Impacting Human Resource Quality on Business Operation Performance: A Case Study at Small and Medium Enterprises in Vietnam

Lu Phi Nga¹, Phan Thanh Tam²

Abstract

In Vietnam, small and medium enterprises account for 95% of the total enterprises and are considered essential to economic restructuring, industrialization, and modernization. The development of this type of enterprise makes a necessary contribution to gross national income and economic growth and solves many social problems. However, the competitiveness of this business sector is still minimal, mainly due to the low quality of human resources. Thus, the article aims to explore the key factors affecting human resource quality and its impact on business operation performance. The article applied structural equation modeling and data surveying from 900 employees working for SMEs. Finally, seven factors affected the human resource quality and its impact on business operation performance with a level of 1%. The authors proposed managerial implications to enhance human resource quality for many sides: managers, business leaders, local authorities, and the Government.

Keywords: Human Resources, Quality, Business, Operation Performance, Small and Medium Enterprises.

1. INTRODUCTION

In recent years, small and medium enterprises (SMEs) have contributed over 45% of GDP, attracted over 60% of the total number of employees, and accounted for 20.26% of the total state budget revenue. Thus, SMEs participate in many aspects, from contributing to the state budget and providing consumer goods to creating jobs, reducing social evils, and significantly contributing to the country’s development. Besides, the stability and development of SMEs will affect and determine the overall strength and effect of the country. Therefore, businesses and SMEs must be fully prepared for this process when the country integrates more profoundly and comprehensively into the region and internationally (Zhang & Edgar, 2021; Katou, 2017).

In the context of globalization today, it is required that directors of enterprises not only have professional qualifications and good corporate governance ability but also require them to have the ability to be agile, promptly grasp the needs of the market, have enough skills in management, foreign languages, informatics, understanding of cultures, customs, and traditions of countries around the world. Besides, SMEs mostly come up from family

¹ Doctor of Philosophy in Banking and Finance, Vice Dean of Faculty of Postgraduate Studies, Lac Hong University (LHU), Vietnam, E-mail: phinga@lhu.edu.vn; Orcid: https://orcid.org/0009-0009-5314-3658
² Doctor of Philosophy in Banking and Finance, Lecturer of Faculty of Postgraduate Studies, Lac Hong University (LHU), Vietnam, Corresponding Author E-mail: tampt@lhu.edu.vn; Orcid: https://orcid.org/0000-0003-2387-7756
production models, small individuals. When business opportunities exist, they set up businesses and become directors; another part follows the hereditary way.

This human resource management capacity poses significant challenges and limitations for SMEs in the context of the country’s deeper integration into the world economy. The lack of capital outdated scientific and technical qualifications, poor business administration ability, limited ability to enter joint ventures, associations, market expansion, inflexibility to adapt to crises, and shallow quality human resources. In fact, very few SMEs currently have long-term human resource planning. According to statistics, up to 85% of the total enterprises forecast demand based on the number of workers to be replaced; only about 15% are based on changes in science, technology, need for products and services, and capital scale.

However, this form is mainly applied in medium enterprises because SMEs' human resources are often small, so the advantage is recruitment through training institutions, and the mass media is not much. According to statistics, 25% of enterprises recruit through mass media; this figure is low compared to developed countries and some countries in the region. As for recruitment, each SME chooses its own recruitment method, but in general, it is done through the following steps: receiving applications and researching, selecting qualified candidates for an interview accepted into a probationary period of 3-6 months, after which the enterprise will sign an official contract (Riana et al., 2020; Alavi, 2016).

In addition, practice shows that for many SMEs, due to their low level of awareness and management, evaluating the selection process's effectiveness is only carried out by about a quarter of the SMEs. Most SMEs use the scoring method; however, the evaluation criteria are often subjective and not based on the job description. In general, the quality of human resources in Vietnam's SMEs is still low, unable to meet the needs of international economic integration and the current requirements for the use of human resources. Therefore, this study has recommendations for enhancing the human resource quality of small and medium enterprises.

2. LITERATURE REVIEW

2.1 Concept of Human Resource Quality (HRQ)

Human resources quality is understood as a specific state of human resources comprising factors such as capacity, physical strength, attitude, and behavior. Fitness is the health and physicality of employees; this is the fundamental element of knowledge transmission. Competency is professional qualifications, knowledge, and skills, which are decisive factors for the quality of human resources (AL-Kasasbeh et al., 2016; Allen et al., 2013). Behavioral attitude is the working attitude, working psychology, and ability to work under pressure; this is the dominant factor in transforming physical and mental activities into practice, contributing to improving work efficiency, increasing the labor productivity of the enterprise and the operational efficiency of the enterprise (Foss et al., 2015; Jiang et al., 2012; Stavrou et al., 2010). The quality of human resources is all the characteristics that reflect the nature and specificity related to human production and development activities.

2.1.1 Leadership Style (LES)

Leadership style is the way and the way forward a leader's approach to setting goals, implementing plans, and motivating employees to achieve organizational goals. Leadership style can also be understood as how a manager functions and treats employees (Astuti & Yasa, 2018; Galende & Curado, 2021). Studies on leadership styles have appeared since the 30s of the last centuries. There are many schools and many approaches to leadership style. The most common procedures include a strategy for individual
characteristics/qualities; a behavioral approach; a situational approach; comprehensive leadership style model. The holistic leadership model approach is popular and well-received and is the interest of a lot of recent research (Den et al., 2013; Georgiadis & Pitelis, 2012). The right leadership style will promote the organization's development, which is a good condition for the members to become more and more perfect in thinking, skills, qualifications, qualities, and capabilities. Thus, the authors proposed H1: The leadership style positively impacts human resource quality at SMEs.

2.1.2. Training and Developing Human Resources (TDH)

Human resource training and development is believed to be a factor that positively affects the quality of human resources Gallego-Nicholls et al. (2022) argued that the training program of the enterprise is a factor that affects the human resource development strategy. An appropriate training program will determine the quality of human resources, labor productivity, and efficiency, thereby affecting enterprises' performance. Or the study of Farouk et al. (2016) on the practice of human resource management in enterprises showed that employee training is the decisive factor in the effectiveness of human resource management in insurance companies. In fact, to improve the quality of human resources, businesses need to pay attention to human resource development training, such as on-the-job training or sending to study to enhance professional qualifications (Zhou et al., 2013). Thus, the authors proposed hypothesis H2: The training and development of human resources positively impact human resource quality at SMEs.

2.1.3. Benefits and Remuneration Policy (BRP)

Benefits and remuneration policy is one of the policies that business managers care about, which will determine the quality of human resources, labor productivity, and business performance. This result is shown by Gallego-Nicholls et al. (2022) on the quality of human resources of enterprises; the research shows that enterprises' benefits and remuneration policies positively influence the quality of human resources power of businesses. Enterprises with good remuneration policies retained employees, be attached to the business, make more efforts to improve themselves, perform better at work, and help improve the enterprise's business performance (Lai et al., 2017). Thus, the authors proposed hypothesis H3: The benefits and remuneration policy positively impact human resource quality at SMEs.

2.1.4. Policy to Encourage Employees (PEE)

The policy to encourage employees is one of the human resource management policies. Studies show that the approach to encourage employees is to impact the quality of human resources and motivate employees in the working process. These incentive policies do employees get from self-development or not self-development. If employees do well, they will be rewarded financially, but if they do not, they will be penalized with salary deductions, so employees must improve themselves (Mallén et al., 2016; Anwar & Abdullah, 2021). Therefore, policies to encourage employees impact the quality of human resources. Thus, the authors proposed hypothesis H4: The policy to encourage employees positively impacts human resource quality at SMEs.

2.1.5. Leader's Support (SUP)

A leader's support is said to be the leader who provides staff support to further study by supporting tuition fees and creating the best learning conditions. The leader's support for advanced learning depends on the leadership style of each leader. The leader's support for employees with advanced knowledge ultimately depends on the leader's style, and this support will help employees. Students will be more active in advanced learning, thereby improving the quality of human resources (Saridakis & Cooper, 2017). Thus, the authors proposed hypothesis H5: The leader's support positively impacts human resource quality at SMEs.
57 Impacting Human Resource Quality on Business Operation Performance: A Case Study at Small and Medium Enterprises in Vietnam

2.1.6. Organizational Culture (CUL)

Organizational culture is said to be the perceptions and lifestyles of an organization's members towards inside and outside the organization. As confirmed, corporate culture affects an enterprise's human resources quality (Shaw et al., 2013; Wongsansukcharoen & Thaweepaiboontong, 2023). Team spirit, solidarity in the organization, the support of managers for interested employees, and members who want to connect with the organization will make them strive to improve themselves, enhancing the quality of the organization's human resources. Thus, the authors proposed hypothesis H6: The organizational culture positively impacts human resource quality at SMEs.

2.1.7. Working Environment (WE)

The working environment is the physical and mental conditions in a good organization. Good working environment conditions will affect the operational efficiency of the enterprise; good working conditions will make employees more engaged with the enterprise; employees want to work at the enterprise and make efforts self-improvement, thereby improving the quality of human resources (Akong'o Dimba & Rugimba, 2010). Thus, the authors proposed hypothesis H7: The Working environment positively impacts human resource quality at SMEs.

2.2. Business Operation Performance (BOP)

Business operation performance includes financial and non-financial metrics that reflect information on how well an organization has achieved its results and goals over a given period. Business results are financial and non-financial metrics an enterprise uses to measure how well its results and objectives have been achieved over a specified period (Alfes et al., 2012; Sheehan, 2014). The performance of enterprises is evaluated through operating results and market results. (1) Market results (MR): Includes indicators related to total sales, sales growth, market share, competitive position, and overall business performance. (2) Operational results (OP): Including indicators on the rate of return on total assets, rate of return on sales, profitability, increase in total assets, and employee morale. Thus, the authors proposed hypotheses H8 and H9: Human resource quality positively impacts business operation performance at SMEs.

![Figure 1: A research model for critical factors affecting business operation performance based on human resource quality](image)

Source: The authors proposed
3. RESEARCH METHOD

3.1. Qualitative Research

The qualitative research method is used through the expert method, in-depth interview method in the model-building phase, scale, and discussion of research results. Expert method: This method aims to check the appropriateness of the proposed research model and the scale and confirm the suitability of the research results. This method works in two stages: Model building and questionnaire design. When the results of the data analysis are available, discuss the research findings.

Interviewees: including 11 people, of which 6 are human resource managers of large companies, 5 are lecturers of human resource management. Interview time: interview for the first phase around 9/2022. Interview method: Face-to-face. Interview content: Based on an overview of human resource management theories and factors affecting human resources' quality, the authors have proposed a model and background theory used for research and development consult experts on these topics.

3.2. Quantitative Methods

This method aims to quantify the relationships between the variables in the research model and test the research hypothesis. The official questionnaire has been set up, and the authors conducted a survey to collect analytical data to indicate the factors that affect the quality of human resources of SMEs in Vietnam. Select survey sample: Sampling method: convenience method.

The survey subjects are public officials and employees working in small and medium-sized enterprises in 9 major cities and provinces of Vietnam. These provinces have many small and medium-sized enterprises accounting for over 60%. The provinces include Can Tho, Ho Chi Minh, Hai Phong, Da Nang, Hanoi, Dong Nai, Binh Duong, Ba Ria - Vung Tau, and Long An province. Regarding the scope of the survey: survey the officers and employees currently working in small and medium enterprises. How to distribute the survey: do 1 of 2 ways: (1) Method 1: send the link to answer the ballot via email. (2) Method 2: Direct survey at the home or office of the surveyed person.

Sample size: The reliability of the research results will depend on the selected sample size. According to the sampling point of view of Hair et al. (2021), for the analysis to be reliable enough, the sample size should follow the formula: \( n > 8m + 50 \) (where: \( n \) is the minimum sample size, \( m \) is the number of scales of the model). This research model includes 7 independent and 2 dependent variables with 37 scales, so the minimum sample size must be 185. To ensure the research results, the authors have surveyed 900 employees in each province and 100 people interviewed from 50 small and medium enterprises in each province.


Finally, the authors use SPSS 20.0, Amos software to process and analyze quantitative data such as Cronbach's Alpha coefficient, exploratory factor analysis (EFA), analyzing confirmatory factor analysis (CFA) correlation analysis, and structural equation modeling (SEM).

4. RESULTS

4.1. The situation of Human Resource Quality in Small and Medium Enterprises

Vietnam's small and medium enterprises are the majority of enterprises and play an essential role in creating jobs and increasing worker incomes. Every year, these businesses generate more than 500,000 employees, employ up to 50% of social workers.
and contribute more than 40% of the country’s GDP. Owners of small and medium-sized businesses are often engineers or technicians who set up and operate their own businesses, they are both managers and directly involved in the production, so the level of expertise in business management career is not high; SMEs need to pay attention to some issues of human resource management to meet the inevitable trend of society.

First, most Vietnamese SMEs construct job analyses, especially those with a size of 50 employees or more. Each enterprise has its own draft job description templates. However, job analysis is only conducted when there is a vacancy in the enterprise. Vietnamese SMEs also do not provide a process or an assessment. This work is mainly done by an individual, then signed by the head of that department and sent to the human resources department.

Secondly, there are very few SMEs that make long-term human resource planning. According to statistics, up to 85% of the total enterprises forecast demand based on the number of workers to be replaced; only about 15% are based on changes in science, technology, demand products and services, and capital scale... In addition, the determination of excess or shortage of labor is determined by each department based on the current workload without the participation of the human resources department. Many Vietnamese SME owners also identify short-term human resource needs or even just based on the present time to make decisions. Only enterprises with a size of 50 - 300 employees are still interested and set out human resource strategies, but these strategies are still very sketchy.

Thirdly, requiring digital technology with AI, IoT, and Big data requires high-quality human resources. Enterprises can only take advantage of the opportunities the 4.0 technology era brings when they have high-quality human resources. However, in SMEs, most recruitment is through acquaintances' introduction; recruitment through job placement organizations is still very modest. Information from training institutions and the mass media ensures that businesses hire the right people for the right jobs. This form is mainly applied in enterprises with 50 employees or more, in which recruitment announcements are made via the Internet and newspapers. In fact, due to the low level of awareness and management, many SMEs often end the recruitment process without knowing the effectiveness of this recruitment round after implementing the recruitment process.

Fourthly, the issue of evaluating SMEs using the scoring method; however, the evaluation criteria are often subjective and not based on the job description. Currently, the assessment of superiors by employees is something very few businesses apply. This will reduce the objectivity in the evaluation, making many managers unwilling to learn and innovate themselves.

Finally, most SMEs do not have a training and development strategy associated with the specific vision and goals of the enterprise. Another fact is that many Vietnamese enterprises are only interested in training senior managers and experts. As for the training of technicians and workers, the main form of exercise is self-training, or workers must improve their skills by themselves.

4.2. Testing Structural Equation Modeling (SEM)

4.2.1. Testing Cronbach’s alpha for Factors Affecting Human Resource Quality

<table>
<thead>
<tr>
<th>Code</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Cronbach's Alpha</th>
<th>Cronbach's Alpha if Item Deleted</th>
</tr>
</thead>
<tbody>
<tr>
<td>LES1</td>
<td>3.0701</td>
<td>0.97707</td>
<td>0.967</td>
<td>0.945</td>
</tr>
<tr>
<td>LES2</td>
<td>3.0511</td>
<td>0.99631</td>
<td></td>
<td>0.967</td>
</tr>
<tr>
<td>LES3</td>
<td>3.0819</td>
<td>0.96511</td>
<td></td>
<td>0.963</td>
</tr>
</tbody>
</table>
Table 1 shows that leadership style (LES) has Cronbach’s Alpha of 0.967, and operational results (OR) has Cronbach's Alpha of 0.840. Besides, all of Cronbach’s Alpha coefficients were greater than 0.8 acceptable.

4.2.2. Testing Confirmatory Factor Analysis (CFA) and SEM

Based on data collected from 842 valid survey questionnaires from 900 votes, in which men 37.6%; women 62.4%, respondents include seniors, middle, and staff.
Figure 2: Testing research model for factors affecting human resource quality

Source: Authors collected and processed from SPSS 20.0, Amos

Figure 2 shows six key factors affecting human resource quality with a significance level sig. < 0.01. Model index: CMIN/DF = 3.715 (<5.0), GFI = 0.881 (>0.800), TLI = 0.940 (>0.900), CFI = 0.948 (>0.900) and RMSEA = 0.057 (<0.08).

Table 2: Testing standardized estimate for factors affecting human resource quality

<table>
<thead>
<tr>
<th>Relationships</th>
<th>Standardized estimate</th>
<th>S.E</th>
<th>C.R</th>
<th>P</th>
<th>SE-Bias</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>HRQ &lt;-- LES</td>
<td>0.097</td>
<td>0.025</td>
<td>3.502</td>
<td>***</td>
<td>0.001</td>
<td>Accepted</td>
</tr>
<tr>
<td>HRQ &lt;-- TDH</td>
<td>0.171</td>
<td>0.033</td>
<td>5.465</td>
<td>***</td>
<td>0.003</td>
<td>Accepted</td>
</tr>
<tr>
<td>HRQ &lt;-- BRP</td>
<td>0.096</td>
<td>0.026</td>
<td>3.385</td>
<td>***</td>
<td>0.002</td>
<td>Accepted</td>
</tr>
<tr>
<td>HRQ &lt;-- PEE</td>
<td>0.554</td>
<td>0.030</td>
<td>18.174</td>
<td>***</td>
<td>0.002</td>
<td>Accepted</td>
</tr>
<tr>
<td>HRQ &lt;-- SUP</td>
<td>0.106</td>
<td>0.028</td>
<td>3.665</td>
<td>***</td>
<td>0.003</td>
<td>Accepted</td>
</tr>
<tr>
<td>HRQ &lt;-- CUL</td>
<td>0.089</td>
<td>0.053</td>
<td>3.996</td>
<td>***</td>
<td>0.004</td>
<td>Accepted</td>
</tr>
<tr>
<td>HRQ &lt;-- WE</td>
<td>0.086</td>
<td>0.032</td>
<td>3.465</td>
<td>***</td>
<td>0.003</td>
<td>Accepted</td>
</tr>
<tr>
<td>MR &lt;-- HRQ</td>
<td>0.560</td>
<td>0.023</td>
<td>16.326</td>
<td>***</td>
<td>0.002</td>
<td>Accepted</td>
</tr>
<tr>
<td>OP &lt;-- HRQ</td>
<td>0.100</td>
<td>0.025</td>
<td>2.665</td>
<td>0.008</td>
<td>0.003</td>
<td>Accepted</td>
</tr>
</tbody>
</table>

Source: Authors processed from SPSS 20.0; *** Significant at 1 percent level.

Table 2 shows the SEM identified seven factors that affected human resource quality and its impact on business operation performance with a level of 1%; thereby, the policy to encourage employees has the most decisive influence on human resource quality with a coefficient of 0.554.
4.3. Research Result Discussion

Based on the research results on seven factors affecting the quality of human resources, the authors have some evaluation and discussion of the results as follows:

First, SMEs' conditions, working environment, and social welfare are still low regarding qualifications and professional capacity. Many previous studies have pointed out the inadequacies in the qualifications and expertise of human resources in Vietnam's SMEs. Very few workers have been through formal professional training classes, mainly learned informally through vocational transmission from enterprises. This has greatly affected not only production activities but also enterprises' development strategies and business orientations in the current period of deep international economic integration.

Second, about human resource development planning. Currently, there are very few SMEs that make long-term human resource planning. According to some independent surveys, up to 85% of total enterprises make demand forecasts based on the number of workers to be replaced; only about 15% are based on changes in science and technology, product and service demand, capital scale, etc. In addition, the determination of excess or shortage of labor is determined by each department based on the current workload without the participation of the human resources department. The human resources department only has the function of receiving labor quotas and conducting recruitment. Many Vietnamese SME owners also identify short-term human resource needs or even just based on the present time to make decisions. In addition, SMEs do not have a long-term strategy for using labor, so businesses often do not organize employee and professional training. The situation of workers jumping jobs is quite common in local businesses.

Third, about the labor recruitment of SMEs. The primary source of internal recruitment is because SMEs' human resources are often small, so the advantage is for internal recruitment of acquaintances. Many SMEs, due to their low level of awareness and management, after conducting the recruitment process, often end the recruitment process without knowing the effectiveness of this recruitment round. How did the goal of the recruitment process be achieved? In the signing of labor contracts, although employees have seen their role and are interested in entering labor contracts, the situation of workers who have not yet signed them is substantial. In fact, many SMEs do not follow the law on the recruitment process, mainly internal recruitment decided by the business owner; each business has a different recruitment method. This leads to limiting the development of the labor recruitment market in SMEs.

Finally, on training and improving skills and skills for workers. Regarding the program to support training and development of human resources for SMEs, aware of the limitations in human resource development activities, the State has strengthened training and fostering programs for human resources over the years force for SMEs. Human resource training and retraining activities for SMEs have extensively developed in breadth and step by step towards focused and focused training and training quality. Besides, employees have low income and wages of employees, social welfare. The situation is that enterprises only pay social insurance for a few employees with a shallow level of participation in social insurance; the rest are not allowed to have social insurance. The sick leave and leave regimes are also poorly implemented, especially for small and medium enterprises.

5. CONCLUSION AND RECOMMENDATIONS

5.1. Conclusion

With the difficulties and limitations of small and medium enterprises today, the issue of improving the quality of human resources is fundamental; That is the foundation for enterprises to innovate technology and improve management skills. Especially if
businesses want to penetrate the global supply chain through export activities, it is necessary to improve highly qualified workers. Besides, the Industrial Revolution 4.0 is opening great opportunities for businesses, but it also makes businesses, especially SMEs, face significant challenges in the global competitive environment. That poses urgent requirements for businesses in general and SMEs in particular: it is necessary to improve the quality of human resources to survive and develop in an increasingly competitive environment intense. Based on seven factors that affected the human resource quality and its impact on business operation performance with a level of 1%, the solving the problem of training and developing quality human resources, adapting to the new context and development orientation of SMEs in our country is currently the issue that needs to be given top priority, requiring a synchronous solution from many sides: employees, business leaders, participation of local authorities, the consensus among relevant ministries and sectors and the Government.

5.2. Recommendations

To win at home, increase competitiveness, and advance to regional and international markets, SMEs still have a lot of work to do in the coming time. One of the critical immediate and long-term tasks is to improve the quality of human resources, including the management team, through the following recommendations: (1) Develop appropriate incentive policies for employees. The reward policy for employees is deeply concerning; in fact, the emulation and reward will create an attractive motivation to encourage the completion of assigned tasks of individuals and groups. (2) Create conditions for employees to study to improve their professional qualifications, ensure long-term jobs, and have opportunities for promotion. The support to facilitate learning to improve professional qualifications in enterprises should be promulgated in writing and uniformly implemented throughout the enterprise and disseminated to all employees in the enterprise (3) Improve working environment is one of the things that business administrators need to consider, such as temperature and color of lights in the working rooms. According to research, the color of the work light is more effective, making the worker feel comfortable and relaxed; the color of the light is fantastic. (4) Strengthen leadership's support for the enterprise's human resources. (5) Completing the policy on benefits and working regime. To be able to retain employees to connect them with the business, in addition to good working environment conditions, policies to encourage them in the process of working, and learning support, business managers It is necessary to have a suitable salary policy and working regime to satisfy the needs of employees, build an organizational culture and leadership style.

6. ACKNOWLEDGEMENTS

The authors thank all lecturers and managers of Lac Hong University (LHU). This article is supported and funded by LHU, Vietnam.

References


65 Impacting Human Resource Quality on Business Operation Performance: A Case Study at Small and Medium Enterprises in Vietnam


