

Human Resource Practices on Innovativeness and Organizational Effectiveness : The Case of SMEs in Malaysia

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ABSTRACT

Intense competition and rapid technological change in the industry environment has made the quest for competitive advantage more difficult to attain and sustain. Further, employee development has often been an area neglected for further study in small-and-medium enterprises (SMEs). As businesses face tough competition and forever changing environment, it is not a surprise if businesses implement innovation as a strategy to stay competitive and perform. Thus, issues in human resource (HR) practices such as HR policies, mentoring, training and its effects on innovations are important areas to be looked upon to ensure organizational effectiveness. This study is important because it is in-line with the high dedication on the government part on the participation of SMEs that human resource development was given priority in support of the implementation of a productivity-driven growth. Hence, this study will looked upon the issue of HR practices and its effect on the innovativeness of its employees, which could lead to organizational effectiveness.

INTRODUCTION

As businesses face tough competition and forever changing environment, to survive, businesses have to be flexible, adaptable, and responsive to these changes. As competition among firms increased, the source of competitive advantage for these firms has moved from tangible resources and market power to knowledge and know how (Quinn, 1992). As knowledge creation competency facilitate firms to respond to the changing environment conditions, then it would be pertinent to identify the ways in which it can be developed. Thus, it is not a surprise if businesses implement innovation as a strategy to stay competitive and perform. Research indicates that larger companies have more innovations and better financial performance than smaller companies (Keats & Hitt, 1998). Thus, it is rather crucial to observe the practice of small-and-medium enterprises (SMEs) in terms of its HR practices and innovativeness.

Several scholars have argued that human resources (HR) practices, which include employee development, may provide a primary role to an organization (Lado & Wilson, 1994). Employee development refers to personal and professional growth provided by the employer by providing them with training, mentoring, and making certain policy available in the organization. This is an area which has often been an area neglected particularly in small-and-medium enterprises (SMEs) even though, it has been reported that there is a positive relationship between business performance and key human resource practices in many previous studies. Past researchers also suggested that an organization should have a greater understanding of how to provide work environments that not only support employee development, but also provide an atmosphere that encourages managers to care and be concerned for their people (Tansky & Cohen, 2001).

This study is important because it is in-line with the high commitment from the government part on the participation of SMEs. The government has given priority on human resource development in support of the implementation of a productivity-driven growth, which required highly skilled, trainable and knowledge manpower equipped with technical and innovation capability and, strengthening the capacity and capability of SMEs, as well as positive attitudes and creativity. Because firms operate in a dynamic environment that requires constant innovation, such capability appears crucial for firm growth and survival.

Hence, this study examines the relationship among key HR Practices (i.e. HR policies, training, and mentoring) and its effects on innovation and organizational effectiveness.

The objective of this study is to find out:

- i. The organizations HR practices concerning its policies, training, and mentoring matters and its effect toward innovativeness.
- ii. The interrelationship amongst human resource practices which promotes employee development that drives innovations and result in organizational effectiveness.

HUMAN RESOURCE PRACTISES

Organizations today face many conflicting problems that must be balanced in order to compete successfully in the world economy. Tansky & Cohen (2001) suggested that organizations must continually improve performance by reducing costs, innovating processes and products, and improving quality and productivity. In the past, various arguments have been made that the firm's human resources may be its sole source of sustainable competitive advantage. From a SME perspective, Brand and Bax (2002) expressed that the study of human resource management is relevant for several reasons. First, it is observed that SMEs consider their human resource management problems to have top priority. Second, human resource management is of special interest to SMEs because for these firms human resources play a vital role in developing and sustaining competitive advantage. SMEs are relatively labor intensive. As such, each individual employee represents a substantive part of the SME's workforce. In addition, Massey (2004) stated that governments around the world are increasingly focusing on initiatives that encourage business improvement and build "firm capability". A particular target of such initiatives has been the small and medium enterprise (SME) sector.

One of the human resource practices that may offer a competitive advantage is continuous learning for all employees so that they can adapt, and in turn, perform. Wilkinson (1999) expressed that firms may be diverse in terms of management style as well as in many other aspects of their operation. Smaller firms hardly contemplate formalizing their working strategies, still less integrating human resource development plans into them. This is partly the result of a lack of resources and the absence of specialist personnel as well as the view that people management is not a technical matter requiring specialists. Thus, it is rather pertinent that the concept of human resource practices to be looked upon to ensure that the growth of the SMEs are fostered.

In the context of SMEs and human resource development, Massey (2004) argued that there is a positive relationship between organizational effectiveness and key human resource practices such as incentive pay, employee training and development, recruitment and selection, compensation, industrial relations, and performance appraisals. In addition, Zey (1988) has suggested that mentoring has been used as part of HR practices as a device to foster the development of employees. All these key elements have been identified as best practices that are positively correlated to lower employee turnover, greater employee productivity and better overall firm performance. Today, human resource management and its practices is considered key elements of successful innovation, since the human element is involved in the whole innovation process. (Jiménez-Jiménez & Sanz-Valle, 2005)

For the purpose of this study, rather than looking at bundles of HR practices, only three key elements of HR practices will be focused upon which are human resource policies, mentoring and coaching, and training and development. The assumption underlying this body of research is that HR practices themselves do not create competitive advantages; rather, the practices are thought to lead to the development of organizational capabilities (i.e. innovativeness) which in turn elicit competitive advantages (Lado & Wilson, 1994) and organizational effectiveness.

Human Resource Policies

The impact of human resource management policies on firm performance is an important topic in the fields of human resource management, industrial relations, and industrial and organizational psychology (Boudreau, 1991; Kleiner, 1990). There is also emerging consensus that HR practices and policies influence firm performance through their impact on firm capabilities (Becker & Huselid, 1998; Wright & Snell, 1998).

Beaver and Hutchings (2005) stated that human resource development encompasses the broad set of activities that improve the performance of individuals and the organizations. Jones & Wright (1992) claimed that comprehensive human resource policies such as a highly organized selection and recruitment procedures, performance management systems, extensive employee involvement, can indeed improve knowledge, skills, and abilities of a firm's current and potential employees. One of the human resource practices that can be used to effect employee innovation is by encouraging them to work harder and smarter, by the use of performance appraisals. By linking appraisals to the incentive compensation systems, employees' effort to improve performance will be enhanced. Further, in terms of recruitment, candidates with specialize knowledge, skills, and abilities (KSAs) command a premium in the labor market, thus, above-market starting salaries and other recruitment inducements (e.g.

bonuses) can attract higher levels human capital to the organization (Snell & Dean, 1992). This will by some means increase the innovative aspect of an organization.

According to Huselid (1995), HR practices, which include its policies, affect employee skills through the acquisition and development of a firm's human capital. Appropriate recruiting procedures as well as providing formal and informal training experiences, such as on-the-job experience, coaching, mentoring, and management development, can further influence employees' development. This could have a large impact on an employee's innovativeness later on. Mazzarol (2003) emphasized that as a firm grows and its employee numbers increase the complexity of its HR practices deepens. The owner-manager is usually burdened with a variety of HR functions for which he/she is at times poorly equipped. Hence, an appropriate HR policies needs to guide the management and its employees, particularly in increasing their innovative aspects. Empirical research studies of small firms suggest a positive relationship may exist between effective HR policies and successful business performance, which results from organizational effectiveness.

Mentoring and Coaching

According to Tansky & Cohen (2001), employee development refers to the long-term personal and professional growth of individuals. Managers who coach, counsel, and mentor their employees can enhance their skills, motivation, and consequently innovativeness. Mentoring has been the focus of much research over the past decade. Comparisons of non-mentored and mentored individuals resulted in consistent findings. That is, individuals with informal mentors report greater career satisfaction (Fagenson, 1989) career commitment (Colarelli & Bishop, 1990), and career mobility (Scandura, 1992) It seems that individuals are also more positive in their attitude towards their jobs (Dreher & Ash, 1990; Koberg, Boss, Chappell, & Ringer, 1994) and these are the supporting backbone of wanting to be innovative. Additionally, Ragins, Cotton, & Miller (2000) found that non-mentored individuals reported significantly less job satisfaction, less satisfaction with opportunities for promotion, lower organizational and career commitment, and lower organizational-based self-esteem.

Mattacks (2004) stated that the term "mentoring" has become synonymous with a broad and deep influence from a senior, more experienced and wise individual to another, younger, protégé. The purpose of mentoring is to share wisdom gained from experience and learning. It is distinguished from advising, counseling, coaching, and training. Tansky & Cohen, (2001) also mentioned that coaching has been connected with mentoring and employee development in the literature. Coaching is a form of supportive communication that is a necessary skill for managers who are acting as developers for their subordinates. Thus, leaders should play a key role in establishing an environment that fosters innovation. Many international organizations have used the concept of mentoring to make innovation work (Donlon, 2006; Cutler, 2003).

Additionally, Lidewey (2004) suggested that in the work environment, managerial support for learning and innovation is also potentially influential. Therefore, implementing and developing the innovation process requires effort to overcome the resistance to change. Thus, it is essential that visionary and committed leadership provide the energy to overcome this resistance. Interventions from the top management are needed to conduct formal mentoring systems, indicating the matching mentors and their proteges. Leaders in an innovative role must be competent and knowledgeable about their work, and must also excel at inspiring employees. (Humphreys, McAdam, Leckey, 2005). On the present day, many organizations have attempted to replicate the benefits of the informal mentoring by developing formal mentoring programs (Burke & McKeen, 1989).

Further, Scandura et al. (1996) stated that gains for the organization can be added to the equation in favor of mentoring relationships. Simply put, mentoring creates a three-way reciprocal context. For example, the mentor gives, the protégé gets, and the organization benefits. The mentoring relationship enhances the protégé's contribution to the organization, the organization benefits. Therefore, overall organizational effectiveness should, therefore, improve.

Training & Development

Internal and external pressures of changes in the business environment require both public and private sector organizations to become more market-responsive and customer oriented. It is also essential to develop a good service quality program for the employee, which in turn will affect organizational effectiveness. According to Gibb (2002), learning in the workplace is a focus of much analysis. Beaver and Hutchings (2005) also expressed that it has identified the desirability of a vibrant

SME sector acts as a means of reducing unemployment, promoting flexibility and innovation and improving the health of the economy. SMEs have often ignored the central value of their human resources as core assets for securing and maintaining competitive advantage. Thus, training is indeed crucial for the development of employees, which is bound to effect organizational effectiveness and its performance.

Kinicki et al. (1992) found that the link between actual HR practices and work attitudes were mediated by perceptions of the organization's commitment to the human resource activities that benefits employees. Training offers many benefits to employees and to the organization as a whole. Employees become more confident, open to change and motivated to achieve improved performance as a result of training (Donovan et al., 2001). In addition, senior management's role is to provide leadership for the training program to allow positive improvements in the quality of performance of the employees and to support innovation among employees. Russell, Terborg, & Powers (1985) demonstrated a link between the adoption of employee training programs and financial performance, which result from the effectiveness of the organization.

Firms should strive to improve human capital by directly increase the education and experience of its employees by providing in-house training (Collins, Smith, & Stevens, 2001). A formal training at the workplace itself could foster networking practices where employees from various departments could interact. Employees are better able to combine and exchange information in ways that support innovation if they also have connections to widely dispersed individuals and work units (Nahapiet & Ghoshal, 1998). Employees could be more exposed to new information when they work and are train in cross-functional teams. This again would cultivate the culture of innovativeness among employees.

Additionally, Roffe (1999) believed that information is important not only for oneself, but also, through its application and impact of training programs, for others. The explosion is propelled by the demands of increasingly competitive markets and the needs of organizations to improve their competitive advantage in these markets. In response, companies can reduce costs, improve quality, increase productivity, and effect innovation.

INNOVATIVENESS

In an era of globalization, deregulation, increasing competition, new technologies and e-commerce, organizations are finding it harder to compete. In this dynamic and changing environment, one way to create growth and sustain performance is to innovate. One way to achieve growth and sustain performance is to foster and encourage creativity and innovative practices internally within the organization. (Cottam, Ensor, & Band, 2001). Innovation is a process, which covers the use of knowledge or any relevant information for creation an introduction of something that is new and useful. Innovativeness is the notion of openness to new ideas as an aspect of a firm's culture; a measure of the organization's orientation toward innovation (Hurley & Hult, 1998).

Becker (1964) proposed that a firm's human capital, which are the stock of knowledge, skills, and abilities (KSAs) of its workforce, enables it to innovate. This knowledge creation capability is the ability of a firm to develop new ideas and understandings on a continual basis (Collins, Smith & Stevens, 2001). According to Humphreys, McAdam, & Leckey (2005), increased internationalization has encouraged some SMEs to operate in more competitive global markets where continuous innovation is a prerequisite. Effective innovation must involve all areas of an SME with the potential to affect every discipline and process. Agarwal, Erramilli, & Dev (2003) emphasized that innovation is the key to survival of most firms.

Central to the resource based view of the firm is the idea that a firm's profitability stems from its ownership and control of assets. Innovation is contingent on a wide variety of factors including managerial cognition and decision making. (Rodan, May 2002). O'Regan & Ghobadian (2005) illustrated that innovation is defined by "implementing new ideas that create value." This generic description refers to the various forms that innovation can take such as product development, the deployment of new process technologies or innovative management practices. From a practitioner perspective, this means the adoption of new products and/or processes to increase competitiveness and overall profitability.

Knowledge creation capability enables firms to more effectively respond to dynamic market conditions. Thus, it is of vital importance to identify how it can be developed (Grant, 1996; Nahapiet & Ghoshal, 1998). As mentioned in the above paragraphs, organizations with higher levels of human

capital may be better equipped to create new knowledge because they can be more creative and innovative. Hence, the level of human capital can be increased by providing the appropriate HR practices (i.e. HR policies, mentoring & coaching, training & development). Furthermore, properly designed organizational controls provide clear insights to employees regarding behaviors that enhance the firm's competitiveness and overall organizational effectiveness. (Yao-Sheng Liao, 2006)

It must be noted that highly innovative companies were also reported to have an open, multi-functional and multi-level team-based style of working, empowered employees at all levels and chief executives who demonstrated a strong personal commitment to innovation (Andy Neely, Filippini et al., 2001). Therefore the firm's capacity to innovate is a fundamental driver when considering innovation management, especially when the former is imperfectly imitable by competitors.

ORGANIZATIONAL EFFECTIVENESS

At the heart of an organizational performance lies the relationship between employee development, innovations and its effect on performance. Today, firms are facing a competitive and continuously changing situation. In this context the performance, and even the survival, of firms depend more than ever on their ability to achieve a solid and competitive position and on their flexibility, adaptability, and responsiveness. Therefore, it is hardly surprising that there is growing interest in innovation as a strategy that allows the firm to improve its flexibility, competitive position, and performance. (Jiménez-Jiménez, Sanz-Valle, 2005).

Organization needs differentiation and integration to be successful in turbulent environment. The term integration encompasses cooperation and coordination which explains the mentoring and training aspects of HR practices and how these could improve organizational effectiveness. A balance in HR policies could also affect the performance of an organization. Stavrou-Costea (2002) found that human resource management practices and systems have been linked to organizational competitiveness, increased productivity, higher quality of work life, and greater profitability.

The role of human resource management and its practices must become strategic instead of operational, aligning the human resource function with the strategic needs of the organization. Among such practices, Stavrou-Costea (2002) expressed that training and development are of primary importance. Apart from arming employees with the necessary abilities to perform well at their current and future tasks, training, with the help of mentoring, also offers opportunities for employees to share many experiences and develop an understanding and helping attitude towards each other. HR policies, mentoring and coaching, training and development enriches human resources with high productivity; such a workforce fits the meaning of resource-based competitive advantage. Thus, it adds value to the organization, thus helping to acquire a source of sustainable advantage in today's competitive markets.

Further, HR practices that demonstrate long-term investment in employees were significantly related to the facilitation of exchange and combination of knowledge, i.e. innovation (Collins & Smith, 2006). Relationships between human resources and innovation strategies are suggested in a variety of studies. According to Cheng & Chun (2005), a company is a combination of resources and capabilities. When these resources are unique, valuable, rare, and hard to imitate, appropriate usage of these resources will contribute to maintain a competitive advantage for the business. Thus, innovativeness is an important contributor to achieve superior performance, entrepreneurial orientation, and increased in profitability, i.e. organizational effectiveness.

Companies pursuing an innovation strategy need creative and innovative employees, to maintain contact with customers. Given that entrepreneurial strategy is defined by agility, creativity and continuous innovation, it follows that stronger human resources will be associated with innovation strategies. Hence, in small firms, where top managers are responsible for strategy, it follows that human capital will be related to innovation strategies (Edelman, Brush, & Manolova, 2002) and later, its effect on organizational effectiveness (Lyon & Walter, 2002).

RESEARCH METHODOLOGY

Research Hypothesis

In line with the issues derived from the literature review, the following hypotheses were developed :

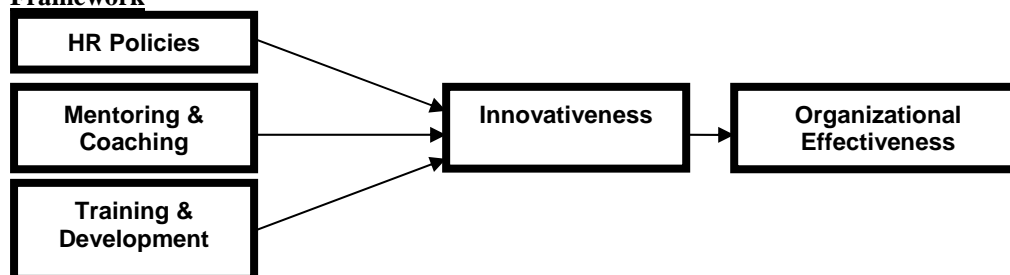
H₁: There is a positive relationship between HR policies and Innovation

H₂: There is a positive relationship between Mentoring & Coaching and Innovation

H₃: There is a positive relationship between Training & Development and Innovation

H₄: There is a positive relationship between Innovation and Organizational Effectiveness

Framework



Research Methods

Data Collection

Primary data was used for data collection. Questionnaire was sent to the members of SMEs directory of Bank Negara Malaysia (BNM) through email format. The target respondent is one (1) employee per each company. Due to time constraint, the questionnaire was only sent to about 2000 members of SMEs in the BNM directory concentrated on negeri Pulau Pinang (representing the North region), negeri Selangor and Wilayah Persekutuan (representing the Central region) and negeri Johor (representing the South region). This questionnaire response was on voluntarily basis and each questionnaire was filled up anonymously.

Research Instrument

The questionnaire was divided into two sections, where Section One was designed to measure the demographic profiling which concentrates on respondent's background which center on company and respondent state of affairs, in terms of its paid-up capital, annual sales turnover, number of years of establishment and its number of employees. Section Two contains of three (3) parts, namely, Human Resource Practices (Part I), which includes questions on human resource policies, mentoring and coaching, training and development, Innovations (Part II), and Organizational Effectiveness (Part III). The questionnaires applied seven-point Likert scale to attain the quantitative responses. A Scale of rating scale was used for the questionnaires data-entry in the statistical tool from 1 being "Strongly Disagree" to 7 being "Strongly Agree." The statistical tool of SPSS version 13.0 for Windows was used for data analysis, using methods such as data screening, descriptive statistics, reliability test, correlation analysis.

RESULTS

Profile Of Respondents'

According to the survey, based on 120 respondents analyzed, 70.8% respondents were from the service industry whereas only 29.2% were from manufacturing sector. Most of the companies (77.5%) have established more than 5 years. About 30.8% of companies have the paid-up capital of less than RM500,000. About 32.5% of the respondent's companies have annual sales turnover of between RM200,000 to RM1 million. About 33.3% of the companies have employees between 5 to 19 people. Most of the respondents 40.8% of the respondents are executive level and most of them have worked for the same company for more than 5 years (41.7%).

Reliability Test

Each of the questionnaire scale underwent reliability test. And as a result, a Cronbach's Alpha value of 0.802 was gathered. Overall, the data is reliable.

Correlation Analysis

Relationship between HR Policies (H₁), Mentoring & Coaching (H₂) Training & Development (H₃) and Innovation

The data in Table 1 revealed :

- HR policies are positively correlated with innovation ($r=0.458$, $p<0.01$). Thus, H₁ accepted.

- Mentoring & coaching are positively and highly correlated with innovation ($r=0.726$, $p<0.01$). Thus, H_2 accepted.
- Training & development is positively and highly correlated with innovation ($r=0.610$, $p>0.01$). Thus, H_3 accepted.

Relationship between Innovation and Organizational Effectiveness

The results in Table 1 found that innovation is positively correlated with organizational effectiveness ($r=0.379$, $p>0.01$). Hence, H_4 accepted.

Table 1: Correlation (r) Matrix between Independent Variables with Dependent Variable tested

Variables	HRp	M & C	T & D	Innov	OrgE
HR policies	1.000	0.623	0.436	0.458	0.230
M & C	0.623	1.000	0.657	0.726	0.460
T & D	0.436	0.657	1.000	0.610	0.443
Innovation	0.458	0.726	0.610	1.000	0.379

Acronym:-HRp – HR policies; M & C – Mentoring & Coaching; T & D – Training & Development; Innov – Innovation; OrgE – Organizational Effectiveness

CONCLUSION & MANAGERIAL IMPLICATIONS

Intense competition and rapid technological change in the industry environment has made the quest for competitive advantage more difficult and has called for much innovation in today's globalized world. SMEs are all competing mainly on one major aspect, innovation. From this study, we can see that mentoring & coaching and training & development play an important role in innovativeness. Thus, the findings confirmed the objective of this study, which is, to certain degree, organizations do implement employee development especially in mentoring & coaching, training & development as well as human resource policies to see that innovations take place. It is a managers' main task to make sure this intention can be fulfilled through the facilitation of the company to encourage learning, leads to innovations and translate into business wealth.

With the aim of achieving excellent employee development, innovation and organizational effectiveness are two crucial factors to be recognized by the employers and/or the management. Training helps to expand skills and knowledge by providing the necessary skills. Training can range for internal to external which includes on-the-job training, coaching and mentoring or any other kinds of training available. Eventually, these will improve employees' productivity and ultimately increase organizational effectiveness. Further, mentoring & coaching are also important elements to promote business development in the nuts and bolts of how to perform work better. In the essence, the managers ought to teach or coach their employees. Coaching acts as an intermediary to work better and improve performance. Proper guidance must be in place by showing of examples. On top of that, clear directives should be made available to the employees to accomplish such goals.

Creativity should be the lifeblood of any organization. This leads to an innovative environment, which consecutively leads to competitive advantage. Human resource practices should enhance flexibility in managing task allocation, training and remuneration to facilitate productivity so much so that this can improve competitiveness and boost individual commitment towards their work. The concept of innovativeness need to be exploited within the organization to gain better organizational performance. The only possibility of such outcome in SMEs is that maybe the seriousness of innovation strategy is not in place. Even if it is in place, it is not taken seriously, hence, becoming ineffective in its outcome. The human capital notion is one theoretical perspective that SMEs' managers need to look into in order to enhance their business performance. The elements of employee development play an important role in innovation and organizational effectiveness. However, the role of innovation in Malaysia is still vague, which should not be the case in the future, in order to survive in the era of globalization and forever dynamic business environment.

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