High Performance Work Practices (HPWPs) in Micro SMEs

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**Abstract**—This study was aimed at investigating (1) the patterns of HPWPs in micro SMEs and (2) the factors that affect HPWPs in micro SMEs. A questionnaire was used to collect data from 30 employees of SMEs in the textile and apparel industry in Bangkok. Considering factors that affect HPWPs in micro SMEs, the results indicated that competency-based compensation \( \beta = .484 \) affected HPWPs in micro SMEs at most, followed by job design \( \beta = .454 \), with a statistical significance. The influence of job design and competency-based compensation affected HPWPs in micro SMEs at 77.9 percent.

**Index Terms**—Job design, Competency-based compensation, Relational trust, High workforce empowerment

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**1. INTRODUCTION**

Current businesses have adapted themselves to be competitive by using appropriate strategies, such as low cost, differentiation or focus strategies (Porter, 1980) and all types and sizes of businesses need to do so. The problem of micro SMEs is that they have low capital investment. In addition to the higher cost of production, the labor-intensive businesses, such as those in the textile and apparel industry in Thailand, where there are many supply chains, especially in the area of ready-made garments with numerous entrepreneurs, have also faced competition from Chinese production as well as tax measures.

The growth rate of the textile and apparel industry is likely to decrease and its market has entered into the saturation. Exporters of textiles and apparels still continue to face risk factors from economic conditions of their business partner countries. Moreover, the slowdown of orders from major business partner countries have turned to import from countries under the Generalized System of Preference (GSP). For the textile and apparel industry trend in 2018, it is expected that the upstream textile sector still continues to grow while the apparel sector has no outstanding factors to grow much. There are also other risk factors, including competency of workers, higher wages of workers than those of competitor countries, fluctuation of cotton prices as main raw material of the industry, and GSP disqualification from the European Union. As a result, buyers in some countries, such as Germany and France, have begun importing products from Thailand's major rivals, i.e. Vietnam, Indonesia, Myanmar, and Bangladesh. Moreover, some entrepreneurs are textile and apparel producers with low efficiency by using outdated machinery without the use of technology and innovation in their production resulting in the disadvantages of competitiveness (Economic, Business, and Grassroots Economic Research Center, Government Savings Bank, 2017). Nowadays, there are approximately 163,827 entrepreneurs in the textile and apparel industry, 163,500 of which are SMEs, or 99.8 percent, where 666,092 workers are employed, or 66.6% percent, but these SMEs can only generate the added value of 31.2 percent, or 78 thousand million baht, while 327 larger ones, or 0.2 percent, can generate the added value of 160 thousand million baht (Office of Small and Medium Enterprises Promotion, 2017).

Therefore, the key issue is trying to develop the potential of SMEs in the textile and
apparel industry with low resources to manage their own businesses so they can increase their value and productivity in order to support the overall economic development (Office of Small and Medium Enterprises Promotion, 2017). Micro SMEs in the textile and apparel industry in Thailand usually begin as a household business with a lack of knowledge in management and it is therefore necessary to develop and manage HPWPs among their workers so that they are able to produce quality products and are retained in the system. This can be successfully achieved by promoting the capabilities of human resources because they are valuable, rare, imitable with high cost, and non-replaceable (Barney, 1991). Personnel development is important to empowering people with the knowledge, skills and attitudes necessary to perform their jobs (Sahoo, Behera, & Tripathy, 2010; and Karim & Rehman, 2012) under the contemporary development concept known as High Performance Work Practice (HPWPs).

There are several components of HPWPs in the labor sector, such as job design to suit every stage of the work, coordination, involvement, task-oriented relationship resulting in both work happiness and expected benefits, and appropriate compensation to employees, which will make employees trust in their organization and encourage them to work hard and develop their own potential with higher productivity (Hamayoun & Bhutta, 2014; and Saifullah Alam Zafar & Humayon, 2015). These are all key factors in making an efficient organization and leading to a competitive advantage in both short and long terms along with creating new innovations and becoming the market leader (Handy, 1993; Spreitzer, 1996; Karim & Rehman, 2012; and Khan et al., 2014).

From the background and significance of the above problem, the researcher was thus interested to investigate the “High Performance Work Practices (HPWPs) in micro SMEs” in the textile and apparel industry in Bangkok under the research framework of job design, competency-based compensation, relational trust, and high workforce empowerment. This study focused on the patterns and factors that affect HPWPs in micro SMEs in the view of low resources of SMEs in the textile and apparel industry.

### 2. RELATED LITERATURE

According to the literature review, the related concepts, theories, and research are presented as follows:

#### i. Textile and apparel industry

Textile and apparel industry has the forth highest ratio of added value to gross domestic product following good and beverage industry, office machine industry, and automotive industry, respectively, accounted for 245 billion baht or 2.2 percent of the country’s gross domestic product (Thailand Textile Institute, 2012). The number of manufacturers in the textile and apparel industry is shown in Figure 1.

The country’s overall production and sale of textiles in 2017 was not very good and it is therefore expected that the growth may not meet the target of 2.0-3.0 percent, especially the black clothes are in a downturn due to the market saturation. For Thailand’s textile export, it is expected to grow well above the target of 2.0 percent, especially the export of textile raw materials to ASEAN countries. Regarding the trend of the textile and apparel industry in 2018, it is expected that the upstream textile group still continues to expand in terms of production, sale, and export. However, for apparel group, there are no outstanding factors that can enhance the re-expansion of its production and export (Economic, Business, and Grassroot Economy Research Center, Government Savings Bank, 2017).

#### ii. SMEs in textile and apparel industry

<table>
<thead>
<tr>
<th>Type</th>
<th>Number of manufacturers</th>
<th>Total number of employees</th>
<th>Large size (more than 200 employees)</th>
<th>Medium size (51 – 200 employees)</th>
<th>Small size (less than 50 employees)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fabric/yarn</td>
<td>1,581</td>
<td>396</td>
<td>186</td>
<td>606</td>
<td>1,178</td>
</tr>
<tr>
<td>Apparel</td>
<td>2,528</td>
<td>396</td>
<td>186</td>
<td>606</td>
<td>1,178</td>
</tr>
</tbody>
</table>

[Source: Department of International Trade Promotion as of January 2017]
Currently, there are 163,827 entrepreneurs in the textile and apparel industry nationwide. From these entrepreneurs, 163,500 of which are SMEs, or 99.8 percent, generating the employment of 666,092 employees, or 66.6 percent; however, these SMEs can create the added value of only 78 thousand million baht while 327 large entrepreneurs, or 0.2 percent, can create the added value of 160 thousand million baht.

For the potential of SMEs in the textile and apparel industry, human resources in Thailand have higher skills than those in other ASEAN countries resulting in the acceptance of products by the world market. Raw materials are mainly imported from foreign countries as well as their potential can be enhanced, but it lacks the support along with having legal and regulatory limitations. According to the research and development in the business and marketing management, most small entrepreneurs have no marketing insight. In addition, the government’s support in the form of international fair cannot attract the target group that corresponds to the manufacturers in Thailand resulting in an inefficient marketing of these entrepreneurs (Office of Small and Medium Enterprises Promotion, 2017).

iii. Resource-based view of the firm (RBV)

Jay Barney (1991) suggested four key resource features that can create a sustainable competitive advantage in the organization: value, rarity, non-imitability, and non-substitution) (Barney, 1991; Barney and Wright, 1998). The resource-based view of the firm (RBV) relies on two important components, i.e. resources and capabilities, which can create a sustainable competitive advantage (Grant, 1996; Eisenhardt and Martin, 2000).

With these four key attributes, when an organization can possess, utilize, and maintain its existing resources in a way that its competitors cannot imitate or find other resources to substitute (Barney, 1991, p. 99), these competitors must meet obstacles and the organization has an opportunity to make more profits in the future.

iv. Literature review

4.1 Concepts and theories in relation to job design

Job design refers to a process of job creation by allocating each job to each person or group in order to create job satisfaction and higher performance. An effective job design includes job rotation, enlargement, and enrichment (Buchanan, 1979).

Job rotation is involved with the planning of work and is useful when employees are moved from one job to another so that they can learn how to do things more efficiently.

Job enlargement increases employee duties or workload to reduce boredom and encourage interest at work. It also increase the number of employee duties and responsibilities of the same level; for example, a photocopying staff is also required to work as a messenger, which prevents him to feel bored and sometimes allows him to give his opinions on the work he did (Herzberg, 1966; Hackman and Oldham, 1980).

Job Enrichment, according to Herzberg, is about increasing employees’ job satisfaction and encouraging employees to be concentrated with their work. The basis of this concept is to encourage employees by providing them with an opportunity to use their own ability to work efficiently (Memoona Zareen, Kiran Razzaq, and Bahaudin G. Mujtaba, 2013).

The main goal of the job design is to create a balance between the working performance and the employee satisfaction. In other words, employees are motivated by work and allowed to participate in decision making at work. In addition, it aims at making employees work happily, conveniently, and proudly; as a result, their potential, knowledge, and skills can be improved. Job design must also take into account the number of employees within the organization.

4.2 Concepts and theories in relation to competency-based compensation

Richard Boyatzis (1982), David McClelland (1973), and Scott Parry (1998) concluded that competency is knowledge, skills, and habits
that are essential to the work of a person to achieve a higher success than general standard

Currently, traditional compensation management based on systematic calculation and employee’s employment duration has been changed as those based on competency or work performance. It is now more accepted and used in all groups of employees (rather than only in administration or sales teams). This competency-based compensation encourages employees to be involved in the success or failure of their organization and the higher or lower compensation thus depends on the success of the organization (Dr. Marivic Valenzuela-Manalo and Dr. Romeo G. Manalo, 2013)

However, the compensation management should take into account the different contexts of the organization, including the difference between people, cultural dimension, or national culture of parent company (in case of branch operation in foreign countries) because if the executives lack understanding in different contexts, this may be a hindrance to the organization's operations (Gardner et al., 2004). Similarly, according to Piekkola (2005), the compensation based on work performance or competency enables the organization to have better performance. In addition, Brown (2001) mentioned that the compensation based on work performance or competency creates a reliable relationship between the management members and the employees as well as contributes to a good working relationship where employees are involved in the decision making, which leads to efficient operations of both organization and employees themselves.

4.3 Concepts and theories in relation to relational trust

Keitner and Kinichi (1992) said that trust refers to the maintenance of reliability and interdependence in terms of intention and behavior to each other. Trust can reduce the feeling of competition in the organization and create the culture of sharing or transferring knowledge and instructions in various works. In addition, Szulanski (1996) also cited that the lack of trust is a major factor in the inhibition of knowledge transfer while O’Dell and Grayson (1999) said that when an organization has a high trust relationship with its employees, the employees will express themselves in the exchange of knowledge each other, including more social interaction. Nelson (1996) stated that the effort to increase increase trust among members of the organization is a key point of the knowledge transfer. Similarly, Jarvenpaa and Staples (2000) mentioned that the distrust is an incentive for members to hide their knowledge in themselves only. Moreover, trust is an important basis for national organizations in knowledge creation and this knowledge will drive the more effective ability of people working in the organization, which is a significant factor that results in the organization's better performance.

Trust is a key element in successful management and strategy. Personnel trusting their organization or leaders can help make the team adapt to the different situations. Managers or leaders of the organization must manage the organizational structure and culture in a consistent manner, including planning the competency-based compensation management as a key factor that brings trust of employees towards their organization or leaders. In addition, employees will work together more effectively.

4.4 Concepts and theories in relation to high workforce empowerment

Boyatzis (1982), McClelland (1973), Dale & & Hes (1995), and Ulrich (1997) concluded that capability consists of knowledge, skills, and behaviors in each individual and all of which reflect the different abilities of individuals. Karim & Rehman (2012) said that that competition in today's world is changing dramatically with the use of high technologies. Therefore, the organizations pay more attention of empowering and enhancing their employees. Wellins (1991) also mentioned that as an organization focuses on empowering its employees, such organization can survive in a long term. Khan, Tariq, Hamayoun, and Bhutta (2014) suggested that the capacity enhancement or empowerment is a sharing or creation of trust and reliability between the management members and the employees. When it comes to mutual trust, it
is followed by job satisfaction, work concentration, and self-improvement aiming to higher performance. In addition, Karim & Rehman (2012), Khan et al. (2014), Raza, Mahmood, Owais, and Saifullah Alam Zafar & Humayon (2015) suggested that capacity enhancement or empowerment is a powerful strategy implemented by organizations to improve their employees’ capabilities and responsibilities under an accepted fact that if employees have more potential, their performance will be more efficient.

From the above, it can be concluded that employee’s capacity enhancement or empowerment results in the more efficient performance of the organization. With good job design and appropriate compensation, the employees trust in their organization and therefore are ready to improve and use their own potential in the assigned works as well as in the tasks related to the others. Managers and employees must also be coordinated to achieve the specified goals.

4.5 Concepts and theories in relation to high performance work practices (HPWPs)

Work performance refers to the performance of a person with the least use of the organization’s resources in terms of cost and time along with obtaining the highest quality outcomes in order to achieve the organization’s goals (Taylor, 1911). High performance work practices (HPWPs) were defined by many scholars as a work system with high performance, high commitment management, and effective human resource management (Ramsay et al., 2000; Kalleberg et al., 2006; Purcell, 2006; and Patel & Conklin, 2012). HPWPs are an important approach for human resource (HR) management used to improve employee efficiency (Aston & Sung J., 2002) as well as having an impact on employee attitude, motivation, and performance (Patel and Conklin, 2012). It can be said that HPWPs are human resource practices to improve or motivate employee skills or performance (Huselid, 1995). In addition, the improvement of employee potential can also make the overall performance of the organization more efficient (Brigitte Kroon, Karina Van De Voorde & Jules Timmers, 2012; and AJ Timiyo, 2014).

Brigitte Kroon, Karina Van De Voorde, and Jules Timmers (2012) studied HPWPs in small businesses in terms of poverty and strategic decision-making. They investigated the possibility that small companies used certain practices rather than HPWPs and used the AMO model by giving three sets of theoretical reasons for the difference of the smallest grouping and aiming to the employee ability (A), motivation (M), and opportunity (O). They found that the employee ability and motivation were correlated with the size of the organization, i.e. when the organization is bigger, the employees have more ability and motivation. In addition, cultivating entrepreneurial thinking to employees will make employees more concentrated on their work. Also, the commitment and good practices of business owners can serve as a role model for their employees. Small organizations are more efficient in communicating and allowing their employees to express capability than larger organizations. Moreover, innovative human resource management is positive in small organizations because of intimate communication and desire of creating new things rather than getting paid. Furthermore, the development of employee potential can result in the more efficiency of the organization.

A.J. Timiyo (2014) also examined HPWPs and their impact on performance of the organization with a purpose of determining whether HPWPs (or best practices) are the best way to ensure that the employees are efficient in the organization. They found that HPWPs could also result in the higher performance of the organization. In international perspectives, such as Neumark and Cappelli (2013), Huselid and Rau (1997), and Wright et al. (2005), best practices exist and cannot refuse the impact to the company’s performance. According to Godard Godard (2004), Kalleberg et al. (2006), Armstrong (2009), and Ferreira et al. (2012), best practices that can make the organization more efficient need to be consistent with the type of its employees, culture, context, and
structure in order to improve employee performance as a direct and important factor to enhance the organization’s efficiency.

It can be summarized that HPWPs are significantly related to human resources. Therefore, providing personnel in the organization with more competency or potential can lead to the more work efficiency that positively affects the organization.

3. RELATED METHODOLOGY

1. This study used the primary data by collecting data from 30 employees of SMEs in the textile and apparel industry in Bangkok. The issues investigated were, competency-based compensation, relational trust, and high workforce empowerment.

2. This study was a mixed methods research, including quantitative research and qualitative research.

4. RESULTS

The results of the study revealed that the overall level of respondents’ opinions on job design was medium. Considering individual items, most respondents agreed on “Business recruits personnel suitable for the jobs”, followed by “Business improves physical environment that affects employee performance, safety, and quality of work life appropriately” and “Business designs jobs that allow employees to use various skills and capabilities”, respectively. Opinions on competency-based compensation was high. Considering individual items, most respondents agreed on “Business gives reward based on the profitability”, followed by “Business defines same starting salary that will be gradually adjusted based on the work performance” and “Business pays appropriate compensation based on the workload each employee receives”, respectively. Opinions on relational trust was high. Considering individual items, most respondents agreed on “You think that your company or entrepreneur has security measures to ensure confidence at work.”, followed by “You think that in case of problems, the business can resolve the situation or conflict” and “You think that your company cooperates in your work”, respectively. And opinions on high workforce empowerment was medium. Considering individual items, most respondents agreed on “You are accepted by your superiors and colleagues”, followed by “Your organization encourages you to have progress in your career” and “Your organization gives you the opportunity to increase your skills and knowledge, such as training and external visits”, respectively.

Data analysis on factors that affect HPWPs in micro SMEs

Data analysis for hypothesis testing using linear regression analysis in the form of multiple regression analysis indicated the following results:

5. CONCLUSION

Personal data

There were 30 people as samples used in this study. The results of the study revealed that the majority of respondents were male and female equally, 15 people each or 50.0 percent, aged 20 - 30 years, 14 people or 46.7 percent, graduated below high vocational
Factors that affect HPWPs in micro SMEs

<table>
<thead>
<tr>
<th>Factor</th>
<th>β</th>
<th>Sig</th>
<th>R²</th>
<th>AR²</th>
<th>F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job design</td>
<td>.454</td>
<td>.012*</td>
<td>.779</td>
<td>.607</td>
<td>13.392*</td>
</tr>
<tr>
<td>Competency-based compensation</td>
<td>.484</td>
<td>.005*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relational trust</td>
<td>-.109</td>
<td>.484</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: R² = .779, AR² = .607, F= 13.392, *p< .05

The multiple regression analysis found that for factors that affect HPWPs in micro SMEs, competency-based compensation (β = .484) affected HPWPs in micro SMEs at most, followed by job design (β = .454), with a statistical significance of 0.05. In addition, the influence of job design and competency-based compensation affected HPWPs in micro SMEs at 77.9 percent.

According to the statistical testing of coefficients of three independent variables, i.e. job design (X1), competency-based compensation (X2), and relational trust (X3), that affect the HPWPs in micro SMEs (Y), it could be written as linear equation obtained from multiple regression analysis at the .05 significance level to predict HPWPs in micro SMEs as follows:

\[ Y = 0.180 + 0.510 X_1 + 0.560 X_2 \]

From the linear equation above, it can be seen that the coefficient (B) of job design was .510 and of competency-based compensation was .560, which were both positive. This was deemed as being correlated with HPWPs in micro SMEs in the same direction.

6. Research Limitations

The limitation of this research was that only samples of employees of SMEs in the textile and apparel industry in Bangkok were used so its results may be limited to comparison or reference to micro SMEs in other industries. However, the results of this study clearly showed the relationship between the job design and competency-based compensation and the HPWPs in micro SMEs.

7. Suggestions for Future Research

The next research should be conducted in the same nature with to micro SMEs in other industries to compare the results so that it can further enhance the knowledge of HPWPs in micro SMEs. In addition, as this study was a quantitative research, those interested in doing research on topics related to this research should conduct an in-depth qualitative study on other influential causes or factors in order to discover new factors that may affect HPWPs in micro SMEs.

References


Thailand international trade fairs, 2017.

