

The Relationship of the Human Resource Management (HRM) Practice and Employee Performance in SMEs in Quanzhou, China[†]

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Abstract

Small and medium enterprises (SMEs) support countries' economies in financial context and also create employment opportunities. Human resource management (HRM) practices are very important to equip employees via training & development, employees' motivation through effective rewards policies and effective recruitment and selection process. Human resource plays a vital role to improve employee performance and create competitive advantage in this competitive era since human capital is one of major source to enhance organizational performance.

A collection of 294 self-administered and well-structured questionnaires were collected among the employees of 80 SMEs in Quanzhou China. Statistical tests like correlation were applied through SPSS. The outcomes revealed that HRM practices (employee recruitment & selection, training & development, performance management and compensations) are positively associated with employee performance. The results conclude: 1) HRM practices level was regarded as high. 2) Recruitment and selection are positively associated with employee performance. 3) Training and development are positively associated with employee performance. 4) Performance management is positively associated with employee performance. 5) Compensations are positively associated with employee performance. Finally, discussions and recommendations were made on the results of this research, such as improving the compensation among employees, providing more training opportunities with the focus on clarifying their work responsibilities and improving work related skills.

Keywords: Human Resource Management Practice, Employee Performance, SMEs, China

Introduction

A company's human resource management (HRM) plays a crucial role in its success, no matter how big, small, or medium it is. Performance can be enhanced through Human Resource Management practices. This zone has experienced an improvement in performance practices and profitability. In small and medium enterprises (SMEs), HRM can enhance staff responsibility, competence, and flexibility, which ultimately leads to excellent performance (Koch and McGrath, 1996). Human resource management is essential to the smooth operation and success of an organization. Human resource management practices equip and motivate employees by providing training, development, and rewarding policies. Global competition is one of the driving forces behind HRM adoption in the workplace. Recent research found that HRM that has a high level of responsibility and/or contribution positively impacts employee performance. Organizations are facing a variety of challenges as the world becomes more globalized. The economy relies heavily on small and mid-size enterprises (SMEs) to fulfill specific budgetary contractual obligations. Organizational experts who implement effective human resource management strategies are very important to boosting organizational performance.

The concept of human resources management refers to the process of attracting, motivating, and retaining employees to ensure an organization's effectiveness, performance, and survival (Boxall, Purcell & Wright, 2008; Schuler & Jackson, 1999). Formal practices contribute to an organization's effectiveness,

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performance, and survival in addition to recruitment and selection, training and development, performance management, and compensation. It has been shown that a skilled and motivated workforce can play a crucial role in a small company's survival and competitiveness today (Winkler & Behrmann, 2016), while the literature indicates that a successful small business often distinguishes itself from an unsuccessful one by its quality of employees. The survival and performance of SMEs is therefore dependent on effective HRM practices. Thus, this research concerns on the effectiveness of formal HRM practices in enhancing employee performance. Thus, to what extent HRM practices, if any, have positive and significant impact on employee performance?

Objectives of the research

This research expects to fill a research gap in HRM-SMEs literature as well as address practical survival concerns. It is generally the case that SMEs have an informal, ad-hoc approach to human resources management, but given the expected positive correlation between formal a formalized, structured approach might be warranted. The purposes of this paper are:

- 1) To explore HRM practices in terms of recruitment and selection, training and development, performance management, and compensation among SMEs in Quanzhou, China.
- 2) To explore employee performance among SMEs in Quanzhou, China.
- 3) To evaluate the relationship of HRM practices on employee performance among SMEs in Quanzhou, China.

Literature review

It has been studied for a long time that job performance is an important dependent variable. According to Borman and Motowidlo (1993), 2 types of employee behavior are required to achieve organizational effectiveness. An organization's core technical processes are either directly affected by behaviors or indirectly supported by behaviors (Borman & Motowidlo, 1993; Werner, 2000). These behaviors are directly related to the formal reward system within the organization. A contextual performance, on the other hand, is a person's efforts that have nothing to do with their main function. Nevertheless, these behaviors play an important role in shaping organizational, social, and psychological contexts and are critical catalysts for task activities and processes (Werner, 2000). The purpose of this research is to develop a conceptual framework for implementing structural equation models on employee performance.

Researchers have defined the following parameters as affecting employee performance. The performance of individuals and organizations is strongly influenced by organizational activities, policies, practices, knowledge management practices, and employee engagement, according to Winkler & Behrmann (2016). These elements contribute to high employee performance. Management of performance is a planned process that involves agreement, measurement, support, feedback, and positive reinforcement, according to Smith and Bititci (2017).

According to Winkler and Behrmann (2016), employee performance is the combination of efficiency and effectiveness of the employee's daily tasks. Using the internet at work improved task processes, education acquisitions, and communication quality, leading to better performance and organization, according to a research conducted by Shankar (2021). The performance of employees is positively affected by both physical and non-physical factors surrounding them, according to Zheng et al. (2006). Employee engagement can be enhanced by improving performance measurement systems and performance management practices, according to Smith and Bititci (2017). Currently, HR Practice is viewed by Allen et al. (2018) as a critically important success factor within organizations as a result of our highly dynamic, uncertain market environment.

HRM practices are considered highly important for developing effective roles within an organization, as they enable some organizational experts to make the best decisions for a given organization, as well as implement those strategies at the organizational level (Smith & Bititci, 2017).

Literature has developed a number of HRM models. Zheng et al. (2006) summarized a few well-known HRM models specifically focused on organizational performance. According to Delaney and Huselid

(1996), HRM in the workplace is determined by a set of factors and impacts. The authors of this article argue that HRM policies should be carefully selected in order to ensure that stakeholder interests are balanced with situational factors such as business strategy, employee characteristics, management philosophy, as well as the legal and social contexts of operations, so that all stakeholders are treated fairly. The authors posited that a positive HR outcome and a positive impact on organizational performance would follow the adoption of appropriate HR policies. There are long-term benefits to adopting HRM practices, but it is not clear how to achieve them. However, HRM inputs and performance indicators are very broadly defined.

According to Huselid et al. (1995), organizational structure and strategy should be reflected and supported by a coherent HR system. The focus here is on 4 areas of HRM practice: selection, appraisal, development, and reward. Individual employee performance improvements lead to improvements in organizational performance. Performance, however, is not specified in how it should be measured.

According to Zheng et al. (2006), there are 3 'general' goals (attract, retain, and motivate employees) that impact 'specific' goals (productivity, worklife quality, legal compliance, competitive advantage, and workforce flexibility) and, in turn, affect the bottom line of the company (survival, competitiveness, growth, profitability, and adaptability). Furthermore, HRM is not just the responsibility of line, middle, and senior managers, but also of all employees.

Naz et al. (2016) attempt to rectify what they believe is a lack of HRM theory and normative practices. A set of policies and practices were identified in their model that would enhance individual and organizational performance. In order to enhance HRM and organizational performance, HRM policies must be consistently applied in order to achieve 4 key policy goals (integration, employee commitment, flexibility, and adaptability). Performance outcomes are not adequately measured, however. There are a number of performance indicators that may be viewed more as HRM outcomes than employee performance indicators (such as absenteeism, turnover, and grievances).

Yang's (2021) revised HRM model suggests that high levels of commitment, high quality, task flexibility, and superior individual behavioral outcomes can be achieved when HRM practices are integrated coherently. The performance of the organization will increase as a result. Six components of the HRM model are included: HRM strategy, HRM practices, HRM outcomes, behavioral outcomes, performance outcomes, and financial outcomes.

These models provide a comprehensive map of HRM, addressing key HRM ideas. A correlation between HRM practices, outcomes, and performance is also indicated. However, despite their similarities, the HRM practices, outcomes, and performance indicators used in these models are not consistent and unified.

A small or medium-sized business (SME) has revenues, assets, or employees below a certain threshold. The definition of a small and medium-sized enterprise (SME) varies from country to country. It is sometimes necessary to consider a company's industry of operation as well as certain criteria.

Small and midsize businesses (SMEs) contribute significantly to the economy despite their size. A large number of people are employed by these companies, and they are generally entrepreneurial in nature, so they are able to shape innovation in this way as well.

Small companies are defined by the EU as those with fewer than 50 employees, while medium companies are those with fewer than 250 employees. SMEs have 1 - 499 employees (excluding industrial and commercial households), according to International Data Corporation (IDC). There are 3 types of businesses: Micro, small, and medium-sized. Micro businesses employ 1 - 9 people, small businesses employ 10 to 99 people, and medium-sized businesses employ 100 to 499 people.

Small and medium-sized businesses (SMEs) play a crucial role in both emerging and developed economies.

The International Data Corporation (IDC) released on April 27, 2021 the "Research Report on the Survival and Development of Small and Medium-sized Enterprises" (Zhang, 2021). There has been a compound annual growth rate of nearly 10 % for small and medium-sized enterprises over the last 4 years. There are 45 million enterprises, an increase of 13.2 % over last year. There are typically fewer than nine

employees in a small or medium-sized enterprise. The number of small and medium-sized businesses will reach nearly 80 % by 2020, according to estimates.

Research shows that Chinese small and medium-sized businesses account for more than 60 % of GDP, play a significant role in national economic development, and dominate the market. In addition to creating jobs, it also improves people's livelihoods. Through digital transformation and marketing, SMEs will have opportunities to develop (Wang, 2015). There is a boom in small and medium-sized businesses, and their needs vary widely. To win this diverse market, suppliers must provide marketing methods and service content that are suitable for small and medium-sized enterprises.

It is a source of employment as well as a source of financial support for the economy (Nolan & Garavan, 2015). Effective recruitment and selection practices are part of human resource management (HRM). Among HRM practices are employee training & development, employee performance, and effective reward policies. One of the biggest factors driving companies to adopt professional human resource management (HRM) practices is global competition. Creating competitive advantage and improving performance require human resources in a competitive world (Yang, 2021).

While other high-growth economies in the region slowed during the Asian Financial Crisis of 1997, the Chinese economy grew by 7 - 13 % annually since the 1980s (Wang, 2015). As Chinese state-owned enterprises (SOEs) have rapidly undergone structural adjustments in recent years, small and medium-sized enterprises (SMEs) have played an increasingly important role in the economy, alleviating employment pressures, boosting non-governmental investment, and contributing to market development (Li & Rees, 2020).

SMEs, however, are clearly facing great pressure as China becomes more integrated into the global economy. Small and medium-sized businesses are influenced by many external and internal factors, such as globalization, technological innovation, demographics, social change, the technological level deployed, the ability to innovate, financial support, and entrepreneurship. SMEs are affected by all of these factors on both an external and internal basis. In order to achieve success in a competitive market, SME development has become one of the key issues that need to be addressed. Human resources are one of the components of this process (Yang, 2021).

Conceptual framework

HRM Practice theory of Delaney and Huselid (1996), 4 dimensions are analyzed in the research: recruitment and selection, training and development, performance management and compensation. Employee Performance is measured by adapting the model developed by Borman and Motowidlo (1993). Naz et al. (2016) indicates impact of human resource management practices on employee performance of SMEs in Multan. Thus, the research framework is presented as follow:

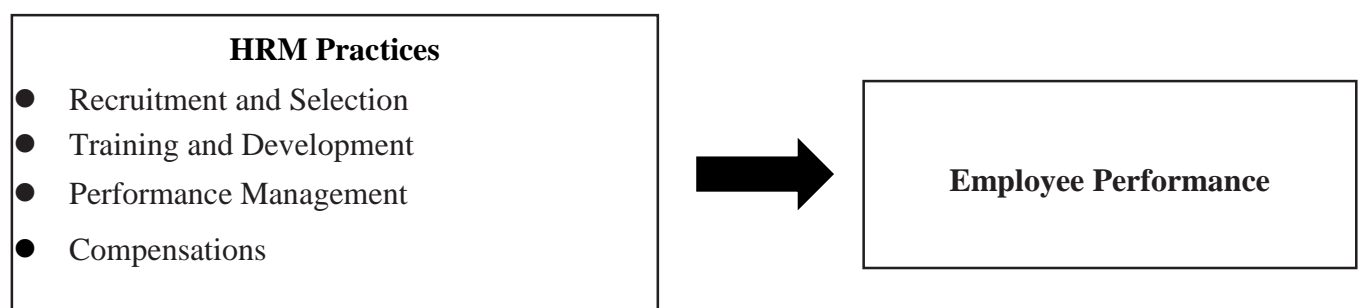


Figure 1 Conceptual framework.

Hypothesis development

The research proposes 4 research hypotheses, each of which suggests that there are significant positive relationships between the HRM practices and employee performance;

H₁: Recruitment and selection are positively associated with employee performance.

H₂: Training and development are positively associated with employee performance.

H₃: Performance management is positively associated with employee performance.

H₄: Compensations are positively associated with employee performance.

Methodology

Research method

The research adopts survey research on exploring the relationship between HRM practices and employee performance within the context of Quanzhou, China. The investigation of the current research is quantitative-based descriptive research, which is using a descriptive-correlation design to decide whether relationships exist between HRM practices and employee performance within the context of China.

Population and sample

It randomly selected 50 SMEs in Quanzhou, China, and employees who work there are determined as the population group. According to the HR department of the companies, there are total number of 1432 employees in total. For ease of reference, Krejcie and Morgan (1970) developed a table to determine the sample size for a given population. with population size of 1432, the sample size is determined as 303.

Research instrument

Based on the existing research in the relevant fields, the more mature questionnaires in the field were selected to investigate the research subjects. The employee performance instrument was assessed by adapting the Individual Work Performance Questionnaire - IWPQ scale for White collar developed by Koopmans et al. (2013). The HR Practice was assessed by adapting the HR practice Questionnaire scale for small and medium business in China developed by Yang (2021). This research uses the Likert 5-point scale; 5 indicates strongly agree, 4 indicates agree, 3 indicates neutral, 2 indicates disagree, and 1 indicates strongly.

The questionnaire was divided into 3 parts. The first part of the questionnaire is the background survey of the respondents; the second part is the perceived HR Practice by respondents; and the third part is the employee performance related items.

Data collection

There will be minimal interference from the researcher as the researcher is collecting answers form respondents by distributing questionnaires. The respondents will not be influenced as the phenomenon is studied during their normally occurrence. Respondents are expected to answer the questionnaire voluntarily without the manipulation and interference from the researcher.

Data analysis

This research adopts both descriptive such as frequency, percentage, mean, standard deviation, and inferential statistics using correlation and regression analysis.

Perception	Score	Average score	Interpretation
Strongly agree	5	4.21 - 5.00	Strongly agree
Agree	4	3.41 - 4.20	Agree
Neutral	3	2.61 - 3.40	Neutral
Disagree	2	1.81 - 2.60	Disagree
Strongly disagree	1	1.00 - 1.80	Strongly disagree

Results and discussion

In this research, a total of 303 questionnaires were distributed to employees in different SMEs in Quanzhou, China. A total of 294 effective responses were collected. The details of the specific demographic information were shown in **Table 1**.

Table 1 Descriptive statistics on demographic information.

		Frequency	Percentage
Gender	Male	101	34.4
	Female	193	65.6
Age	Under 25	102	34.7
	25 - 34	171	58.2
	35 and above	21	7.2
Years of Working in the Company	less than 2 years	88	29.9
	2 - 4 years	183	62.2
	5 years and above	23	7.9
Education Background	High school and under	107	36.4
	Vocational school	141	48.0
	Undergraduate and above	46	15.6

Table 1 showed that women were the vast majority of the 294 valid responses. The 34.4 % of the respondents were male, with 101 in total, while 65.6 % were female. It showed that of the 294 valid responses, 34.7 % of the employees were under 25. Among the 294 valid responses, 29.9 % of the employees had worked in the company for less than 2 years, and 62.2 % of them had worked in the company for 2 - 4 years. Furthermore, it showed that of the 294 valid responses, 36.4 % of the employees received high school or lower education, and 48 % of them graduated from vocational school, and 13.9 % of them had undergraduate degree, and 17 % of them hold graduate or further degree.

The details of the specific HRM practices and employee performances were shown in following table.

Table 2 Descriptive Statistics of HRM practices and employee performances in dimensions.

Dimensions	Mean	SD	Level of perception
Recruitment and Selection	3.66	0.65	Agree
Training and Development	3.68	0.68	Agree
Performance Management	3.46	0.64	Agree
Compensations	3.66	0.61	Agree
Employee Performance	3.59	0.52	Agree

Table 2 showed the descriptive statistics of HRM Practices analyzed in dimensions. The employee performance was divided into recruitment and selection (Mean = 3.66, SD = 0.65), training and development (Mean = 3.68, SD = 0.68), performance management (Mean = 3.46, SD = 0.64), and compensations (M = 3.66, SD = 0.61). Employees generally hold positive views towards HRM practices. Among them, compensation was rated the highest, which indicated its importance among employees. Additionally, the **Table 2** showed the descriptive statistics of employee performance analyzed in dimensions. The employee performance (Mean = 3.59, SD = 0.52) indicates employees generally hold positive views towards their performance.

Table 3 Descriptive statistics of HRM practices in items.

	Items	Mean	SD	Level of perception
13	I was fully aware of the job responsibilities when I was recruited.	3.54	0.82	Agree
14	The company have clear standards towards people they hire.	3.70	0.83	Agree
15	The hiring process was efficient and effective.	3.73	0.82	Agree
X1	Average recruitment and selection	3.66	0.65	Agree
16	I received enough training to perform my job properly.	3.64	0.77	Agree
17	The company had a set of programs to help me perform my work.	3.62	0.78	Agree
18	I have developed my job skills with the supports of the company.	3.77	0.92	Agree
X2	Average training and development	3.68	0.68	Agree
19	I feel appreciated and valued here.	3.45	1.01	Agree
20	I have a clear understand on what is expected in my job.	3.50	0.99	Agree
21	At work, I had the opportunity to use my strength every day.	3.44	0.76	Agree
X3	Average performance management	3.46	0.64	Agree
22	My pay matches with what I have contributed to the company.	3.70	0.83	Agree
23	I am happy with the series of benefits I receive here.	3.77	0.92	Agree
24	I recommend people to work here based on the compensation package I receive.	3.50	0.99	Agree
X4	Average compensations	3.66	0.61	Agree

Table 3 showed the descriptive statistics of HRM practices analyzed in items. All the mean values were between 3.44 and 3.77, which indicated the positive view towards HRM practices. Item 18 (I have developed my job skills with the supports of the company.) had the highest mean value 3.77 with Standard Deviation of 0.917, while the lowest mean value was 3.44 from item 21 (At work, I had the opportunity to use my strength everyday) with SD of 0.762.

Table 4 Descriptive statistics of employee performance in items.

	Items	Mean	SD	Level of perception
5	I managed to plan my work so I can finish my work well on time.	3.52	0.84	Agree
6	I kept in mind the results I need to achieve in my work.	3.52	0.84	Agree
7	I was able to perform my work with minimum time and efforts.	3.66	0.95	Agree
8	Collaboration with others was very productive.	3.66	0.95	Agree
9	I took on extra responsibilities.	3.70	0.77	Agree
10	I took on challenging tasks.	3.49	1.02	Agree
11	I actively found ways to improve my work performance.	3.70	0.77	Agree
12	I worked at keep my job skills up-to-date.	3.49	1.02	Agree
Y	Average employee performance	3.59	0.52	Agree

Table 4 showed the descriptive statistics of employee performance analyzed in items. All the mean values were between 3.39 and 3.70, which indicated the positive view towards employee performance. Item 11 (I actively found ways to improve my work performance.) had the highest mean value 3.70 with Standard Deviation of 0.732, while the lowest mean value was from item 12 (I worked at keep my job skills up-to-date.) with SD of 0.821.

Table 5 Correlation analysis.

	X1	X2	X3	X4	Y
X1 Recruitment and Selection	1				
X2 Training and Development	0.28	1			
X3 Performance Management	0.37	0.45	1		
X4 Compensations	0.49	0.59	0.80	1	
Y Employee Performance	0.52	0.74	0.52	0.69	1

Table 5 showed the correlation matrix among HRM practice and employee performance. All the HRM practice are correlated with employee performance between 0.52 and 0.74, which indicated the positive view towards employee performance. It indicates potential relationship between all HRM practice element on employee performance.

Hypotheses test results

Table 6 showed the correlations tests between the recruitment and selection and 2 dimensions of employee performance. For recruitment and selection, the correlation coefficient value with task performance was 0.370, and 0.467 for contextual performance, which demonstrated strong positive correlations. Therefore, H1, H2, H4 were accepted. However, H3 was rejected.

Table 6 Regression analysis.

	Coefficients	Standard Error	t Stat	p-value	
Intercept	0.60	0.12	4.87	0.00	**
X1 Recruitment and Selection	0.20	0.03	6.60	0.00	**
X2 Training and Development	0.40	0.03	12.98	0.00	**
X3 Performance Management	-0.04	0.04	-0.83	0.41	
X4 Compensations	0.26	0.05	4.87	0.00	**
$R^2 = 0.70$, Adjusted $R^2 = 0.70$, $F = 168.08^{**}$, Significance $F = 0.00$					

**, * denotes significant level at 1 %, 5 %, respectively

Discussion

From all the collected questionnaires, 294 valid responses were used for testing several hypotheses about this research and drew conclusions. According to correlation analysis results, it was found that, as 4 constructs of HRM practices, recruitment and selection, training and development, performance management, and compensations were all found to have strong positive correlations with the dimensions of employee performance. Accordingly, H1, H2, and H4 were all accepted in this research. The results could lead to the conclusion that the HRM practices among employees was positively related to employee performance, which answered to the first research question: What empirical relationship exists between HRM practices and employee performance. The second research question was about which HRM practices would have stronger relationships with employee performance.

According to above analysis, it was noted that training and development, as well as compensations had stronger relationship with employee performance. **Table 7** below summarized the results of research hypothesis testing.

Table 7 Summary of research hypotheses testing results.

No	Research hypotheses	Results
H1	Recruitment and selection are positively associated with employee performance.	Accepted
H2	Training and development are positively associated with employee performance.	Accepted
H3	Performance management is positively associated with employee performance.	Rejected
H4	Compensations are positively associated with employee performance.	Accepted

Conclusions

This research conducted questionnaires among employees among SMEs in Quanzhou, China. The main findings of this research were summarized as follows:

- 1) This research found that employees had a positive view on their performance.
- 2) HRM practices level was regarded as high.
- 3) Recruitment and selection are positively associated with employee performance.
- 4) Training and development are positively associated with employee performance.
- 5) Compensations are positively associated with employee performance.

The research was only conducted among employees from SMEs in Quanzhou, China. Therefore, the research results could only be analyzed to a limited extent. Careful use of the results of this research was recommended. Although various aspects of the research process had been considered, subjective variables remain due to time, budget, other reasoning variables, research methods, samples, etc. It was necessary to consider the potential limitations of the administered questionnaire approach. Due to the design of the questionnaire, the researchers may limit the respondents' responses in the questionnaire, and the respondents may be reluctant to answer the items due to their emotions, values, and attitudes when completing the questionnaire, leading to inaccurate inferences.

Recommendations

Based on the above research conclusions, the specific suggestions for the HRM practices were given as follow:

1) According to the research result, employees were very concerned with the compensations, which was given the highest score among all the HRM practices. Therefore, improved what is rewarded to employees, especially financial rewards will largely increase their work initiatives and efficiency. Compensation is also the main factor for employees to recommend the company to others.

2) According to the research result, employees generally hold strong views towards training and development. They generally believed that the support from the company would greatly improve their work-related skills, which could result in the improvement of work efficiency. Therefore, in order to improve employee performance, it is highly recommended that companies or HR departments provide employees with necessary training and development opportunities, so that employees can feel empowered and supported.

3) Based on the research result, employees would take more challenges and seek for improvement if they were clear about their responsibilities. Therefore, companies or HR departments need to make sure employees are instructed with their responsibilities and what are expected from them, and provide timely training and personal development programs, so that employees will have clear focus on their work, and they will be more willing to improve their performance.

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