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The Competitive Role of Human Resource Management Strategies on SMES in a Transitional Economy

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Abstract

The aim of this paper is to elaborate the relationship between human resource management strategies (HRMs) and their impact on firm's competitive advantage. It examines the strategic goals of human resources and their influence on creating firm's competitive advantage through two HRM practices: (a) training and development, and (b) salary and employee remuneration. Data used in this study were gathered from a self-administered questionnaire. The participants were randomly chosen. These data were processed with the help of SPSS v.23 program. Findings indicate that the strategic goals of human resources have a positive impact on achieving competitive advantage of firms, and that the job-specific training has the largest impact on accomplishing high firm performance. Outcomes of this study provide and support the assertion that investments in HRM increase the motivation of the employers and consequently increase the ability of firms to achieve a competitive advantage.

Keywords: *HRM strategies, HRM practices, Training and Development, Competitive Advantage, Firm Performance.*

Introduction

Competition is a major factor in the success or failure of businesses (Porter, 1985). These days of globalization growth have affected it. A competing firm knows how to use its strengths, to exploit environmental opportunities and to reduce the negative impacts of some external environmental factors (Danaiata *et al*., 2006). But as Ganesh & Mehta (2010) put it, no matter whether the enterprise is large or small, being competitive is a key factor leading to success. Global expansion of competition, nowadays, influences SMEs to raise constantly their performances in order to be confronted with the competitors. These SMEs must invest in human resource management. HRM plays the fundamental role in the operation of an organization. Pfeffer (1994) discussed that human capital was long held as a critical resource in most firms.

Companies are now trying to add value to their human resources, whereas human resource (HR) department has been set up in order to manage their human capital. Organizations in the last decade, managed their human capital through personnel department which is only a small division of the company.

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The process of managing the human capital is called human resource management (HRM). Boxall *et al*. (2007) describe HRM as: "managing people and work towards the desired goal". According to Armstrong (2008), HRM is a strategic and coherent access of management, the most precious asset of an organization-people that work there individually or collectively contribute to reach the objectives of the firms. SMEs being successfully in increasing their performances and developing competing advantages, must have applied an effective system of human resources.

Theoretical review based on HRM and competitive advantage

The theoretical framework shows, that in the era of globalization, human resources are viewed as a source of competitive advantage. The values of people management are based on the beliefs that an organization gains a competitive advantage by using its people effectively and efficiently (Price, A., 2007). Likewise, the HRM i.e. the management of an organization's employees, can be referred as a "soft" management skill, where the resources of people can facilitate achievement of the organizational goals (Armstrong, M., 2006). Studies show that HRM also plays an important role in formulating and implementing firm

strategy. Myloni *et al*. (2004) found that also HRM can be precepted as part of the overall strategy of the firm.

The growing importance of HRM in strategy has then led the HR managers to be part of the decision makers while formulating and implementing strategy. Rozhan and Zakaria (1996) study of Malaysian firm provides some evidence of HR managers having an involvement in the strategy formulation process. Most research suggests that HRM is crucial in order for a firm to achieve organizational success (Barney, 1991; Jackson & Schuler, 2000; Pfeffer, 1994). Typically, HRM is considered to be fundamental in order for an enterprise to achieve its success by enabling the firm to sustain competitive advantage. Literatures on strategic HRM even indicate that HRM practices and systems contribute to the creation of a sustained competitive advantage for the firm (Gerhart & Milkovich, 1992; Huselid, 1995; Macduffie, 1995). As a result, it is important that a firm adopt HRM practices that make use of its employees. Pfeffer (1994) points out that the human resource may be the best source of core competencies which can lead to competitive advantages. Armstrong and Baron (2002) begin with this: “people and their concrete skills, abilities and experience, together placing these in the interest of being employed in the enterprise and making a significant contribution to the success of the firm, constitute an important resource of the competitive advantage.

We have two versions of concept development where HRM affects the competitive advantage. The “strong” HRM version emphasizes that people are an important asset through which the enterprise achieves competitive advantage. The focus is on the quantitative aspects, business calculations and strategic management of human resources, in the same manner as for any other economic factors (Storey, 1989). As Guest (1999) comments that “HRM must be adaptable and based on business issues and their need to respond to external threats from increased competition. The “soft” version of HRM traces the roots of human relationships to school, emphasizing communication, motivation, and leadership. As described by Storey (1989), this includes "treating employees as more valuable assets" as a wealth of competitive advantage through their commitment, adaptation, and high quality (of skills, performance, and so on). Therefore, employee surveillance according to the Guest should not be viewed as an object, nor should Kant's advice be forgotten: “Treat people as yourself and not as a finished object.

Strategic goals of HRM

HR strategies determine what the enterprise intends to do with HRM policies and practices and how they should be integrated into the business strategy. They were described by Dyer and Reever (1995) as "internal conformity of HR practices" and in the words of Peter Boxall (1996), they provide a definitive critical framework of tools. Richardson and Thompson (1996) suggest that “a strategy, whether it is an HR strategy or any other type of management strategy, should have two key elements: it must have strategic objectives (i.e. things that are intended), to be achieved) and should be a plan of action (i.e. the means by which it is proposed that the objectives will be met).

A related approach within the strategic perspective on HRM pertains to how the overall set of HRM practices is generally associated with firm performance and competitive advantage (Ferris *et al*., 1999). Strategic HRM researchers have assessed firm profitability, productivity and cost efficiency in exploring the relationship between HRM and firm performance (Becker & Gerhart, 1996; Becker & Huselid, 1998). These researchers argue that HR can affect firm profitability through improved labor productivity, through greater cost efficiency, and by adding value through human assets. For example, Becker and Huselid (1998) suggest that the HRM-firm performance relationship is largely driven by more efficient management of the firm’s HR, thus contributing to lower operating costs. However, they also suggest that effective HR systems lead to acquiring, motivating, and developing intellectual assets that can be a source of competitive advantage, highlighting HRM’s value-adding role (see also Becker & Gerhart, 1996).

HRMs and competitive advantage

We have many economists who have used the concept of competitive advantage before Porter, but Porter's work (1979, 1980, 1985 and 1990) is to start with the concept of competitive advantage. The concept of competitive advantage has also been addressed by Penrose (1959) and Ansoff (1965). According to Day (1984), and Barney (1986), competitive advantage has been considered the objective of Porter's (1985) strategies. Islami, Mustafa and Topuzovska (2020) analyzed porter strategies and found that differentiation strategy increases6 organizational more than low-cost strategy and focus strategy. Competitive advantage is the ability of an enterprise to perform the activity in one or more ways that competitors will not be able to accomplish (Kotler, 2000).

Competitive advantage can be defined as “everything that a firm does particularly well than its rival firms” (David, 2010). A firm has a competitive advantage when it is able to generate more economic value than rival firms (Barney & Hesterly, 2010). An individual has a comparative advantage in producing something if the opportunity cost of that output is lower for him than for other individuals (Krugman & Wells 2006; Mankiw, 2008), the same can be said for firms and economies in the world. An individual can have an absolute advantage over an activity if he or she can do it better than other individuals (Krugman & Wells 2006; Mankiw, 2008).

We have two models of concept development over competitive advantage: (a) the first model is built on traditional economic theory and the tradition of industrial

organizations, where competitive advantage has been described in external characteristics rather than in internal firm characteristics (Porter, 1981; Prahlad & Hamel, 1990), and (b) the second model is rooted in the firm's RBV (firm internal resources) where specialized resources are used to secure a privileged market position (Barney 1986).

According to the resource-based view of the firm (e.g., Barney, 1986, 1991, 1995), firms can develop sustained competitive advantage only by creating value in a way that is rare and difficult for competitors to imitate. Although traditional sources of competitive advantage such as natural resources, technology, economies of scale, and so forth, create value. The resource-based argument is that these sources are increasingly easy to imitate, especially in compare-son to a complex social structure such as an employment system. If that is so, human resource strategies may be an especially important source of sustained competitive advantage (Lado & Wilson, 1994; Pfeffer, 1994; Wright & McMahan, 1992). Coff (1994) argues that human assets are a major source of sustainable advantage due to ambiguity and systematic information, making it inimitable**.** Central here is the resource based perspective (Barney, 1991) such that, collectively, a firm's human resources are believed to have implications for firm performance and provide a unique source of competitive advantage that is difficult to replicate (Wright *et al*., 1994).

The guiding proposition is that HRM practices are socially complex and intricately linked in ways that make them difficult for competitors to copy (Boxall, 1996). More fully, the complexities of the human resource value creation process make HRM a source of competitive advantage that is rare, inimitable, and no substitutable (Barney, 1991). The resource-based view has prompted recent work on how HRM practices contribute to firm performance by leveraging human capital, discretionary effort, and desired attitudes and behaviors (e.g., Becker & Gerhart, 1996; Wright *et al*., 1994).

HRM practices and firm performance

Hornsby and Kuratko (2003) defined HRM practices in five major areas: job analysis description, recruiting and selection, training, performance appraisal and compensation. Huselid (1995) defined HRM practices as employee recruitment and selection procedures, compensation and performance management systems, employee involvement and employee training. Mondy *et al*. (2002) thought the practices of HRM include five basic functions, including staffing, human resource development, compensation and benefits, safety and health, employee and labor relations and so on. Budhwar (2000) identified HRM practices as pay and reward, recruitment and selection, training and development, health and safety, and work expansion or reduction. On this paper we will see the effects of two HRM practices (training and development and Salary and employee remuneration). Mulolli *et al*. (2015) claimed that using the human practices help SME to improve their firm performance.

Training and development refers to the amount of formal training given to employees. Organizations can provide extensive formal training or rely on acquiring skills through selection and socialization. Training is targeted on skill development, whether technical, clinical or soft skills such as team working, leadership and interviewing (Delery and Doty 1996). According to Harel and Tzafrir (1999), training can influence performance in two ways: first, training improves relevant skills and abilities; and second, training increases employees' satisfaction with their current job and workplace. Training can consist of on-job training, off-job training, formal training, skill training, cross-functional training, team training, literacy training and so on (Gomer-Mejia, Balkin and Cardy 2004).

Compensation or incentive is contingent on performance (e.g., individual or group incentive pay). Islami Xh. and Islami V. (2019) suggested that applying performance appraisal in the correct way and for appropriate goals, improves job satisfaction, employees' satisfaction, motivation to employees, and as a result the quality of working life. Additionally, Islami (2015) stated that rewarding of employees should be made based on their individual performance. One of the primary means organizations use to enhance employee motivation is providing performance-contingent incentive compensation to align employee and shareholder interests (Delaney and Huselid 1996). Islami *et al* (2018), employees are more productive when they know that they will be rewarded from the company based on the work that they do in organization. According to Gomer-Mejia *et al*. (2004), there are three kinds of compensation plan: first is base-compensation (fixed pay to employees). Second is pay incentives (bonuses and profit sharing). Third is indirect compensation (health insurance, vacation, unemployment compensation). Normally, compensation is based on two categories: financial incentives and non-financial incentives.

Firm Performance

According to Armstrong (2009), the concept of performance includes two things the one that has to be reached and the one reached. He further claimed that the performance of firm can be evaluated in different manners, but the most used method in a lot of studies is key indicators of a performance (KPI) that includes financial indicators on the other hand, the second manner has to be with the evaluation "who" which is supported with the qualitative data in the abilities of evaluation or effective organization. A number of previous studies examined the impacts of HRM practices on different kinds of firm performance, such as on productivity (Chen, Liaw and Lee, 2003), on efficiency and employee turnover (Huselid 1995), on financial performance (Huselid,

Jackson and Schuler, 1997), on customer satisfaction (Koys, 2003), on turnover, absenteeism, productivity and quality (Richard and Johnson, 2001).

Wright *et al*. (2005) pointed out that there are two methods to evaluate the performance of a firm. The first method is the organizational result, the other functions of measures like productivity and quality are used to evaluate the employee's performance and the second method is financial or countable result, which is an evaluation of a real financial performance. Measurements from financial results are costs, incomes and profitability (Wright *et al*. 2005).

Islami *et al*. (2020) measured firm performance using financial and market criteria, including such as: return on investment (ROI), market share, profit margin on sales, the growth of ROI, the growth of sales, the growth of market share, and overall competitive position. In firm evaluation performance in SME, the method of financial indicator is selected in a lot of studies (Simpson, Padmore and Newman, 2012). The same method of measuring firm performance were used by several authors (e.g. see Islami, Mulolli and Skenderi, 2015; Islami, Islami, Topuzovska and Mulloli, 2019; Islami, Mulolli and Mustafa 2018; Muastafa et al., 2019; Mulolli and Boskovska 2020). This evaluation method is acceptable even for us and we will apply the same method to evaluate SME performances.

The relationship between HRM and performance is modeled by Guest *et al* (2000):

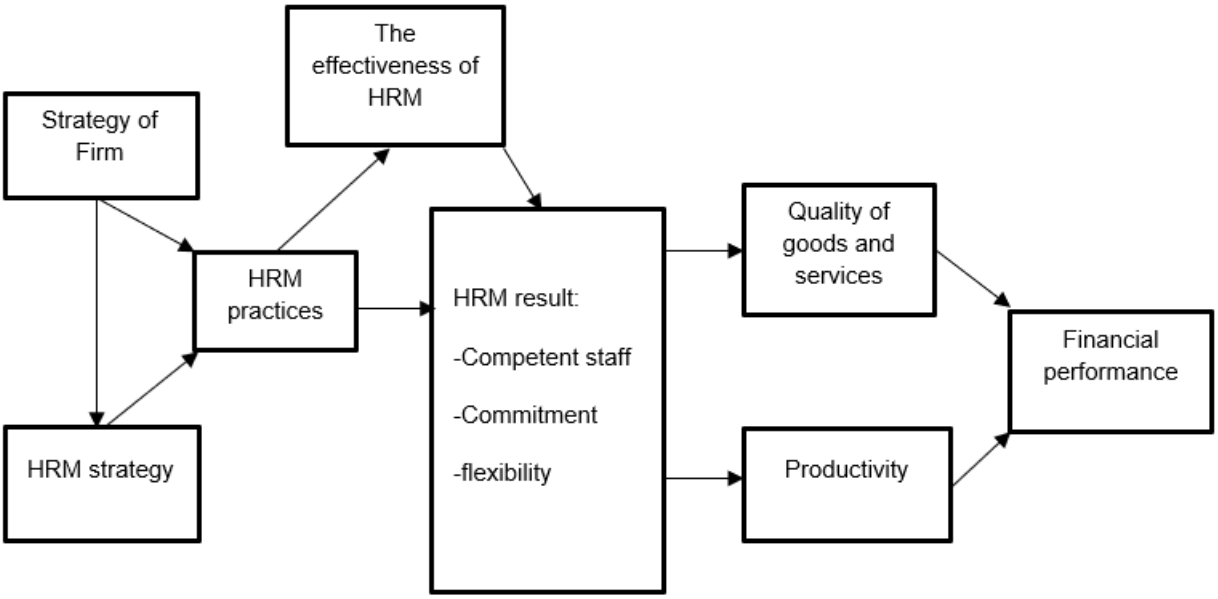

Figure 1. The relationship between HRM and performance (Source: Armstrong (2008)

Research hypotheses

Based in literature review the research hypotheses are raised:

H₁: Strategic goals of human resources have a positive influence on creating a competitive advantage of firms.

H₂: Personnel training and development has a positive impact on firm performance.

H₃: Salary and employee remuneration are positively related to firm performance.

Methodological approach

To realize this study, a combination of primary and secondary data has been used. The background of the research framework and research hypothesis has been prepared using the analysis of secondary data by the literature reviewed including scientific publications and articles that were published by credible publishers, such as, Academy of Management, Elsevier, Springer, Taylor & Francis, Emerald, etc. As the starting point for literature searching were titles and abstracts of documents that are evidenced on Scopus databases, using this variety of keywords: ("Human Resource Management Strategy" OR "Human Resource Management Practices" OR "Training" OR "Development" OR "Salary" OR "Employee Remuneration") AND "Role" AND "Competitive Advantage"). Thus, the actual study evaluates hypotheses that are largely driven by theory, consequently, elements on the research framework were structured on the basis of theory, and therefore on determining whether there is empirical support for the proposed theoretical model constructed were used confirmatory factor analysis. Whereas, primary resources were gathered in the form of results of the quantitative survey conducted in a sample group of employers that work in the business firms in Republic of Kosovo. For the empirical analysis of the study, the data were gathered from a self-administered questionnaire. The rate used in the questionnaire is based on 7-point Likert scale (1 - strongly disagree, to 7 - strongly agree). The participants were randomly chosen. To measure the impact in between variables in this study

SPSS v. 23 programs has been used. Consequently, by filling questionnaires evaluated only human resource management aspects and their impact on creating SMEs competitive advantages.

The sample

From 26 questionnaires distributed to 26 firms, we have only 20 well-filled (so the scale of responses was 77%). So, 20 respondents is sufficient number to do regression analysis and to generalize results of this study. Even though we received back 23 filled questionnaires, we found that 3 questionnaires had lacked in data and we could not enter in the further analysis, therefore only 20 questionnaires were analyzed that had full data. Questionnaire has been conducted in the way that the respondents to take their opinion related with the Competitive Role of Human Resources on SMEs in the Republic of Kosovo.

General information about the firms surveyed

In this subchapter are presented data of contributors (firms' representatives) concerning descriptive data such as: gender, education, age, and their position in firm and their activity in the enterprise and data of contributors (firms' representatives) concerning descriptive data such as: type of activity of the firm, the size of the firms surveyed, legal forms of the firms surveyed, age of firms surveyed, and their role that make firms' representatives on enterprises.

Table 1. Demographic characteristic of the sample

Demographic variable	Count N=20	(percentage)
Gender		
Male	13	(65%)
Female	7	(35%)
Age		
20–25 years	2	(10%)
26–30 years	5	(25%)
31–35 years	7	(35%)
36–40 years	3	(15%)
41–45 years	2	(10%)
46–50 years	1	(5%)
Work experience		
3–5 years	5	(25%)
6–10 years	11	(55%)
10 + years	4	(20%)
Education		
Intermediate	5	(25%)
Bachelors	8	(40%)
Masters	7	(35%)
Position in Firm		
Owner	5	(25%)
Director	2	(10%)
Manager	2	(10%)
Human resource staff	7	(35%)
Employees	4	(20%)

Source: authors

Table 2. Demographic characteristic of the sample (n=20)

Industry	Densities	Percentage	Cumulative percentage
Services	4	20%	20%
Production	4	20%	40%
Trade	9	45%	85%
Construction	3	15%	100%
The size of the firms surveyed			
Up to 9 employees	12	60%	60%
10-49	8	40%	100%
Legal forms of the firms surveyed			
Individual business	15	75%	75%
Partnership	5	25%	100%

Source: authors

Age of firms surveyed – The results showed that the age of firms surveyed is from 4 years (minimum) the youngest firm, up to 35 years (maximum) older firm, firms surveyed have an average age of 15.75 years and a standard deviation of 7.3, see table 2.

Table 3. Descriptive statistics of the age of firms (n = 20)

	Number	Min.	Max.	Mean	Std. deviation
Age of firms surveyed	20	4	35	15.75	7.312

Source: authors

Role that make firms' representatives – From the result it can be seen the role that makes firms' representatives most in common is sales manager with a mean of 6.15, see table 3.

Table 4. Descriptive statistics of the role that make firms' representatives (n = 20)

	Mean	Std. deviation	Minimum	Maximum
Chief Executive	5.70	1.30	2	7
Finance Manager	5.35	1.53	2	7
Sales Manager	6.15	0.93	4	7
Production Manager	5.30	1.72	2	7
Human Resources Manager	5.15	1.42	3	7
Low-level manager or supervisor	6.05	1.23	3	7
Other	5.30	1.56	2	7

Source: authors

Findings of this paper

Regression analysis for the dependent variable competitive advantage of firms

In order to measure the impact of independent variables in dependent variable "competitive advantage of firms" multiple regression analysis has been used. Regression analysis is presented in table 3. According to regression analysis independent variables that enter in analysis explain 12% of dependent variable "competitive advantage of firms". F critique for freedom scale (1, 19) is 4.41 whereas F real is 3.592 (sig. 0.000) which means that the model is important statistically with the significance level α= 0.05, because (0.000<0.074). Independent variable "Strategic goals of human resources" is positively connected with dependent variable "competitive advantage of firms" by predicting it for 41.2% (b=.403 & p=.074).

Table 5. Regression analysis of dependent variable "competitive advantage of firms", n=20

Model	R^2	ΔR^2	β	b	F	t	P
	.166	.120			3.592		
(constant)				3.744		3.369	.003
Strategic goals of human resources			.412	.403		1.895	.074

Note: b=Un-standardized Coefficients, β=standardized coefficients, t=t-statistic, p=significance level. R^2= square, ΔR^2=adjusted R square.
Source: authors

The relation between the independent variable and the dependent variable is given by the regression equation:
"Firm competitive advantage" = 3.744 + 0.403 (strategic goals of human resources).

From the table above it appears that the strategic goals of human resources have (p value) a satisfactory signification (0.074), respectively, the probability of error to accept this hypothesis is only 7.4%, the absolute value t = 1.895 being the most less than critical t = 2.87, thus fulfilling the condition to be accepted the hypothesis H_1.

Regression analysis for the factor performance of firm's

Multiple regression analysis was used to distinguish the factors that significantly influenced firm performance. High performance in the firm results from the impact of many factors.

However, we will test and two hypotheses:

(a) Personnel training and development affects the firm performance.
(b) Salary and employee remuneration are positively related to firm performance.

We will first test the hypothesis "personnel training and development affects the firm performance".

Regression analysis was used to test this hypothesis, where the "firm performance" was used as the dependent variable, and the independent variable "personnel training and development".

Table 6. Regression analysis of dependent variable "firm performance", (n=20)

Model	R^2	ΔR^2	β	b	F	t	P
	.335	.498			9.91		
(constant)				1.121		.857	.003
Personnel training and development			.720	.725		3.009	.008

Source: authors

The relation between the independent variable and the dependent variable is given by the regression equation:
"Firm performance" = 1.121 + 0.725 (Personnel training and development).

From the results given in table 5, it can be concluded the independent variable, "personnel training and development" explains 49.8% of the dependent variable variation, "firm performance".

The regression coefficients of the independent variable "personnel training and development" are positive and specific (0.725), which means an increase in the level of the "personnel training and development" variable will cause an increase in the level of the dependent variable "Firm performance". This means that the greater the impact of "personnel training and development", the more businesses will be encouraged to create higher "firm performance". Based on the results obtained from the questionnaire which of the following trainings had the most impact on firm performance, it turns out that job-specific training had the most impact this can be confirmed by the regression equation from the data obtained from the following table:

- "Firm performance" as a result of "general firm training" = 1.121 + 0.725 * 5.15 = 4.85
- "Firm performance" as a result of "job-specific training" = 1.121 + 0.725 * 6.15 = 5.57
- "Firm performance" as a result of "specific training depending on performance evaluation"=1.121+ 0.725 * 5.85 = 5.36.
- Firm performance "as a result of "strategic skills development training to encourage innovation and intellectual growth "= 1.121 + 0.725 * 5.25 = 4.92

Table 7. Impact of training on "firm performance", n=20

Type of training	Mean	Std. deviation	Minimum	Maximum
General firm training	5.15	1.424	2	7
Job-specific training	6.15	1.137	4	7
Specific training depending on performance evaluation	5.85	.745	4	7
Strategic skills development training to encourage innovation and intellectual growth	5.25	1.293	2	7
Total	5.60	1.149	3	7

Source: authors

In conclusion, Personnel training and development has a positive impact on firm performance. The results of the questionnaires show that job-specific training has the greatest impact on achieving high firm performance.

And the last hypothesis "Salary and employee remuneration are positively related to firm performance" was tested using ANOVA.

From the results of the data is seen that salary and remuneration have an impact on firm performance, where the independent variable "Salary and employee remuneration" 12.7% of the dependent variable "firm performance". F critique for freedom scale (1, 19) is 4.41 whereas F real is 3.767 (sig. 0.000) which means that the model is important statistically with the significance level α= 0.05, because (0.000<0.068). These variables were entered into the regression analysis with t-test from this analysis of the data as are presented in table 8, resulted that salary and employee remuneration are positively related to firm performance.

Table 8. Impact of salary and employee remuneration on "firm performance", n=20

Source of variation	Sum of squares	Degree of freedom (df)	Mean square	Fisher	p
Between Groups	4.500	1	4.500	3.767	.068
Within Groups	21.500	18	1.194		
Total	26.000	19			

Source: authors

Conclusion

To sum up, from analysis of results from tested questionnaires with SPSS IBM software, it is showed that:
First hypothesis: according to the statistical test results for individual coefficient control we get the result (t_1 = 1.895 and p = 0.074) individual coefficients show that independent variable "Strategic goals of human resources" have a significant contribution in this model. As seen by multiple regression equation, as well as without standardized β coefficients, Independent variable "Strategic goals of human resources" is positively connected with dependent variable "competitive advantage of firms" by predicting it for 41.2%. In this way it can be concluded the hypothesis H_1: accepted by showing that Strategic goals of human resources has a positive relationship and is important statistically with competitive advantage of firms (H_1↑).

Second hypothesis: The study found that training and staff development have an impact on firm performance enhancement, we can confirm from the observed data, and say that the independent variable, " personnel training and development " explains 49.8% of the variation in the dependent variable, "firm performance", as well as the regression coefficient of the independent variable "personnel training and development" is positive and specific (0.725), which means an increase in the level of the "personnel training and development" variable, will also increase the level of the dependent variable "firm performance". This means that the greater the impact of "personnel training and development" the more it will drive businesses to create higher "firm performance" in areas such as productivity, quality, service level of customers, growth, profit and ultimately increase in stock value. Based on the results obtained from the questionnaire, which of the following trainings had the most impact on firm performance, it appears that job-specific training has the greatest impact on achieving high firm performance. To sum up Personnel training and development affects the firm performance (H_2↑).
Third hypothesis: In the paper we also analyzed the impact of salary and employee remuneration on firm performance. From the results of the data we show that salary and remuneration have an impact on firm performance, where the independent variable "Salary and employee remuneration" 12.7% of the dependent variable "firm performance". From the results it can be concluded compensation and rewards raise the motivation of human resources in SME and as result of a huge ability and motivation of people the firm performance will be increased. (H_3↑).

Recommendations

Based on the results of this study, we realized that strategic HR goals had an impact on creating competitive advantage, so a recommendation to other researchers in the future would be to expand the number of strategic HR goals that were not included in this study and to measure their impact on creating competitive advantage.

Another recommendation would be to the managers of firms to incorporate strategic HR goals into the business plan if they want the firm to succeed in creating and maintaining competitive advantage. This can only be achieved by a close alignment or approximation between the business strategy and the HR strategy.

Personnel training and development, as well as employee pay and remuneration proved to be effective in firm performance, we recommend firm managers to use more of these factors in enhancing firm performance.

This study has established a basis for further research on the competitive role of human resources in small enterprises. This model constitutes an important contribution to the literature and may be an incentive for scholars to focus their future research work.

Further studies are suggested to reveal other factors that lead to the creation of competitive advantage influenced by human resources, in addition to the factors considered in this study.

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