CHAPTER 6
DISCUSSION

6.1 Prologue

The HRM practices refer to the organisational activities that include the management of the human resources in a company by attracting, nurturing and developing the company’s manpower (Lado and Wilson, 1994). Since it involves the obtaining and retention of the manpower, the HRM practices are not just meant for the large industries but for the small industries too (Carlson, Upton, and Seamon, 2006). From the various published articles, it can be inferred that implementing HRM practices in small companies will positively affect the performance of the workers resulting in meeting of the company goals and giving a competitive edge to the company. From the employee perspective, HR policies would aim to enhance the skill of the employees, provide better working conditions, attain quality of work life balance; all these in turn would increase the competition among the smaller companies. Though attempts to empirically explore the link between HRM and firm performance are numerous, the existing research shows that all these studies focus more on the larger organisations, and only a few studies are existing on the smaller SMEs. Researchers have established 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.

An attempt has been made by Luc Sels, et al., (2004) to study the link between HRM and small businesses. They have made efforts to investigate the effects of HRM and firm performance. Their work primarily looked into the HRM and its impact on smaller companies and developed a conceptual framework to link HRM with performance of the company in terms of revenue.

With this background, the aim of this research was 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.
6.2 Demographic Details

Based on the spread of organisation observed from the data, this study has attempted to ensure that cross-section of the companies included for the study was even. The micro, small and medium sized companies included remained in the range of 29% to 37% suggesting that the variation between the numbers of companies included for the study was around 8%, which can be considered as a fairly even distribution of the companies included for the study.

The sectors represented in this study was skewed towards manufacturing as against service sector, with manufacturing over represented at 83.4% of the sample and service sector under represented at 17% of the sample.

The samples were collected from 17 districts, and 80% of the samples came from eight districts. These districts were chosen based on the vicinity and these districts are widely spread across the state. Therefore, this sample can be considered as a representative sample of the state Gujarat. Further, it is especially distinctive feature of our study that we were able to screen most of the districts.

Among the micro, small and medium sized companies, the Ministry of Gujarat annual report states that 94% were from proprietary enterprises (Annual Report MSME 2012-13).¹ Thus, this study could be extrapolated to the scenario existing in the Gujarat state.

A stark reality feature nevertheless of the MSME is the sustainability of business models. In this study, it was observed that 8% of the units have survived for more than four decades, 12.11% survived for three decades or more, and 37.33% of units for about thirteen years. Most of the MSMEs (75%) selected for this study were established between 4-21 years and the rest of them existed more than 22 years. Banerjee (2008) states that the growth of the MSMEs is not however impressive, as even those firms which had survived for more than 100 years have existed at nearly the same volume of gross output as when they started. Few exceptional cases have moved forward to become large and super large.

The results shows that micro enterprises as their name suggests had either no permanent employees are fewer number of permanent employees. This trend was seen even among the

small scale enterprises, where it had equal number of employees in both the categories, i.e., none and less than 10. Number of employees hired on a permanent basis depended on the revenue; moreover, the increasing the number of permanent employees had various other implications on the finances of the company. Therefore, a large segment of the workers either work on temporary or casual basis. This finding is supported by El Mahdi, 1999.

This is contrary to the findings of Nassar and Metwali (1999), who observed that small enterprises use more permanent workers their micro counterparts. This aspect reflects a kind of stability in employment provided by the small enterprises.

6.3 Formalisation of Human Resource Management Practices

Several studies conducted recently reports a positive association between the survival of the small firms and the adoption of HRM practices (Kaman et al., 2001; Pearson et al., 2006; Bacon and Hoque, 2005). Development of these smaller enterprises (who have less than 20 workers as per European Union criteria) can be achieved by implementing formalised tools or HR processes to restructure the firm. This study explored the possibility of an impact of MSMEs organisational characteristics on formalisation of HRM practices to demonstrate which processes may strongly support the revitalizing restructuration of firms, thus supporting growth of the firm. In this research, internal and external variables have been used to study the impact on recruitment, selection, compensation, training and development, and appraisal systems.

In the MSMEs, several factors contribute to the formalisation of HRM practices. While the combined effect of organisation size, large firm association, and labour agreement were tested for its effect on formalisation of HRM, it was observed organisation size and large firm association plays a critical role.

The results of the regression analysis of all the variables, viz., organisation size, labour agreement and large firm association shows that labour agreement does not have any effect on formalisation of HRMP with a R-squared value of 0.011. Organisation size and large firm association shows moderate influence on formalisation of HRMP with R-squared value of .203
and .208. This indicates that 20% and 21% of variance in the formalisation of HRMP is explained.

### 6.3.1 Organisation Size

Organisation size was shown to have a positive impact on the formalisation of the HR practices. Two main reasons can be attributed to this positive relationship that is obtained between firm size and formalisation of HRM practices. Firstly, when the organisation grows to a larger size, it becomes essential to decentralize and communicate between employees and the management. To mitigate the miscommunication and mismanagement, a certain level of standardization and formalisation of HRM is obligatory (Noteboom, 1993). Secondly, cost is an important factor to develop formalized HR practices, the size of the organisation also determines the level of investment that can be made into developing formal HR structure (Klaas, et al., 2000). Larger firms take advantage of the cost, while the smaller firms due to limited financial resources may be restrained from adapting formal practices. The claim of positive influence of organisation size on HR practices have also proven by many studies (Mayson and Barrett, 2006; Mazzarol, 2003; Wiesner and McDonald, 2001). A moderate result of formalisation in this study indicates that, since the demarcation has been made on the basis of investment made, i.e. in accordance to MSMED Act, 2006, it can be interpreted that due to financial constraint, formalisation might not be practiced with rigour. Also, since majority of organisations surveyed have less than 10 permanent employees, they some avoided The Factories Act, 1948, thereby getting across the obligations entwined with formalisation. Also, it might be the choice of leaders to stay away from structured system. A further probe in this aspect in future studies would obviously bring in more details.
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6.3.2 Labour Agreement

Labour agreement guarantees labour a healthy work environment with social security to the labour and quality of work to employer. The result in this study does not show any effect on formalisation of HRMP because of a low R-squared value of 0.011. This can be explained with the recent researches which indicates that precarious employment and culture based control system has influenced this results. Kalleberg and Hewison (2013) quoted Vosko (2010) on precarious employment where uncertainty, instability and insecurity prevail in work and employees are accountable for that. In additional, employees do not receive any statutory or social. Presence of precarious employment condition has resulted in the diminishing labour welfare condition like outing out arrangements, in-house contracted labour, irregular and casual employment, competitive work teams and migrant workers (Maity, 2012, ILO report, 2011). Liberalisation has pushed firms into stiff competitions which has made the employers avoid the stricter regulations laid by government for employment and go for more contractual work. A painful memory was from Gujarat only during 1985, when over one lakh textile mill workers lost their job in Ahmedabad (Breman, 2002), thereby informalising to policy to retain them. This way employers avoid obligations towards job security and welfare and eventually employees suffer (Kalleberg, 2013; Agarwal, 2013). Organisations find another way out by remaining unregistered and thereby having only less than ten registered employees. It is to be noted that in India, if any organisation has more than 10 permanent employees, they need to register under The Factories Act, 1948. Then they can be bought under regulation of law. Maintaining less than 10 employees help them bypass the law (Maity, 2012). This issue was reiterated by many MSME owners during data collection stage with an additional input from them. The laws being too complicated and paper works are so cumbersome, MSME owners simply wanted to avoid those. Referring to table 5.7 in this study, it is evident by the dominance of two categories in permanent employee section. Among 223 organisations surveyed, 75 had no permanent employees and 77 had less than 10 permanent employees. It shows that 68.16 percent of organisations need not follow The Factories Act, 1948. It is also seen that labour unions have reduced in number in India (Kalleberg, 2013; Agarwal, 2013, Nath, 2008).

Kalleberg (2013) found that workers insecurity had increased because of the change in nature of employment relations and they have become precarious. Non standard employment relationships
had been institutionalized giving rise to decrease job stability and internal labour markets. This in turn gave rise to “open” employment relationship wherein labour market institutions become weak. The sample data indicates similar situation. This could be because of availability of migratory labour in Gujarat who are not aware of their rights and are available to work at cheap rates and lesser demands. This could be also because of education status of the labour class of workers. Similar view is also given by Maity (2013), stating the presence and growing status of contractual employment which in turn is giving rise to precarious employment. He has cited that absence of substantial labour law has been one of the reasons for this condition.

For MSME owners this is an easy way to bypass the legal compliances as precarious employment pushes the individuals to work harder and without conflicts. Since “open” market situations cut the psychological contract in employment relationship, workers lose their job stability and security. This highlights a need for a stricter more proactive role from labour department. Also issuance of welfare, safety and social security measures of these labourers may be an issue.

Labour agreement is a formal arrangement negotiated between the employer and the employee on a temporary or permanent basis for stipulated number of years. Management is supported with rights through collective bargaining to direct its workforce when labour agreement is present (Riley, 1992). Similarly, under labour agreement, the bargaining power of employees increases because of the presence of formal HR system (de Grip and Sieben, 2009). International Labour Organisation (ILO) protect the right of the workers by establishing various intervening principles, amongst which freedom of association, effective recognition of the right to collective bargaining, and the elimination of discrimination in respect of employment and occupation are noteworthy (Henry and Gravel, 2006). But, as is found in this study, there is a decrease in collective worker power and institutional protection of workers due employers competitive market (Kalleberg, 2013). The results demonstrated that a large number of micro, small and medium enterprises do not have labour agreements with the workers. Small enterprises due to a complex and unfavourable business ecosystem move towards the informal and unregistered segment that is approximately growing five times faster than the organised segment, and it accounts for almost 95% of the MSMEs in India (Report from Ministry of MSME, 2013). Most the labour laws in the present form cannot be applied to the MSME sector. This puts the labour
class in a very dilapidated status and open to exploitation. In 2013 the Indian Labour Conference that took place and recommended the exemption of MSEs with 20-50 persons from labour law (Manoj, 2013). This indicates presence of precarious employment condition. It is therefore deduced that the typical characteristics of precarious employment condition are (i) chances of getting terminated within a short period of time is very high, (ii) lack of control over working condition, pace and wages, (iii) unprotected employment and, (iv) low incomes.

Contrastingly, another factor that comes to play is the recent Government employment schemes like Mahatma Gandhi National Rural Employment Guarantee Act, 2005 (MGNREGA). Through this scheme, people are assured 100 days of job, leaving them with better bargaining power with employers. In that case, presence or absence of labour agreement does not create much impact in employment relations, as employees have more choices to take advantage of. So, ultimately both these conditions have lessened the importance of labour agreement as reflected by the results given by the data.

Some other factors that could be creating an impact for non existing labour contract could be the cultural context of Gujarat based MSMEs. Most of these firms, recruit through network recruitment mechanisms, and therefore have strong cultural affiliation. The worker class usually comes from Rajasthan and Bihar and is hired through labor contractor incentive schemes and tie-ups with gram sarpanch. In such a case cultural based control systems become more strong than any other discipline mechanism and conflicts if any are sorted out with social pressures.

In the present study, the existence of the labour agreement within an organisation did not significantly affect the formalisation of HRM. Most of the companies of the MSME segment did not have labour agreement as suggested by our results they have few permanent employees in the companies, therefore, does not necessitate them to have labour agreements. These companies follow informal practices of managing their employees without adjunct formal practices. Nevertheless, the MSMEs significantly contributed to the Indian economy by employing more than 73 million persons as at the end of FY11, though not on a permanent basis. Productivity of the MSME sector has significantly increased as the employment is growing consistently in the last decade (D&B India, 2013). But, Nath (2008) has rather unraveled a more disturbing
condition. Despite the increase in GDP, employment rate has not increased in registered sector. Nath said that this type of growth is not sustainable since it has made precarious employment conditions and has suspended trade union rights. Interestingly, development of a strong organisational culture and thereby relating it to human resource management practice can restrict the propensity of employees to form union (Broek, 2009). As evident from the opinion of respondents and literature, MSMEs tends to have their family members or kin as employees to avoid any such legal or union obstructions and are rather known as household enterprises (Maity, 2012).

6.3.3 Large Firm Association

Of the MSMEs studied, 73 (32.74%) were found to have association with large firms. In general, businesses associate with each other regarding joint ventures, strategic alliances, equity partnerships, licensing, franchising alliances, and network alliances. The report “Strategic Action Plan of Ministry of Micro, Small and Medium Enterprises” states that MSMEs are amenable to ancilliarisation and thus have natural linkages with large enterprises. The results also demonstrate that micro organisations are active in maintaining the large firm association compared to small and medium sized organisation. Institutional theory indicates that large firm association can be coercive for MSMEs to comply with their values and norms (Corolleur and Couriet, 2003; Malecki and Tootle, 1996). However, how these large firm association influences the businesses in ways other than their contribution to business success is not well known (Besser and Miller, 2011). Therefore, this study examined large firm association with the performance of the organisation. The results shows that the large firm association to have a significant impact (p = 0.000) on the organisation performance. Having large-scale businesses as strategic business partners helps in the development of MSMEs through business linkages between them could provide a market for MSMEs and promote technology and knowledge transfer, and access to finance.

Globally the MSMEs are growing in size and significance; consequently large firms have taken note of this and have realized the importance of providing assistance to these sectors, therefore contribute to economic growth. Both public and private service providers strive to enhance the interactions they have with MSMEs and also believe that these interactions would also ultimately support their business too (Massey, 2003; OECD, 1998). Not only increase the revenue and turnover rate of the small firms, these associations can also increase the number of workers employed in the firms with a cascading effect on the establishment of formal HR practices. Formal HR practices involve recruitment, appraisal, compensation and development of the employees through training. Access to these practices offers competitive advantage for these small firms. But, small firm leader belief has played an important role, so if the leader does not believe then chosen emulation may not happen, the firm only copies and institutionalizes practices which are mandated for compliance by large firms. So, investment of formalisation in greater scale is ignored as is evident with a variance of 21 percent. Also, the respondent organizations were mostly clients of not only one but multiple large firms which indicates that any particular large firm’s HR practice was not conducive to adopt or emulate. Only few organizations worked as ancillaries and there also there were no obligation to adopt their practices. An interesting observation was that, amongst multiple large firms, MSMEs become closely associated with one or two of them. Evidence was found from the respondents that they felt their HR practices were good and tried to adopt few of them. Mainly, the recruitment techniques and appraisal forms of large firm partners were of interest to MSME owner/managers.

### 6.4 Organisational Performance

Several studies have made comprehensive seminal review on the relationship between HRM practices and organisation performance (Boxall and Purcell, 2003; MacDuffie, 1995; Ichniowski et al., 1997). The literature has considered different dimensions and has provided supportive evidence on the presence of positive link between at least one of the dimensions of organisation performance and some of the HRM practices in MSMEs (Way, 2002). In this study, the
significant impact of the formalized HR practice on the organisation performance observed shows that all the parameters of HR practices in combination also has impact. The HR practices like recruitment, selection, compensation, appraisal and training plays a vital role in obtaining and developing the right candidates in order to increase their productivity and consequently the performance of the organisation. Recruitment and selection process determines the type of candidates that are best suited for the organisation goals (Tzafrir, 2006), in addition to aligning the individual’s abilities and skills with the requirement of the organisation (Fernandez, 1992). The employees thus chosen, as concluded by Hunter and Schmidt (1982), can provide stability of employment. Similarly, a compensation system that is based on excellence is expected to result in enhanced employee performance (Delaney and Huselid, 1996). Training and employee development of HRM is another aspect of HRM that can produce positive outcomes in the form of increasing organisation performance (Waterman, et al., 1994). According to exchange theory, investment into training enables the employee to procure employability skills which in turn can create a moral obligation in the employee to ensure that the organisation is benefited by the skills imparted by it.

In this study, we have shown that organisation size, age of the organisation, number of permanent employees, large firm association play a crucial role in motivating the implementation of formal HR practices, which in turn increased the organisation performance. Past studies have also shown that different constructs of HRM practices followed in the micro, small and medium enterprises are influenced by organisational contextual variables, such as size of organisation, age, and ownership (Zheng and Morrison, 2009), despite having a very low formalisation of HR practices in these organisations . On the other hand, labour agreement and the type of ownership of business did not have any impact on enhancing formal HR practices. One probable reason could be that labour agreement does not exist in most of the MSMEs as they focus on increasing productivity through employing contractual labours who are not bound by labour agreements. Overall scenario points to the newly existing precarious working condition prevailing in this sector. Future research needs further probe into these aspects to bring out more facts to enhance the MSMEs performance.