

A Study of Innovative HR Practices and Business Performance: Case of SMEs from AlDakliya Region, Oman

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ABSTRACT

In a current dynamic business environment, human resources is playing a pivotal role in organizational effectiveness. The success of any organization regardless of the size is largely depended on the effective management of the human resource. This study attempted to study the impact of Innovative Human Resource Management Practices (IHRP) in Small and Medium enterprises in Oman, particularly in the Al-Dhakiliya governorate. We used the Cluster analysis to collect data from five major industrial areas of the region to study the level of adoption of

innovative human resource practices (IHRP) and to analyze how the practices are associated with the outcomes of HR and the firms' performance. It is found that innovation in talent acquisition, compensation systems, and learning and development practices significantly influenced the performance of firms. The degree to which SMEs have adopted innovative human resource practices is shown to be closely related to human resource outcomes and firm performance.

Keywords: Human Resource Management, Innovative HR Practices, SMEs, Business Performance, Oman.

INTRODUCTION

The close relationship between HR practices and firms' performance has been identified in many empirical reports. The association between high-performance or high-commitment human resource management (HRM) practices and various organizational performance measures is found by scholars such as Guest (2011). More specifically, Sánchez-Marín, Meroño-Cerdán, and Carrasco-Hernández (2017) found that a higher degree of HR formalization has a positive influence on firm performance. Similarly, Huselid (1995) identified that High-Performance Work Systems (HPWS) were associated with accounting profits, sales turnover, and firm market value. In short, there are many empirical studies about HR practices and firm performance, however, in the present study, our investigation is based on two research gaps. The first gap is that most studies only focused on the combination of HR practices but did not take into account innovative HR practices. The second literature gap is that in the present study, we investigated the topic in the SMEs context of Oman, an area that is under-researched in contemporary literature. Based on the gap of the study, our objectives are as follows;

Objectives of the Study

1. To find out the relevant innovative human resource practices in SMEs in general and Al Dakhiliyha region in particular.
2. To analyze the relationship between innovative HR practices and the overall performance of the SMEs in the Al-Dakhiliyha governorate.

Scope of the Study

The scope of the research is to study the innovative Practices and their impact on SMEs' performance in Al-Dakiliyah Governorate of Oman. This study includes small and medium-sized companies that deal with these innovative practices. The study period extends from February 2022 to the end of April 2022. The study includes innovative selection practices, compensation and benefits, learning & development, workers' participation in decision-making, performance appraisal, Commitment, Competency, Congruence, Job Satisfaction, and industrial relations.

Significance of the Study

The study is significant since SMEs owners can take benefit from the present study. The results of this study can help managers and strategists to devise effective and good human resources practices to increase the level of HR performance and quality of human resources work within small and medium enterprises. The key results are of immense importance in enhancing and improving the practical performance of human resources in small and medium enterprises in the Sultanate.

LITERATURE REVIEW

There are many relevant studies related to innovative HR practices in various contexts. We present some of the relevant and significant studies. For example, Al-Tal and Emeagwali (2019), in their study explore the relationship between human resource management practices and product and process innovation in medium and small-sized organizations. The findings show that there is a positive relationship between human resource practices, intellectual capital, product innovation, and processes. In addition, the theory of knowledge-based vision (KBV) was used and proven correct and explained the importance of human resource practices based on innovation and knowledge. Another study was conducted by Zheng, O'Neill, and Morrison (2009) with the aim to clarify the impact of human resource activities practiced in 74 Chinese companies on the performance of their employees, which may attract the attention of strategists and management practitioners in different emerging markets. The results of the study showed that the adoption of human resource practices is affected by numerous factors such as company ownership, type, and size. Additionally, these practices are directly reflected and appear in the performance of human resources and the overall performance of the company, and the results clearly show the importance of devoting significant effort to human resources practices to achieve future growth goals. A study by Cuéllar-Molina, García-Cabrera, and Déniz-Déniz (2017) checked the high-performance HR practices in SMEs. The findings of this study show that both Emotional Intelligence and the various sub-competencies make it up to having an impact on the adoption of various HR practices. The incorporation of a psychological variable as an antecedent of HRM is thus the work's main theoretical contribution. The findings imply that managers of small and medium-sized businesses need emotional competencies to be more successful in their roles and improve HRM.

A study conducted by Hashim, Ali, and Fawzi, (2005) analyzed Human Resource Management Practices as Predictors of Innovation among Johor SMEs. They studied the impact of the human resource management plan on Organizational innovation among demanding small businesses in Malaysia. However, the study found that e human resources practices affect innovation capacity and recognized the importance of innovation for companies. A study conducted by Iqbal, Akhtar, Anwar, Kayani, Sohu, and Khan (2021) investigated innovative green HR practices and SME performance. The study reported that Small and medium-sized businesses play a significant role in a country's economy, so it is critical to develop innovative human resource management practices to achieve organizational goals. Also, human resource management and innovative human resource practices significantly affect organizations' performance.

A study conducted by Heilmann, Forsten-Astikainen, and Kultalahti (2020) tested the innovative human resource management practices in 100 companies in Finland. Findings showed that the flexibility of human resource practices and their enjoyment of innovation affect the profitability and growth of companies in a positive way. Agarwala (2003), in their study, investigated the relationship between 3 dimensions of innovative HR practices which are the extent of the introduction of organizational goals achievements and the importance of implementation of IMRPs with organizational commitment. The study reported that applying innovative HRPs has a direct relationship with the organization.

Jain, Mathew, and Bedi (2012), investigated the innovative HR practices adopted by Indian and foreign firms operating in India. The study concluded that there is a difference between foreign

and Indigenous firms in viewing innovation. Also, foreign MNCs focused on balancing between parent and subsidiaries and appalling field HRMI practices, in contrast to the Indigenous MNCs. Gadomska-Lila and Rogozińska-Pawelczyk (2021) investigated the importance of innovating new human resources practices and their impact on the psychological and organizational side of employees. Their study aims to determine the relationship between pro-innovation HR practices, psychological impact, and employee behaviors such as commitment and job satisfaction. The research was carried out at the leading Polish electricity supplier company. The results indicate that there is a positive relationship between pro-innovation HR practices and psychological impact and employee commitment and satisfaction. The study indicates that organizations wishing to increase employee commitment and job satisfaction should promote and take care of the psychological aspect of employees. One way is to share knowledge or select an existing candidate. on creativity, as they are proven to be good mediators of these relationships.

Zakaria, Zainal, and Nasrudin, (2011) in their study analyzed the importance of human resource management practices to Malaysian SMEs. It was found from the study that, even though HRM practices have been considered as one of the significant factors that appear to boost the performance of the organization, it can be said actually that most Malaysian SMEs do not practice HRM effectively in their business. Hence, Malaysian SMEs have to realize their competencies, particularly their internal strengths such as human resource and their HRM practices in order to support SMEs to be innovative and competitive. In order to perform well, the management of SMEs needs to put more attention on the possible HRM practices or the best combination of HRM practices, which contribute to organizational performance.

Mulolli, Islami, and Skenderi's (2015) study aimed at showing the application of human resource practices and their impact on SME performance. The study revealed that studied SMEs use their practice more to manage human resources in realizing their aspiration such as "compensation and rewarding". Also, the implementation of this practice has increased the enterprise's performance more than the usage of other practices such as: "selection and recruiting" or "training and development", but even these last ones influenced positively in the SME success. It was concluded that If SME managers use the appropriate practices in certain moments, this offers the enterprise to realize its intention and to precede to be confronted with competitors or even to pass them in a positive aspect.

Forth and Bryson (2018) examined the impact of management practices on firm performance among SMEs in Britain over the period 2011-2014, using a unique dataset that links survey data on management practices with firm performance data from the UK's official business register. It was found in the study that SMEs are less likely to use formal management practices than larger firms, but that such practices have demonstrable benefits for those who use them, helping firms to grow and increasing their productivity. The returns are most apparent for those SMEs that invest in human resource management practices, such as training and performance-related pay, and those that set formal performance targets. The study concluded that the growing body of evidence on the benefits of formal management practices in large firms adds further weight to policy initiatives that seek to encourage SMEs to improve their management skills and capabilities. Based on the previous studies and the innovative HR practices model, in the present study, we investigated the effects of innovative HR practices on SME's performance. The specific hypotheses are as follows;

Hypotheses

H1: Employee selection has a significant effect on business performance.

H2: Performance-based payment systems have a significant effect on business performance.

H3: Learning and development have a significant effect on business performance.

H4: Performance appraisal has a significant effect on business performance.

H5: Involvement in decision-making has a significant effect on business performance.

RESEARCH METHODOLOGY

Type of Research

Descriptive and explanatory research design is used to study the effect of innovative HR practices in SMEs. Primary data is collected using a cross-sectional based survey. Based on the objectives of the study, the study approach is quantitative.

Population, Sample Size, and Sample Method

Population: The number of SMEs in Al Dakhiliyah according to the national center for statistics and information in 2021 is 7604. N= 7604, and the sample size that the researchers used to obtain the data is 68. n= 68 respondents. As researchers need the confidence level=90% and 10% will be the margin of error.

Sampling Techniques: The sampling technique adopted in this study is cluster probability sampling. Whereas researchers used simple random methods and stratified techniques to obtain the data. The population is divided into 2 small groups, small and medium-sized establishments. From each stratum, the sample is collected randomly.

Table 1: Cluster Analysis, Sampling Details

Clusters	Nizwa	Adam	Bahla	Izki & Samil
Stratum 1 (Small)	7	7	7	7
Stratum 2 (Medium)	10	10	10	10
Total	17	17	17	17
No. of samples collected	9	15	11	30

Data Collection

The primary data is collected through a structured questionnaire survey distributed online and via email. The questionnaire is based on closed-ended questions measured on 5 points Likert scale.

Tools and Data Analysis

The process of data analysis started after collecting all necessary data from respondents. Data is analyzed using descriptive statistics and regression analysis by using the SPSS version 22.

RESULTS AND DISCUSSION

The demographic information of the participants is provided as follows;

Table 2: Participant's Information

	Frequency	Percentage
Gender		
Male	51	78.5
Female	14	21.5
Age		
21-40	21	32.3
41-50	14	21.5
50-60	7	10.8
Above 60	23	35.4
Qualification		
Below General Diploma	1	1.5
General Diploma	1	1.5
Diploma	24	36.9
Bachelor degree	21	32.3
Master degree	7	10.8
Ph.D.	1	1.5
Professional qualification	10	15.4
Type of Company		
Medium	34	52.3
Small company	31	47.7

The demographic information shows that there are 51 males (78.5%) and 14 females (21.5%) participated in the survey. In terms of age, 21 participants (32.3%) are in age category of 21 to 40 years; 14 participants (21.5%) are in 41 to 50 years, 7 participants (10.8%) belong to 50 to 60 years, and 23 participants (35.4%) belong to the above 60 years age category. In terms of qualification, 1 participant (1.5%) has below general diploma level, 1 participant (1.5%) had a general diploma, 24 participants (36.9%) had a diploma, 21 participants (32.3%) had a bachelor's degree, 7 participants (10.8%) had a masters degree, 1 participant (1.5%) had Ph.D. qualification, and 10 participants (15.4%) had a professional qualification.

Table 3: Descriptive Statistics

	Mean	S.D.	Number of Items	Cronbach Alpha
Employee Selection	4.34	.923	04	.813
Performance-Based Payment	3.89	.994	06	.880
Learning and Development	3.26	1.06	05	.807
Performance Appraisal	3.62	.839	05	.707
Involvement in Decision Making	3.40	1.435	03	.947
Business Performance	3.60	.825	04	.724

The descriptive statistics for the variables involved are given above. Results show that based on the survey participants in innovative HR practices in SMEs. SMEs practicing a highly innovative employee selection practice ($M= 4.34$, $SD= .923$), it has above-average payment systems based on the performance of employees ($M= 3.89$, $SD= .994$) and an above-average level of innovative performance and appraisal system ($M= 3.62$, $SD= .839$). SMEs have a more than average level of involvement in decision-making ($M= 3.40$, $SD= 1.434$). Further, the learning and development level in SMEs is also above average ($M= 3.26$, $SD= 1.06$). Additionally, Cronbach alpha is provided for all variables for testing the reliability. Since all variables Cronbach alpha are more than 0.60, so it is an indication of satisfactory reliability (Sekaran & Bougie, 2016).

Regression Analysis

The regression analysis was also employed to test the hypotheses.

Table 4: Regression

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.981	.496		1.976	.053
Employee Selection	.614	.111	.686	5.512	.000
Performance-Based Payment	-.386	.125	-.465	-3.096	.003
Learning and Development	.248	.100	.319	2.477	.016
Performance Appraisal	.200	.124	.204	1.609	.113
Involvement in Decision Making	-.023	.061	-.040	-.378	.706
R= .655					
Rsquare=.430					
Fstat=8.73 (.000)					
Dependent Variable: Business Performance					

The R-value indicates that all variables in the model have a 65.5% association. The R-square value indicates that the independent variables including Involvement in Decision Making, Employee Selection, Learning and Development, Performance Appraisal, and Performance-Based Payment explain 43% explanation in the dependent variable. The ANOVA table indicates that the F-value is above the critical value of 5 so it is an indication that the model is highly fit and significant ($F \text{ stat}=8.734$, $P<.05$)

The coefficient table indicates that three independent variables exert a significant effect on business performance including employee selection ($\beta=.614$, $p<.05$); learning and development ($\beta=.248$, $p<.05$); and performance appraisal ($\beta=.200$, $p<.05$). while, two independent variables exert an insignificant effect on business performance including performance-based payment ($\beta=-.386$, $p>.05$); and involvement in decision-making ($\beta=-.023$, $p>.05$). Based on these results, we accept H1, H2, and H3 while rejecting H4 and H5.

CONCLUSION

The study was conducted to test the effects of innovative HR practices on SME performance in the context of Oman. The key findings are that innovative HR practices especially employee selection, performance-based systems, and learning and development have a significant

influence on SME performance. Based on the findings, it can be concluded that for SMEs, innovative HR practices are important and contribute to SME performance.

RECOMMENDATIONS

1. Since employee selection positively affects the performance of SMEs, companies must pay attention to innovation in employee selection practices that will help them to increase the performance of the SMEs overall.
2. One of the most important proposals proposed by the researchers for small and medium-sized companies is to invent new human resource practices to develop the most ignored practices which are Performance Appraisal and Involvement in Decision Making.
3. Managers of small and medium companies need to devise modern methods to measure the efficiency of human resource practices such as the Multisource method in small and medium companies in the Al Dakhiliyah Governorate.

ACKNOWLEDGEMENT

The article is based on research grant as part of the The Research Grant Call2021 by the Research Council, Oman. The article is also part of the student thesis completed as part of the degree requirement of a group of four students included in the authors list.

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