotal role in the development of workers relation strategies as well as policies that aim to improve their working conditions, be successful at establishing employment relations, be conscious of the specific event of the significance of psychological contracts, create stable and an interactive link with workers and serve as their representatives to the stakeholders of the organization to prevent or minimize conflicts. From all these points, it is clear that human resources (HR) practitioners as a department in the organization have a huge role to play in the establishment and maintaining of a conducive working environment for the workers.

1.4 HRM Dimensions of the research

It has been previous found that there is a positive relationship between an organization's performance and the level of implementing correct practices of human relations management. On another hand, some previous studies have not reached a general or global consensus on the pathway needed for understanding how and what variables are to be measured to realize this relationship. however, three variables can be used to approach the how and what variables to be used in the measurement of the relationship between business performance and the implementation of HRM practices. These variables are provided below;

- HR planning
- Training and development
- Compensation

1.4.1 Planning Workforce (HR Planning)

Planning is very important not only for businesses but for our everyday life. Business that makes planning a priority in their practices and processes in the organization. Planning is a very important facet or variable in measuring

performance and HRM implementation. According to Mondy (2008), planning in human resource management is referred to as a systematic procedure used to link the internal and supply of an organization's predicted workforce with job openings over a range of time. Another view of human resource planning was provided by Mathis & Jackson (2004) which referred to it as a procedure that can be helpful in the analysis as well as identification of the requirement and availability of human workforce that is needed for realizing organizational goals and objectives.

Furthermore, Mathis and Jackson (2004) indicated that planning of human resources is a procedure used by organizational managers to predict the market for forces that may affect the demand and supply of the workforce in the future. In other words, managers use it to evaluate the current organization workforce in conjunction with the current market to ascertain future situations. According to Schuler & MacMillan (1984), organizations that give little to no attention to human resource planning places them at risk of failure and inability to survive the competitive environment. This is because human resource planning enables business organizations to figure out the requirement of the workforce and how to plan and meet those required in favor of organizational objectives. One of the most important uses of human resources planning is the management of labor fluctuations especially in the future (Armstrong, 2006). Some of the major aims of adopting and implementing human resource planning are outlined below;

- Ensure attraction, requirement, and retention of workers characterized by sufficient skills and expertise that are needed for the business.
- To predict potential future problems that may be caused by fluctuation in demand and supply of needed workforce.
- Develop a well-trained and flexible workforce, thus contributing to the organization's ability to adapt to an uncertain and changing environment.
- Reduces dependence on external recruitment when key skills are in short supply by formulating retention, as well as employee development strategies.

- Improve the utilization of people by introducing more flexible systems of work.

1.4.2 Training and Development

Workers need to be trained to retain, improve, and keep them up to date about current trends and general development. Training is intended to provide workers with required and sufficient knowledge and skills to be used in current jobs while the development of workers provides workers enough benefits that go beyond the present jobs. According to Mondy (2008), workers training and development is an important procedure that works to enhance mutual workers competence as well as performance of the business organization. In regards to organizational performance, training has an impact in two parts;

- The first part, training helps in enhancing workers relevant skills and expertise
- The second part increases workers satisfaction with present duties in an interesting workplace environment (Harel and Tzafrir, 1999).

When training is extensively adopted and implemented within an organization, it results in organizational success. It is considered as one of the seven practices that result in success within an organization as it helps in building worker competence (Pfeffer, 1998). Training is only viable and practically relevant when workers gain more knowledge through learning and then transferring what was learned (skills) on to their duties in the organization.

1.4.3 Compensation

It is the total of all rewards provided to employees in return for their services (Mondy, 2008). The overall purposes of providing a compensation program are to attract, attain, and motivate employees through which the compensation programs are geared to maintaining equity within the organization. (Rothwell and Kazanas, 2003) Three components of a total compensation program is described by Mondy (2008), as three-legged stool used to balance workforce compensation;

- First is direct financial compensation (wages, salary, bonuses).
- The second is indirect financial compensation (health insurance, vacation, medical leave).
- Third is non-financial compensation (job environment, workplace flexibility, autonomous). (Mondy, 2008).

The purpose of compensation offer is to motivate employees to work harder and help an organization to achieve goals. Compensation can be used to explore competitive advantage (Gómer-Mejía and Wellbourne, 1988). The reason why compensation policy can ensure better organizational performance is because it can attract and retain highly talented employees (Pfeffer, 1998). So, the decision on how firms pay to employees is vital; it can absorb high skill people or bring down the motivation of current employees. The overall purposes of providing compensation are to attract, retain, and motivate employees. The components of a total compensation program are;

- Direct financial compensation. That is, payments are received in form of wages, salaries, bonuses, and commissions.
- Indirect financial compensation (benefits) which includes all financial rewards not included indirect compensation.
- Nonfinancial compensation is a reflection of the satisfaction person receives from the job itself or from the psychological and/or physical environment in which a person works.

The compensation system will support the organization's long-and short-term objectives without overlap, which would have more than one payment plan driving the same objectives. The ultimate objective of this process is to ensure that the compensation system attracts and retains the desired employees and that it motivates them to do those things that support the business plan (McNally, 1992).

A compensation program in an organization should have four objectives. That is, legal compliance with all appropriate laws and regulations, cost-

effectiveness for the organization, internal, external, and individual equity for employees, and performance enhancement purposes of the organization (Mathis and Jackson, 2004).

1.4.4 SMEs Performance

The performance of workers needs to be evaluated to check their individual and collective performance of the organization. Mondy (2008) regarded performance appraisal in human resource management as the procedure for reviewing organizational performance through individual worker's efforts. Gilley et al. (2009) explaining performance appraisal in HRM as a procedure that is employed by business organizations to analyze efforts and development of its workers towards achieving organizational goals. The appraisal system helps the top level of management to be able to clarify organizational objectives and expectations to internal employees and helps understand the capability of its workforce.

Adoption of performance appraisal-based review in an organization is intended to notify workers about their performance (poor performances, skill deficits, and training and development needed) and how to improve their efforts individually and collectively (Sang, 2005). This is usual for organizations to optimize administrative tasks that are linked to workers' performances such as job promotion, termination, and rewards. Without effective and efficient performance appraisal in HRM practices in an organization, workers may perform badly and continue to do so because they do not have proper informative data or review that will guide their efforts required, thereby leading to ultimate losses for the organization (Gilley et al, 2009). This stamen was supported by Mondy (2008) who regarded uninformed workers as severely handicapped in their developmental efforts when there is no information about their performance. That what is measured in performance appraisal is the extent to which the individual conforms to the organization. (Coates, 1994). The purpose of performance appraisals is to maximize employee performance. By assessing the strengths and

weaknesses of its employees, an organization can create goals to develop the most effective, highly-skilled, productive, and satisfied workforce. (Gilley et al, 2009).

1.5 Factors Influencing the Adoption of HRM in SMEs

Empirical studies indicate that organizational contextual variables (firm size, ownership type, organizational strategy, and planning) and external environmental factors (market and economic conditions, legal regulations, and sector) are the major factors affecting the adoption of HRM practices in small scale businesses. For instance, Mohammad (2012) investigated the factors affecting HRM practices in a sample of diversified Palestinian organizations. The factors investigated included firm size (number of employees), sector (whether government, private or non-government organization), and profitability (profit or non-profit organization). Findings showed that larger firms apply more formalized HR practices than smaller firms do. Besides, nongovernmental organizations (NGOs) proved to be more significantly involved with the implementation of HRM practices than private and public establishments, regardless of their size, i.e., number of employees.

The study of Bayo-Moriones and Merino-Diaz de Cerio (2001) in the Spanish context, provided evidence about variations in HRM practices according to firm size. The presence of an HRM department is another important factor influencing the variations in HRM practices in SMEs, and part of the impact of firm size on the formalization of HRM practices is channeled through the existence of an HRM department or an HRM manager (Kok et al, 2003).

Arthur and Hendry (1992) suggested a model of how principal factors identified in the literature may affect HRM in small enterprises. The major factors likely to influence HRM activity in small firms are human resource supply, product market structure, and industry sector, type of ownership, and small firm infrastructure referring to size-structure effects, growth stage, culture, and management. Also, Kok and Uhlaner (2001) proposed a

conceptual model of how organizational contextual variables may influence the formalization of HRM practices in SMEs using insights from the resource-based view of the firm, institutional theory, transaction cost economics, and the behavioral perspective. Company size, collective labor agreement, large firm associate, and growth strategy are viewed as indirectly influencing the formalization of HRM in SMEs.

While a substantial number of studies indicate that organization size has a positive substantial influence on HR practices (Mohammad, 2012; and Kotey and Slade, 2007), other studies show that organization size has a limited effect on HR practices (Ding and Akhtar, 2006). Other contextual resources that have been found to have the capacity to build up human resource competencies in small businesses include financial resources and ownership of these organizations, while external environmental factors include activities of competitors, government regulations, type of industry, and sector.

There are many benefits to conducting performance appraisals for managers and individual employees, as well as their departments and the organization as a whole: (Gilley et al, 2009). It also improves communication between managers and employees and motivates employees who perform/produce at a higher level. Performance appraisal can also be used to create short and long- term goals (individual, department- and company-wide) and monitoring of progress toward previously set goals (Ding and Akhtar, 2006).

There are many possible sources of error in the performance appraisal process. One of the major sources is mistakes made by the rater (DeCenzo and Robbins, 2005). Appraisal will only succeed where there is a mutually trusting, respectful, and developmental relationship between the appraiser and the appraisee (Torrington, Hall and Taylor, 2008). Finally, it is not easy to avoid some appraisal problems, but organizations can and should be aware of them and the problems they can create for the effectiveness of appraisal. Every effort should be made to make clear, rational assessments of people as complete individuals.

1.6 Empirical literature review

Previous studies have investigated the influences that practices of human resource management (HRM) have on SMEs and their performance. The conclusions and recommendations from these studies suggest the adoption of human resource management (HRM) for organizational success and to gain a competitive advantage over competitors. One of such studies was carried out in Hong Kong by the researcher Fanny (2009). He took into consideration job analysis in selected SMEs, performance appraisal of SMEs, human resource planning in the SMEs, and training of workers. His result found a positive and significant linear relationship between human resource management (HRM) and SMEs performance. In Nigeria, Obasan, (2012), explored human resource management (HRM) among some selected SMEs in using vital HRM variables such as recruiting of workers, selecting workers, placement of workers, training, and development of workers. His results were consistent with the findings of Fanny (2009). Obasan, (2012) recommended improvement in training and development the knowledge, skills, and expertise of workers in SMEs in Nigeria.

Another study was conducted by Tiwari (2012) to investigate the state of adoption and implementation of human resource management (HRM) in organizations. He discovered that firms that adopt this practice and implement them effectively/efficiently, are likely to gain a competitive advantage over their alternatives in the market. He further indicated how HRM practices positively influence workers' satisfaction with their jobs, the financial performance of the organization, workers turnover, and the commitment of the workers to the organizational goals and objectives. In Saudi Arabia, the link between HRM practices and organizational performance has been investigated by Mansour (2010). The variables he used included recruitment of workers, training of workers, the participation of workers, performance appraisal used by the organization, compensation, and benefits to workers, and the performance of the organizations. The result found a significant and positive link between the

practice and organizational performance.

In the same year as Fanny (2009), Young (2009) researched a sample size of 394 SMEs who were administered questionnaires across Hong Kong. The study took into consideration the following facets of HRM practices; human resource planning (HRP), training and performance appraisal in business organizations as well as the level of successful records of the SMEs. The method he used was, Spearman Rank Correlation analysis to find correlation between the variables. The result found a positive and significant correlation between all the variables as shown; HRP ($r= 0.64$), training of workers ($r= 0.69$), performance appraisal of workers ($r= 0.83$), and the level of success of the organization. In another development, Rauch and Fres (2005) studied a sample size of 120 companies in Germany. These companies employ about 50 workers to work for them. The result of the study found a positive linear link between the training of workers and improved organizational successes. For business performance, Litz and Stewart (2000) found a positive and significant linear correlation between business organizational performance and training/updating of workers knowledge, skills, and expertise.

1.7 Conceptual framework

Having reviewed the related studies, it is therefore imperative to note that HRM has positive implications on SMEs. The impact of HRM on SMEs can be thus be said to exist in three distinct ways namely, training, compensation, and HR planning. These avenues provide an effective way for SMEs to boost and sustain their performance. Hence, we can establish and contend that the implementation of sound HRM practices enhances the performance of SMEs. Alternatively, it can be considered that the use of HRM practices with regards to training, performance appraisal, compensation, and HR planning has positive effects on the performance of SMEs. This can be illustrated using a conceptual framework as follows;

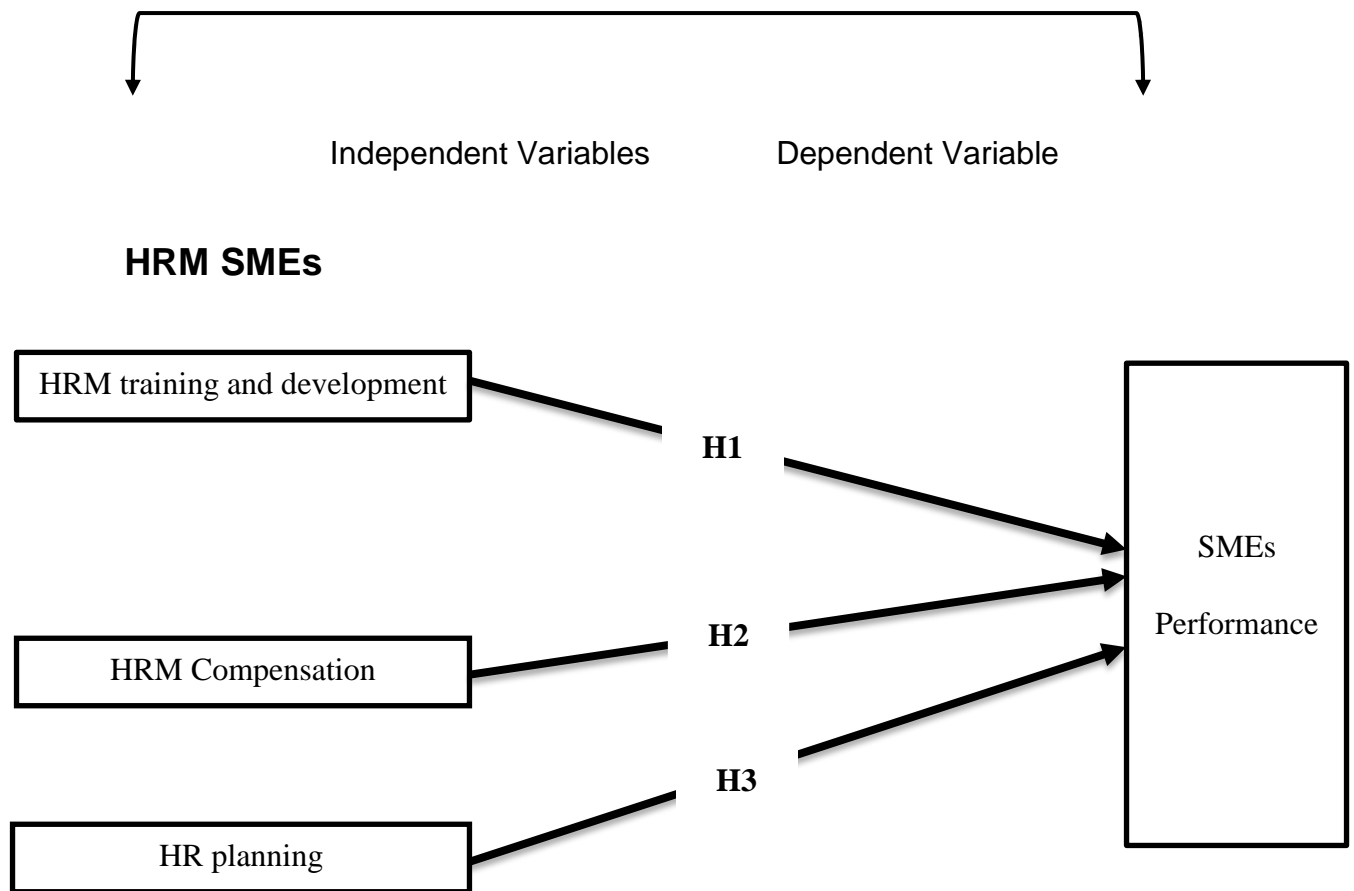


Figure 2.3: Conceptual framework

Main hypothesis:

H1: HRM has positively effect on SMEs Performance.

Sub-hypotheses:

H1a: HRM training and development has positively effect on SMEs Performance.

H1b: HRM Compensation has positively effect on SMEs Performance.

H1c: HRM planning has positively effect on SMEs Performance.

CHAPTER 2

RESEARCH METHODOLOGY

2.1. Research design and Strategy

Research strategy works in conjunction with research design. According to Burns and Grove (1997), research strategy is the overall research design that has been carefully selected considering the suitability to the aims and objectives of the study. For this study, the research design used descriptive research design. The descriptive design is a very important type of design in statistical analysis and is widely used to describe statistical findings from data (Creswell, 2014). The researcher can benefit a lot from using descriptive design because it provides a detailed description of the various variables contained in a problem model. Furthermore, the benefits allow for the identification of the relationship between different variables (dependent and independent variables) of the problem model. The general research step by step processes taken from the beginning to the end of the study is shown in Figure 3.1.

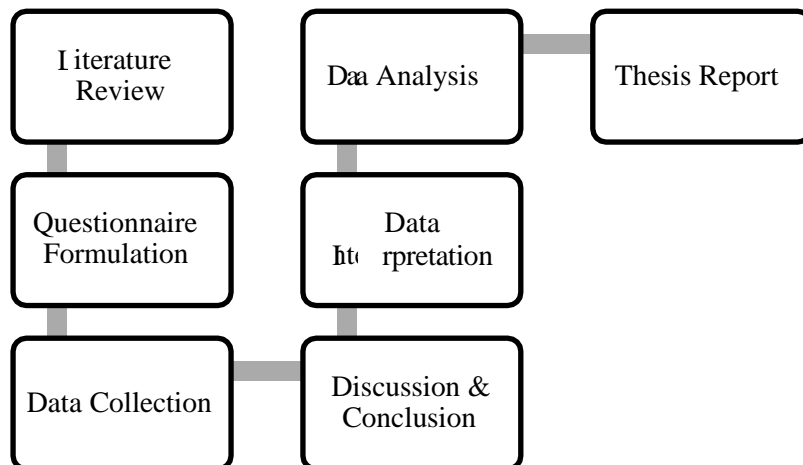


Figure 3.1: General research processes of the study

2.2 Population and sampling methods

The study's population consisted of the targeted population includes all SMEs operating within Palestine, sampled in two cities- Ramallah and West Bank. The researchers shared questionnaires to a total of 101 employees in SMEs in Ramallah and West Bank from different positions such as employees, managers, supervisors, and business owners. The sample size comprised 101 employees who represented 25.3% of a total population of around 400 managerial employees from different levels using data collected from employees in 15 firms at SMEs in Palestine utilizing self-administered questionnaires. Convenience sampling techniques were used. (Malhotra, 1999) suggested that the sample size should be above 100 and more ideally, around 100 to 300 respondents.

2.3 Research instrument

The study a foundational reference of a questionnaire that was developed by Eleyam (2010). However, improvements were made in line with the objectives of the study and thus giving new ideas and SME performance. The questionnaire was distributed online (via google forms) to participants due to the emergence of Covid19 across the globe resulting in total to partial lockdown

around the world. The questionnaire was composed of five sections and the items (statement) contained in the questionnaire were 30. The participants were provided with three Likert-scale of responses such as agree, neutral, and disagree. Three Likert-scale responses were used because they are easier to use and are also good enough to collect responses from a given population sample (Matell and Jacoby, 1971). Erika Hall argued that as the Likert scale rises, it may be more difficult or boring for participants to answer (Jeff, 2019). Sharon (2018) also indicated that three Likert- scale are simpler and engaging for most responders.

2.4 Reliability tests

The research instrument was tested using Cronbach's alpha test to determine the internal consistency of the variables in the research instrument. The decision-making criteria considers variables having Cronbach's alpha values that are at least 0.70 as highly reliable (Tavakol & Dennick, 2011). Using information provided in table 3.1, it can thus be included that all the model variables were highly reliable in explaining the impact of human resources management on small to medium enterprises in Palestine. This is because their alpha values were above 0.70 with the least training and development having an alpha value of 0.703 and the highest Performance Appraisal of SMEs having an alpha value of 0.824.

Table 3.1:*Reliability test*

Variable	Cronbach's alpha	Decision
HRM	0.873	Accepted
Human Resource Planning (HRP)	0.785	Accepted
Training and Development (TD)	0.703	Accepted
Compensation (C)	0.791	Accepted
SMEs Performance (SMEs P)	0.824	Accepted

2.5 Statistical Data Analysis

After data are collected and sorted out. They need to be coded for statistical analysis. The Statistical Package for Social Sciences (SPSS) was utilized to process all data into meaningful information. Where the study used the "IBM SPSS 25" statistical package to portray the participants' demographic findings and presented summary statistical averages, reliability, and validity tests. Moreover, it used a multi-linear correlation test to examine the relationships between variables. Finally, multi-linear regression analysis helped to examine the study's hypotheses.

2.6 Ethical considerations

A written consent was given to the participants before they participated in this study and it served to inform them that their participation was voluntary. Besides, the participants were informed about the purpose of the study and that their details were not to be made public without their consent.

CHAPTER 3

RESEARCH RESULT

3.1 Introduction

The SPSS software is both useful for qualitative and quantitative data analysis. It provides vivid descriptive analysis data. As mention in the previous chapters, this study used qualitative data to understand the impact of HRM on SMEs in Palestinian cities. After data were collected from the questionnaire survey conducted online (via google forms), the Excel file was downloaded from which data were sorted accordingly. Furthermore, since the data were in text strings, they were transformed by coding responses into numerical values. Finally, the coded data were analyzed concerning the laid out aims and objectives of the thesis. The interpretation of the analyzed data is presented as the discussion to better understand the implications of the findings.

For the sake of simplicity, this chapter is divided into five sections just as is the case with the questionnaire survey. The result from each section of the questionnaire were discussed in the corresponding section in this chapter. Section one handles participants demographic analysis, section two is responsible for human resource planning (HRP), section three is responsible for organizational training and development of workers skills and abilities, section handles the compensation philosophy of organizations on their workers, and lastly, section five deals with performance appraisal of SMEs. As mentioned earlier, the section distribution is for simplicity as well as presenting a clearer descriptive statistic to the reader.

The two most important variables are the implications of human resources management (HRM) on the performance of SMEs. Therefore, the independent variable is relating to human resources management (HRM), which includes HRP, training and development, and compensation. Moreover, the performance of the SMEs is the dependent variable. To investigate the relationship between these variables, the Pearson correlation analysis was utilized to find whether there exists any statistical correlation that may be significant then multi-linear regression analysis helped to examine the study's hypotheses.

3.2 Demographic Information

The demography data provides us with useful information or about our participants taking into consideration attributes such as gender, age, and education. Furthermore, organizational demographic questions were also included in the demographic section to understand the number of workers in the organization, their position, and when the organization was established. The demographic information can be of useful contribution to understanding the casualty relationship between variables. They can contribute an in-depth perspective to interpretations of variables. A summary of all six-demographic information of participants in this study are presented in Table 4.1.

Table 4.1:

Descriptive of participants demographic

	Gender	Age	Education	When was your business established?	Position	Number of employees
N Valid (f)	101	101	101	101	101	101
Mean	1.50	4.52	3.09	2.85	2.36	1.97
Std. Deviation	.502	.832	.971	1.244	.965	.943

The full descriptive statistics of participants demography are shown in table 4.2. The result from SPSS data analysis shows that participants gender was mostly men compared to women. Constitute a frequency of 51 and the females constitute a frequency of 50. This constitutes 50.5% and 49.5% for male and female participants respectively. The age distribution of the participants on the other hand shows that 32.7% ($f= 33$) of the participants were within the age range of 20 to 30 years old. Furthermore, 23.7% ($f= 24$) of the participants were within the age range of 30 to 40 years old. The complete age distribution statistics are shown in table 4.2.

In regards to the education level of the participants, the majority of participants were university graduates accounting for 50.5% ($f= 51$) of the entire sample, while 20.8% ($f= 21$) of the participants were master degree level of education. Furthermore, 30.7% ($f= 31$) and 32.7% ($f= 33$) of the sample size were in business organizations that were established between 1 to 4 years and 5 to 9 years. In regards to the positions of each of the participants in their respective businesses, 42.6% ($f=43$) of the participants were found to be managers in their businesses, 22.8% ($f=23$) of the participants indicated that they had the role or positions of supervisor in their respective businesses, 18.8% ($f=$

19) were sole owners of their businesses, and 15.8% ($f= 16$) of the participants were found to be employees in their respective business enterprises. A summary of all demographic statistics of participants in this study are presented in table 4.2.

Table 4.2:

Descriptive demographic of characteristics of the study participants

Variable	Sub-variable	<i>f</i> (frequency)	% (percentage)
Gender	Male	51	50.5%
	Female	50	49.5%
	Total	101	100
Age	Below 20 years	13	12.9%
	20-30 years	33	45.5%
	30-40 years	24	69.3%
	40-50 years	19	88.1%
	50 years Above	12	100
	Total	101	
Education	High school	7	6.9%
	Diploma	14	13.9%
	University	51	50.5%
	Masters	21	20.8%
	PHD	8	7.9%
	Total	101	100
Position	Sole owner	19	18.8%
	Partnership	43	42.6%
	Manager	23	22.8%
	Employees	16	15.8%
	Total	101	100
When was your business established?	Below 1 years	12	11.9%
	1-4 years	31	30.7%
	5-9 years	33	32.7%
	10-14 years	14	13.9%
	15-19 years	7	6.9%
	20 years above	4	4.0%
	Total	101	100
Number of Workers	5-9	39	38.6
	10-15	33	32.7
	16-20	22	21.8
	More than 20	7	6.9
	Total	101	100

3.3 Human Resource Planning (HRP)

This section discusses participants perception of human resource planning (HRP) in their respective businesses. Additionally, the section unveils the level of human resource planning (HRP) in the organizations as responses are provided by participants (employees, managers, supervisors, owners, etc.) with opinions from diverse perspectives. In total, 5 questions were provided to participants to answer. After all questions from this section were collected, sorted, and inputted in SPSS software for analysis, the mean and standard deviation for all questions were between 1.84 (.729) and 2.13 (.747) respectively. Which explains the degree of use in the study's variables by the companies were between the top-medium level from the perspective of the study community's members. A statistical summary of all responses is provided in table 4.3 for all 5 statements in this section.

Table 4.3:

Descriptive analysis of HRP

Items	N	Minimum	Maximum	M	SD
HRP1	101	1	3	1.94	.553
HRP2	101	1	3	1.92	.642
HRP3	101	1	3	1.84	.729
HRP4	101	1	3	1.85	.699
HRP5	101	1	3	2.13	.747

3.4 Training and Development

This section was designed to understand the level of training and development of workers' knowledge, skills, and expertise within their respective business organizations. To do so, five questions were carefully selected and provided to the participants in the study to provide their answers. Alongside the questions, the Three-Likert scale (agree, neutral, and disagree)

was used to measure participants responses for interpretation. The mean and standard deviation were between 1.88 (.743) and 2.23 (.670) respectively, which are useful for determining the level of training and development participants in this study observe in their respective business organizations. Which explains the degree of use in the study's variables by the companies were between the top-medium level from the perspective of the study community's members. A statistical summary of all responses is provided in table 4.4 for all 5 statements in this section.

Table 4.4:

Descriptive analysis of TU

Items	N	Minimum	Maximum	M	SD
TU1	101	1	3	1.97	.726
TU2	101	1	3	1.88	.743
TU3	101	1	3	2.23	.670
TU4	101	1	3	2.11	.711
TU5	101	1	3	1.99	.824

3.5 Compensation

This section has formulated statements that were intended to know the compensation policy or philosophy in the participants' respective business organizations. Participants were presented with a total of 6 questions. The participants were provided with the Three-Likert scale (agree, neutral, and disagree) to choose one as an indication of their perception of the compensation policy in their respective business organizations. The mean and standard deviation were between 2.33 (.823) and 1.79 (.654) respectively, which are useful for understanding the compensation policy and the level of adherence to the policy in the business organization. Which explains the degree of use in the study's variables by the companies were between the top-medium level from the perspective of the study community's members. A

statistical summary of all responses is provided in table 4.5 for all 6 statements in this section.

Table 4.5:

Descriptive analysis of compensation

Items	N	Minimum	Maximum	M	SD
C1	101	1	3	1.88	.703
C2	101	1	3	1.79	.654
C3	101	1	3	2.11	.712
C4	101	1	3	1.88	.771
C5	101	1	3	1.99	.705
C6	101	1	3	2.33	.823

3.6 SMEs Performance

This section is the last section providing findings from data collected from participants for analysis. To analyze the SMEs' performances, a total of 8 statements were provided to participants alongside the Three-Likert scale (agree, neutral, and disagree) for their responses. The mean and standard deviation were between 2.66 (.752) and 1.87 (.689) respectively, which are useful for understanding the performance of SMEs as business organizations in selected cities in Palestine. Which explains the degree of use in the study's variables by the companies were between the top- medium level from the perspective of the study community's members. A statistical summary of all responses is provided in table 4.6 for all 8 statements in this section.

Table 4.6:

Descriptive analysis of SMEs performance

Items	N	Minimum	Maximum	M	SD
SMEs P1	101	1	3	2.66	.752
SMEs P2	101	1	3	1.90	.702
SMEs P3	101	1	3	1.87	.689
SMEs P4	101	1	3	2.42	.657
SMEs P5	101	1	3	1.89	.740
SMEs P6	101	1	3	2.16	.772
SMEs P7	101	1	3	2.08	.769
SMEs P8	101	1	3	1.95	.743

3.7 Pearson correlation

A multi-linear correlation test came into use to examine the relationships between the respondent's answers for different variables. Correlation is significant at the 0.01 level, and it's valid for all of the study variables. Each

variable had a degree of correlation higher than any degree of correlation with any other variable included in this study. This test enhances the degree of trust in the independence of the variables, and they are not in multicollinearity with each other. Therefore, they are valid and ready for regression analyses and tests. Pearson correlation table showed that the degree of correlation of each variable in this study with itself was higher than the degree of its association with any of the other variables included in this study (Sekaran & Bougie, 2016).

Table 4.7:

Pearson correlation

Correlations	HRM	HRP	TU	C	SMEs P
HRM	1				
HR Planning	.553**	1			
Training and Development	.672**	.639**	1		
Compensation	.557**	.435**	.648**	1	
SMEs Performance	.792**	.612**	.735**	.552**	1

** Correlation is significant at the 0.01 level (2-tailed). N= 101

The results above showed the supported test results of statistical averages, reliability, and validity tests, which confirms that data is fit to perform multiple linear regression analysis to examine the study's hypotheses and answer the study's questions.

3.8 Linear regression analysis

Multi-linear regression analysis helped to examine the study's hypotheses. This confirms that data is fit to examine the study's hypotheses and answer the study's questions.

R square indicated that SMEs Performance explained by (0.627) from Human resource management. Moreover, Durbin-Watson must be between $2.5 \leq D.W \leq 1.5$, so there isn't autocorrelation between the variables.

Table 4.8:

Model Summary of Human resource management on SMEs performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
H1	.792 ^a	.627	.622	.30449	1.879

a. Predictors: (Constant), HRM

b. Dependent Variable: SMEs Performance

F-test (123.206) confirms that the model is statistically significant at a p-value < 0.05.

Table 4.9:

ANOVA of Human resource management on SMEs performance

Model		Sum of Squares	df	Mean Square	F	Sig.
H1	Regression	34.270	3	11.423	123.206	.000***
	Residual	20.398	97	.093		
	Total	54.667	100			

a. Dependent Variable: SMEs Performance

b. Predictors: (Constant), HRM

* $p < .05$, ** $p < .01$, *** $p < .001$.

T-test indicates that the hypothesis is statistically significant at p -value < 0.05 . Moreover, the Beta coefficient of HRM is (.363), indicates that human resource management is positively associated with the SMEs Performance when it increases by one-unit, human resource management will increase by Beta coefficient as well.

Table 4.10:

Coefficients of Human resource management on SMEs performance

Model		Unstandardized		Standardized		
		Coefficients		Coefficients		
		B	Std. Error	Beta	t	Sig.
H1	(Constant)	1.125	.136		8.273	.000
	HRM	.339	.046	.394	7.416	.000***

a. Dependent Variable: SMEs Performance

b. Predictors: (Constant), HRM

* $p < .05$, ** $p < .01$, *** $p < .001$.

R square indicated that SMEs Performance explained by (0.375) from Human resource planning. Moreover, Durbin-Watson must be between $2.5 \leq D.W \leq 1.5$, so there isn't autocorrelation between the variables.

Table 4.11:

Model Summary of Human resource planning on SMEs performance

Model	R	Adjusted R	Std. Error of	Durbin-Watson
	R	Square	the Estimate	
H1a	.612 ^a	.375	.53181	1.560

a. Predictors: (Constant), HRP

b. Dependent Variable: SMEs Performance

T-test indicates that the hypothesis is statistically significant at $p\text{-value} < 0.05$. Moreover, the Beta coefficient of HR planning is (.612), indicates that human resource planning is positively associated with the SMEs Performance when it increases by one-unit, human resource planning will increase by Beta coefficient as well.

Table 4.12:

Coefficients of Human resource planning on SMEs performance

Model	Coefficients		Coefficients			
		B	Std. Error	Beta	t	Sig.
H1a	(Constant)	.811	.268		3.025	.003
	HRP	.830	.072	.612	11.543	.000***

a. Dependent Variable: SMEs Performance

** $p < .05$, ** $p < .01$, *** $p < .001$.*

R square indicated that SMEs Performance explained by (0.541) from Human resource training and development. Moreover, Durbin-Watson must be between $2.5 \leq D.W \leq 1.5$, so there isn't autocorrelation between the variables.

Table 4.13:*Model Summary of training and development on SMEs performance*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
H1b	.735 ^a	.541	.539	.47189	1.674

a. Predictors: (Constant), TU

T-test indicates that the hypothesis is statistically significant at p-value < 0.05. Moreover, the Beta coefficient of HR training and development is (.735), indicates that human resource training and development is positively associated with the SMEs Performance when it increases

by one-unit, human resource training and development will increase by Beta coefficient as well.

Table 4.14:

Coefficients of training and development on SMEs performance

Model	Coefficients		Coefficients			
		B	Std. Error	Beta	t	Sig.
H1b	(Constant)	-.146	.238		-.614	.540
	TU	1.032	.064	.735	16.171	.000***

a. Dependent Variable: SMEs Performance

* $p < .05$, ** $p < .01$, *** $p < .001$.

R square indicated that SMEs Performance explained by (0.304) from Human resource compensation. Moreover, Durbin-Watson must be between $2.5 \leq D.W \leq 1.5$, so there isn't autocorrelation between the variables.

Table 4.15:*Model Summary of compensation on SMEs performance*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
H1c	.552 ^a	.304	.300	.58342	1.556

a. Predictors: (Constant), compensation

b. Dependent Variable: SMEs Performance

T-test indicates that the hypothesis is statistically significant at $p\text{-value} < 0.05$. Moreover, the Beta coefficient of HR compensation is (.735), indicates that human resource compensation is positively associated with the SMEs Performance when it increases by one-unit, human resource compensation will increase by Beta coefficient as well.

Table 4.16:*Coefficients of HR compensation on SMEs performance*

Model		Coefficients		Coefficients		
		B	Std. Error	Beta	t	Sig.
H1c	(Constant)	1.218	.261		4.674	.000
	C	.215	.088	.178	2.457	.015*

a. Dependent Variable: SMEs Performance

b. Predictors: (Constant), compensation

* $p < .05$, ** $p < .01$, *** $p < .001$.

CHAPTER 4

DISCUSSION AND IMPLICATIONS

Descriptive analysis was the main approach of discussing the result from this study. It utilizes descriptive tools such as correlation and multi-linear regression. The two most important variables are the implications of human resources management (HRM) on the performance of SMEs. HRM is further divided into three independent variables. The independent variable relating to human resources management (HRM) includes HRP, training and development, compensation. Moreover, the performance of the SMEs is the dependent variable. To investigate the relationship between these variables, the Pearson correlation analysis was utilized to find whether there exists any statistical correlation that may be significant then multi-linear regression analysis helped to examine the study's hypotheses.

The correlation analysis was achieved using the Pearson correlation analysis in SPSS. In the analysis, the correlation between any of the variables is significant at the 0.05 level (2-tailed). The variables to be correlated include the following variables; human resource planning (HRP), training and development, compensation, and performance appraisal of SMEs. The result from the Pearson correlation among the variables.

The Pearson correlation between human resource planning (HRP) and training and development were found to be positive and significant. This shows a linear relationship which is an indication that when a business

organization increases or improves their human resource planning (HRP) practice, then the resultant impact will be an increase on the training and development practices of their workers. Furthermore, it was found that there is a significant and positive correlation between human resource planning (HRP) and the compensation policy or philosophy. This revelation also uncovers a linear relation that an increase in one of the two variables increases the other and vice versa. The Pearson correlation between human resource planning (HRP) and the performance appraisal of SMEs was to also be positive and significant. The implication of this is that when business organizations get it right with their human resource planning (HRP), the performance appraisal of their business organization will be practically improved as well, leading to workers satisfaction, motivation that will result in organizational growth, success, and gain of competitive advantage.

The correlation between training and development of organizational workers and compensation policy or philosophy was found to just above the significant level and positive. The implication of this is that even though, the Pearson correlation is just within the threshold, an increase in one of the two variables may cause a slight increase on the other in the positive direction and vice versa. for the Pearson correlation between training of organizational workers and updating and the performance appraisal of SMEs, it was found to be significant and positive. Finally, the correlation between the compensation policy or philosophy of the business organizations and the performance appraisal of SMEs was found is significant.

The higher the educational level, the higher the probability of getting exposed to modern and more recent development approaches of HRM and a wider perspective of the business environment and thus would implement HRM practices effectively (Elayan, 2010). Reports have shown that most businesses especially SMEs perceive training of their workforce as costly and have doubts about the benefit associated with it (Wong et al., 1997; Melo and Machado, 2013). However, Jameson (2000) has pointed out the versatility

and informality in the adoption of training practices among SMEs. This means that SMEs may be practiced diverse informal approaches of training their workforce with or without knowledge of it. Cassell et al. (2002) pointed out how reward (promotions) and incentive approach for workers have become increasingly important among businesses especially SMEs. This is because it serves as a motivation for workers to improve their efforts and greatly influence recruitment and workers retention (Cardon and Stevens, 2004).

The study revealed an interesting perspective to human resource planning (HRP) from the respective participants. With the responses mostly falling between the options where the findings show a moderate practice of human resource planning (HRP) across the organization. How this moderate level of human resource planning (HRP) affects the business performance of these organization. This study has shown that business organizations in the selected cities in Palestine provide sufficient training and development programs as most of the responses. The implication also means that business organizations that the participants work adhere to due professional standard of training and development workers knowledge, skills, and expertise. Moreover, can be seen from the statistical responses from the participants who agreed to the statement mostly within an average of the sample size. Hence, the implication of these findings shows that the complete benefits of the performance appraisal process were realized which could be due to sufficient feedback to workers about their performance appraisal. In general, the findings from this section unveils the reality that the business organizations in the selected Palestinian cities practice performance appraisal process as well as a possibility of richness of maven application of performance application. The findings from the study have shown that there is some informality in the adoption and implementation of HRM among SMEs in Palestine when compared to larger businesses. Furthermore, the findings from Cassell et al. (2002) provided a better perspective on the reasons for this formality which could be because of the diverse approaches of HRM SMEs adopt informally. Among the reasons for this suggestion is that SMEs have

limited resources both financially and otherwise which includes the resources and efforts to implement formal HRM practices. Additionally, evidence-based findings from Melo and Machado (2013) found that SMEs adopt and implement some form of HRM practices in varying degrees which may be considered informal. In summary, findings show the average level of adoption and implementation of HRM practices among SMEs in Palestine. This is a clear indication that there is a form of HRM practices that is practiced. The study also confirms the study of Elayan, (2010) who also found an average or less level of HRM adoption and implementation among small manufacturing businesses in Gaza, Palestine. On another hand, this study results show that there is a strong relationship in the quality of adoption and implementation of HRM practices SMEs performance in Palestine.

CHAPTER 5

CONCLUSION, LIMITATIONS AND FUTURE RESEARCH

5.1 Conclusion

The study has successfully investigated the impact of HRM practice on SMEs in two important cities in Palestine; Ramallah and West Bank. The literature was comprehensively analyzed to explore past studies relating to the scope of this study. After that, primary quantitative data were collected from selected SMEs in both Ramallah and West Bank for statistical analysis. The success of the study was based on data collected from a sample size of 101 participants from various SME business organizations in both Ramallah and West Bank. After data were collected as text strings, they were coded into numerical values. The analysis of findings from the study was simply a set of analyses to achieve the aims of this study by examining the correlation and multi-lever regression to answer the study questions. Consequently, the implications of this study show that the main result shows that the level of human resource management has a significant effect on SMEs. Therefore, there should be taken into consideration both with government policies and the SMEs in Palestine.

5.2 Limitations and future research

In the light of the interpretation of the findings in this study, the researcher will recommend the following two points for future academic studies and practical improvement among business organizations (SMEs) in Ramallah and West Bank as well as Palestine in general.

- Human resource planning (HRP) should be given a special focus because of its link to several other significant facets of human resource management (HRM) practices. An improvement in human resource planning (HRP) is highly likely going to influence positive response on compensation policy, and training and development of SMEs performance in Palestine.
- It is important to know that the findings and conclusions reached in this study were a result of statistical analysis from primary data collected from the participants in this study in only two cities. Furthermore, the study was further narrowed to a sample of only 101 size. Moreover, the existence of the Covid-19 pandemic affected the restriction of study results, due to a partial closure worldwide. Therefore, we cannot use the findings and conclusions from this study to generalize the state of HRM practices among SMEs in Palestine. Further studies should increase the sample size and include more important cities such as Bethlehem and Gaza to achieve a better understanding of the pattern of HRM practices among SMEs in Palestine.

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APPENDICES

Appendix 1: Research questionnaire Questionnaire Survey Near East University

**Department of Business Administration MSC, School of Social Science
Graduate Program**

Dear Sir/Madam,

My name is Oday Abu Gwelah, a final year master's student at Near East University. As a final student studying at the department of business administration (graduate school of social sciences), I am expected to conduct and present my academic thesis titled "**The Impact of Human Resources Management on Small to Medium Enterprises in Palestine**". The main objective of the study is to examine the implications of human resources management on the performance of SMEs in Ramallah and West Bank, Palestine. To realize this objective, the methodology requires the collection of primary data from SMEs in Ramallah and West Bank, Palestine via the instrument of the questionnaire survey. Therefore, I seek your consent to participate in this study. All the information gathered from this survey will be held strictly confidential and will only be used for academic purposes. I appreciate you taking your time out of your busy schedule to participate in this questionnaire survey.

Note: Please take your time in answering the questionnaire.

SECTION ONE

Demographic Information	
1. Gender	Male () Female ()
2. Age	Below 20 years () 20-30 years () 30-40 years () 40-50 years () 50 years Above ()
3. Education	High school () Diploma () University () Masters () PHD ()
4. When your was business established?	Below 1 years () 1-4 years () 5-9 years () 10-14 years () 15-19 years () 20 years above
5. Position	Sole owner () Manager () Supervisor () Employees ()
6. Number of employees	5-9 () 10 - 15 () 16 - 20 () more than 20 ()

SECTION TWO

Human Resource Planning (HRP)	
7. Job analysis is observed in your business to determine the needed workforce.	Agree () Neutral () Disagree ()
8. Qualitative & quantitative data is used for determining its workforce.	Agree () Neutral () Disagree ()
9. There is a skill database for the workforce in your business	Agree () Neutral () Disagree ()
10. Your business makes the comparison between workforce demand and supply	Agree () Neutral () Disagree ()
11. Workforce plans are implemented to meet proposed business plans	Agree () Neutral () Disagree ()

SECTION THREE

Training and Development (TD)	
12. Training and upgrading of employees' skills is important in your business	Agree () Neutral () Disagree ()
13. There is a provision for a Need-based Training program in your business	Agree () Neutral () Disagree ()
14. Training content is consistent with business objectives	Agree () Neutral () Disagree ()
15. The training program is evaluated after completion	Agree () Neutral () Disagree ()
16. Certain criteria are used to measure improved performance of employees after the training program	Agree () Neutral () Disagree ()

SECTION FOUR

Compensation (C)	
17. The wage policy and salary increase in your business is clear and reasonable	Agree () Neutral () Disagree ()
18. There is favorable compensation to encourage employee's motivation to achieve organizational goals and objectives	Agree () Neutral () Disagree ()
19. Compensation package in your business logical compared to other employees in the same field at other businesses	Agree () Neutral () Disagree ()
20. Promotions in your business are linked to work efficiency	Agree () Neutral () Disagree ()
21. Your business has compensation practices recognizing employees who contribute the most to the business	Agree () Neutral () Disagree ()
22. The health insurance system in your business is reasonable	Agree () Neutral () Disagree ()

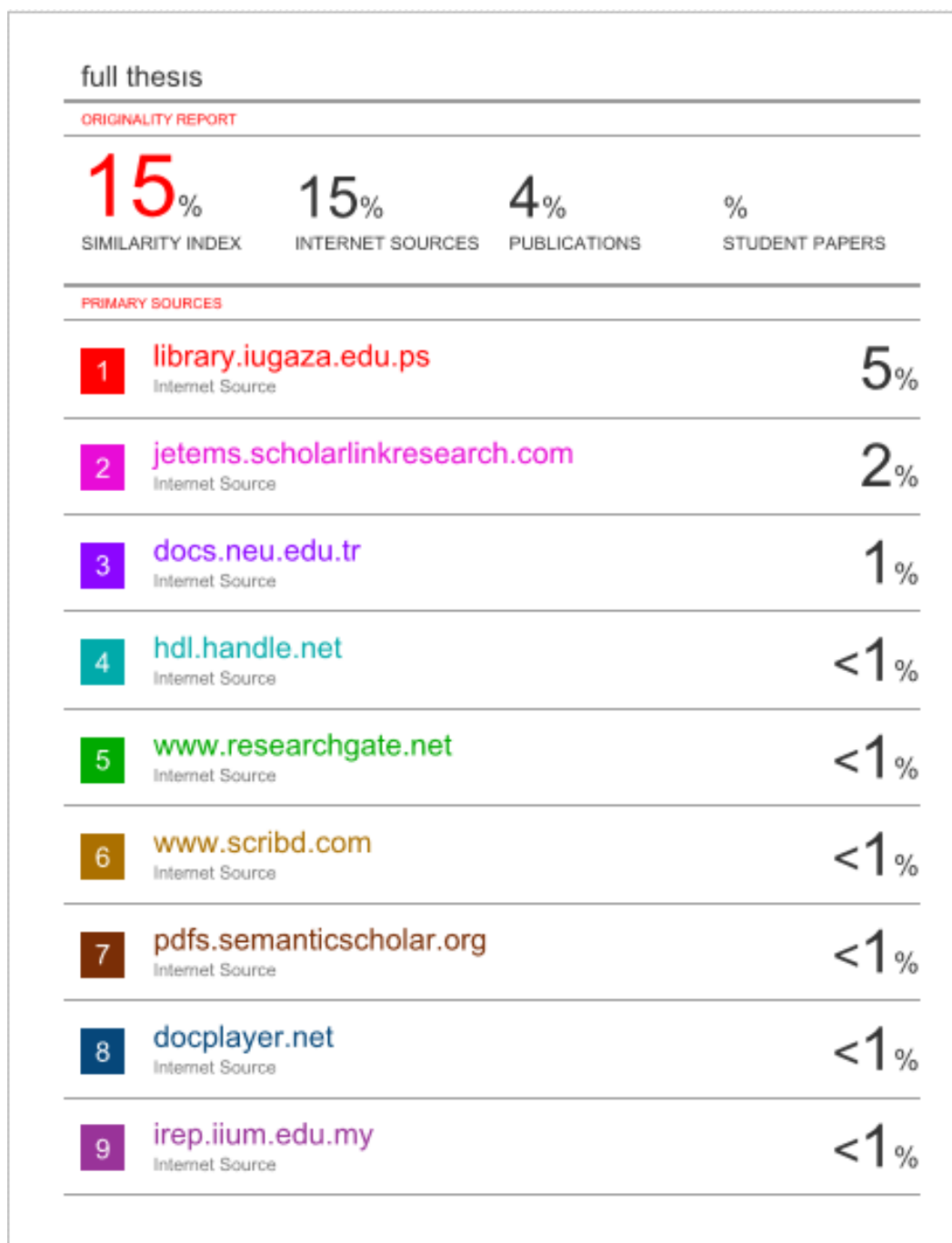
SECTION FIVE

SMEs Performance (SMEs P)	
23. Your business benefit from HRM	Agree () Neutral () Disagree ()
24. Employees are informed of performance criteria required from them	Agree () Neutral () Disagree ()
25. Standards or criteria used are measurable	Agree () Neutral () Disagree ()
26. Employees are evaluated on an annual basis	Agree () Neutral () Disagree ()
27. Your business informs its employees about the results of performance appraisal.	Agree () Neutral () Disagree ()
28. The performance appraisal process depends on the employees' actual performance.	Agree () Neutral () Disagree ()
29. The performance appraisal process is used for promotions and incentives purposes.	Agree () Neutral () Disagree ()
30. The used performance appraisal process is fair	Agree () Neutral () Disagree ()

Any additional responses or comments?

I Appreciate Your Time and Effort in this Study

PLAGIARISM REPORT



ETHICAL APPROVAL FORM



BİLİMSEL ARAŞTIRMALAR ETİK KURULU

03.05.2020

Dear Oday Maher Abugheweila

Your application titled **“The Impact of Human Resources Management on Small to Medium Enterprises in Palestine”** with the application number NEU/SS/2021/956 has been evaluated by the Scientific Research Ethics Committee and granted approval. You can start your research on the condition that you will abide by the information provided in your application form.

Assoc. Prof. Dr. Direnç Kanol

Rapporteur of the Scientific Research Ethics Committee

Note: If you need to provide an official letter to an institution with the signature of the Head of NEU Scientific Research Ethics Committee, please apply to the secretariat of the ethics committee by showing this document.