

SME performance: does organizational learning capability really matter?

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Abstract

Purpose – The purpose of this paper is to establish if indeed human resource management (HRM) practices drive organizational learning capability and, in turn, fortify small and medium enterprises (SMEs) performance. The purpose of mediation analysis is to see if the influence of organizational learning capability is stronger than the direct influence of HRM practices on SME performance.

Design/methodology/approach – Data was collected from managerial-level employees of SMEs using questionnaire survey. This study used the Partial Least Squares approach to structural equation modeling to test the hypothesized relationship, as it involves the relationships among multiple variables.

Findings – Of the HRM practices, incentive and compensation and team working seem to be important for firm performance. As for organizational learning capability, only openness and experimentation and managerial commitment have a direct positive impact on firm performance. The results of the mediation analysis established organizational learning capability as a mediator, albeit partially.

Originality/value – Although prior research revealed a positive relationship between HRM practices and performance, this study illuminates the black box in-between, as few studies have established its importance in the relationship between HRM practices and firm performance. The findings provide more consensus on the ongoing debate on the linkages among HRM practices, SME performance and organizational learning capability.

Keywords Performance, HRM practices, SMEs, Organizational learning capability

Paper type Research paper

Introduction

Prior research (Sánchez-Marín *et al.*, 2019; Vermeeren *et al.*, 2014) indicated that human resource management (HRM) practices in organizations can impact firm performance significantly. Specifically, Sheehan's (2014) study affirms that effective HRM is imperative for the survival of small and medium enterprises (SMEs). While these studies establish the importance of HRM for firm performance, most empirical studies on HRM are restricted to large enterprises (Hornsby and Kuratko, 2003; Sheehan, 2014), and on SMEs, they are explorative and descriptive in nature (de Kok, 2003). There is little consistency (Becker and Gerhart, 1996) and insufficient knowledge on the impact of distinctive HRM practices on retail SME performance (Chow *et al.*, 2013), particularly in developing economies. Nor has the mediating effect of individual aspects of organizational learning capability (OL-CAP) in retail SMEs been the subject of study in the Malaysian context (Tahir *et al.*, 2018).

Scholars have persistently appealed for a better understanding of the association between standalone HRM practices and SME economic and satisfaction performance (Becker and Huselid, 1998; Collins and Clark, 2003; Gong *et al.*, 2009). Consistent with the resource-based view, it is hypothesized that OL-CAP is a potentially useful black box. While appropriate HRM practices may indeed lead to better performance, this study argues that the way employees are managed enhances the learning orientation given the commitment of



managers and employees. Standalone practices rather than a bundle of HRM practices are deemed relevant for SMEs, as they are unlikely to have the luxury of a professional HR Department to manage formal HR systems (Messersmith and Guthrie, 2010). Moreover, it is implausible that SMEs will invest in more sophisticated HRM practices unless firm performance is strong (Hooi and Ngui, 2014).

This study offers several theoretical and practical contributions. First, this study provides an insight on the significance of distinctive HRM practices on each element of OL-CAP and retail SME performance. Theoretically, most studies have focused on bundles of HRM practices rather than standalone practices (Bello-Pintado and Garcés-Galdeano, 2017; Chahal *et al.*, 2016). Second, this study contributes to OL-CAP literature by testing OL-CAP as a mediating variable. Prior studies on the black box have focused on among others, strategic orientation (Chow *et al.*, 2013; Heffernan *et al.*, 2016), employee outcomes (Sagwa *et al.*, 2015), creativity climate (Heffernan *et al.*, 2016), job satisfaction (Mohammad *et al.*, 2017), HR roles (Voo *et al.*, 2018) and organizational citizenship behavior (Taamneh *et al.*, 2018). Moreover, these studies focused on OL-CAP as a unidimensional construct. Third, this study contributes by advancing empirical evidence on the use of specific OL-CAP as a key strategy for competitiveness.

Small and medium enterprises in Malaysia and human resource management practices in small and medium enterprises

Before delving into the theoretical links of the study, it is important to note the significance of studying standalone HRM practices in the context of Malaysian retail SMEs. Prior studies have mostly centered on bundles of HRM practices, leaving scholars unconvinced of the efficacy of distinctive HRM practices on SMEs. Standalone HRM practices are still relevant as “there are organizations that are still grappling with the implementation of systematic and integrated HR practices” (Juhdi *et al.*, 2013, p. 3003). In fact, it may be more important to study standalone HRM practices as each element has distinctive impact on the employees (Juhdi *et al.*, 2013). Moreover, all organizational members in SMEs are expected to play multiple roles, and the effects, good or bad, are likely to be more intense (Messersmith and Guthrie, 2010). Hence, it is crucial that employees are capable of “stepping into the shoes and minds of others” and maintain strong business acumen. Developing OL-CAP may be the “game changer” or the way forward.

Human resource management practices and firm performance

Human capital is a central stimulus for organizational excellence and, if well managed, can be a source of competitive advantage (Gong *et al.*, 2009). Hence, HRM is indispensable for an organization to be more competitive, effective, successful and sustainable, and retail SMEs are no exception. HRM practices such as training and development, performance appraisal, incentive and compensation, team working, recruitment and selection and involvement can shape employee competencies, motivation and relationships resulting in enhanced productivity and profitability (Asgari and Amirnezhad, 2015; Imran and Tanveer, 2015; Kim and Kang, 2013; Lawler *et al.*, 2011; Lepak *et al.*, 2007; Liao *et al.*, 2009; Martin-Tapia *et al.*, 2009; Omolo, 2015; Salah, 2016; Yahya *et al.*, 2012). Employee development, for instance, provides opportunities for employees to enhance their expertise to contribute strategically to organizational goals (Takeuchi *et al.*, 2003). Likewise, team working, which entails more autonomy, considerable task variety and more effective exploitation of knowledge and skill (Jones and Wright, 1992) influences firm performance (Abuzid and Abbas, 2017; Bae and Lawler, 2000).

In addition, performance-based incentive and compensation that aligns personal interests with organizational objectives has significant positive effects on firm performance (Subramony *et al.*, 2008), as this fosters a high commitment work environment (Kwon *et al.*, 2010). It leads to increase productivity (Shaw *et al.*, 1998) and profitability as well as decrease the mobility of workers (Shaw *et al.*, 1998). Furthermore, it can elicit employee behaviors and attitudes to fully support the firm's strategic objectives (Keizer, 2011; Kim and Kang, 2013). Without incentives, employees may be reluctant to involve in organizational activities that are instrumental for firm performance (Kim and Kang, 2013). It is unlikely that demotivated workers though competent will contribute any discretionary effort (MacDuffie, 1995). In terms of hiring, Jiang *et al.* (2012) highlight the significance of internal fit among HRM practices on employee abilities, motivation and opportunities (AMO) to influence in a plausibly congruent manner (Becker and Huselid, 1998; Sels *et al.*, 2006) to obtain desired employee performance which, conceptually, directly impacts firm performance.

Given these research findings and theoretical reasoning, the HRM practices selected for this study are distinctive practices related to training and development (TD_{HRM}), performance management (PM_{HRM}), recruitment and selection (RS_{HRM}), incentive and compensation (IC_{HRM}) and team working (TW_{HRM}). TD_{HRM} and RS_{HRM} are likely to improve skills, whereas PM_{HRM} , IC_{HRM} and TW_{HRM} enhance motivation. This is based on Huselid's (1995) categorization of HRM practices into two groups, namely, one that improves skills and the other that enhances motivation. Both skills and motivation are essential for performance and learning capability. Economic performance is measured through mean economic profitability, mean financial profitability, mean sales profitability, return on equity, annual sales growth and market share gain, whereas satisfaction performance considers labor productivity, customer satisfaction, others stakeholders' satisfaction and strength of competitive position (Hooi and Ngui, 2014; Singh *et al.*, 2016). Accordingly, the following hypothesis is proposed:

H1. HRM practices have a significant positive effect on retail SME performance.

Human resource management practices and organizational learning capability

The impact of HRM practices on organizational effectiveness may be more significant when the HRM practices support the firm's ability to enhance OL-CAP. Goh (2003, p. 217) defines OL-CAP as "the ability of the organization to implement the appropriate management practices, structures and procedures that facilitate and encourage learning" while Jerez-Gómez *et al.* (2005a, p. 2) conceptualize OL-CAP as follows:

[. . .] the capability of an organization to process knowledge – in other words, to create, acquire, transfer, and integrate knowledge, and to modify its behavior to reflect the new cognitive situation, with a view to improving its performance.

Many researchers have advocated OL-CAP as a multidimensional construct (Onag *et al.*, 2014), and this study considers managerial commitment (MC_{OL-CAP}), systems perspective (SP_{OL-CAP}), openness and experimentation (EX_{OL-CAP}) and knowledge transfer (TR_{OL-CAP}) as critical factors to promote a strong learning orientation. MC_{OL-CAP} refers to strong leadership support for learning; SP_{OL-CAP} a shared perspective among organizational members; EX_{OL-CAP} open-mindedness and experimenting ethos; and TR_{OL-CAP} effective transfer and integration of knowledge.

Deploying distinctive HRM practices that promote learning at the individual, team and firm levels fosters managerial commitment to learning. For instance, organizations can

enhance the quality of human assets (Way, 2002) and individuals' absorptive capacity (Jerez-Gómez *et al.*, 2004; Wang *et al.*, 2018) by investing in human capital development. This motivates employees to work together to create and share knowledge (Collins and Smith, 2006) and, in turn, promotes a learning culture. Further, performance management possibly improves OL-CAP as objective appraisal and constructive feedback nurture knowledge acquisition and knowledge sharing. This in concert with an attractive compensation package that encourages innovation motivates employees to explore state-of-the-art notions, steering the advancement of new knowledge (Jerez-Gómez *et al.*, 2005b).

In addition, cross-functional team working promotes knowledge sharing (Lepak *et al.*, 2007) and consolidate knowledge at the team and firm levels (Garvin, 1993). This further stimulates cohesion and shared perspective among workers, especially if the organization endorses clear communication and across-the-board work experience. Selection criteria that validate that new hires possess superior skills and behavior scripts (Way, 2002) further powers knowledge development (Roy, 2018; Schmidt and Hunter, 1998). All in all, HRM practices are likely to foster a learning orientation and enhance a sense of belonging, which motivates employees to align individual interests with organizational goals. Taking all these into consideration, the following hypothesis is proposed:

H2. HRM practices have a significant positive effect on retail SME OL-CAP.

Organizational learning capability and firm performance

To build and maintain competitive advantage, organizations need to exploit and improve their knowledge base to “integrate, build and reconfigure internal and external competencies to address rapidly changing environments” (Teece *et al.*, 1997, p. 516). Together with processes that support sensing, seizing and reconfiguring, organizational learning can be seen as an asset “orchestration” process. The coordination and integration of human assets create value that cannot be easily emulated by rivals (Teece, 2007). It is, therefore, imperative that organizations cultivate a strong aptitude to engross in effective organizational learning, as it is a powerful technique for developing resources and capabilities that improves performance (Jiménez-Jiménez and Sanz-Valle, 2011; North and Kumta, 2018). Therefore, advancing organizational learning through the creation, acquisition, integration (Wu and Cavusgil, 2006), dissemination, interpretation and institutionalization of knowledge involving individual, team and firm-level actions and interactions (Crossan *et al.*, 1999) is strategic for contemporary organizations to sustain their competitiveness.

A strong OL-CAP enhances firm performance (Goh *et al.*, 2012; Orego and Wainaina, 2019; Wu and Fang, 2010; Zhu *et al.*, 2019) by nurturing and exploiting knowledge to accomplish organizational mission. It enhances innovation and creativity through developing new resources and capabilities to act ahead of changes (Brusoni and Rosenkranz, 2014). Pham and Hoang (2019) affirm a positive association between management commitment and knowledge transfer with firm performance. However, empirical studies that associate effective organizational learning with superior business performance (Bilan *et al.*, 2020; Takeuchi *et al.*, 2003; Udin *et al.*, 2019) fail to establish a conclusive relationship between OL-CAP and financial performance. For instance, while some studies assert a positive significant association (Ali and Ameer, 2017; Yang *et al.*, 2004), others argue that there is no relationship (Goh, 2001) or negative relationship (Werlang and Rossetto, 2019) between OL-CAP and financial performance. Yet, others posit that OL-CAP significantly affects both financial and nonfinancial performance (Goh *et al.*, 2012; Spicer and Sadler-Smith, 2006) with

more significant results for nonfinancial than financial performance (Goh *et al.*, 2012). Consistent with these, the following hypothesis is proposed:

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H3. OL-CAP has a significant effect on retail SME performance.

Human resource management practices, organizational learning capability and firm performance

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Although comparatively less scholars focused on the black box in-between, a few studies have established its importance in the relationship between HRM practices and firm performance (Altinay *et al.*, 2016; Becker *et al.*, 1997; Jiang *et al.*, 2012; Paauwe, 2009). For instance, employee behavior (voluntary turnover, absenteeism), employee attitudes (commitment, satisfaction) and employee performance (quality, productivity) are significant intervening variables in the HRM practices-firm performance relationship (Huselid, 1995). Other mediators include employee competencies (Van Esch *et al.*, 2018), social capital (Jiang and Liu, 2015), organizational ambidexterity (Patel *et al.*, 2013) and concern for employee (Chuang and Liao, 2010).

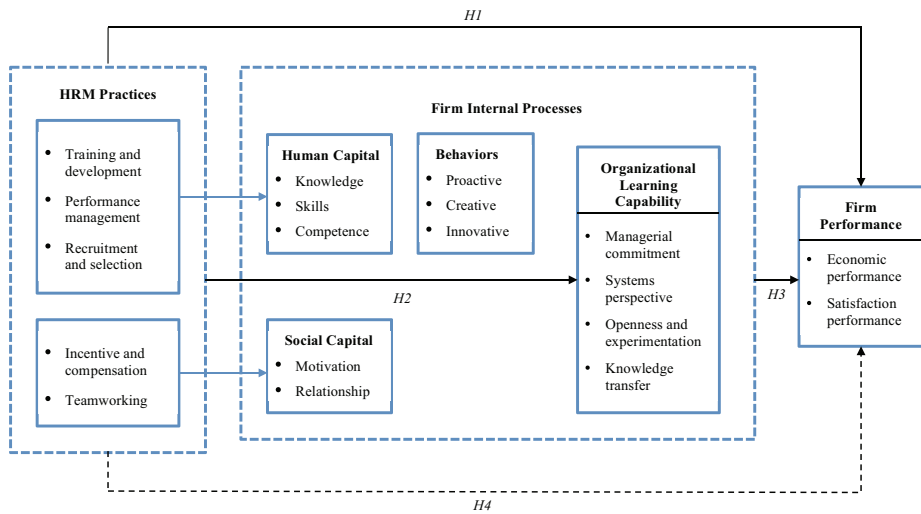
In the human resource literature, a number of scholars have researched on OL-CAP as the black box and its effect on organizational performance (Asgari and Amirnezhad, 2015; Chia *et al.*, 2016; Jerez-Gómez *et al.*, 2019). Muafi and Uyun's (2018) study shows that OL-CAP mediates the effect of Islamic HRM practices on environmental, social and religious performance. In recent years, OL-CAP has been tested in other relationships such as knowledge-innovation (Dai *et al.*, 2020); knowledge management-organizational performance (Luxmi, 2014; Rehman *et al.*, 2015); organizational capabilities, corporate governance, leadership styles-firm sustainability (Bilan *et al.*, 2020); green intellectual capital-business sustainability (Omar *et al.*, 2019); relational capability-SME performance (Salisu and Bakar, 2020); Industrial 4.0 operational performance (Tortorella *et al.*, 2020); strategic change-firm performance (Mohammad, 2019) and compassion-firm performance (Guinot *et al.*, 2020).

In this study the underlying principle for including OL-CAP as a mediator is because employee-based capabilities are essential for firm performance (Paauwe, 2009). Employees play a key role in the creation and dissemination of knowledge. These knowledge management processes drive OL-CAP (Jerez-Gómez *et al.*, 2019). As individuals are primary agents of organizational learning (Hughes, 2000), investing in valuable, rare, inimitable (Becker and Huselid, 1998) and non-substitutable human capital strengthens OL-CAP and, ultimately, promotes sustained competitive advantage. Further, Lopez *et al.*'s (2005) study reveal that there is no direct association between HRM practices and business performance. Rather, it is the capacity of organizations to incentivized employees to leverage their knowledge to enhance performance. Drawing on these arguments, the following hypothesis is proposed:

H4. OL-CAP mediates the relationship between HRM practices and retail SME performance.

The hypothesized model for the study developed following the rationale of Messersmith and Guthrie (2010) is shown in Figure 1. It contains paths from HRM practices to firm performance and OL-CAP and OL-CAP to firm performance. The theoretical logic underpinning these links is the resource-based view that postulates that a firm's source of competitive advantage depends on how well its internal resources are managed (Das and Teng, 2000). Theoretically, HRM practices increase the levels of human capital and social

Figure 1.
Theoretical
framework



capital, which potentially motivates behaviors that leverage organizational resources to achieve organizational goals (Messersmith and Guthrie, 2010). However, it is equally important that the firms are capable of renewing and redeploying competences to adapt to the changing business environment. This ability or dynamic capability is essential for sustained competitive advantage and in the current study, OL-CAP is proposed.

Methodology

Sample

The sample was drawn from the 234 companies registered with the Malaysian Retailers-Chain Association. Retail enterprises with sales turnover of less than RM 300,000 or has less than five employees were eliminated from the sample to avoid bias from firms with too few employees to establish HRM practices. Using proportionate stratified random sampling, 100 retail SMEs were sampled according to the economic sector in which they operate to provide enough variation for analysis. Nine economic sectors were identified, namely, agribusiness; building and furnishing materials; electrical products and computer; food beverages and tobacco; jewelry and ornaments; machinery, equipment and engineering; packing; pharmaceutical products and cosmetics; and textiles, clothing and footwear. Three industrial groups, namely, food, beverages and tobacco (28 %), pharmaceutical products and cosmetics (10.7%), and textiles, clothing and footwear (10.7%) dominated the sample. The other industrial groups such as jewelry and ornaments; electrical products and computer; building and furnishing materials; machinery, equipment and engineering; agribusiness; and packing each contributed less than 10% of the total sample. Another 34.1 % of the sample was from other industrial groups. The HR department of each company provided a list of managerial-level executives, and ten from each company were randomly selected to participate in the survey. As managerial-level executives are expected to play multiple roles unlike established corporations, their perceptions are sufficient to reflect the practices of the organization (Gupta et al., 2000). Data sets were gathered over a two-week period with a response rate of 21.4%, yielding a sample size of 214 usable responses.

Procedure

Prior to conducting the main survey, pilot testing was done after verifying the face and content validity of the scales. In total, 30 managerial-level executives of similar organizations participated in the pilot study to establish relevancy and comprehensibility of the questionnaire items and the time necessary to complete the questionnaire. Based on the results of the pilot study, an active researcher in the field of management provided further feedback on the scales. A few of the survey items were modified in terms of wording and length. Next was to identify the participating retail SMEs and to seek the permission of the chief executive officer (CEO) of each company to participate in the study. Upon receiving approval from the CEO, the next step was to contact the HR department. A package containing ten sets of cover letter, questionnaires and self-addressed reply prepaid envelopes were handed over to the HR Department to be distributed to the selected participants. The cover letter assured the respondents of the confidentiality of their responses and the voluntary nature of their participation.

Several measures were taken to control for the presence of common method variance. First, to control for the possibility of an ordering effect, the scales were ordered differently. Second, to create a psychological separation between the various measurement screens, different response formats were used for the scales (Messersmith and Guthrie, 2010). Two different response formats were used, namely, ranging from “strongly disagree” to “strongly agree” and “much worse” to “much better.” Third, to control response consistencies (Harrison *et al.*, 1996), scales for the dependent variable were placed before the other variables in the questionnaire. Fourth, the questionnaire provided clear response guidelines and assured confidentiality.

Measures

As SMEs are private entities, obtaining quantifiable performance data can be a challenge (Singh *et al.*, 2016), as it is unlikely that top management will approve the release of “hard” performance data (Hooi and Ngui, 2014). Moreover, there is little incentive to divulge these figures (Singh *et al.*, 2016). Even if approval were granted, the accuracy of the data may also be questionable (Hooi and Ngui, 2014; Sheehan, 2014), as senior executives or managers may exaggerate the performance of their organizations to camouflage their shortcomings (Fey *et al.*, 2000; Razouk, 2011). Therefore, perceptual measures were used as an acceptable substitute (Hooi and Ngui, 2014), as some studies have established the credibility of these measures to obtain objective financial data (Ailawadi *et al.*, 2004; Geringer and Hebert, 1991; Singh *et al.*, 2016) particularly in the management field (Camps and Luna-Arocas, 2012; Ndofor and Priem, 2011). A seven-point Likert scale was used to measure the perceptions of managerial-level executives of the retail SMEs on HRM practices, OL-CAP and firm performance.

Human resource management practices. The scales for HRM practices adapted from Becker and Huselid (1998), Youndt *et al.* (1996) and Ichniowski *et al.* (1997) measured five HRM practices, namely, TD_{HRM} (four questions), PM_{HRM} (three questions), IC_{HRM} (four questions), TW_{HRM} (four questions) and RS_{HRM} (three questions). These scales have been used by other studies on SMEs (Hooi and Ngui, 2014; Messersmith and Guthrie, 2010; Patel *et al.*, 2013) and are deemed relevant for the Malaysian context (Ismail, 2012). Furthermore, the HRM practices are essentials of any organization and, therefore, relevant for SMEs.

Organizational learning capability. The OL-CAP scale was adapted from Jerez-Gómez *et al.* (2005a) and consisted of 15 items, measuring four dimensions of OL-CAP, specifically, MC_{OL-CAP} (four questions), SP_{OL-CAP} (three questions), EX_{OL-CAP} (four questions) and TR_{OL-CAP} (four questions). Participants were asked to evaluate these variables for their companies

compared to the average for their competitors on a scale from 1 (strong disagree) to 7 (strongly agree).

Firm performance. Retail SME performance was assessed using ten items developed based on relevant literature (Becker and Huselid, 1998; Dyer and Reeves, 1995). Six items measured economic performance while four items measured satisfaction performance. The company's performance compared to the average for its competitors were measured on a scale from 1 (much worse) to 7 (much better).

Controls. The backgrounds of the company (location, type of industry, year of establishment, number of employees, annual sales volume) and respondents (age, gender, marital status, race, highest education level, educational background, years of working experience, position and length of service with the organization) were measured using single direct questions. The control variables at the organizational level were firm size and firm age while at the individual level, age, gender, education level and position were controlled.

Analysis

As this study involves the relationships among multiple variables, Partial Least Squares–structural equation modeling (PLS-SEM) is the appropriate statistical approach to examine the structure of interrelationships with one comprehensive technique (Hair *et al.*, 2014). The conceptual model consisted of five exogenous variables (TD_{HRM} , PM_{HRM} , IC_{HRM} , TW_{HRM} and RS_{HRM}), four mediating variables (MC_{OL-CAP} , SP_{OL-CAP} , EX_{OL-CAP} and TR_{OL-CAP}) and two endogenous variables (economic performance and satisfaction performance). Conventional techniques could only test a single relationship or regression equation at a time.

Results

Convergent validity

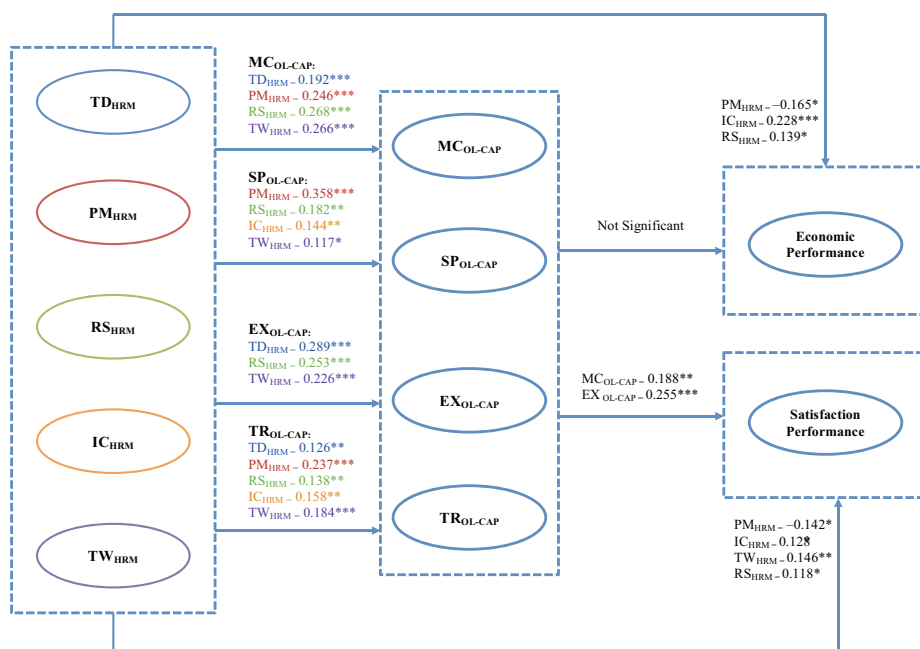
The standardized loadings for HRM practices ranged from 0.708 to 0.902, whereas for OL-CAP and firm performance, the standardized loadings ranged from 0.775 to 0.894 and 0.818 to 0.894 respectively. Except for IC_{HRM} (0.576), the AVE for all the other constructs ranged between 0.650 and 0.791. Additionally, the CR for all the constructs ranged between 0.844 and 0.950. Hence, convergent validity for the study was established.

Discriminant validity

Results established the discriminant validity of this study, as the AVE of a latent variable (loadings above 0.7) is higher than the squared correlations between the latent variable and all other variables (Chin, 2010; Fornell and Larcker, 1981). Additionally, correlation values ranging from 0.383 to 0.730 showed that all the variables are distinct (Amick and Walberg, 1975).

Summary of findings on hypothesized relationships

Results of the hypothesized relationships are shown in Figure 2 and Tables 1, 2 and 3. *H1* predicted a partially significant relationship between HRM practices and retail SME performance. After controlling for the effects of the organizational and individual level control variables, the results showed that among all the HRM practices, IC_{HRM} was most crucial for economic performance and TW_{HRM} for satisfaction performance. However, TW_{HRM} was not significantly associated with economic performance and TD_{HRM} had insignificant effect on retail SME performance. All significant effects were positive except for PM_{HRM} . The analysis of *H2*, which predicted that HRM practices positively influence



The main objective of this study is to establish the effects of HRM practices on retail SME performance and whether OL-CAP as the mediator really matters in the relationship. The findings of the HRM practices–economic performance relationship concur with the findings of Way (2002), which assert that much of the firm performance gains are attributed to compensation and extensiveness of staffing. Hence, organizations seeking to enhance

Table 1.
Results of the HRM –
OLC – retail SME
performance
relationship

Relationship	Std. beta	Std. error	t-value	Decision	Relationship	Std. beta	Std. error	t-value	Decision
TD _{HRM} → MC _{OL-CAP}	0.192	0.063	3.074	Supported***	MC _{OL-CAP} → satisfaction performance	0.188	0.105	1.785592	Supported**
PM _{HRM} → MC _{OL-CAP}	0.246	0.077	3.189	Supported***	MC _{OL-CAP} → satisfaction performance	0.188	0.105	1.785592	Supported**
TW _{HRM} → MC _{OL-CAP}	0.266	0.068	3.945	Supported***	MC _{OL-CAP} → satisfaction performance	0.188	0.105	1.785592	Supported**
RS _{HRM} → MC _{OL-CAP}	0.268	0.070	3.810	Supported***	MC _{OL-CAP} → satisfaction performance	0.188	0.105	1.785592	Supported**
TD _{HRM} → EX _{OL-CAP}	0.289	0.079	3.670	Supported***	EX _{OL-CAP} → satisfaction performance	0.255	0.086	2.949645	Supported***
TW _{HRM} → EX _{OL-CAP}	0.226	0.085	2.672	Supported***	EX _{OL-CAP} → satisfaction performance	0.255	0.086	2.949645	Supported***
RS _{HRM} → EX _{OL-CAP}	0.253	0.070	3.602	Supported***	EX _{OL-CAP} → satisfaction performance	0.255	0.086	2.949645	Supported***

Notes: * $p < 0.1(t > 1.28)$; ** $p < 0.05(t > 1.645)$; *** $p < 0.01(t > 2.33)$

Table 2.
Calculation of the
indirect effect

Hypothesis	Relationship	Std. beta	Std. error	t-value (Beta/SE)	Decision
H4	TD _{HRM} → MC _{OL-CAP} → satisfaction performance	0.192 × 0.188 = 0.036	0.0236272	1.523	Supported
H4	PM _{HRM} → MC _{OL-CAP} → satisfaction performance	0.246 × 0.188 = 0.046	0.029779	1.544	Supported
H4	TW _{HRM} → MC _{OL-CAP} → satisfaction performance	0.266 × 0.188 = 0.050	0.03114	1.605	Supported
H4	RS _{HRM} → MC _{OL-CAP} → satisfaction performance	0.268 × 0.188 = 0.050	0.0319	1.567	Supported
H4	TD _{HRM} → EX _{OL-CAP} → satisfaction performance	0.289 × 0.255 = 0.073	0.034999	2.085	Supported
H4	TW _{HRM} → EX _{OL-CAP} → satisfaction performance	0.226 × 0.255 = 0.057	0.030338	1.878	Supported
H4	RS _{HRM} → OE _{OL-CAP} → satisfaction performance	0.253 × 0.255 = 0.064	0.027164	2.356	Supported

Table 3.
VAF calculations

Hypothesis	Relationship	Std. Beta	Total effect (a*b + B)	VAF (I/I + D)	Decision
H4	TD _{HRM} → MC _{OL-CAP} → satisfaction performance	0.192 × 0.188 = 0.036	0.036 + 0.065 = 0.101	35.5%	Supported
H4	PM _{HRM} → MC _{OL-CAP} → satisfaction performance	0.246 × 0.188 = 0.046	0.046 + -0.142 = -0.096	Full mediation	Supported
H4	TW _{HRM} → MC _{OL-CAP} → satisfaction performance	0.266 × 0.188 = 0.050	0.050 + 0.146 = 0.196	25.5%	Supported
H4	RS _{HRM} → MC _{OL-CAP} → satisfaction performance	0.268 × 0.188 = 0.050	0.050 + 0.118 = 0.168	29.8%	Supported
H4	TD _{HRM} → EX _{OL-CAP} → satisfaction performance	0.289 × 0.255 = 0.073	0.073 + 0.065 = 0.138	52.8%	Supported
H4	TW _{HRM} → EX _{OL-CAP} → satisfaction performance	0.226 × 0.255 = 0.057	0.057 + 0.146 = 0.203	28%	Supported
H4	RS _{HRM} → EX _{OL-CAP} → satisfaction performance	0.253 × 0.255 = 0.064	0.064 + 0.118 = 0.182	35.2%	Supported

performance should note that a fair and competitive remuneration package likely motivates employees to strive harder for the organization. Nonetheless, the negative relationship between PM_{HRM} and firm performance diverges from Lukito *et al.* (2017) assertion that the association is positive. The negative association between performance management and firm performance indicates an ineffective performance management system and that employees perhaps prefer more autonomy in executing their roles. Likewise, the findings contradict Shih *et al.*'s (2006) study, which shows the association between training and bundles of HRM practices to enhance firm performance. Additionally, the findings of the HRM practices–satisfaction performance relationship differ from Tizikara and Mugizi's (2017) study that postulates that employee performance appraisal, training and promotions are essential prerequisites for satisfaction performance.

As for the HRM practices-OL-CAP relationship, the findings are generally supportive of empirical studies that have linked HRM practices to OL-CAP (Asgari and Amirnezhad, 2015; Jerez-Gómez *et al.*, 2019). While there is a dearth of research on the salient effects of each dimension, the findings correspond with a few studies in the Spanish context. For instance, Jerez-Gómez *et al.*'s (2004) study demonstrates the importance of ongoing training, team-based training and job rotation on OL-CAP. Likewise, Jerez-Gómez *et al.* (2019) stress on intensive training while Lopez *et al.* (2006) affirm on the importance of strategic training. Other HRM practices too are in line with much of the research in the area, such as team working (Lepak *et al.*, 2007), performance management (Lopez-Cabrales *et al.*, 2011), selective hiring (Lopez *et al.*, 2006; Lopez-Cabrales *et al.*, 2011) and incentive systems (Jerez-Gómez *et al.*, 2019). In the current study, for organizational learning to thrive, recruiting the right people that value teamwork seems to be significant. In the retail SMEs context, role boundaries can be obscured, and mutual support is important. Hence, positive employee attitudes and teamwork matter in fostering organizational learning.

Results for the OL-CAP-retail SME performance relationship fail to support the association between OL-CAP and economic performance. This finding diverges from the conclusions that OL-CAP is positively associated with financial performance (Akgün *et al.*, 2014; Ali and Ameer, 2017; Franco and Haase, 2009; Levinthal and March, 1993) as well as profitability and sales growth (Tippins and Sohi, 2003). The primary reason for the divergence is probably because the job resources and managerial commitment needed to enhance OL-CAP are insufficient. SMEs are likely to prioritize business sustainability rather than focusing on OL-CAP. Nonetheless, the findings on the effect of OL-CAP on satisfaction performance coincide with the findings of extant research (Dekoulou and Trivellas, 2015; Rose *et al.*, 2009), which posit that OL-CAP is positively related to job satisfaction, which in turn, translates to increased labor productivity (Jerez-Gómez *et al.*, 2019). Concisely, employees value managerial support and the opportunity to experiment, as these are pertinent factors in enhancing their satisfaction. Further, these two factors are significant mediators in the HRM practices-firm performance relationship. The results are consistent with the findings of Gong *et al.* (2009) where managerial commitment mediates the relationship. Therefore, organizations seeking to improve performance perhaps should embrace an open, innovative mindset and enhance job resources, such as autonomy and teamwork (Borst *et al.*, 2019).

Succinctly, the present study theorizes that though difficult, SMEs that “endeavor” to capture the key variables and relationships that need to be “manipulated” to create, protect and leverage “intangible assets” are more likely “to achieve superior enterprise performance and avoid zero-profit trap” (Teece, 2007, p. 1341). Through improving the human and social capital within the firm with the right practices and capabilities, firms can leverage their workforce to enhance firm performance (Gong *et al.*, 2009; Jiang *et al.*, 2012; Messersmith and Guthrie, 2010).

For SMEs, perhaps the focus should be on building HR skills, competencies and motivation in managerial-level executives rather than HR departments or systems. Generally, this study supports arguments surrounding the resource-based view and dynamic capabilities of firms and offers several theoretical and practical implications.

Implications for theory

Prior studies have consistently found a positive relationship between HRM practices and firm performance but most focused on bundles of HRM practices and large, established organizations (Bello-Pintado, 2015; Bello-Pintado and Garcés-Galdeano, 2017). In contrast to bundles of HRM practices, the current study provides an insight of the significance of standalone HRM practices in retail SMEs OL-CAP and performance. Further, this study pinpoints specifically which aspects of OL-CAP are salient for the two different dimensions of firm performance. These findings help continue to extend knowledge beyond the unidimensional concept of HRM practices and OL-CAP and divert HR studies out of large, established organizations into the retail SME context in developing economies. Many prior studies have studied different contexts and industries, such as in the chemical, education, textile, automotive and manufacturing industries (Ismail, 2012; Jerez-Gómez *et al.*, 2005b; MacDuffie, 1995; Omar *et al.*, 2019; Tortorella *et al.*, 2020).

The present study complements prior studies that establish the significance of OL-CAP on overall firm performance (Asgari and Amirnezhad, 2015; Baker and Sinkula, 1999) by suggesting the positive contribution of EX_{OL-CAP} and MC_{OL-CAP} to satisfaction performance. Additionally, it clearly demonstrates the mediating role of MC_{OL-CAP} and EX_{OL-CAP} in the association between specific aspects of HRM practices and firm performance. The results diverge from the findings of Lopez *et al.* (2005), which show the full mediation effect of OL-CAP in the relationship. Consistent with Gomes and Wojahn's (2017) study, OL-CAP may not be as crucial in determining firm performance directly. Rather, grounded on the resource-based perspective, OL-CAP is probably more effective indirectly as an enabler that engenders firm performance through enhancing learning orientation. For instance, OL-CAP mediates the relationship between HRM practices and financial performance (Asgari and Amirnezhad, 2015; Jerez-Gómez *et al.*, 2019). Moreover, generally, studies on the mediating variable as cited in Boselie *et al.* (2005) focus on employees' perceptions and experience, such as commitment (Ahmad and Schroeder, 2003), climate (Gelade and Ivery, 2003; Rogg *et al.*, 2001) and morale and employee involvement (van den Berg *et al.*, 1999). Examining each dimension of OL-CAP as the "black box" in this relationship enhances knowledge on the role of mediators.

Implications for practice

As far as SMEs are concerned, the findings suggest that rewarding employees is vital for firm performance, specifically economic performance. Indubitably, competitive rewards enhance social capital, motivating employees to put in discretionary efforts (Jiang *et al.*, 2012), which, ultimately, improves firm performance. The positive outcome of reasonable rewards probably reduces intention to leave, leading to higher productivity and better service. Nonetheless, the ability to foster teamwork and, hence, relational capital, seems to be more pertinent in enhancing satisfaction performance. Taken together, this suggests that promoting social capital may be the key to better satisfaction performance. While this study did not explicitly examine the effect of satisfaction performance on economic performance, higher satisfaction performance likely translates to better economic performance. Thus, more attention perhaps ought to be given to organizing activities that augment teamwork and rewarding effective team performance. Practitioners, however, should note that in the

SME context, training and development might not be as effective in promoting better performance directly as indicated in the current study. The turbulent economic environment and technological advancement probably mean that further knowledge exchange is necessary before employees can leverage the training received to enhance performance. The inverse association between PM_{HRM} and firm performance further implies that probably superiors are not competent in giving constructive feedback or that people are not receptive to the feedback given.

The present study further suggests that to enhance overall OL-CAP, the focus should be on better performance management as this features prominently in all aspects of OL-CAP except EX_{OL-CAP} . The reasoning behind this is constructive feedback, jointly setting performance goals and providing proper induction for new recruits would enhance collective awareness of the firm's aspirations (Senge, 1990). This ensures that all staffs have generalized knowledge regarding the company's objectives and helps employees to align individual goals with organizational goals to contribute optimally. Additionally, constructive feedback increases knowledge transfer such that the newly acquired knowledge can be applied to improve learning and performance. This internal dissemination of knowledge helps employees work on their strengths and mitigate their weaknesses. This may even motivate them to share their knowledge within the organization. Hence, continuous performance management is instrumental for promoting a culture that incorporates the acquisition, creation and transfer of knowledge within the organization. Undeniably, informed employees make better decisions, which differentiates an organization from its competitors. This enhances managerial commitment to making organizational learning a key capability that influences sustainable firm performance.

Two other HRM practices that influence all aspects of OL-CAP and can be considered to help promote OL-CAP are team working and recruitment and selection. Both practices, in particular, encourage MC_{OL-CAP} and EX_{OL-CAP} , which in turn significantly improves satisfaction performance. Getting the right people onboard and good teamwork persuade top management to support learning, which subsequently fosters knowledge sharing. Additionally, team working facilitates knowledge transfer among employees, especially in transferring tacit knowledge. Continuous regeneration, development and enrichment of individual knowledge (Senge, 1990) increase OL-CAP. Consequently, people are open to new ideas. In tandem with risk-taking, this promotes experimentation, that is, the search for innovative and flexible solutions to existing and future problems (Garvin, 1993). Training and development, in particular is pertinent for EX_{OL-CAP} , as it enhances staff learning capability. Firms may further initiate more investments in human capital development to upgrade employees' technical, innovative and social skills.

The mediating effect of OL-CAP establishes the importance of MC_{OL-CAP} and EX_{OL-CAP} in the HRM practices-firm performance relationship. While TD_{HRM} has no significant effect on firm performance, it cannot totally be ignored, as it is essential for satisfaction performance, albeit indirectly. The notion behind this is that training and development enhances human and social capital, which encourage MC_{OL-CAP} and EX_{OL-CAP} . This would likely increase productivity and strengthens the competitiveness of the firm. Similarly, performance management alone may not effectively foster firm performance; managerial support is critical. Hence, to fully leverage the effect of performance management on satisfaction performance, engendering managerial commitment is important.

Limitations and future research directions

This study offers several insights especially for the SMEs, but it also has several limitations. First, from the methodological perspective, while the sample size is not an issue, future research should consider a larger sample size to enhance generalizability of the results. Moreover, the generalizability is limited to retail SMEs and may not apply to SMEs in other sectors. Research in other sectors need to be undertaken to further understand if OL-CAP is indeed the black box linking HRM practices and firm performance. Second, although common method bias was avoided, the reliance on the same respondent to collect data for all the variables to some extent may inflate the findings. Future research should consider using multi-respondent research design or adopt multi-level methods. Third, each respondent may have interpreted the items differently, which may have confounded the results. Fourth, the cross-sectional nature of the study makes it difficult to understand the associations in the longer term. Longitudinal studies need to be undertaken to understand how these associations change over time. Fifth, as this study only considered OL-CAP as the mediator, further analysis of the black box linking HRM practices and firm performance warrants attention. Moderators such as employee feedback, managerial support and organizational culture can be introduced as well. Finally, future studies could research on HRM practices and OL-CAP that could improve firm performance in the digital economy. What is the impact of applying information technology or knowledge networks on organizational learning capabilities? Can organizations leverage digital disruption to enhance firm performance through HRM systems and OL-CAP?

Conclusion

The primary objective of this study is to offer a lens on the possible links between HRM practices, OL-CAP and firm performance in retail SMEs. Details of the findings and the implications for theory and practice are summarized in each of the sections mentioned previously. Despite a steady stream of empirical evidence since the pioneering studies, much remains contested in the context of retail SMEs. Specifically, the significance of distinctive HRM practices on retail SMEs performance in Malaysia and OL-CAP, as the mediator remains inconclusive. What can be concluded definitively from the present study is the cruciality of incentive and compensation on firm performance, in particular, economic performance. Recruitment and selection could not be dismissed either as it contributes to firm performance, while team working is salient only for satisfaction performance. The negative association between performance management and firm performance merits the attention of practitioners and needs further analysis.

Currently, there is an absence of systematic knowledge on the type of HRM practices that foster and support a strong OL-CAP among SMEs. Likewise, little is known on the extent that OL-CAP can contribute to the performance of SMEs. This study to some extent benefits the retail sector in Malaysia by highlighting the significance of specific indicators of each construct, specifically the importance of PM_{HRM} on SP_{OL-CAP} , TD_{HRM} on EX_{OL-CAP} and RS_{HRM} and TW_{HRM} on MC_{OL-CAP} . It further explicates the significance of EX_{OL-CAP} and MC_{OL-CAP} on satisfaction performance and the mediating role of these variables in the HRM practices–satisfaction performance relationship. A profound understanding of the relative importance of each factor that impacts firm performance helps retail SMEs decide what to focus on to improve firm performance. To conclude, it is hoped that the findings of this study will rekindle interest for optimal research designs in future studies to explain this particularly seminal issue.

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