CHAPTER 2
REVIEW OF LITERATURE

2.1. Introduction

Efficient utilization of the existing resources is the key to success of small firms, especially when they are constrained by resource limitation (Gallego, Rubalcaba, and Hipp, 2012). Unlike the larger confederates, small and medium sized firms do not have the leverage to draw from a pool of reserve resources. Human capital is a vital resource that needs to be cultivated, developed and nurtured, be it by small or large organizations. Several studies in the past decade have clearly indicated a correlation between HRM practices and organizational performance (Georgios, Theriou, and Prodromos, Chatzoglou, 2008; Wiklund and Shepherd, 2005). A vast majority of these studies have focussed only on the larger firms, while MSMEs have been conveniently ignored (Kishore, Majumdar and Kiran, 2012; De Clercq and Rius, 2007). This is surprising as SMEs largely contribute to revenue generation, trade prospects and employment. Even in small sized organisations, adoption of HRM practices can improve MSME’s performance and combat competition (Patel and Cardon, 2010; Razouk, 2011; Michie and Sheehan, 2008). Of late, there has been a growing interest to understand the strategic importance of HRM in small firms, as both academicians and practitioners accept that smaller firms need HRM practices for their progress, though the subject is still in exploratory stage (Heneman, Tansky, and Camp, 2000).

Concurrently, the subtleties between the formal and informal practices of HRM are influenced largely by the legal and regulatory framework in which the organisation operate. Therefore, this study has focussed on the formalisation of HRM practices in MSMEs, particularly in Gujarat. This study does not behold on itself to establish a link between HRM practices followed and performance of the organisation. This chapter discusses in detail the formalisation of HRM practices, with special regard to SME. Organisational contextual dimensions and HRM practices have been investigated and the observation recorded.
2.2. Significance of MSMEs

Micro, small and medium enterprises are structurally different from the larger industries. SMEs and MSMEs have unique features, such as highly interactive, aggressive, strong, firms with limited resources, comfortable easy-going approaches and relaxed regulations, which make them stand apart from the large scale industries (Hudson, Smart, and Bourne, 2001; Qian and Li, 2003). The MSMEs play a crucial role in the economic development of the country by contributing to the decentralization of industries, use of indigenous resources, augmenting employment opportunities, even distribution of income, foreign exchange earnings, link for existing industries, entrepreneurial development and rural industrialization and thereby reducing regional imbalance and bringing economic stability (Yesseleva, 2012). Initiating by production of simple consumer goods, MSMEs nowadays have touched almost all sectors. They play a crucial role by not only providing employment opportunities, but also industrialisation of rural and backward areas, thereby reducing regional imbalances by proving opportunities for equal distribution of income. They, in-fact, compliment large scale industries. Jong and Marsili (2006) has pointed that MSMEs respond to external threats and opportunities promptly which acts as a platform for further innovation.

They are, therefore, aptly called by Indian Government as the “engines of growth”\(^1\). 31.79% of enterprises in MSME sector are in manufacturing and 68.21% are in services (MSME Annual Report 2012-13). According to recent studies, the Small Scale Industries (SSI) in India, account for more than 90% of the enterprises producing 40% of the products with innovative features, and amounting to 35% of the exports (Sharma and Wadhavan, 2009). Roughly 26 million people are employed in the SMEs manufacturing sector and around 7500 different products are produced in India (Rajan and Pahal, 2012). This has been substantiated by MSME Annual Report 2012-13, that more than 6000 type of products which covers a varied range are produced. Figure 2.1 depicts the various types of products and their percentage share of contribution in total MSME sector.

SMEs use both traditional forms as well as advanced technology to manufacture industrial products. Government of India is giving utmost priority to the development of MSME sector. According to the Results Framework Document for Ministry of Micro, Small and Medium Enterprises (2012-2013), Government has set up a mission to support existing enterprises and encourage development of new ones. A target of increase in the growth of number of enterpr-

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Table 2.1: Summary of MSME’s statistics at a glance

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>14.85 (94.94%)</td>
<td>1,69,538 (37.75%)</td>
<td>3,12,973 (44.24%)</td>
<td>65.34 (70.19%)</td>
</tr>
<tr>
<td>Small</td>
<td>0.76 (4.89%)</td>
<td>2,23,503 (49.76%)</td>
<td>3,18,794 (45.06%)</td>
<td>23.43 (25.17%)</td>
</tr>
<tr>
<td>Medium</td>
<td>0.03 (0.17%)</td>
<td>56,097 (12.49%)</td>
<td>75,743 (10.71%)</td>
<td>4.32 (4.64%)</td>
</tr>
</tbody>
</table>

Numbers in parentheses shows percentage share


Fig: 2.1: Sector wise distribution of different industries in MSME sector in India.
Source: MSME Annual Report 2012-2013
ises upto 50% and enhancement in GDP from present 8% to 10% in the present 12th Five Year Plan which ends by 2017 is set.

The contribution towards employment generation shows a very high number of 1012.59 lakh during the last reported year 2012-13. It depicts the significant role of MSMEs in a country like India where income disparity is high.

![Chart: Employment (in lakhs) in MSME sector in India](image)

**Note:** Figures show projected data of all the years.

**Fig: 2.2: Employment (in lakhs) in MSME sector in India**
*Source: MSME Annual Report 2012-2013*

Total number of enterprises in India is estimated in Annual Report of MSME 2012-13 were estimated to be 361.76 lakhs. Table 2.2 shows the ten states having the highest number of enterprises, wherein Uttar Pradesh holds the highest rank with 44.03 lakh enterprises and Gujarat holds the seventh rank with a total estimated 21.78 lakh of enterprises.
Table 2.2: Table showing ten leading states in India in no. of enterprises

<table>
<thead>
<tr>
<th>Rank</th>
<th>State</th>
<th>No. of Enterprises (in lakh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Uttar Pradesh</td>
<td>44.03</td>
</tr>
<tr>
<td>2</td>
<td>West Bengal</td>
<td>36.64</td>
</tr>
<tr>
<td>3</td>
<td>Tamil Nadu</td>
<td>33.13</td>
</tr>
<tr>
<td>4</td>
<td>Maharashtra</td>
<td>30.63</td>
</tr>
<tr>
<td>5</td>
<td>Andhra Pradesh</td>
<td>25.96</td>
</tr>
<tr>
<td>6</td>
<td>Kerala</td>
<td>22.13</td>
</tr>
<tr>
<td>7</td>
<td>Gujarat</td>
<td>21.78</td>
</tr>
<tr>
<td>8</td>
<td>Karnataka</td>
<td>20.19</td>
</tr>
<tr>
<td>9</td>
<td>Madhya Pradesh</td>
<td>19.33</td>
</tr>
<tr>
<td>10</td>
<td>Rajasthan</td>
<td>16.64</td>
</tr>
</tbody>
</table>

Source: MSME Annual Report 2012-2013

It is indeed very hopeful and encouraging to see the figure in table 2.3 where the number of employment generated by MSME is given. All these figures indeed strengthen the place of MSMEs in Indian growth map.

Table 2.3: Table showing ten leading states in India in no. of people employed

<table>
<thead>
<tr>
<th>Rank</th>
<th>State</th>
<th>No. of people employed (in lakh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Uttar Pradesh</td>
<td>92.36</td>
</tr>
<tr>
<td>2</td>
<td>West Bengal</td>
<td>85.78</td>
</tr>
<tr>
<td>3</td>
<td>Tamil Nadu</td>
<td>80.98</td>
</tr>
<tr>
<td>4</td>
<td>Andhra Pradesh</td>
<td>70.69</td>
</tr>
<tr>
<td>5</td>
<td>Maharashtra</td>
<td>70.04</td>
</tr>
<tr>
<td>6</td>
<td>Kerala</td>
<td>49.62</td>
</tr>
<tr>
<td>7</td>
<td>Gujarat</td>
<td>47.73</td>
</tr>
<tr>
<td>8</td>
<td>Karnataka</td>
<td>46.72</td>
</tr>
<tr>
<td>9</td>
<td>Madhya Pradesh</td>
<td>33.66</td>
</tr>
<tr>
<td>10</td>
<td>Odhisa</td>
<td>33.24</td>
</tr>
</tbody>
</table>

Source: MSME Annual Report 2012-2013
It is necessary to know the highest number of enterprises in each industry to understand the dominancy and demand of them in the market. Table 2.4 gives a bird’s eye view of the first 10 leading industries in terms of number of enterprises in India.

Table 2.4: Table showing the ten leading industries, in terms of enterprises in India

<table>
<thead>
<tr>
<th>Rank</th>
<th>Industries</th>
<th>No. of Enterprises (in lakh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Retail Trade except of Motor Vehicles and Motorcycles; Repair of Personal and Household Goods</td>
<td>144.15</td>
</tr>
<tr>
<td>2</td>
<td>Manufacture of Wearing Apparel; Dressing and Dyeing of fur</td>
<td>31.65</td>
</tr>
<tr>
<td>3</td>
<td>Manufacture of Food Products and Beverages</td>
<td>25.12</td>
</tr>
<tr>
<td>4</td>
<td>Other Service Activities</td>
<td>22.43</td>
</tr>
<tr>
<td>5</td>
<td>Other Business Activities</td>
<td>13.64</td>
</tr>
<tr>
<td>6</td>
<td>Hotels and Restaurants</td>
<td>13.18</td>
</tr>
<tr>
<td>7</td>
<td>Sale, Maintenance and Repair of Motor Vehicles and Motorcycles; Retail Sale of Automotive Fuel</td>
<td>12.92</td>
</tr>
<tr>
<td>8</td>
<td>Manufacture of Furniture and Manufacturing not elsewhere classified</td>
<td>11.61</td>
</tr>
<tr>
<td>9</td>
<td>Manufacture of Fabricated Metal Products, except Machinery and Equipment</td>
<td>8.42</td>
</tr>
<tr>
<td>10</td>
<td>Manufacture of Textiles</td>
<td>8.42</td>
</tr>
</tbody>
</table>

Source: MSME Annual Report 2012-2013
Similarly, it is to be understood and then encouragement must be given those industries which produce the highest number of employment. Table 2.5 shows the top ten employment generating industries in India.

Table 2.5: Table showing the the ten leading industries, in terms of employment in India

<table>
<thead>
<tr>
<th>Rank</th>
<th>Industries</th>
<th>No. of people employed (in lakh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Retail Trade except of Motor Vehicles and Motorcycles; Repair of Personal and Household Goods</td>
<td>245.48</td>
</tr>
<tr>
<td>2</td>
<td>Manufacture of Food Products and Beverages</td>
<td>62.99</td>
</tr>
<tr>
<td>3</td>
<td>Manufacture of Wearing Apparel; Dressing and Dyeing</td>
<td>60.06</td>
</tr>
<tr>
<td>4</td>
<td>Other Service Activities</td>
<td>37.65</td>
</tr>
<tr>
<td>5</td>
<td>Manufacture of Textiles</td>
<td>35.91</td>
</tr>
<tr>
<td>6</td>
<td>Hotels and Restaurants</td>
<td>33.92</td>
</tr>
<tr>
<td>7</td>
<td>Sale, Maintenance and Repair of Motor Vehicles and Motorcycles; Retail Sale of Automotive Fuel</td>
<td>30.03</td>
</tr>
<tr>
<td>8</td>
<td>Manufacture of Furniture and Manufacturing not elsewhere classified</td>
<td>28.19</td>
</tr>
<tr>
<td>9</td>
<td>Other Business Activities</td>
<td>27.67</td>
</tr>
<tr>
<td>10</td>
<td>Education</td>
<td>27.26</td>
</tr>
</tbody>
</table>

Source: MSME Annual Report 2012-2013
There has been a remarkable growth rate amongst MSMEs. Figure 2.3 shows that since year 2007 there has been a constant growth rate of around 10%, whereas in 2010 it has increased up to 19%.

![Graph showing growth rate of MSMEs in India from 2007-08 to 2010-12.](image)

**Figure 2.3: Growth rate of MSME’s in India**  
*Source: MSME Annual Report 2012-2013*

After a look on the importance of MSMEs in India in the above section, the conflicting side must also be noted not only amongst India, but also in world scenario. Rise in number of MSMEs especially in India, along with liberalisation policy which has reformed the market, has given rise to competition both from domestic and global market. This has become the greatest threat to them as many of their counterparts produce low quality goods, which originate from developing countries that do not maintain specific standards (Bessant and Tidd, 2007). Consequently, small companies are constantly struggling to keep up with the competition (Mil’ETerziovski, 2010).

Despite of that, all the literature and statistics stated above shows the importance of MSMEs not only in world scenario, but also in India. Next, the relation of human resource management with MSME was studied to find the impact on each other.
2.3. Human Resource Management Practice

The term human resource management comprises of planning, progress and growth, and execution of these plans towards employees in the same working set-up which determine the reputation of the company in drawing future employees towards the company, preserve the set of well-motivated employees and thus increase the engagement and productivity of the employees (Noe, Hollenbeck, Gerhart, and Wright, 2007).

The HRM practices involve the management of the human resources in a company by attracting, maintaining and developing the company’s manpower (Lado and Wilson, 1994). The recent observations made in this context signify that the HRM practices are important for both large and small industries (Carlson, Upton, and Seamon, 2006). It is treated as one of the important component of industrial enterprises in small scale retailing and service sectors (Mclean, 2006; Brand and Croonen, 2010).

Pfeffer (1994) describes training, recruitment, benefits and reward schemes for the employees as some of the HRM factors that influence the productivity of the employees that concurrently boost the profits to the company. Further, studies indicate that product novelty, satisfaction level of the buyers, productivity of the company and monetary benefits are the constructs in the better HRM practices (Dooney, 2005; Pfeffer and Veiga, 1999). It is evident that most of the data for such researches have been obtained from large industries or public sectors rather than from the smaller units. It can be easily seen that these smaller units are basically much different from larger units in their structure and functioning, number of employees, type of resources used, and skill development of the workers (Barber, Wesson, Roberson, and Taylor, 1999). Thus it can be observed that these structural differences impact our understanding of the HRM practices used in the smaller industry types (Cardon and Stevens, 2004; Tocher and Rutherford, 2009).

Past studies indicate that the concept of HRM practices implemented in the organisation is the result of certain rules and regulations enforced by governmental agencies in order to emphasize on the need to implement HRM practices (Paauwe and Boselie, 2003). Others attribute its implementation to the effect of the surrounding environment of the organisation and have emphasised the role of national institutions in resolving the issues in HRM in spite of the growing concept of regionalisation and federalization of HRM (Gooderham, Nordhaug, and Ringdal, 2006; Andolsek and Stebe, 2005; Quintanilla and Ferner, 2003).
Though the balance between the HRM and the national institutional context is a delicate one, the national institutions have helped to develop a varied concept of the HRM (Brewster, 2007; Wailes, Ramia, and Lansbury, 2003). The kind of relationship between the HRM and institutions is a complicated one, which if understood well, will help in creating an active role of human resources in response to the environmental factors (Boon, Paauwe, Boselie, and Hartog, 2009; Ferner, Almond, and Colling, 2005). This conversion of the national institutions into regional practices is most important for the identification of the type of changes that occur in the HRM and the policies taken up by the institutions or companies (Raak, de Rijk, and Morsa, 2005; van Gestel and Nygerg, 2009).

The studies on the HR policies of the smaller and medium enterprises are limited as it is generally construed that the companies with fewer employees do not require sophisticated HRM policy. Nevertheless, some of the researchers have studied on the implementation of HRM practices in the SMEs and MSMEs, for example, as depicted in the study conducted by Kotey and Slade (2005). The studies have evaluated the aspects of the size of the company in terms of number of employees, kind of work, promotional policies, managerial criteria that have been implemented in small companies, which has an impact on the performance of the company (Hargis and Bradley, 2011).

SMEs engaged in export of goods, franchising to other bigger brands, or deal with larger firms in collaboration have directed by policies that dictate specific norms with respect to hiring and selection. On the other hand, firms, who are into franchisee type of business, use a methodical approach for skill development and activities related to the progress of the firm (de Kok, Uhlaner, Thurik, 2003). In this type of business format, the larger organisation or the parent organisations define the rules and regulations for the functioning of the smaller firms. In the case of owner managed firms, the style of functioning of the main person in the firm, i.e., the head, manager or the owner himself, largely decides the kind of rules and regulations followed in the firm. For example, if the head of the company or the manager is more enterprising and disciplinarian, then the company will pursue more systematic way of managing human resources with emphasis on worker evaluation, development programmes for the employees, consideration for employee views on managerial issues, better retirement plans and role sharing (Wager 1998). However, the norms are not just restricted to internal forces, but also to a number of external factors, such as conditions related to trading and shares,
governmental regulations, and sector conditions, which have domination over the HRM practices followed in an organisation. Tanavo (2003) observed that companies adopt different HRM practices depending on the type of company. Similarly, the size of the company, i.e., whether large or small, determines the benefit programmes employed for the staff (Brand and Bax 2002; Urbano and Yardanova, 2008).

Early studies on human resource management (HRM) from the US and the UK report several models showing direct relationship between workers and the HR policies of the firms and the nature of functioning of the company (Schuler and Jackson, 1999). The prescribed models help in evaluating the HR schemes adopted by the company towards the workers and their role in increasing the output in the company. Keeping in view these aims of the company, the focus was placed in this study on the kind of relationship amongst the HR policies of the company with the employees. Several problems were discussed like employee recruitment, policies of job hierarchy, monetary benefits, training and retirement schemes (Bartel, 1994; Banker, Lee, Potter, and Srinivasan, 1996). Several authors have viewed the relationship of these points with the HR practices and found that HRM systems were connected to organisational productivity and success (Huselid and Becker, 1996; Katou and Budhwar, 2006).

2.4. Human Resource Practices and SME

Heneman, et. al., (2000) has concluded in his study that dearth of information about HR in SMEs has created barrier in the study of these organisations. His study points out that amongst 403 articles only 129 dealt with HR issues specifically. Existing empirical studies on HRM within SMEs indicates that large organisations make use of high performing HR practices as compared to their smaller counterpart (Barron et al., 1987; Hornsby and Kuratko, 1990). If studies by various authors are considered (Table 2.6) in line with this, similar views gets reflected. But, organisation size alone does not decide on the HR practices of SMEs. Extreme variation has been found amongst structure and type of HR practices in SMEs.
Table 2.6: Studies of few authors on HR practices in SMEs

<table>
<thead>
<tr>
<th>Year and Author</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jackson et al. (1989)</td>
<td>Smaller companies are found to have less formalised performance appraisals, less likelihood of bonuses based on company productivity and less training than do larger companies.</td>
</tr>
<tr>
<td>Koch and McGrath (1996)</td>
<td>Firm size is positively related with the incidence of HRM planning and formal training, and with the level of overall HRM sophistication.</td>
</tr>
<tr>
<td>Westhead and Storey (1997, 1999)</td>
<td>Both managers and employees are less likely to get formal training in a small firm.</td>
</tr>
<tr>
<td>Aldrich and Langton (1997)</td>
<td>Larger companies have more formalised recruitment practices.</td>
</tr>
</tbody>
</table>

Most of the SMEs are challenged by units having similar kind of products with better brand names, company profile, and thus have to adopt more risky procedures for successful ventures. At the same time, the threat of failure is real, especially from the similar trade sector.

Small and medium enterprises compete for market share with their larger industrial counterparts despite having limited resources, manpower, and their position in the industrial sector (Aldrich and Fiol, 1994). Therefore, they face challenges in hiring the right kind of employees, keeping them intact, providing adequate benefits and initializing them to perform better (Cardon and Stevens, 2004). It is evident from the studies that the managers of most SMEs are under-trained for HRM implementation. Further, the SMEs are also lack sufficient infrastructure, and proper HR practices, making it all the more difficult for the administrators to develop and maintain a good workforce (Heneman and Tansky, 2002). The challenges get multiplied when SMEs of similar nature compete for the same market share within a restricted environment and area. Thus, the key limiting factors for the SMEs are often their
limited resources, both tangible and intangible, reducing their ability to introduce good HR practices.

Drawing accurate and meaningful conclusion on the HRM practices adopted by SMEs is not possible as most of the research with respect to HRM practices have been done on larger companies. Further, the studies on HRM practices in case of SMEs are inadequate and not much study has been done in this regard. The main reason for the lack of studies in this field being HRM practices have been used only in the recent times under conditions which are much varied from those in larger companies whose financial prudence is incomparable to that of the SMEs. It has been noticed that major works on HRM were done mainly in western nations who have economies totally different from that of the conditions prevailing in other countries (Richbell, et al., 2010). Richbell in her studies has thus focused more on the four concepts of HR – inspiration to workers, enhancing mode of communication within the organisation, improvement of knowledge and development of special expertise for the workers. Richbell further speaks of the two categories of the HRM types in the SMEs: the first, ‘bleak house’ type featured by meagre working conditions, low salaries, lengthy working time and rigid working conditions, and the second, ‘happy family’ type. The ‘happy family’ type is featured by employees with comparatively better pay, less rigid working conditions and a more relaxed atmosphere. Much controversy has been reported by researchers in this context as shown by Barrett and Rainnie (2002) in their studies with most of the SMEs shown to operate within the two limits. However, Cassell, Nadin, Gary and Clegg. (2002) have emphasised the need to distinguish the two types with more a disconnected viewpoint rather than a wholesome approach.

Since in most cases the SME owner behaves according to the recognized cultural norms among the local entrepreneurs, these owners are comparatively more responsible for the cultural atmosphere in their organisations than their large firm counterparts (Wiklund, 1998) Storey (1994) argued that SMEs are not mere minimized versions of the larger companies; therefore, they need different approach in running the organisation. The stunted growth observed in SMEs necessitates the modifications of policies to meet the growing competition. Thus, the act of resolving powers in the SMEs hinders the success rate of these enterprises. Moreover, when there are dissidence between the older staff that follow conventional methods and the newer experts who are brought to salvage the HRM practices, the implementation of HRM may be more testing and may reduce the performance of the firm (Pfeffer, 1998). Thus it is impertinent that the SMEs equip themselves for the changing trend
of HRM in order to enhance production and reduce expenses (Combs, Liu, Hall, and Ketchen, 2006; Dart, Nag, and Sarkar, 1990). Further, adopting appropriate methodologies of HRM will enable the SME owners to raise themselves to the varied challenges (Sethakaset and Santimataneedol, 2008; Kishore, Majumdar and Kiran, 2012).

Empirical researches on HRM within SMEs are still in an explorative stage and are mostly of descriptive nature. There is dearth of sound theoretical underpinning or perspective seems to be lacking. The practice of deriving and testing hypotheses is still in a nascent stage. But this does not apply for the wages part. Research on this area seems to have developed very much. On average, smaller firms pay lower wages to (observably equal) employees than larger firms do (Audretsch et al., 1999; Barron et al., 1987; Oosterbeek and Van Praag, 1995).

2.4.1. Recruitment and selection

Human capital is vital for the nourishing and growth of any organisation. Finding skilled workers and filling the talent gap at a low cost, in particular at worker and middle level positions, can be daunting for the SMEs, but more important is retaining the key talent. Several studies have endorsed that finding competent worker as the most challenging issue (Atkinson and Meager, 1994) as SMEs are not the first choice of employer for job seekers (Tanova 2003).

Further, adoption of unsuccessful methods of hiring, no role clarity, ambiguous job description, and absence of internal growth add to the burden mandating use of innovative ways to handle the employee issues. At the same time, recruiting wrong people can escalate the training costs, employee turnover rate and ultimately fail to achieve its business objectives resulting in loss of competitive edge and market share (Armstrong, 2009). According to Priyanath (2006), most of the companies do not follow systematic method to recruit and select employees. Systematic method should involve identifying the need for resource, job description; skill set description of the person, and advertisement. The selection process includes recruiting procedure, information gathering about the qualified candidates, evaluation of the qualification with respect to the job description, and making decision for employment. In contrast to the systematic procedure required for recruitment and selection, past literature suggest SMEs often follow an informal process. Priyanath (2006) conducted a study on Sri Lankan SMEs and found that 70% of the SMEs recruit people based on personal opinion, either self or friends or closely associated people, and favouritism. In view of
financial constraints and inability to provide job security, SMEs struggle to retain key performing staff and vulnerable to vicissitude of the external labour market changes; thus, have serious implication on attracting high calibre resources and manage performance of the organisation (Asiedu-Appiah, Aduse-Poku and Abeeku-Bamfo, 2013).

Another key challenge of the SMEs is to have experts to manage the recruitment and selection process. The small size of the SMEs force them to operate at a unique way conserving resources and tightening processes to maximize the profits. Many SMEs fail to achieve business goals as they lack organisation and human resource capabilities (Hashim and Osman, 2003). On the contrary, larger firms have the liberty to employ a team of experts to tackle the complexities involved in managing HR challenges, which is not solution for most of the SMEs. If SMEs have HR managers, its managers work in creative ways to find solution for challenges due to the limited resources available. The role of HR manager in SMEs varies from one industry to another, depending on the kind of work carried out in the sector. The recruitment process follows the ‘best practice’ modes based on the selection principles with more familiarity and bias leading to favouring the HRM rather than digging into the procedural aspects of the hiring procedure. The most sought after characteristic of HR managers is their ability to take quick and appropriate decision in a given circumstance. In order to reduce costs and labour charges towards short-term hiring of manual labour, it is necessary to have relaxed atmosphere in the firms (Druker, White and Hegewich, Maqynbe, 1996). The British Psychological Society and the Chartered Institute of Personnel and Development have adopted a traditional method of ‘best practice’ in the recruitment process based on the criteria, such as the independence of fixing priorities of the job, organisation of job activities, evaluation of the depth of knowledge and capacities in the HR managers. The method has been favoured for procuring better results for the organisations (Hunter and Schmidt, 1982).

In the smaller organisations, ‘best practice’ in hiring has been considered more of a terminology used in the literature than being applied in reality (Levy-Leboyer, 1994). However, larger firms use this principle practically more often for aptitude evaluation of the candidates from the curriculum vitae thereby employing the right kind of people, who could work towards the advancement of goals of the organisation (Ree and Earles, 1994). Storey (1995) reported that the probability of using better HRM practice is greater as the size of the firm increases. The setting up of a HRM section on the organisation would ensure a higher degree of recruitment standards in the company (Cohen and Pfeffer, 1986). It is seen that the
larger firms go in for more methodical approach, with transparency in the recruitment process and are in a better position to implement the HRM practices compared to the smaller firms. Thus it is also evident that the larger industries will use more refined practices and just techniques in the employment of its staff to have better clarity and prudence (Golhar and Deshpande, 1997).

A study of SMEs by Martin and Chapman (2006) revealed that the number of industrial units in UK were nearly 4.3 million, out of which a considerable number of them were SMEs. The SMEs have known to have contributed well for the economy of the country (DFES, 2003). In spite of this, it was seen that several of them collapsed within a short period of time. The reasons behind the fall were analysed and it was seen that many of these units did not hire a qualified and competent HR manager. Holden and Jameson (2002), in their studies on graduates employed in SMEs revealed that the firms that employed the graduates did not make efficient use of the skills of these people in the growth process of the firm. This resulted in fewer numbers of educated and qualified persons seeking employment in SMEs. Their study also revealed the facts for non-employment of educated staff in that they pose a threat for other workers and managers, the firms face problems with employment and withholding of staff, some firm being ignorant of the contributions that a qualified staff can do to their firm. SMEs are also shown to be faulty in their decision making techniques in that they do not have the clarity in the concepts or challenges faced by the firms.

In addition to that, the most striking fact which is to be noted is the problem of failure of the small enterprises world-wide (Jennings and Beaver, 1997). But it has to bear in mind that these small enterprises comprise the backbone of the economies in the country. Hence it is apparent that the SMEs constitute the most important role of the private sector workers in Australia. As is evident in the other parts of the world, the owners of the small enterprises have a lower educational background and do not show greater role in training and performance improvement activities (Bartram, 2005; Billett, 2001; Walker, Redmond, Webster, Clus and Le, 2007). It is indispensable that the SMEs comprise a well-qualified work force which is needed for the success of the company and for the challenging atmosphere in the world industrial market (Huang, 2001). The issue of HRM practices on the working of SMEs and their employer-employee relationship is essential for their winner.

Finally, along with the other persistent problems of recruitment, the most challenging areas in case of small enterprises are the problem of retaining and recruiting the new employees. The
situation in large enterprises is more advantageous since they offer better pay and incentives that are lacking in SMEs thereby creating a feeling of insecurity in the employees, conditions which lead to hurdles in employing the right personnel, capacity of the owner –managers to handle employees and also to filter employees during crisis (Barrett and Mayson, 2004; Storey, 2004). These managerial problems must be handled deftly by the owner- manager using appropriate HRM practices (Audretsch and Thurik, 2001). It was thereby derived that SMEs have difficulties in recruitment and selection processes. First, they face shortage of well qualified and skilled staff. In addition to that most of the SMEs do not have structured recruitment processes and even a qualified manager or HR department to tackle such difficulties. Resource constraint and environmental uncertainty disables SMEs to overcome such situation. It is now utmost important to reach out to the right people for recruiting and applying more structured techniques for the recruitment process.

2.4.2. Training and Development

In the next basic function of HRM, i.e., training and development, a new entrant or an existing employee is provided essential information or new knowledge regarding his job. Considering large organisation, the HRM practices developed and employed in the Japanese firms is much different than in other regions. The highlight of the approach was the training and skill enhancement of the worker which is a life-long learning process rather than a short term project. The programme involved a detailed job- training session combined with outside- job skill development termed as on- job training (OJT) and off-the-job training (Off-JT), which was further honed with rotation of roles in the work-place in order to enhance the learning and training process.

In most of the organisations in Japan, the OJT and off- JT programmes are run in combination continuously with the aim of developing the employee skills. The OJT programme used in the Japanese industries help exceptionally in development of the employee skills. The programme aims at improving the knowledge, information and practical skills of the workers (Koike, 1992). The workers are trained to detect problems, to make decisions, and to solve issues during the operations in the industry and are often termed as enhancing the ‘intellectual skills’ of the workers. Training sessions are done as team- work with the involvement of managers, fellow employees and department heads. The OJT
programmes are also utilized for enhancing social network and to encourage the utilization of new jobs and acquire social skills inside the organisation. Thus the condition is described as ‘person-job fit’ and is known to be a constantly changing job environment and programmes to equip the workers to this changing environment. The person-job-fit procedure is characteristically achieved through inter-personal interactions, HRM practices that promote knowledge enhancement, relaxed and easy job demands, and job-rotation practices equally applicable for all employees in the organisation. Thus these are some of the on-job prevalent HRM practices in Japan (Kanai, Suzuki, and Matsuoka, 1998). According to the practice most employees are subject to inter-departmental transfers from one department to another within the firm and such employee-moves are based on the corporate level HR managers in collaboration with the departmental managers (Yashiro, 1992; Sato et al. 2001; Sekiguchi, T., 2006).

Considering SMEs, formalisation has been a concern for them. It has also been noted that their activities with respect to training and gaining knowledge through other sources too is less satisfying (Bartram, 2005; Billett, 2001; Walker, Redmond, Webster, Clus and Le 2007). Matlay (1997) showed less presence of training facilities in SMEs. It can be said in other words like Storey and Westhead (1996) and Johnston and Loader (2003), that smaller the organisation, less is the provision of structured training practices. On the contrary, study by Malik and Nilakant (2011) finds that in India, training provisions in SMEs gets affected by various external and internal factors. Process complexity, staff turnover, client specifications and organisation’s evolving service capabilities are key factors that shape the nature and extent of SMEs. He also deduced that training were present in Indian SMEs in three forms, viz., formal, informal and incidental.

The most important element for the success of the small enterprises is the team of well qualified and accomplished work force. The qualified team of employees help in attaining better status in the challenging industrial field to gain better profits (Huang, 2001). The success of the small enterprises depends much on the effects of the HR practices occurring in the SME. Hiltrop (2005) has shown with sufficient evidence that the efficient management practices lead to better success rates in the industries while industries where HRM practices are deficient do not fare well thus show losses and rejection. Hiltrop has recommended training for more and more individual workers in the industry in order to achieve higher degree of efficiency and success. Higher the level of training to the workers in the industries, greater will be the efficiency of the industry and thus will achieve greater profits in the
market. Thus it is highly essential for the companies under SME to have well qualified staff as well as a good, well qualified, trained and efficient manager in order to attain the highest success for the organisation. ‘Therefore, the better skilled owner-managers are at human resource management, the better potential they will have to contribute to the success of their business’ (Walker, Redmond, Webster, Clus and Le, 2007).

Though most of the employer and managers like to achieve success in their speculations, still it is apparent that not many owner managers are adequately trained for the effort. They are not qualified or are ill-fitted to confront the challenges of the everyday working of the industry. Most of the owner–managers are incompetent to opt for further chances for developing their knowledge and training (Webster, Walker, and Brown, 2005; Walker, Redmond, Webster, Clus, and Le, D, 2007).

It has been observed that the owner-managers of the SMEs unenthusiastic in enhancing their skills and knowledge by going in for higher training or development, yet they realise the importance of the HRM (Webster, Walker and Brown, 2005). Mazzarol (2004) has stated that the main concern with the employers and managers of the SMEs are that the employers and managers are highly biased in their view of the HRM and do not possess the far-sightedness necessary for the employers in order to attain more success for their organisations. It is important that employees get training in time and they are developed to add to the performance of the organisation.

2.4.3. Compensation

The most important recognition and reward and the main reason for an employee to join an organisation is the compensation one receives. Therefore, one of the major criteria that are used by the companies to draw more employees, hold back and encourage them to perform better is monetary benefits. When the companies are unable to pay an adequate amount to the employees, the good employees would not stay in the company for a long time, the company will not be able to get the right kind of candidate for the job which eventually affects the quality of the work in the company (Cardon and Stevens, 2004).

The type of monetary benefits offered by the company many a times creates groups amongst the employees in that better performing employees get better pay-package and recognition
than the others. This leads to the formation of ‘local pay market’ also termed as ‘external pay equity’ and a pattern for the payment within the company called ‘internal pay equity.’ Employees are frequently paid incentives for the individual excellence in jobs at performance level and at the level of the organisation (Kerr, 1999). This enables the workers to identify the expected good performance that may bring those rewards (Hargis and Bradley, 2011).

In most of the organisations, the compensation is given in form of pay-packages, monetary incentives, bonuses and a combined evaluation of experience and capability as also the financial position of the organisation. The firms follow a uniform policy regarding the matters of compensation such that the differences in the pay packages and the benefits obtained do not vary much among the employees.

In SMEs, compensation has shown impact on organisation growth, employee retention and productivity (Huselid, 1995). A very interesting finding by Heneman, Tansky and Camp (2000), identified that small organisations view compensation as total reward perspective in a greater sense when compared to large organisations. It actually works as a competitive advantage when these practices are used as idiosyncratically. There is dearth in literature regarding the components of compensation. Nevertheless, appraisal is almost indispensable as a part with compensation. Exploration on this topic will reveal more.

### 2.4.4. Performance appraisal

The assessment of the personnel in the industry or in the company is most essential to build a competitive work-force that can tackle any kind of situations for the company. One of the most effective HRM practices followed in the Japanese industries is the methodical assessment of the individual workers and also the managers. The performance assessments at further linked to gifts and incentives for those workers who show exceptional performance. The term P-E-Fit is used in the Japanese context to refer to the best performing employee who is most fit for the job. It is evident that the industries also do their best to promote good environment to the employees to achieve the P-E fit slot faster and in a better manner. Some of the HRM practices used to attain this status are ‘Internal job postings, free-agent systems, and increasing focus on P-J fit in external’ (Sekiguchi, 2006)
The type of assessment methods differs from company to company and from one country to another. In some of the Indonesian companies an innovative approach known as ‘management-by-objectives (MBO) approach’ is used to assess the employees for the quality of work done. This technique is known to give an all-round feedback on the performance of the employee. The technique is designed to suit to the multicultural heritage of the Indonesian region and has high level clarity on its working. Most firms in Indonesia prefer this style of the HRM (Bennington and Habir, 2003). Milliman et al. in 2002 have documented the appraisal system as something not very favourable in Indonesia. The use of assessment system as a method of testing the work quality of the employee was not liked by many individuals. In most countries like Indonesia, US, Canada, China, and Mexico the use of appraisal- system is mainly for the promotional policy within the organisations. Though the assessment system is used for the detection and recognition of the excellence of the employees, in many companies the expression of negative feelings by subordinates is not encouraged (Galang, 1999). In certain companies, the assessment system is used for detection of commendable functioning of the employees, the activities carried out by the employees towards the well-being of the company. The organisations use the system for mainly scanning the work force for detection of ‘productivity and quality’. According to Bennington and Habir (2003) the productivity per person in Indonesia is much lesser when compared to that of US and Korea, but comparing the labour costs, an Indonesian work force costs three times much lesser than their American or twice lesser than the Korean counterparts. The connection between the person’s salary based on his performance and his satisfaction level is found to be in correlation with the findings that support the conception and distinction of work by the workforce. The connection between a salary based on the performance and appraisal in case where the opinions collected are based on preformed opinions of the assessor cannot always be just (Prendergast, 1999). It has been shown by Clark and Ostwald (1996) that when employees perceive their own salaries as comparatively lower, their satisfaction for the job falls. The satisfaction of the employees towards their income happens to be connected to a time bound mechanism or a performance-bound income and discrepancies in the income structure brings down the satisfaction level (Chandrakumara, 2013).

In most companies the salary package is based on the term of service of the individual worker. The greater the term higher will be the pay. This is based on the traditional system of payment of income to the workers and draws good satisfaction level with the worker. There
is high possibility of the employees being high in levels of satisfaction with most of them. The system was formed to draw maximum amount of labours from the side of the owners and seniority-based pay mechanisms, such as pay based on tenure, have a significant positive effect on job satisfaction. This is the traditional type of payment practice, designed to maximise effort from the firm’s perspective while minimising risk for the worker.

Petrescu, and Simmons (2008) have observed that the present literature on the different variables and constructs of the job satisfaction of the workers, show that in their study the model used for complete job satisfaction reflected a comparison between the perception of their own pay and the level of job satisfaction.

Several researchers have found evidence about the existence of HR practices in the smaller companies with adequate amount of competitiveness and refined structure than perceived by many (Bacon, Ackers, Storey and Coates, 1996; Golhar and Deshpande, 1997). Golhar and Deshpande (1997) have found that the degree of variation between the small enterprises and the larger companies is very narrow. The SMEs managers’ awareness of the HRM practices prevalent in the industries has increased tremendously and given way to group achievements, delegated and decentralized administration and assessment of the functioning of the employees that were earlier constrained only to larger companies (Bacon, Ackers, Storey and Coates, 1996). In fact it has been contended by many that the most favourable places for the development of HR practices are these small enterprises due to more relaxed communications, adulated promotional positions, more relaxed atmosphere and a well-informed data on each staff thus enabling a better working of the company (Sels, De winne, Delmotte, Maes, Faems and Forries, 2006).

In order to make a judicious use of the HRM practices, the administrations must consider the two tactical forms of its configuration – ‘internal alignment’ seen amongst the different HR perspectives, and ‘external alignment’ which is the complete HR systems and the company’s principles. The implications of these alignments on the workers and their satisfaction levels and the methods used in the organisations’ initiation in fulfilling the perspectives of the HR need to be evaluated and determined.

The companies have certain HR practices like compensation, and system of gifting, assessment of worker performance, and a mechanism for feedback. These parameters comprise the main criteria in the HRM practices in any organisation.
In most of the smaller firms, the onus of acquiring a performance assessment report of the employees at the operational level is on the managerial staff at the middle levels or those at the operational stages. In most of the small and medium industries, the workers’ assessment of their performance was taken by the owners or managers at middle or the lower levels. In case of the micro firms, the performance of the employees is assessed by the owner-manager by direct observation due to closer relations with the employee making it easier for the manager to assess and correct the errors of the employee in a direct manner. Whereas in the larger companies with more number of employees and more work pressures, the managers had to resort to a methodical approach in which the appraisal consisted of a questionnaire with different rating scales (Kotey and Sheridan, 2004).

In a study conducted by Shahnawaz and Juyal (2006) in various organisations dealing with consultancy and a fashion firm, the HRM practices were evaluated for their effect on the commitment levels of the employees. The study also focused on detecting the role of the organisation towards the implementation and the performance of the HRM practices in the companies. It was found by their study that the HRM practices were more evolved in the fashion firm than in the consultancy. It was found that the assessment of the employees’ performance and the overall impression that the HRM drew from the management and the employees were important in predicting the commitment levels of the company towards the HR practices (Tiwari and Saxena, 2012).

The policies of promotion, monetary benefits and supervisory evaluation results in the organisations in Japan help in achieving best results in the P-J fit programmes. Monetary benefits and promotional policies are based on experience and personal appraisal schemes and evaluation by higher ups. The schemes are run and a combined appraisal of the self and the higher ups are considered for the promotion. The concept of ‘supervisory assessments’ in Japanese companies is much different from the concept of performance appraisal prevalent in the organisations in the Western countries. The ‘performance appraisal’ in Western organisations is based on the actual performance of the staff, whereas ‘supervisory assessments’ in Japanese organisations comprise of evaluation of the employee ‘attitudes and abilities’ along with the performance.

Promotional policies are a method of going up the positional hierarchy in the organisation in the job-slots like from lower positions to higher positions in the organisation. Many of the organisations follow a ‘late promotion’ policy in that achievements that are done in the early
years are accumulated and the benefits are rewarded in the later years of the employee and are termed as ‘slow progress’ (Koike, 1992; Wakabayashi and Graen (1989). The policies in Japan thus do not consider the achievements of the younger employees and promotional raises are strictly according to the experience and accumulation of the achievements done in the life time of the individual. Rewards are not immediate (Sekiguchi, 2006).

2.5. Formalisation of HRM

Formalisation has been described by Adler and Borys (1996) as the set of written rules and regulations in a company that enables management of the employees and to maintain order and discipline in the organisation. de Kok and Uhlaner (2001) have extended the definition to explain the procedure in the company and the extent to which the administration assured that a particular function would occur. Barret et al. (2007) have explained formalisation as the practices techniques involved in the employment of workers, their selection, management and methods of evaluation and suggested that the rules for these points be recorded in a written format. According to Singh and Vora (2009), formalisation in an industry includes (i) existence of a separate HR department, (ii) a well laid out HR rules and regulations, but not practiced by a specialist, (iii) well planned HR which is followed by other larger companies, and (iv) important administrative decisions made in favour of HRM.

In small firms, growth and performance of the organisations often is the result of increase in the number of people, which increases the complexity of the management as well as organisation as a whole. Small firms are under considerable cost pressure while recruiting and training the people; therefore, the managers frequently rely on people-organisation fit rather than skills during hiring. The changing landscape of the organisation put enormous pressure on the managers and strains the available resources. Formalisation of HRM policies and practices can alleviate the personnel issues and apply consistency to the HRM processes and outcomes thereby avoid demotivation and productivity slack. According to Barrett and Mayson (2007), formal HRM practices are likely to be followed by growth-oriented small firms than the stagnant ones. This is based on the concept that increase in size is related to formalisation of HRM policies.

To be successful organisations will need to build capacity to innovate, handover, amass, incorporate, guard and make use of information that will be an exclusive property of the
organisation (Teece, 2000). The higher the degree of exclusiveness of the information about
the firm, greater will be the company’s potential for competitiveness (Foss and Mahnke,
2003). This exclusive information rests with the manpower of the company, who are the true
assets of the company (Nonaka and Takeuchi, 1995). Thus it is essential for the firm to
enhance, provide security and influence their exclusive set of employees (Chakravarthy,
McEvily, Doz and Rau, 2003). Recently, organisation and formalisation of human assets are
being treated as ‘tangible resources’ and the older system of organisational powers are
considered as an out-dated concept (Ghoshal and Bartlett, 1997).

On the contrary, researchers treat formalisation in a company to be opposing to ‘Human
resource specificity’. The main reason for such treatment arises from the fact that
formalisation techniques in organisations subdue enthusiasm of the workers and efforts by the
companies to make workers more accountable results in computation of information from
workers to a more collated system (Hansen, Nohria and Tierney, 1999). In line with this
view, some believe that the formalisation of company’s knowledge demeans the importance
of the contributions made by employees to the company. Nevertheless, these contradicting
views are weakened by the more advantageous administrative standpoint (Adler and Borys,
1996). Accordingly, the functions of formalisation can be divided into two types: firstly, a
control mechanism that tries to control the behaviour of the workers and secondly, the
informational techniques of the company (Meilich, 2005).

The arguments for formalisation of HR are plenty. The studies conducted by Arthur were put
forth in his papers published in 1992 and 1995, which demonstrated that companies, which
exhibited higher commitment, were comparatively higher in their productivity and profits
than those with traditional views. A similar view was held by Huselid (1995), who proved
that higher levels of earnings could be accomplished with better motivation of the workers,
their improved skills and with better organisational structure and foundation. Extending it
further, Huselid and Becker (1996) stated that ‘Firms with high values of the index had
economically and statistically higher levels of performance’. In an empirical study, Becker,
Huselid, Pickus and Spratt (1997) evaluated the HR practices and propounded those
companies showing excellent performances with respect to productivity and outcomes
contain excellent infrastructure in the administration. In another study, Patterson, West,
Lawthorn and Nickell (1997) singled out procurement and enhancement of skills of the
workers and design of the jobs as two crucial HR factors that establish the difference between
profitability and productivity.
According to Armstrong (2004), the kind of HR practices and the ratio of the employees were the main deciding elements for the success of the firms. Armstrong (2004), Guest, Michie, Sheehan and Conway (2000) acknowledged the presence of a sturdy link between the HRM and ‘both employee attitudes and workplace performance’. Purcell (2003) explained the relationship between the confident approaches to HR protocols and practices and job-satisfaction, inspiration and guarantee of performance and ‘operational performance’.

Many research studies support the central methodology concentrating most on the HRM practices which imply that a more methodical and ordered pattern of HRM must be employed in the firms to attain better job-performances (Brewster, Larsen and Mayrhofer 1997; Budhwar and Sparrow 1997). A good HRM can be achieved by implementing the certain key features that are the backbone of any company. Researchers have propounded that amalgamation of HRM with trade practices enhances productivity (Boswell, 2006). Next the studies stress the importance of HRM experts and personnel who can pave the way for bright future for the companies with their strategic leadership (Hall and Torrington 1998; Mesner and Sterbe, 2005). Most researchers have shown unanimity in the linkage of HRM practices with innovative planning tactics (Boxall and Purcell 2003; Lepak, Liao, Chung, and Harden, 2006).

The regimen of HRM methodology and the functional aspects of the industry are always opposing each other, which is essential for good productivity (Kamoche, 2001). Researchers who favour an overriding HRM policy stress the need for high performing worker population as basis for good productivity (Kamoche 2001; Bowen and Ostroff, 2004; Lepak, Liao, Chung, and Harden, 2006). Though many studies compel a second thought regarding the part played by the experts of HRM and the managers, it was evident that the managers played a pertinent role in the implementation of HRM policies in the companies (Mesner and Sterbe 2005; Purcell and Hutchinson 2007; Dany, Guedri and Hatt, 2008).

Cassell, Nadin, Gary and Clegg (2002) have proposed that the organisations can select the HRM protocol and decide the degree of usage in the company and then formalize the procedures within SMEs based on the features, such as appointment of a HR executive in the organisation who is made responsible for the proper implementation, execution of the appropriate HR practises in the firm, recording and setting rules for the execution and working of the HR problems, understanding and familiarising with the working of the HR
practices in the company and also outside among other firms, and knowledge of the recent developments in the HR practices.

The factors that influence the HRM in the SMEs was evaluated by de Kok and Uhlmaner (2001), who explained the theoretical model for organisational variables that influence the formalisation of HRM practices using resource-based view, organized theory, cost economics and the behavioural pattern of the employees. The major perspectives affecting the formalisation of HRM in SMEs are the size of the firm, worker-management contracts, collaboration with larger firms and prospects for future growth. These have been considered as ‘independent variables’ that affect the HRM practices directly on three other transitional variables – ‘requirements on/expectations of external stakeholders, firm resources, and the perceived value of HRM practices by the CEO’ (Urbano and Yordanova, 2008).

In order to elucidate these above mentioned HRM practices as explained by various authors in their studies of both large and small organisations, some authors insists that an unstructured approach is more suited in SMEs. In similar lines, Hill and Stewart (1999) suggested that in compared to large firms, small firms have more environmental uncertainty. In order to take care of that situation they need to be more flexible and informal. On the contrary, absence of adequate resources or knowledge leads to less use of formalised HRM practices in SMEs (Golhar and Deshpande, 1997). Training is only provided to conduct the jobs allotted. Any additional training is only conducted when SMEs make large profits (Hendry et al., 1991).

Also, small firms are less specialised than large firms (Bacon et al., 1996; Jackson et al., 1989; Wagner, 1997). Heneman and Berkley (1999) found only 15 organisations amongst 117 were having HR department.

Despite of that, many authors have asserted that HR practices in SMEs can be more sophisticated (Arthur and Hendry, 1990; Hornsby and Kuratko, 1990; Hendry et al., 1991; Marlow and Patton, 1993; Curran et al., 1993; Deshpande and Golhar, 1994; Bacon et al., 1996). For example Hill and Stewart (1999) found disparity in formalized HRM practices among small firms.
2.6. Organisational Contextual Dimensions and HRM Practices

It was revealed by recent studies by Collins and Allen, (2006) that the implementation of HRM practices in the SMES and MSMEs was associated with 22.1% of increase in the proceeds of the company. The HR practices in these industries included employment, choice of the candidates, skill development and monetary benefits. These industries also showed 23% profits, and 66.8% of decrease in the gross revenue of the employees (Collins and Allen, 2006).

Research conducted by Sels, De Winne, Delmotte, Maes, Faems, and Forrier, (2006) shows that for an efficient HRM practice, the small organisations must improve their monetary status and the overall output by the employees. There has been a strong evidence in the favor of HRM in the SMEs that it enhances and affects both the organisation as well as individual performances by increasing the long term stay by the employees, proceeds, share business and provides thus a longer and stronger position in the industry. It also impacts worker profits and initiation at the personal level in the SMEs and MSMEs (Chandler and McEvoy, 2000; Hayton, 2003; Huselid and Becker, 1997).

The studies by Welbourne and Andrews in 1996 indicated that the overall rating of the companies increased for those who practiced HRM with the focus on the development of HRM practices and the compensation system it offered for its employees rather than other constructs like success in the trade, size of the firm, and proceeds of the firm. Rauch, Frese, and Utsch (2005) have assessed the importance and position of select top employees detected by the HRM usage as the determinants of are ‘predictors of future business growth’. Research studies by Dunn and Bradstreet (2001) indicate that the inefficiency of the managers is one of the major reasons for the rejection and loss of value of the HRM practices in smaller firms (Hargis and Bradley, 2011).

2.6.1. Organisation Size and SME

Availability of resource and allocation of those resources for implementing certain practices gives a reason of difference in managing the small and large organisations (Bayo-Moriones and Merino-Diaz de Cerio, 2001). It is obviously understood from several literatures that small organisations dispose with lesser resources than large organisations (Welsh and White,
1981; Aldrich and Auster, 1986; Bacon et. al, 1996, MSMED Act, 1996). Formalisation of HRM practices and instruments is considered to accrue considerable developmental costs (Klass et. al, 2000) which, in other way are available with larger organisations (Barber et al, 1999). Getting hold of such necessary resources might be tough for MSMEs (Aldrich and Auster, 1986). This might restrain the MSMEs to adopt HRM practices. This has been amply substantiated with empirical findings by relating organisation size positively with degree of adoption of HRM practices (Hornsby and Kuratko 1990; Deshpande and Golhar 1994; Marlow 1998; Wager 1998; Bayo-Moriones and Merino-Diaz de Cerio 2001; de Kok and Uhlamer 2001; Cassell et al. 2002).

2.6.2. Labour Agreement and SME.

The concept of labour relations as applied to the SMEs were started in 1990s with a lot of misgivings on the topic of Industrial Relations/Personnel Management (IR/PM) and HRM as distinctive approaches to the HR management in the industry (Guest, 1995; Legge, 1995). In the beginning, more value was laid on the management of individual people rather than on the group concept of workers, and HRM was applied to the benefit of the organisation (McGunnigle and Jameson, 2000). There has been much controversy about the relationship of HRM and between IR/PM according to Worsfold, (1999) and Noon (1992). The main concept of HRM is an adjunct to the principles of the firm in relation to the management of people and are key to employee management with ‘competitive advantage, an emphasis on employee flexibility, and the utilization of an array of human resource techniques or “levers” which are intended to engender employee’ (Storey, 1992).

2.6.3. Labour and Policy Interventions

Most governments lay utmost importance to the job and Employment policy. The primary objectives of the labour market were to increase the job availability for the general population, while it has a prominent effect on the behaviour of the labour market due to the HRM strategies. The labour policy also promotes self-employment schemes through which the basis for a self-employment program or ‘entrepreneur development programme’ is reached to the population. The programmes fall under the functioning of two different
ministries, Ministry of MSME and Ministry of Science and Technology, which regulates the working of the MSME and SMEs (McGunnigle and Jameson, 2000; McCaefree, 1956).

The companies have felt an increased need for the presence of written rules of agreement for area-wise and regional-wise trade agreements that has been requested by the unions. The labour agreements have become a necessity as it should be noted that the jurisdiction of trade unions in the various regions differ from one another, from company to company and from region to region. Thus, it is of utmost importance that labour agreements be followed uniformly to bring common problems and solutions to these under a single umbrella. The labour agreements can be thus grouped into three types, i) local problems which are relevant to a particular city or a limited area, ii) area agreements which are having coverage for a few cities or regions falling within a fixed region, iii) agreements for a vast area covering many different regions and cities. Some of the aspects that need to be looked into when considering the labour agreements are

- The term ‘Labour agreement’ stands for making use of the available labour resource in the region under a proper written set of rules and regulations. The administration of the companies finds it easier to hire and deal with the workers in a collective manner in the presence of a written set of rules (Riley, 1992)

- The presence of a proper regulation for an HR practice enables the workers to put forth their views and discuss problems easily using the regulations under the labour–agreement and the HR system (de Grip and Sieben, 2009).

- In 1919 the International Labour Organisation (ILO) was founded to safeguard the rights of the labour–class by different groups who could try to hold undue power over the labour class and prevent the atrocities and divisive methods of working and ‘effective recognition of the right to collective bargaining’ with respect to work situations (Henry and Gravel, 2006).

In the UK, The Trades Union Congress (TUC) was formed consisting of around 90 trade unions to deal with the problems of the labour class groups in various industries. The TUC comes up with an innovative fiscal policy in collaboration with the Labour Party Liaison Committee in 1986. It helped in the establishment of a legal frame- work for industrial relations which did not exist earlier. It strived to give a sense of "justice and security at work," and "seek involvement in change."
The Electrical, Electronic, Telecommunications and Plumbing Union (alternatively referred to as the EETPU, ETU, or Electricians) is a Japanese based group with other firms, the electricians which have become famous for their notorious and strong viewpoints from union, management, and public officials. They cover a number of companies. They have formed new ways for bargaining and formed newer agreement styles that have replaced the original traditional styles in the industry relationships (Rico, 1957)

Certain businesses run by the families in various parts of the world where the head is an elderly member and the employees are usually members of the same family. In such cases, the company recruits ‘family and co-ethnic labour’ which presents itself as ‘ethnic business communities’ and have several advantages with respect to running of the business. According to Ram (1992), the employment of members and relatives of the same family group poses problems in terms of ‘economic reality’ in that the principles and norms of the families can hinder the running of the business. Problems may arise due to issues related to income distribution, benefits, partnerships, promotional policies and gender bias (Westhead and Cowling, 1997). It has been noted by several researchers that family and relatives circles due to their common familial background contribute to the flexibility and progress of the trade better than the individual entrepreneurs. The advantages are longer working hours, better cooperation, more control of expenses and a higher level of confidence amongst the members. Disadvantages is that the main administrative post are handled by members who are well qualified for the posts, thus hindering the progress of the companies, mostly seen in the south Asian business communities as an example (Janjuha and Dickson, 1998; Ram and Jones, 1998). The companies are further faced with gender bias, male domination, suppression of the weaker members, and such other issues cropping from hatred and enmity among the members which do not allow good HRM practice. Thus, it is essential for the heads of these enterprises to regulate norms and form strict rules regarding the pay, gender, age, race, criteria for the job, discrimination based on physical disability, religious feelings and other factors important in the family (Jones and Ram, 2007; McPherson, 2008).
2.6.4. Large Firm Association with SME

Most of the SMEs found around the world are in the form of collaborations or joint ventures or smaller divisions with the larger companies or organisations. These may be grouped as ‘combined ventures, alliances based on common principles, partnerships with profit sharing, licensing, franchising alliances, and network alliances’. It was shown by Noteboom (1993) that the larger companies have major differences in the size of the company, number of products produced, expenses, and investment extents when in comparison to smaller enterprises. The larger companies also show a better management technique and capabilities and better system of acquiring information and enhancement of the same. The theory pertaining to the institution state’s that the relationship between the MSMEs and their larger partners may be more powerful and intimidating (Corolleur and Couriet, 2003). Thus, it is evident that there are ample opportunities for further research in this area.

2.7. Organisational Performance

Whenever an organisation is able to establish a match between the external and internal demands and is supported by its HRM practices, the value of HRM practices and consequently the effect on organisational performance gets highlighted. An idea from Table 2.7 will substantiate.

A scanty literature on the study of effects of HRM practice on firm performance with respect to MSME is present (de Grip and Sieben, 2009). Nevertheless, positive relationship have been found between formal HRM practices and improved organisational performance (MacDuffie, 1995). While there has been very little research into the performance effects of HRM adoption on MSMEs, a common thread in the arguments presented in prior studies on HRM in MSMEs is that as MSMEs grow, unsophisticated people management approaches become increasingly inadequate (Kaman et al., 2001; Kotey and Slade, 2005; Zheng and Hong., 2006). When this occurs, MSME owner-managers may come to realize the importance of formally adopting HRM systems (may be called a step towards development of HRM formalisation) and associated benefits of nurturing people’s creativity, and even the creation of competitive advantage, growth and success through people (Bacon, et al., 1996; Kaman et al., 2001; Kotey and Slade, 2005; Zheng et al., 2006).
<table>
<thead>
<tr>
<th>Researcher (s)</th>
<th>Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arthur (1994); Arthur and Hendry (1990, 1992)</td>
<td>Firms with high commitment strategy have significantly higher levels of both productivity and quality than those with a control strategy.</td>
</tr>
<tr>
<td>Huselid (1995)</td>
<td>Productivity is influenced by employee motivation, skills and organisational structures</td>
</tr>
<tr>
<td>Huselid and Becker (1996)</td>
<td>Firms with high values on the index has economically and statistically higher levels of performance</td>
</tr>
<tr>
<td>Becker, Huselid, Pickus and Spratt (1997)</td>
<td>High performance systems make an impact as long as they are embedded in the management infrastructure</td>
</tr>
<tr>
<td>Patterson, West, Lawthorn and Nickell (1997)</td>
<td>HR practices explained variations in profitability and productivity. Two HR practices were particularly significant: (1) the acquisition and development of employee skills, and (2) Job design</td>
</tr>
<tr>
<td>Thompson (1993)</td>
<td>The number of HR practices and the proportion of the workforce covered appeared to be the key differentiating factor between more and less successful firms</td>
</tr>
<tr>
<td>Guest, <em>et. al</em> (2000a)</td>
<td>A strong association exists between HRM and booth employee attitudes and workplace performance</td>
</tr>
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Table Contd. - Study by authors on organisational performance

<table>
<thead>
<tr>
<th>Study by authors on organisation</th>
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<tbody>
<tr>
<td>Guest, et. al (2000b)</td>
</tr>
<tr>
<td>A greater use of HR practices is associated with higher levels of employee commitment and contribution, and in turn linked to higher levels of productivity and quality services.</td>
</tr>
<tr>
<td>Purcell (2003)</td>
</tr>
<tr>
<td>The most successful companies have what researchers called the ‘big idea’. The companies had a clear vision and set of integrated values which were embedded, enduring, and collective, measured and managed. They were concerned with sustaining performance and flexibility. Clear evidence existed between positive attitudes towards HR policies and practices, levels of satisfaction, motivation and commitment and operational performance.</td>
</tr>
</tbody>
</table>

Even though there appears to be recognition of the importance of HRM among MSMEs, the empirical evidence on the extent of the impact of HRM practices on MSME performance is inconclusive (Zheng et al., 2006), and there appears to be no empirical testing in the context of Indian MSMEs. It is crucial to address the development of HRM practices in Indian MSMEs working in a different cultural, political and legal context.

In a study conducted by Shahnawaz and Juyal (2006) in various organisations dealing with consultancy and a fashion firm, the HRM practices were evaluated for their effect on the commitment levels of the employees. The study also focused on detecting the role of the organisation towards the implementation and the performance of the HRM practices in the companies. It was found by their study that the HRM practices were more evolved in the fashion firm than in the consultancy. It was found that the assessment of the employee’s performance and overall impression that the HRM drew from the management and the employees were important in predicting the commitment levels of the company towards the HR practices (Tiwari and Saxena, 2012).
Academicians have suggested adoption of robust HRM policies regimen to enhance the performance of the available employees to retain competitiveness and raise the standards to the next level. It has been noted that the firm’s best-practices and work-environment play a great part in influencing the workforce to yield a more profitable job performance (Denison and Mishra, 1995). Cameron and Quinn (1999) have therefore laid a greater emphasis on the teamwork to enhance group performance, consistency and determination (Patel and Cardon, 2010).

**2.8. Antecedents of the HRM practices in SMEs**

According to de Kok, Lorraine and Roy, (2003) and Arthur and Hendry (1990), the size of the organisation plays an important role in deciding on the implementation of the HRM practices. De Kok, Lorraine and Roy, (2003) have stated that the smaller firms usually do not have a separate department for HRM practices allotted. The HRM implementation is again based on the type of ownership. In those firms which are run by single families, HRM practices are less implemented (Arthur and Hendry, 1990; Reid and Adams, 2001). The most important constraint on the implementation of HRM is the belief of the owners in the values of HRM. In case of non-believers in HRM values and its advantages, the principles are not usually followed (Mazzarol, 2003; Wager, 1998; Nolan, 2002).

Kotey and Slade (2005) have stated that the presence of various stages in the organisational life style also impacts the setting up of HRM practices in the industry, noting that in those with a single stage firm, no HRM practice would be necessary. de Kok et al. (2003) have shown that another major antecedent is the organisational strategy wherein the firms with less strategic existence would not implement the HRM practices. de Kok and Uhlaner (2001) have shown an association of SMEs with large firms and the type of associations decide on the implementation of HRM. The other antecedents found are (i) Firm Sector – Marlow (1998), Tanova (2003), (ii) Market and Economic conditions – Arthur and Hendry (1990); Marlow (1998), (iii) Legal Regulations and Labour agreements – Brand and Bax (2002), de Kok and Uhlaner (2001), (iv) Human resource supply – Arthur and Hendry (1990), (v) Culture – Arthur and Hendry (1990), (vi) Resource – Cassell et al. (2002), (vii) Presence of HR Champion – Cassell et al. (2002). Amongst these Firm sector, legal regulations and human resource supply was studied in this research.
Table 2.8 illustrates the benefits of having the HRM practices.

Table 2.8: Benefits of HRM implementation

<table>
<thead>
<tr>
<th>Results of HRM implementation in the companies</th>
<th>Author(s)</th>
</tr>
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<tbody>
<tr>
<td>Intention to leave the company is reduced</td>
<td>Rousseau (1985)</td>
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<tr>
<td>Decrease in of physical and psychological stress</td>
<td></td>
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<tr>
<td>Less absence</td>
<td></td>
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<tr>
<td>More innovation and job satisfaction</td>
<td></td>
</tr>
<tr>
<td>Leaders feel insecure and powerless</td>
<td>Kakabadse (1994)</td>
</tr>
<tr>
<td>Higher levels of Job satisfaction among the employees</td>
<td>Arches (1991)</td>
</tr>
<tr>
<td>Increases the security and stability in the early stages of organisational development process.</td>
<td>Gupta and Chin (1994)</td>
</tr>
<tr>
<td>Innovative ideas are less and thus allow more flexibility.</td>
<td></td>
</tr>
<tr>
<td>Important for productivity level of workers.</td>
<td>de Grip and Sieben (2009)</td>
</tr>
</tbody>
</table>

2.9. Conclusion

This chapter has dealt in detail with the challenges associated with the SME, in particular with the implementation of HRM practices. Human capital is a vital asset that needs to be nurtured and retained to achieve business goals of an organisation. Attracting suitable candidates and retaining the high calibre employees is the main function of the HRM practices. Larger firms have the advantage of financial and human resources that motivate the use of well-structured HRM practices. While smaller firms have limitation on financial
resources as well as inability to provide job security and therefore are affected by the changes in the external job market. In addition they are also handicapped by following informal practices in recruiting and selecting candidates. Most of the time they rely on opinion of their close associates in selecting and do not provide adequate training to empower the employees to perform job better. Most of the employees also handle more than one portfolio to manage the resource crunch. These limitations affect the SMEs adversely in achieving business goals. Intervention of government to introduce labour agreements has had an impact on SMEs. However, since there is variation in the jurisdiction of trade unions, it is essential to follow labor agreements uniformly to ensure solution are available to common problems. Further association of SMEs with the larger firms is inevitable as large firms outsource some of the process and products to SMEs. This association mutually benefits both the large as well as the small firms in revenue sharing, process tightening and quality maintenance. Further the lacunae felt by the SMEs can be met by its allegiance with large firms. However further research is required in this area to ascertain the principle of the working of the association and how it can be leveraged to mutually benefit from the consequences. In the next chapter, a detail discussion regarding the research methodology based on the literature review and the research model is discussed.