CHAPTER 1

INTRODUCTION

1.1. Introduction

Developing a micro, small or medium sized organization is an arduous task and keeping it afloat against the odds of competition, nurturing productivity, retaining talent and propelling it to the next level requires investment in the human capital. Human capital encompasses the skills, abilities and knowledge of the employees. Managing the human resources of MSMEs is not the same as the large public sector units. A large number of smaller and medium units termed as micro, small and medium enterprises (MSME) make up the major part of the industrial sector in the country. The emergence of the MSMEs is the result of the continuous experimentation and the development of the industrious persons paving the way for developmental activities in the industrial world. Earlier, MSMEs were not considered favourably, but were looked at sceptically for their role in reducing economy of the nation. The current trend has given way to realizing their potential in the development of industry as well as economy. With great potential for development, MSMEs today form the backbone of the industrial enterprise system in any country. Most of these MSMEs proliferate as ancillary industries to the large scale public and private sectors units that supply accessory materials or manufacture a portion of the larger product designed by the larger industries.

MSMEs are credited with contributing to manufacturing sector’s output, industrial production, exports and employment. Further, the MSMEs form an important link between the public and private sectors increasing the inter-relationships thus developing dependence on these MSMEs to a greater extent (Massey, 2003; Lewis et al. 2007). According to the Annual Report on MSME 2012-2013 published by Micro, Small, and Medium Enterprises, Government of India, a total of 44.77 million working MSMEs are found in India offering jobs for 101.259 million people with 18343 crore gross output (MSME Annual Report 2012-13). The MSMEs comprise 17% of India’s GDP that make up for 45% of the total manufactured products and 40% of exports. In Gujarat alone, there are 2.178 million enterprises offering 4.773 million employments.
Despite such critical role it plays in Indian economy, more than 50% of its labour is not organized, 60% of labour is unskilled. This leads to exploitative relationships and the labour is often poorly paid, and the managerial team is inadequate and lacks skills to manage the labour which calls for a study that will provide a good preview of the growth oriented equity and inclusion.

Since the MSME sector involves humongous human resources it makes it necessary to enquire and understand the organization of the human resources in MSME organizations and map the extent and efforts taken to formalize the HR system. This understanding would help answer questions on how labour friendly are the HR practices of MSMEs. How is this informality within the sector organized and the order in the chaos that the MSME workforce is known for.

This chapter mainly focuses on analysing the resource based view and institutional theory of the HRM practices with special reference to MSMEs. This chapter is divided into five main sections, which cover the definition of MSME and its role in different industrial sector, MSME models available in Gujarat, the resource based view and the institutional theory of the HRM practices.

### 1.2. Definition

The Ministry of MSME defines MSME as “any enterprises … engaged in production and rendering services, subject to limiting factor of investment in plant and machinery and equipment.” The classification of the enterprises based on manufacturing and service sector is given in Table 1.1.

<table>
<thead>
<tr>
<th>Manufacturing Sector – investment in plant and machineries</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Micro Enterprise</strong></td>
<td>Does not exceed Rupees 25 lakhs</td>
</tr>
<tr>
<td><strong>Small Enterprise</strong></td>
<td>Between Rupees 25 lakhs and 5 crores</td>
</tr>
<tr>
<td><strong>Medium Enterprise</strong></td>
<td>Between Rupees 5 crores and 10 crores</td>
</tr>
</tbody>
</table>
Contd. Table 1.1: Classification of MSMEs

<table>
<thead>
<tr>
<th>Service Sector- investment in equipment</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro Enterprise</td>
<td>Not more than Rupees 10 lakhs</td>
</tr>
<tr>
<td>Small Enterprise</td>
<td>Between Rupees 10 lakhs and 2 crores</td>
</tr>
<tr>
<td>Medium Enterprise</td>
<td>Between Rupees 2 crores and 5 crores</td>
</tr>
</tbody>
</table>


1.3. MSMEs in Gujarat

The state of Gujarat has achieved the status of pro-MSME, in particular, in textiles, diamonds, jari, cloth printing, and electronics sectors. As MSMEs are placed in the list of Concurrent Industries by the Constitution of India, the developmental programs are carried out in collaboration with the rules and regulations and policies at the national level (Gujarat MSME report, 2013). Table 1.2 presents the vital statistics of the MSMEs in India.

Table 1.2: Vital Statistics of MSMEs in India

<table>
<thead>
<tr>
<th>Facts</th>
<th>Numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>India’s rank in world</td>
<td>Second with 48 million MSME</td>
</tr>
<tr>
<td></td>
<td>China is first with 50 million MSME</td>
</tr>
<tr>
<td>Employees</td>
<td>Employed 69.5 million on 2009-10</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Presence of MSME</th>
<th>Urban</th>
<th>Rural</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>55%</td>
<td>45%</td>
</tr>
</tbody>
</table>

Gujarat has large number of MSMEs, second only to Tamil Nadu in the country. The most wide spread type of MSME in Gujarat are the textile sector with 369 clusters, is also the largest in India. The largest numbers of MSME are found in Surat district (75,000 units) and Ahmedabad (47,000). Majority (85%) of them is micro units while there is a small (14%) representation of small units too; medium units have a paltry representation (0.61%) (Financial Express, 9 January, 2013).

Considered as the hub of MSMEs, Gujarat is one of the states to be represented in the inaugural volume of Regional MSMER. Gujarat has number unique features in the MSMEs within the organized sector and the order in the chaos that the MSME workforce is known for. Gujarat state has a great ambition to become one of the important regions in the country for collective socio-economic development of the country. The nature of industries in Gujarat are diversified covering a great variety of industrial structure, comprising of over 800 large industries and about 4, 00,000 MSMEs with pioneering public approach programmes. The state is projected as ‘Vibrant Gujarat’ from January 2013 and consists of a large range of investors who are the back-bone of the industrial development in the state. These unique characteristics motivated the investigation of MSMEs in Gujarat in the present study with key focus of the investigation on the practice of human resource and its management in these industries.

1.4. Research Gap

Businesses rely on the skills, knowledge, and abilities of employees to distinguish their products and services in order to amplify the competitive advantage. The alignment of business competitive strategy along with a strategically defined HR system not only can bring new customers but also repeat customers (Ulrich and Brockbank, 2005; Cascio and Boudreau, 2008). However, a greater understanding on the management of these human resources in small and growing firms is needed to create a framework for handling the challenges and issues associated with addressing the work environment of the employees. It is believed that if ‘workers are managed well, then the worker will manage the company well too’ is the key to success of the industry (Alleyene, Doherty and Greenidge, 2006).

The term Human resource management (HRM) means “the regulations and mechanisms involved in bringing forward the human resource (HR) aspects of an administrative strategy
which comprises of human resource designing, job profiling, employment, selection, alignment, reward, presentation evaluation, preparation and growth, and inter-relationship amongst the employees” (Dessler, 2007). HRM includes rules, processes, and a systematic approach with appropriate systems that stimulate the positive behaviour of the workers towards the company (Noe, et.al, 2007; Absar, Nimalatythasan and Jilani, 2010).

The inter-relationship between the MSMEs and HRM has been studied by several researchers who have noted that there are several deficits in the understanding of the concept of HRM in the working of the MSMEs. It has been suggested that the increasing importance of the MSMEs puts emphasis on the study of HRM in these industries and to adopt newer techniques for the study (Hassan, 2008).

In contrast to above, comparatively, greater extent of the existing literature on management of human resources is on large organisations or companies with greater proportion of investment capital. Further, the results obtained from studies on HRM in large sectors are not comparable to the conditions present in the smaller industrial units, making it difficult to generalize the mode of HRM practices in MSMEs (Storey 2002). In spite of the pivotal role played by the MSMEs in the financial position of the country, the quality of HRM in the MSMEs and the attitudes of MSMEs towards HRM has been neglected, and it has been observed that the management of workers in MSMEs is reported as despicable (Wilkinson 1999; Chandler and McEvoy, 2000; Heneman et al. 2000; Katz et al. 2000). Therefore, as mentioned by Brand and Bax (2002), research on HRM in SMEs’ context is ‘justified because these companies are comparatively labour-based and often think about their HRM problems as crucial’. Along with the fact that many SMEs arise and close as quickly as possible and thus are profitable subjects for studying the ‘causal relationships between HRM and SMEs’ (Katz et al. 2000).

In specific, there have been very few studies in this field with focussed attention on state wide aggregation of practices.

The research was interesting and important also because of limitations pertaining to the topic of research on HRM concept in the MSME industries (de Kok and Uhlner 2001). The concepts that are specifically related to the human resources in the SMEs employ hypothesis related to particular topics that limit the extent of research in this area leading to a lack in analytical and descriptive research (Heneman et al. 2000). This has made researchers refrain or have limited scope for study on this topic. There is also the lack of empirical studies that
could be statistically confirmed and the information that is available has been conducted with limited sample size or importance given only to larger organizations (Bayo-Moriones and Merino-Diaz de Cerio 2001). Further, studies on human resource is essential in SME and MSMEs mainly due to the proportion of importance it achieves due to de-motivation, attrition and high turn-over rates in these organizations as the vision and mission of SMEs in India are frequently spearheaded by the owners, which does not get translated as goals of the employees (Sengupta and Sengupta, 2014).

Luc Sels et al. (2004) have studied the link between HRM and small businesses and identified certain aspects of the study. They have made efforts to investigate the effects of HRM and firm performance. It was noticed by them that the works on this topic were available only for large companies. Their work primarily looked into the HRM and its impact on smaller companies. They further succeeded in developing a conceptual frame-work “linking HRM to financial performance that fits small businesses”.

HRM is a recent phenomenon in MSMEs in India and many questions about good HRM structure remain unanswered. MSME owner-managers might be using different practices to manage their people but there is dearth of studies wherein researchers has tried to collate these practices under the concept of HRM. Research on HRM formalisation and organisational performance in small businesses has addressed questions like which HRM practices, why these and what impact these have on the HRM system and organisational performance (Nguyen and Bryant, 2004). Research reveals that when firm size increases informality becomes apparent. In such a situation, entrepreneurs make some effort to gain required sophistication in management practices to recruit, motivate and retain best talent, to achieve organisational objectives optimistically.

As mentioned above, HRM formalisation has an impact on firm performance and as firm size increases there is requirement of more formal practices. For gaining better performance owner managers of poor performing firms may attempt to achieve that certain level of HRM formalisation which in turn leads them to successful category of MSMEs.

Considering all the above discussions, this proposed study will investigate HRM practices in MSMEs. Investigation and evaluation of HRM formalisation and its association with MSME’s performance is an interesting and challenging job especially when investigating this for MSMEs of any developing country where the research is in a nascent stage.
Recommendation of this study will be very important for poor performing and or unsuccessful MSMEs. This study will add to scientific knowledge on HRM and MSME performance by providing empirical finding for HRM formalisation and its association with organisational performance. This issue is highly recommended in a number of latest studies as critical for future investigation especially in MSMEs (Huselid and Becker, 2000; Zheng, et. al., 2006). Moreover, it will also contribute to existing knowledge on HRM and MSME performance in a different institutional and cultural context as this study will be conducted in the state of Gujarat, India.

1.5. Theoretical Framework

The theory of strategic human resource management (SHRM) has been developed by many researchers (Delery, 1998) to make it a veritable strategic design (Ulrich, 1998). Multiple theoretical frameworks based on the behavioural perspective, resource view, and institutional concept and human capital view have been established to reflect on the problems of the HRM. These theories have founded on two important conclusions: (1) human capital referring to the skills, behaviours, and interaction of the employees holds a pivotal position, which becomes the fundamental necessity for strategy formulation as well as mode to implement the strategy and (2) The conviction that HR practices of an organization contributes to the development of strategic capability of its human resources. Both these theories when combined will produce a stronger theoretical foundation that would propel the organization to develop an effective way to manage as well as utilize the resources efficiently. This study believes on the two concepts described above and therefore, an effort has made to describe and delineate the operational capabilities of these views. Both the theories are analysed in this study as a perspective to conduct SHRM research. As this study is not bound by developing a new theory, the existing concepts are researched from the different angles.

1.6. HRM Practices and Resource-Based Theory

The resource-based theory on the HRM practices has its origins in the economic theory given by Penrose in 1959 and early strategy theory by Andrew (1980). If a company has to stay in position for a long time, it must have good endowment of resources, with products being
different from those of their rivals and products that are unique, inimitable and with longer life and quality which cannot be substituted (Collis and Montgomery, 1995; Rangonne, 1999). Resources have been classified into many types within an organization based on certain criteria and some are enlisted as follows:

**Type:** “financial (accounting), physical infrastructure (machinery), human (workers), technological (technical aspects), organizational (control and administration)” (Azzone et al., 1996).

**Tangibles:** human, physical, and financial; intangibles: profile, company, knowledge and patents (Collis and Montgomery, 1995).

**Skills:** “assets and skills” or “competencies”. The assets are again grouped into “legal assets” comprising “contacts, license and brand names” and “non-legal assets” comprising “reputation, network and database”. The competencies include knowledge, skill, management qualities, learning-abilities and quality (Hall 1992), “Competence and potentiality” (Sanchez et al., 1995; Rangone, 1999).

Resource-based view assumes that individual firms are distinct and contain varied resources. This model is based on the view that firms develop unique competencies available in the human capital resources within their control in order to establish sustainable competitive advantages (Teece, 1980; Barney, 1991; Wernerfelt, 1984). Followers of resource-based view emphasise that competitive advantage arises from sound resource base. Role of managers is clearly identified to play a crucial role in choosing the right resource (employees), developing and deploying them according to the needs of the business goals, which goes beyond the operating environment (Colbert, 2004). A similar view was held by Wright and McMahan (1992), where they defined SHRM as “the pattern of planned human resource deployments and activities intended to enable an organization to achieve its goals.” Most of the resource-based theories consider only critical or important resources that have a competitive edge for the progress and development. Nevertheless, the resources must be tested in order to determine their competitiveness. Prahalad and Hammel (1994) proposed some tests to investigate the strength of competitiveness:
- Test for superior quality of the products.
- Test for degree of imitation in the product.
- Test to measure the longevity of the product.
- Test for determining the degree of substitutability of the product.

In an effort to theorise the HRM system based on resource perspective, a quantitative and positivistic approach is not relevant as each organization is considered unique and complex (Pugin, 2014).

1.7. HRM practices and Institutional theory

Contrary to the strategic and economic legacy of the resource-based view, institutional theory embraces a sociological view. According to this theory, organizations are considered as social entities, which react to the environmental pressure to achieve legitimacy and affirm survival. Best practices of HRM from one organization is copied to the other resulting in wide spread HRM policies and practices that is beneficial to all the organizations (Tolbert and Zucker 1983). On the other hand, Croucher, Wood, Brewster and Brookes (2012) relate to the institutional theory as a postulation that support the awareness about the diffusion and divergence or convergence of HRM practices of the organizations all over the world.

The HRM system involves people with innovative ideas who can strategically plan and productive workers who can shoulder the responsibilities of the progress of the company in an effective manner (Noe, et. al, 2007). Good HRM practices include well developed recruitment of personnel, plans for induction, training, and progress, programming for these areas, introducing a system for rewards and benefits linked to good performance of the work force which overall increases the performance of the company (Omolo, et al., 2013). Studies by various researchers have supported the concept of HRM practice to profitable results for the company like development of innovative products, achieving greater customer satisfaction and profit (Dooney, 2005).

Researchers have established the facts that the small business entities have a different form of HRM compared to the larger companies with respect to the type and amount of resources, the numbers of workers, and staff with training for HR (Barber, et.al, 1999). Thus the type of design and schemes involved in the HRM practices in the smaller firms has been found to be tough to explain (Cardon and Stevens, 2004; Tocher and Rutherford, 2009). The problems
exist in the employment of the staff and in programming a well-planned HRM regimen in case of SMEs (Williamson, Cable, and Aldrich, 2002; Cardon and Stevens, 2004). It has been suggested by Rutherford, Buller, and McMullen (2003) that it is essential to reform the concepts and strategies of HRM in the companies (Hargis and Bradley III, 2011).

Past literature suggests that implementing HRM practices in small companies will positively affect the performance of the workers which in turn would provide thrust to the progress and profits of the company. HRM in such companies can improve the authenticity of these companies, improve the skill of the employees, thus enhancing the quality of work and increase the competition among the smaller companies (Williamson, Cable, and Aldrich, 2002). Therefore it is noted that by increasing the genuineness of the company, it is possible to position the company in a better rank in the industrial market, which implies better value for their shares and stocks. On the whole it is seen that “organizations with collective efforts and team work based on cohesion, teamwork, and morale often enjoy greater employee commitment and retention” (Cameron and Quinn, 1999).

Stiff competitions and greater challenges initiate the smaller companies to employ good HRM practices. The result can yield better benefits and affect employees by motivating and encouraging them to perform well thereby chalking out a progressive path for the companies (Williamson et al., 2002). By employing such measures the companies get the advantages of good labour-intensive workforce that improves outcome. Investing in technology by the company, improving the quality of resources and re-planning the means and mechanisms of work-culture are some of the ways to improve the HRM that would ensure the progress of the company (Bloom and Van Reenen, 2007; Patel and Cordon, 2010).

From the review of literature, it is evident that management of the human resources in the companies, be it large or small companies affects the overall well-being of the employees, along with comprehensive development of the person, team and the firm by enhancing performance at each level. Thus, the concept of HRM must be considered along with the context of performance of the firm, as well as the effect of the progress of the firm on its workforce (Michie and West, 2004). Companies must improve their HRM practices by providing adequate training, evaluation methods and good administrative mechanisms.

Attempts to empirically explore the link between HRM and firm performance are numerous. In any company, the managers are the chief architects of the functional aspects of the company engaged in planning the structure, schemes and processes. The plans, positioning
and administrative insights should take workers into account while determining the business goals for the company (Ordiz-Fuertes and Fernandez- Sanchez, 2003). Several researchers have emphasized that the attributes of the administration get modified with time, and in line with the opinion of the managers and their sense of understanding. Hence it is seen that the opinion of the managers of their staff has an immense effect on the administration and functioning of the company. Looking in to the role of the managers in the opinion building of the workers, Creed and Miles (1996) have considered the level of ‘trust or mistrust’ shown by managers’ actions, gets an interactive response from the workers. The opinion formed by the managers with respect to their staff is of utmost importance in the functioning of the company and affects its functionality. Shore and his co-workers (2004) have deduced that the managers’ views on the employees make tremendous impact on their interaction with the employees. Tzafrir (2005) and Delery and Doty (1996) enumerated some common HR regulations detected in most companies as “influenced by the degree of managerial trust in employees” are (1) effect of monetary packages, (2) role of employees in decision-making,(3) work force availability in the company and (4) skill development.

1.8. Research Aim and Objectives

The aim of this research is to extend the concept of de Kok and Uhlaner (2001) to investigate the effect of formalisation of human resource management practices (HRM) on organisational performance with special reference to MSMEs based in Gujarat.

The main objectives of this study are

- To identify the antecedents of formalisation of HRM practices in MSMEs.
- To examine few of the antecedents and their effect on formalisation of HRM practices in MSMEs
- To investigate the impact of formalisation of HRM practices on MSMEs, especially in Gujarat.
- To explore if there is any correlation between the formalisation of HRM and organisational performance.
1.9. Brief Explanation of Base Research Paper

de Kok and Uhlaner (2001) in their paper titled Organization Context and Human Resource Management in the Small Firm derives and then tests a descriptive model based on some organizational contextual variables. They have done the study as pilot on sixteen small Dutch firms to do a preliminary test of the model and left the detailing as future research study.

They have divided the paper in two parts. They first solely tries to develop a rationale about their proposed linkages between various theories like resource based approach, institutional theory, transaction cost economics, behavioral theory and other concepts from strategic management. The second part of the paper contains the results of the study. The study was done in two steps, first as qualitative and then quantitatively.

The goal of this paper is to understand the role of organizational contextual variables like company size, strategy, technology, culture and environment in the variation in practices of HRM amongst small firms. They have derived HRM practices from the various definitions of formalization. They have drawn linkages of the contextual variables from the various theories as stated above viz., resource based approach, transaction cost economies etc. Formalisation has been indicated as a subjective term with no specific definition. It is shown as amalgamation of various HRM practices. They have taken formalization as their dependent variable. They have therefore stated the objective of their study as to study the reason behind the variation in the formal HRM practices in small businesses. The model which they have formulated contains four contextual independent variables, viz. Collective labour agreement; company size, large firm associate and growth strategy, which they have derived from the study of the various above stated theories. They intend to show how they influence the degree of formalization of HRM practices in small business. Three latent variables, (i) requirement from/ expectations from external stakeholders, (ii) resources and (iii) perceived value of HRM practices has been taken to build a rationale to link independent variables with dependent variable, i.e. Formalisation of HRM practices.

They have studied 16 Dutch firms with 10-41 employees of minimum 5 years of age, with series of semi structured interviews. In the first part of the study, they have done qualitative analysis and have sorted the answers according to the various HRM practices. They have found wide variation in their results. In the second quantitative part, wherever there is presence of dichotomous variables in both independent and dependent variables, Fisher’s Exact Test was used. Phi coefficient is then used to test the direction of relationship. In other ordinal variables Pearson Product Moment Correlation Coefficient is used.
For the first hypothesis, Collective labour agreement showed no effect on formalization of HRM practices. Whereas, a positive correlation was found with company size and formalization. Large firm association shows partial strong correlation with training programme in formalized HRM practices. And finally, weak but consistent relationship was found amongst growth strategy and formalization.

de Kok and Uhlaner finally concluded that company size is an important factor in formalization of HRM practices. Second, they have found wide variation amongst HRM practices in small businesses. Third, there is a lack of interrelationship between various dimensions of HRM practices. They have also found that resource plays a important factor in this aspect. And finally, no competitive strategy influences the choice of HRM practices. They conclude by emphasizing the need of formalized HRM practices which in turn are beneficial for small organizations.

1.10. Research Framework

The objectives of this study has motivated to formulate a research framework (Fig. 1.1) that attempts to find a link between the organisation size, labour agreement, large firm association and the formalisation of the HRM practises of MSMEs. Past literature has shown that organisation performance is correlated with the HRM practices adopted by the MSMEs. Therefore, this study has attempted to find such a correlation in the MSMEs of Gujarat, as it is a hub of MSMEs.

![Figure 1.1: Research framework](image-url)
1.11. Research Hypothesis

The impact of formalisation of the HRM practices was studied with respect to organisation size, labour agreement and large firm association. Based on these views, following hypotheses were put forward:

**H1:** Organisation size is positively related to formalisation of human resource management practices

**H2:** Labour agreement is positively related to formalisation of human resource management practices.

**H3:** Large firm association is positively related to formalisation of human resource management practices.

**H4:** Organisation size, labour agreement and large firm association together is positively related with formalisation of human resource management practices

**H5:** Formalisation of HRM practice is positively related with organisational performance.

The research model created based on the hypotheses is illustrated in Figure 1.2.

Along-with that, by keeping formalisation of HRM as mediator and organisational performance as dependent variable, three other hypothesis were formulated from independent variables. These hypotheses were included in the main model and have been explored to see any further existent relationships. Also, three more hypotheses, from hypothesis 7 to hypothesis 9, were also formulated from demographic details to examine their effect on organisational performance keeping formalisation of HRM as mediator. These hypotheses were not included in the main model and have been explored to see any further existent relationships.
H6a: Formalisation of HRM practices mediates the relationship of organisation size and organisational performance.

H6b: Formalisation of HRM practices mediates the relationship of labour agreement and organisational performance.

H6c: Formalisation of HRM practices mediates the relationship of large firm organisation and organisational performance.

H7: Formalisation of HRM practices mediates the relationship of age of the organisation and organisational performance.

H8: Formalisation of HRM practices mediates the relationship of number of permanent employees and organisational performance.

H9: Formalisation of HRM practices mediates the relationship of type of business and organisational performance.
Figure 1.2: Research Model
Figure 1.3 to 1.8 contains the pictorial depiction of the proposed hypotheses from H6a to H9. As the research progressed, efforts were taken to probe any other possible relationship within the studied variables.

Figure 1.3. Hypothesis 6a depicting Formalisation of HRM practices mediates the relationship of organisation size and organisational performance.

Figure 1.4. Hypothesis 6b depicting Formalisation of HRM practices mediates the relationship of labour agreement and organisational performance.
Figure 1.5. Hypothesis 6c depicting Formalisation of HRM practices mediates the relationship of large firm association and organisational performance.

Figure 1.6. Hypothesis 7 depicting Formalisation of HRM practices mediates the relationship of age of organisation and organisational performance.
Figure 1.7. Hypothesis 8 depicting Formalisation of HRM practices mediates the relationship of number of permanent employees and organisational performance.

Figure 1.8. Hypothesis 9 depicting Formalisation of HRM practices mediates the relationship of type of business and organisational performance.
1.12. Conclusion

Theorizing the concept of HRM practices were one of the goals of this study, though no attempt was made to formulate new theories. Hence, based on the objectives of the study this chapter mainly focused on the resource based view and institutional theory. The resource based view pertains to the managing of the resources, in particular the human resources. Human capital is an inimitable resource that cannot be copied or substituted, therefore, provides a competitive edge. A HRM practice that addresses the issues of human resource is essential to keep the workforce motivated and be productive. On the contrary, from the literature, it has been observed that a large number of small business organizations do not comply with these practices (Binks and Ennwe, 1996).

To explore further, in the present study, the MSMEs in Gujarat have been chosen as the subject of the research as highlighted by many unique features, volume of MSMEs present in this state and type of industrial sector it covers. Given the wide variety of these industries in Gujarat, it becomes necessary that the strategies and policies put-forth in the management of human resources or the employees, in other words, is imperative to be studied.

Keeping these in mind, this thesis continues in the later sections with literature review by bringing in the studies of different authors. Thereafter, a research methodology was formed, pilot study was done and then final data collection, analysis and interpretation were done. Detailed descriptions of the results were put forward concluded by conclusion, implications, limitations and future research directions.