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# Human resources management practices in small and medium enterprises in two emerging economies in Asia: Indonesia and South Korea

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This paper explores human resource management practices in small and medium enterprises Indonesia and South Korea. Despite the fact that these countries have been identified as strong emerging economies and the pivotal role that SMEs play in these countries, a relatively less attention has been paid to investigate HRM practices of SEMs. This study uses existing empirical research and published data to explore HRM practices of SMEs in the two countries. The analysis of HRM practices is made with respect to both cultural values orientations of the two nations and different theories and models of HRM practices. The findings reflect the aspects of universalistic, contingency, resources base, and institutional perspectives of the strategic HRM (SHRM) model. The evidence also indicates the simultaneous adoption of both convergence and divergence theories of international HRM. Theoretical and practical implications of findings are discussed and directions for future research are provided.

## **Keywords**

south, indonesia, asia, economies, emerging, two, enterprises, medium, small, korea, practices, human, management, resources

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# **Human Resources Management Practices in Small and Medium Enterprises in Two emerging economies in Asia: Indonesia and South Korea**

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## **Abstract**

*This paper explores human resource management practices in small and medium enterprises Indonesia and South Korea. Despite the fact that these countries have been identified as strong emerging economies and the pivotal role that SMEs play in these countries, a relatively less attention has been paid to investigate HRM practices of SEMs. This study uses existing empirical research and published data to explore HRM practices of SMEs in the two countries. The analysis of HRM practices is made with respect to both cultural values orientations of the two nations and different theories and models of HRM practices. The findings reflect the aspects of universalistic, contingency, resources base, and institutional perspectives of the strategic HRM (SHRM) model. The evidence also indicates the simultaneous adoption of both convergence and divergence theories of international HRM. Theoretical and practical implications of findings are discussed and directions for future research are provided.*

## **Introduction**

Despite the fact that most countries rely on SMEs for income generations, employment, trade prospects, understanding of HRM practices in SMEs largely unexplored as many scholars tends to focus on large or “best” companies (Kishore et al, 2012; De Clercq, & Rius, 2007; Cassell et al., 2002). In a study of 156 entrepreneurs at SMEs, Heneman, Tansky, & Camp (2000), found that HRM practices was the most strategic concern for the management of SMEs. There has been a growing interest among researchers and practitioners to understand business practices of emerging economies. Indonesia and south Korea has been identified as two strong emerging economies and important global business participants for the next decade by a number of scholars and consultancy groups (e.g. Brent, 2009; Aycan, 2006; Leal, 2006). A global consulting company, Goldman Sachs has identified two countries in Asia (Indonesia and South Korea), one country in the Europe(Turkey), and one country in North America(Mexico) as showing a great economic and trade prospects in the next decade and named them as MIST economies. Indonesia is the fourth most populous country in the world after China, India, and USA, has abundant skilled and non-skilled employees attracting multinationals to invest in both off-shoring and outsourcing facilities. South Korea, on the other hand, has opened its doors to foreign direct investment since 1997 and experienced tremendous growth in several industries especially in its automobile and consumer electronic industries. It is critical that both domestic firms and global practitioners understand HRM practices of emerging countries as multinationals explore every opportunity to interact with other nations. As such, this study specifically focuses on addressing the following issues.

## **Research Questions**

1. What are the HRM practices adopted by SMEs in Indonesia and South Korea with respect to recruitment and selection, training and development, compensation and benefit practices, and performance management practices?

2. What SHRM perspectives and theories are relevant to Indonesian and Korean HRM practices adopted in SMEs?
3. Which HRM practices of Indonesian and Korean SMEs are relevant to convergence and divergence theories of international HRM?

### **Significance**

This research will address an important dearth identified in the literature with regard to HRM practices of SMEs in emerging economies. Theoretically, it is important to examine whether existing HRM theories and frameworks are relevant SMEs in emerging economies and decide whether how they are supported and challenged. Practically, the findings of this study might be important for entrepreneurs, managers, and leaders in SMEs in Indonesia and South Korea and for global practitioners to understand the practices of emerging countries as they explore every opportunity to be effective in their operations in emerging countries. It also contributes to cross-cultural HRM knowledge relevant to SMEs as there is increased awareness for HRM researchers to take context more seriously (Chandrakumara & Sparrow, 2004; Jackson & Schuler, 1995).

This paper is organized as follows. First section presents research questions and its background and significance. Second section deals literature review aimed at identifying theoretical perspectives and frameworks. Third section presents methodology and country context. Exploration of HRM practices of SMEs of the selected countries is presented in the fourth section. Section 5 presents, discussion, conclusions and directions for future research.

## **Theoretical Frameworks**

The section presents two theoretical perspectives associated with HRM practices in different countries; Strategic human resource management (SHRM) perspective and institutional theory.

### **Strategic Human Resource Management Perspective**

HRM practices are the most strategic concern for the management of SMEs (Heneman, Tansky, & Camp (2000). Strategic human resource management (SHRM ) presumes that firms demonstrating greater congruence between HR practices and strategies should enjoy superior performance (Delery and Doty, 1996; Arthur, 1992; Schuler and Jackson, 1987). The SHRM literature draws on a number of models, which includes universalistic, contingency, configurational, and resource- based perspectives (Rhodes, et al., 2008; Aycan, 2005; Bowen et al., 2002; Delery and Doty, 1996).

The contingency perspective of SHRM presumes that the impact of HRM practices or systems depends on contextual variables (Hofstede & Minkov, 2010; Aycan, 2005; Bowen et al., 2002) such as strategy, structure, process, employee behavior, culture, institutional frameworks, industry trends etc. Schuler and Florkowski (1996) have stressed the need to examine fit of HRM activities with competitive strategy, national culture, and organizational life cycle. In this study, particular attention is given to examine whether there is any variation of HRM practices of SMEs in different countries that is associated with different cultural orientations (individualism/collectivism, power distance, masculinity/femininity, uncertainty avoidance, long/short term orientation). Indeed, if the same set of HRM practices is used across two countries, regardless of

strategy, culture etc, then there is support for *universalistic* rather than *contingency* perspective of SHRM. It is also important to note that the relevancy of convergence (universalistic, best practices, high performing work practices) and divergence (culture-bound and context specific practices) debate on these perspectives of SHRM. While the HRM practices used in different countries are inclined towards global convergence, national culture and contingency factors such as institutional framework, business strategy seem to affect HRM in many countries.

### **Institutional Theory Perspective of SHRM model**

Institutional theory suggests that organizations operate under an umbrella of both formal and informal practices. For example, governments of many countries tend to promote training initiatives for small and medium organizations. Informal practices such as personal referrals and favoring in-group members are associated with cultural and social norms of different countries (Hessels, & Terjesen, 2010; Roxas et al., 2008). Many researchers have explained the impact of national culture on HRM practices (e.g. Budhwar and Sparrow, 2002; Easterby-Smith et al., 1995; Hofstede, 1983).

Institutional theory experts suggest that organizations may experience changes in their adoption of HRM practices according to formal and informal institutions. Political and economic changes can cause major transformations to local organizational practices. Comparative researchers also emphasize the role of institutional factors such as government policies and educational systems (Clark et al., 1999; Brewster et al., 1996). Current debate in the area of cross-cultural/national HRM perspective suggests that both 'culture bound' and 'culture free' factors are important determinants of HRM

(Hofstede, Hofstede & Minkov, 2010; Rhodes et al., 2008; Rowley et al., 2004; Budhwar and Sparrow, 2002; Jackson and Schuler, 1995). Thus, culture and institutional frameworks have become very important elements of the contingency perspective of SHRM model at the organizational level.

## **Convergence and Divergence Theories of International HRM (IHRM)**

### **Methods**

The approach we use to answer research questions of this study is desk research, which consists of exploring existing theories relevant HRM practices in different countries, empirical research and secondary data and information relevant to HRM practices of SMEs in Indonesia and South Korea. The research process consists of several stages. First, identify theoretical frameworks and models of SHRM by reviewing existing literature. Second, understanding and presenting information relevant to socio-economic and cultural background of the two nations. Third, explore HRM practices of SMEs with specific reference to recruitment and selection, training and development, compensations and benefits, and performance management practices. Fourth, analysis and discussion of HRM practices using identified theories and perspectives of HRM. The analysis of HRM practices is done using institutional theory and cultural values and different models and theories of SHRM perspective.

### **Definition of SMEs**



There are several definitions of SMEs in Indonesia depending on which local agency provides the definition. The Central Statistical Agency (BPS) defines small enterprises (SE) and medium enterprises (ME) as business units with 5-19 and 20-99 workers respectively. The State Ministry of Corporative defines a small enterprise (SE) as a business unit with total initial assets of up to Rp (Indonesian currency) 200 million (about US\$ 20,000), which does not include any lands or buildings. A SE is also considered on an annual sales criteria in which Rp 1 billion (US\$100,000), and Rp 1- 50 billion sales are considered as small enterprises and medium enterprises respectively. In South Korea, SMEs has been defined as organizations that have 1-299 employees. In brief, we consider SMEs in Indonesia and South Korea as business units up to 100 and 300 employees respectively (e.g. Cunningham and Rowley, 2008).

### **Sample Countries**

As already stated, Indonesian and South Korean contexts are relevant to addressing the issue raised in this study. The following section explored socio-economic and cultural background of these countries.

### **Indonesian Context**

Indonesia is the fourth largest populous country in the world with a 234.6 million people. The size of the labor force is approximately 108.2 million. It consists of almost 17508 islands and islets making it a large archipelago. Until recently, Indonesia was one of the least known countries in the business and management literature (Rhodes et al., 2008; Bennington and Habir, 2003). Reduced poverty and improvements in social indicators such as literacy levels and life expectancy have seen Indonesia become one of Asia's newly industrializing countries (Bennington and Habir, 2003). Reports on its HRM are

limited mostly to labor economics and macro- level human resource developments (Bennington and Habir, 2003; Hess, 1995).

SMEs have historically been the main players in the Indonesian economy especially as a large provider of employment opportunities and sources of economic growth and foreign currency earnings. Typically, Indonesian SMEs account for more than 90% of all firms and provide livelihood for over 90% of the country's workforce (Tambunan, 2008). The three sectors which employ most of the workforce are agro-based industries (38.8 million 43.75 workers), trading and hotels (22.2 million or 25% workers), and service (9.4 million or 10.55% workers) (Ministry of Public Welfare, 2007). According to BPS data, SEs in 1997 accounted for more than 39.7 million units, or about 99.8 percent of the total numbers of enterprises in the country in that year. This has increased to more than 48 million units in 2006. The growth of SEs and MEs was 3.96% and 4.59% respectively in 2001. In terms of GDP, SMEs performances accounted for more than 53% percent in 2007.

The main language of Indonesian people is Bahasa, but there are 250 other regional languages and dialects (Bishop & McNamara, 1997). Muslims constitute the majority and represents 87% of the population. The rest of the population has the following demographics: Protestants (6%), Roman Catholics (3%), Hindus (2%), and Buddhists (1%). The Indonesian population comprises of many ethnic groups such as indigenous Indonesians (*pribumis*), Chinese, Arabs, Indians and many others. The Chinese ethnic minority represent approximately around 5% of total population. This ethnic group dominates the Indonesian economy especially in the medium and large scale enterprise category. Next to the Chinese, the Arab community, whose community is much smaller

than the Chinese, is considered very successful. The indigenous group is generally the bottom in terms of having successful enterprises (Tarmidi, 1999).

Indonesia's high score on power-distance (78) indicates a work culture that is dictated by clear organizational hierarchies. A low score on individualism (14) suggests a very collective society and the importance of in-group members (such as families and friends) to employees. There is a predominance of males in upper-level management positions and also possible gender discrimination in the workplace. The uncertainty-avoidance index (48) indicates that the society is anxious about uncertain or ambiguous events making the local workforce prefer structured practices at the workplace. The high score on long-term orientation (62) shows the culture prefers to plan strategically ahead and may not like to improvise.

### **South Korean Context**

The population of South Korea is approximately 42 million. Approximately, 80 percent of the population lives in urban areas. The capital, Seoul, consists of over 10 million people and represents the commercial and political hub of the country. South Korea is approximately 996 kilometers long and 217 kilometers wide covering a land mass of 99117 square kilometers. Thus, the country is about the same size of the state of Indiana in the United States (CIA World Factbook, 2013). South Korea has demonstrated incredible growth and global integration to become a high-tech industrialized economy. The country has adopted various economic reforms following the financial crisis including greater openness to foreign investment and imports. The country's growth averaged about 4-5% annually between 2003 and 2007 and was

estimated to be 3.9% in 2011(CIA World Factbook, 2013). Korea is the world's largest manufacturer of DRAMS (Direct Random Access Memory chips), the world's second largest manufacturer in ship-building, and is the fourth largest electronic industry (Gross, 2007).

The government has paid increased attention to the development of SMEs since 1990s. The Small and Medium Business Administration (SMBA) was established in 1995 in order to assist this process (KFSB, 2011). The SMEs in Korea have been playing a vital role in job creation, generating income, technological innovations, and improved product quality. In the manufacturing sector, SMEs comprises 99.7% and provides 74.3 %of the total manufacturing employment. They are considered the backbone of the economy (Gregory et al, 2002). According to Korean Federation of Small Business, the total number of SMEs was 3, 066, 484, which is 99.9 percent of total establishments in 2009. The total number of employees in SMEs was 11,751,022, representing 88 percent of employees of the country in 2009. As vertically integrated organizations, many Korean SMEs have become subcontracting companies for large conglomerates (Kong, 2000). South Korean SMEs can be classified as either ordinary or venture. The differences in these two types are in their management and strategic priorities. Venture SMEs are defined as a "technology-intensive enterprise" or 'an enterprise based on a highly advanced technology' (Gregory et al., 2002, p.75).

The South Korean work culture has a high score in power distance (60) emphasizing clear differentiation between superiors and subordinates. The culture is low on individualism (18) implying a collective spirit and the importance of harmony at the workplace. The culture is considered feminine as men and women's roles generally

overlap and the society tends to be nurturing and modest. The culture has a high uncertainty-avoidance (85) suggesting organizations implement structured employment-related practices. South Korea has the highest score on long-term orientation (100) clearly implying a society that perseveres, plans, and promotes work practices that create such discipline (Hofstede, Hofstede, & Minkov, 2010). While traditional Confucian values (respect, subservience of women to men, strict seniority, mutual truth between friends, and absolute loyalty to one's legitimate superiors ) characterize much of the HRM practices in Korea, current practices have a nice blend of contemporary or modern values (Koch, Nam, and Steers, 1995). As such, several aspects of Korean workers behavior are related to this Confucian tradition. For example, the long working hours, dedication to hard work, saving for the future, emphasis on learning and education, and self- improvement (Koch, Nam, and Steers, 1995).

In absence of distinct natural resources, Korea's strong labor force has served as the foundation of its modern economic development. 98 percent of South Koreans can read and write; 80% graduate from high school, and the majority of high school graduates get some sort of college or vocational training after high school (Kearney, 1991).

The Korean HRM practices have resulted largely from two forces. The most pronounced influence emerges from the Confucian tradition (as briefly noted above). Accordingly, top-down decision making, flexible life time employment, high mobility of workers, paternalistic leadership, loyalty, compensation based on seniority and merit rating, bureaucratic conflict resolution, close government-business relationships can be commonly observed in the Korean style of management. The second and more recent

influence is the push to utilize modern or western approaches to HRM (Koch, Nam & Steers, 1995). In addition, the industrial landscape of Korea is changing at a rapid pace due to globalization and technology.

## **Results**

This section presents HRM policies and practices adopted in SMEs of Indonesia and South Korea, covering recruitment and selection, training and development, compensation and benefits, and performance appraisal.

### **Recruitment & Selection Practices**

Traditionally, family connections have been used widely by local private organizations as a means of recruitment in Indonesia. However, there has been a change in recruitment practices references from family and relatives to candidates' qualifications since 1990s (Prijadi & Rachmawathi, 2002). Current states of practices indicate the use of multiple recruitment methods such as word-of-mouth, print advertisements, newspapers, magazines, commercial broadcasts, recruitment consultants and internet. The most common recruitment method used for blue-collar workers is word-of-mouth. According to Huo , Huang, and Napie (2002) study (which consisted of SMEs and large companies) a person's ability to perform the technical requirements of the job, a personal interview, and an employment test were the main selection practices. They

also found few other important characteristic such as a person's ability to get along well with others, how well the person will fit the company's values and culture, a person's potential to do a good job. Galang (1999) study revealed that SMEs and large enterprises do not differ significantly except in one practices ("beliefs that person will stay with the company" as hiring criteria" of large companies). The finding of Galang(1999) is consistent with Huo et al., (2002) research with respect to the ability to perform technical job requirements and the ability to get along well with others as important hiring criteria used in SMEs in Indonesia. In a comparative study of SMEs management practices between Indonesia and Malaysia, Rosli et al (2012) reported that priority for skilled workers is given in new recruitments. Huo et al's(2002) study also noted that Indonesian respondents have a desire to see a significant role of employment tests in the future.

In South Korea, smaller companies tend to rely less on external recruitment and testing and more on personnel connections in recruiting blue-collar employees and this is the case of SMEs located in more rural areas of Korea. About 10 percent of blue-collar hires come from vocational school placements (Koch, Nam & Steers, 1995). One common method of recruitment in Korea is based on relationships and networking. Family members, relatives, friends and alumni are often good sources for referrals and recruitment (Gross, 2007).

Huo et al., (2002) found that a study an employment test, a personal interview, and a person's ability to perform the technical requirements of the job as top ranking employment practices. Galang's (1999) study found that the ability to get along well with others as a hiring criteria common to SMEs and large enterprises in South Korea.

With regard to preferred recruitment practices, Huo et al.,(2002) found that a person's ability to perform the technical requirements of the job, a person's ability to get along well with others, and a person's potential to do a good job are among the top ranked preferred selection practices. In a survey of 1760 SME managers by Gregory et al., (2002), it was revealed that about quarter of the sample saw the need to improve the recruitment function as a prioritized area for enhancing the export readiness of Korea's SMEs. Gregory et al., (2002) study also revealed a little discrepancy of managerial planning in recruitment between Venture SMEs and ordinary SMEs. The Venture SMEs' priority for recruitment practices was lower (9.9 percent) than that of ordinary SMEs (11.5 percent). This may be due to the fact that venture SMEs are more technology oriented than ordinary SMEs and hence pay relatively less attention to HRM practices.

### **Training and Development Practices**

Indonesian government promotes various forms of vocational and on-the- job training programs, including nine years of compulsory education for every Indonesian citizen since 1998 (Prijadi & Rachmawathi, 2002). Skill training is available through vocational senior secondary schools (which account for more than 1.3 million of senior secondary enrolments), 153 public training centers, (which offer short, specialized courses), and numerous privately run programs. A comparative study by Rosli et al., (2012) also revealed that SMEs in Indonesia provide in-house training for employees and encourage them to attend external skill training programs usually provided by the government agencies.



In a ten country comparative study of SMEs and large scale companies, Dros et al., (2002) found that Indonesia scored the lowest in current training investment for improvement of technical skills and that Indonesia uses training as a means of rewarding employees. With regard to other objectives of training, Galang's (1999) found that improving technical job abilities and training to help employees to understand the business as common practices of SMEs in Indonesia. In the utilization of training, Indonesia ranked very low for the category of improving interpersonal skills. However, Indonesia ranked high for providing training for improving poor performance of employees.

In South Korea, there has been evidence of a considerable efforts made by Korean organization with regard to development of employees at all levels (Bae et al., 2003). This is partly due to the fact that Korean organizations consider human resources to be the central building blocks for long-term corporate success. On-the-job training is the primary training method used for improving job-related skills and appropriate corporate behaviors of blue collar employees (Koch, Nam & Steers, 1995). Another popular way to improve job-related skills and knowledge was 'job-rotation'. However, neither job rotation nor the multi-skill training were systematically applied and varied across industries (Rowley at al., 2004).

Drost et al., (2002) study of training and development practices in ten countries consisted of Korean SMEs and large scale companies. It was found that Korea scored the second lowest for training in interpersonal skills and the highest for training for improving technical skills. The orientation towards work, helping understanding businesses, and teaching employees about company values are important training

criteria in Korean SMEs. Galang's (1999) comparative study also revealed that that training to improve technical job abilities and initial training for new employees as common practices across SMEs and large enterprises in South Korea. This study identified improving technical abilities, helping understand the businesses, and building team work as three top-ranked expectations of training programs in Korean SMEs.

### **Compensation and Benefits Practices**

There is a little transparency in the compensation systems that apply in both public and private sectors in Indonesia (Bennington & Habir, 2003). For white-collar workers and managers, pay and benefits are important consideration in deciding whether to work for a particular enterprise. Since labor supply always exceeds demand, Blue-collar workers do not have as many options to choose and difficult to exercise bargaining power over wages. Despite the fact that the government has established regional minimum wages, blue-collar workers are often unable to turn down work at rates even below the minimum (Prijadi & Rachmawathi, 2002). It is very obvious in Indonesia that there is an enormous difference between the lowest and highest paid employees. For example, this difference ranges from 1:7 in the civil services (Rohdewohld, 1995) to 1: 20 – 1:15 in the private sectors (Bennington & Habir, 2003).

In a ten-country comparative study, Lowe et al (2002) reported the use of job performance as the basis for pay raises and pay incentives (bonus or profit sharing) is relatively low in Indonesia. Despite the fact that Indonesia being one of the highest ranked collectivistic countries in Asia, the degree to which pay is contingent on group

performance is also relatively low. An employee's seniority and benefits forms an important part of the total pay package in Indonesia. However, there is relatively low level of recognition of long term results and futuristic orientation in their pay policies. However, a comparative study by Rosli et al., (2012) revealed that performance- based reward and recognition systems are being emphasized in SMEs in Indonesia.

With regard to other benefits, the employee social security system (*Jamsostek*) has been remarkably successful over the past 20 years. The *Jamsostek* consists of four kinds of protection: health protection, working accident, old-age, and death. A challenge for *Jamsostek* is how to protect employees working for smaller organizations. Although, the aim of the law was to extend coverage of membership to smaller firms including family businesses, there has been proven problems due to employers' lack of finances coupled with the goal of operating a minimal payroll (Prijadi & Rachmawathi, 2002). For effective HRM practices, it is also important to consider employees' expectations. Lowe et al.,(2002) revealed that employees expect relatively high level of pay incentives, futuristic orientation, seniority, long-term results, job performance in the determination of total compensation package.

As reported in the case of Indonesia, employee compensation has always been a difficult HR function to examine in South Korea mainly because of the confidentiality nature of this topic. Koch, Nam & Steers (1995) found that starting salaries are usually determined by one's educational level and entry positions and annual salary increases are largely determined by seniority and to a lesser extent on merit in South Korea. As a result, employees' salaries tend to progress as employees move upwards in the corporate ladder. Galang's (1999) comparative study found that incentives form a

significant part of total earning of employees in SMEs as well as large enterprises in South Korea. While local companies typically provide profit-sharing indiscriminately to every employee at an average rate of 100 to 300 percent of the employees' monthly salary, foreign companies usually base compensation more on individual performances. These different bonus programs reflect the emphasis that the Western and Korean cultures place on the concept of individual versus the group.

Lowe et al.,'s (2002) ten-country comparative study found that incentives, seniority and job performance are among the top three component of current compensation system in SMEs in South Korea. With regard to employees' expectations, futuristic pay orientation, incentives, and seniority are among the most important factors of SMEs in South Korea. Bae et al.,(2003) reported radical changes in two fundamental dimensions of Korean HRM systems. That is the evaluation and remuneration which have moved from seniority-based to competence-based performance; and 2) employment flexibility which has changed from long-term attachment and high job security towards numerical flexibility. According to Korean labor standards act, employers are required to pay one-and-one- half-times regular pay for each additional hour work beyond the eight hours mandated per day. Female employees are entitled to one day's paid leave per month and sixty days paid leave for pregnancy.

### **Performance Management Practices**

In Indonesia, performance appraisal systems vary across organizations from management- by- objectives (MBO) approach to upward and 360-degree feedback.

However, views on whether the MBO, upward, or 360 degree feedback actually works in Indonesian culture (multitudes of cultures) is quite clear because directing rather than delegating is the most preferred style by most managers in Indonesia (Bennington & Habir, 2003).

In a to country study of appraisal practices, Milliman et al.(2002) found that appraisal as a process of documentation was rated as low by respondents in Indonesia.

Respondents from other Asian countries including Indonesia indicated a moderate desire to see appraisals being used as development tool. Countries such as Indonesia, US, Canada, China, and Mexico rate appraisals as currently being used solely for promotion application. Indonesia scored a low to moderate for allowing subordinates to express their concerns in the appraisal process.

In a comparative study by Galang (1999), it was revealed that appraisals in Indonesia usually recognize good performance, identify development activities, and allow subordinates to express their perspectives feelings. The main areas of concern in Indonesian organizations are productivity and quality. For example, Bennington & Habir (2003) report that “output per worker in Indonesia is about one quarter that of Korea and one tenth that of the United States. However, it acknowledges that this data fails to take into account unit labor cost, which results in an Indonesian worker being seen as three times more productive than an American worker and twice as productive as a Korean worker”(Bennington & Habir, 2003;p.385).

Many smaller firms in South Korea use some form of an annual performance appraisal systems. At the blue collar and lower managerial levels, the primary emphasis in such

evaluation is on employee development since promotion is largely based on seniority. Milliman et al.(2002) observed performance appraisal practices of 10 countries including SMEs in South Korea. They examined four main purposes of performance appraisal: documentation, development, administration, and subordinate expression. Korean respondents ranked the process of their appraisals being developmental and towards promotion as high, while documentation and subordinate expression were ranked low. Korea, Canada, US, and Australia were in a cluster that rated the current purposes of their performance appraisal systems. The study also found appraisal for recognizing subordinates, planning and development, evaluating goal achievement and determining promotability as four “should be practices’ rated by Korean respondents. Galang’s (1999) comparative study also found appraisal to determine subordinate’s promotability as a common practices among SMEs and large enterprises in South Korea.

## **Discussion and Proposition Development**

The objective of this chapter was to explore HRM practices in SMEs in Indonesian and South Korea using existing theories and empirical evidence. Institutional theory with cultural value orientations and SHRM perspectives are used to discuss the findings.

Employment testing and interviews seem to be the predominant method of hiring employees in Indonesia. It is interesting to note that selection practices in Indonesian SMEs is more relevant to universalistic or best practices approach than contingency approach to SHRM. While Rhodes et al., (2008) emphasized the transferability of high performance of work practices in Indonesian context, Rowley et al., (2004) found that convergence is taking place in Asia-Pacific region. However, some elements of

collective culture was reflected in the case SMEs in of rural areas where organizations tend to recruit people for blue color jobs using personal referrals and relationships. The training culture focuses on both in-house and external in Indonesia. However, it was found that many SMEs do not have adequate resources to provide such investment in external training programs. Rosli et al., (2012) revealed that outside skill training programs in Indonesia are usually provided by government agencies. This shows that the impact of institutional framework of contingency approach is more relevant to training practices in Indonesia than resources based perspective of SHRM.

Performance evaluation in Indonesia tends to be developmental and informal while compensation practices focus on seniority-based pay. The developmental and informal aspects of performance evaluation systems are in consistent with resource based view and cultural impact on HRM practices. The practice of seniority-based pay is also a reflection of collective cultural values. In brief, HRM practices adopted in SMEs in Indonesia provide evidence of using a real mix of different perspectives of SHRM models, supporting both convergence and divergence hypotheses. Glinow et al., (2002) also found some significant global or converging trends in HRM practices across cultures, industries and organizations. As such, Indonesia presents a real case for an integrative model of universalistic, contingency, resource- based and institutional based view of SHRM model (e.g. Budwar & Sparrow, 2002; Schuler and Florkowski, 1996).

In South Korea, employment testing, interviews, and personal networking are the dominant staffing practices. This is a reflection of both universalistic and culture bound selection practices in Korean SMEs. It is interesting to observe that employment testing is also an important method of hiring in both in South Korea and Indonesia, placing

more emphasis on universalistic or best practices approach to HRM than contingency approach to SHRM and providing some evidence for convergence hypothesis. Job-rotation and on-the job training are the most common training practices in South Korea. It seems that many aspects of selection and training and development practices in South Korea represents high performance or best practice arguments of SHRM. Bae et al., (2003) also found that many companies in Korea are experimenting with features of American style high performance work practices. Performance evaluations in Korea tend to be developmental and informal. As we argued above in the case of Indonesia, the developmental and informal aspects of performance evaluation systems are in consistent with resource based view and cultural impact on HRM practices. Total compensation is based on both seniority and performance in SMEs in South Korea. This trend is totally in agreement with the initial expectation relevant to simultaneous use of both global convergence trends and adaptation to cultural and national differences (e.g. Huo et al., 2002).

### **Implications and Direction for further research**

The findings of this study contribute to fill the gap in HRM practices of SMEs in emerging countries in Asia, using Indonesia and South Korea as the case. It provides evidence with regard to the adoption of both universalistic and national culture-bound HRM policies and practices in the context two emerging economies in Asia. Aus such, the findings supports both convergence and divergence hypotheses as we found simultaneous adoption high performing work practices and culturally relevant HRM practices in both countries (Budwar & Sparrow, 2002; Schuler and Florkowski, 1996).



As we have discussed our findings in relation to existing models and theories of SHRM, future researchers of SMEs may use our arguments and findings as preposition for further empirical investigation of HRM practices. The findings are also important for MNCs, entrepreneurs and practitioners to understand the HRM practices adopted in SMEs in emerging countries when they make foreign direct investment decisions and managing their international operations. Future research in these two countries requires specific focus on SMEs as many existing studies covers different scales or organizations in the same study. The research should also consider key organizational, institutional, societal, and cultural variables that may influence HRM practices in SMEs.

## **Conclusion**

This explored HRM practices of SMEs in Indonesia, and South Korea. Existing literature on theoretical frameworks and empirical research findings was used in the analysis and discussion. The findings provide evidence for the adoption of both universalistic and culture-bound HRM practices in SMEs of Indonesia and South Korea. Indonesia and South Korea presented a case for adopting a real mix of different SHRM models, supporting both convergence and divergence hypotheses with an integration of universalistic, contingency, resource based and institutional based views of SHRM model. The slight difference we found between the two countries is that South Korea tends to adopts 'best practices' approach more than it does in Indonesia. As expected, HRM practices used in different countries are inching towards global convergence, while national culture and contingency factors such as institutional framework and business strategies continued to be affecting HRM practices of SMEs in Indonesia and South Korea (e.g. Huo et al., 2002). The dynamic and complex nature of HRM in these

two emerging countries in Asia stresses the relevancy of institutional theory and different perspectives of SHRM model and the need for further empirical research towards developing an integrative framework of SHRM in SMEs.

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