The focus of this study was to investigate the presence of formalisation of human resource management practices (HRMP) in the Micro, Small and Medium Enterprises (MSME) in the state of Gujarat, India, and consequently the effect of formalisation on organisational performance. MSMEs contribute 80% of global economic growth and are highest employment generators. To keep the cost low, they follow unique human resource management (HRM) practices. Despite these importance and scope of MSMEs, very few studies have focussed on studying HR Practices and extent of formalisation of HRM in these units.

The assumption behind this study was that formalised HRMP helps in getting better organisational performance (Nguyen and Bryant, 2004). The aim was to study the current HRMP among MSMEs in the state of Gujarat. The effect of formalised HRMP on annual sales was studied separately among MSMEs. The study was conducted on 223 MSMEs across 17 districts in Gujarat. Along-with that, other relevant factor like demographic variations and contextual factors was also studied to understand their effect on formalisation of HRMP. Among the three contextual variables studied; namely firm size, labour agreement and large firm association, it was found that formalisation of HRM is dependent on organisation size and large firm association, but no relation was found between formalisation and labour union.

It is argued that precarious employment, recruitment through labour contractor and keeping more workers as contract worker to avoid legal scrutiny is the cause for this. Also, the culture based control system prevalent in small and medium firms in high context nations like India creates an environment for non formalized HRM practices. This has its own advantages and disadvantages. Since there are social control systems, the discipline process is positive and maintained within the firm, however, the role of government, legal and judiciary mechanism loses its relevance.

Finally, results of this study will provide information about ‘Formalised HRMP’ that has positive association with organisational performance. This forms the base for
recommendation to institutionalise and be focussed on building firm capability in terms of human resources in all MSMEs and not take short term decisions. This study provides a reference point for all MSMEs benefit in future.