

People First: Formalisation of Hrm in Msmes of Gujarat, India

Shrabani Bhattacharjee*

Doctoral Student, Institute of Management, Nirma University , S G Highway, Ahmedabad, Gujarat, India, PIN- 382481

E-Mail: shrabani7@gmail.com

Prof. Anamika Sinha

Professor, Institute of Management, Nirma University, S G Highway, Ahmedabad, Gujarat, India, PIN- 382481

E-mail: 121withanamika@gmail.com

Abstract

Aim: The aim of this paper is to study the antecedents of formalisation of HRM in Micro, Small and Medium Enterprises (MSME) of Gujarat. 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 focused on studying HR Practices and extent of formalisation of HRM in these units. It is important now to understand unique innovative practices being followed at MSMEs and to develop some supportive literature to help them build their organisational capabilities.

Methodology: The methodology used was descriptive. Primary data was collected through a structured research questionnaire with closed ended questions. Questionnaire was adapted from de Kok, Uhlaner and Thurik's (2002) study and self designed questions for demographic data. Secondary data was gathered from books, previous research papers, articles, research journals and from the websites related to the study. Total number of MSMEs studies was 223. The data was analysed with SPSS18.0 using multiple regression method.

Findings: Among the three contextual variables studied; namely firm size, labour union 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. The findings showed absence of formalization and cost associated with organization contributing to the positive relation between organization size and large firm association with formalization of HRM. Precarious employment and culture based control system contributed to the negative relation between labour agreement and formalization of HRM.

Managerial Implications: The study contributed to the body of MSME literature. It was an interesting insight to observe that while MSMEs employ a large number of workers, most do not follow a systematic formalised HR practice. Though there is an increasing body of literature that identifies people as a competitive advantage and advocates investment in formalised HR for competitive advantage. It was found that practitioners do not follow that line of thought.

Originality: This paper explored linkages of organisational contextual variables and formalisation of human resource management practices. This is an original empirical work.

Limitations: This study can be extended encompassing various other states of India. There are other contextual variables which can also be studied. Time acted as a major limitation for exploring other variables in this paper.

Keywords: Formalisation of HRM, MSME, HRM practices, contextual variables, firm size, large firm association, labour union.

1. Introduction

Micro, small and medium enterprises constitute the largest number of economic entities in most countries. The role of MSMEs in the economic and social development of the country is widely acknowledged. They are nurseries for entrepreneurship, often driven by individual creativity and innovation, and make significant contributions to the country's GDP, manufacturing output, exports, and employment generation. In India, according Economic Survey Report 2010-2011¹, MSMEs contribute 8 per cent of the country's GDP, 45 per cent of manufactured output, and 40 per cent of exports. The labour-capital ratio in MSMEs is much higher than in larger industries. Moreover, MSMEs are better dispersed. In view of these factors, MSMEs are important for achieving the national objective of growth with equity and inclusion.

According to the Ministry of Micro, Small and Medium Industry's official website, it has been noted that they constitute over 90% of total enterprise in most economies. They also generate the highest rate of economic growth. In India, this sector employs 5.97 crore persons spread over 2.61 crore enterprises².

A review of literature indicates that MSME's have attracted very less theoretical, as well as empirical research attention from researchers as a field of study, despite this significant contribution. Looking at the

¹<http://indiabudget.nic.in/survey.asp>. Retrieved on 22 November, 2011

² Source: <http://msme.gov.in/msme.aboutus.htm>. Retrieved on 16 August, 2011.

contribution that they make and also the fact that due to their scale and expertise they need dedicated inputs in terms of organisation building, it is now time that some focused research is carried out (Hassan 2008). It is important now to understand unique innovative practices being followed at MSMEs and some supportive literature is developed to help them build their organisational capabilities.

Excellence, whether for MSME or for large firms is a phenomenon of iteration. This is possible only when, with evolution of organisation and with growth, HR practices get formalised and there is a standardization of processes. There have been very few studies which have measured the formalisation of HRM in MSMEs. Being medium, many a times there is an absence of HRM as a department itself. Sometimes in case of MSMEs there are other functions that take precedence over formalisation of HRM practice due to the cost factor associated with it (Barrett, *et al.*, 2007). But, with the need of time, more emphasis ought to be paid to formalised HRM system and various inter-related variables present in the organisation.

2. Research Agenda

The present study is an extension of the study done by de Kok and Uhlaner (2001). The research agenda was developed to find the effect of three contextual variables viz., organisation size, labour agreement and large firm association on formalisation of HRM practices. The research was done with special reference to MSME's based in Gujarat.

3. Micro, Small and Medium Enterprises

3.1 Definitions and Facts and Figures

Definitions used for MSMEs vary widely. There is variation in definition depending on the program, policy, purpose and industry. The most common criteria in the definition being the number of people employed; net capitalization; assets; sales or turnover; and production capacity are also used by various economies. For the purpose of this study we define MSME as per the MSMED Act.

In India, Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 classified the Micro, Small and Medium Enterprises (MSME) in two classes:

3.1.1 Manufacturing Enterprises- The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951. The manufacturing enterprise is defined in terms of investment in plant & machinery.

3.1.2 Service Enterprises: The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

The limit for investment in plant and machinery / equipment for manufacturing / service enterprises, as notified in MSMED Act, 2006 are as given in Table 1:

3.2 Micro, Small and Medium Enterprises- Gujarat

According to 4th all India census on MSMEs conducted during 2006-07, it was noticed that 2.30 lakh working MSME units of Gujarat state provided employment to around 12.90 lakh persons¹. MSME was also the focus sector in the Vibrant Gujarat meet 2011. As per the official website of Industries Commissionerate, Government of Gujarat, The data of MSMEs from 01/04/2011 to 31/10/2011² are given in Table 1 to 4:

District Industries Centers in all the districts of the state and the institutions such as Gujarat Industrial Development Corporation (GIDC) and Gujarat State Financial Corporation (GSFC) have been instrumental in accelerating the pace of development of MSMEs³.

Gujarat stands second to Tamil Nadu by having 14.7% of the total MSMEs. It has textile as the most dominant sector. Gujarat leads India by having 369 manufacturing clusters. Surat is the biggest hub of MSMEs in the state with about 75,000 units, followed by Ahmedabad (47,000), Rajkot (14,000) and Vadodara (8,000). Micro units constitute 85% of the total MSME units in Gujarat. Small units form 14% of MSMEs, while the medium units (Rs 5-10 crore) form 0.61% of the sector⁴.

The above data establishes a need for study of MSME sector and identifying the level of formalised HRM practices.

4. Review of Literature

Sustainable organisations consider people as their key organisational resource. Formalised and systematic HR policies and processes thus have significant impact on firm performance (Armstrong, 2004, Nwahanye, 2015).

¹ Source: <http://msme.gov.in/msme.aboutus.htm>. Retrieved on 16 August, 2011.

² Source: http://ic.gujarat.gov.in/?page_id=1421

³ Source : http://ic.gujarat.gov.in/?page_id=117

⁴ <http://www.financialexpress.com/news/-1000odd-msme-units-downed-shutter-in-2-years-/1056714/1>. Retrieved on 8 September 2013

To better understand the context and arrive at the variables, researchers have used different frameworks, for eg, resource based view and its argument for elements of external environment has been used for choice of large firm association. (Prahalad and Hamel, 1990; Mahoney and Pandian, 1992). Similarly, from institutional theory, which views organisations as entities that gain legitimacy and stakeholder expectation for behavior (Huselid, et.al., 1997), labour agreement has been added. And finally, organisation size has been taken from other contextual dimensions to represent such dimension which can represent both external and internal environment (Daft, 2004).

4.1 Formalisation of Human Resource Management Practices

Extensive literature review did not yield any universally accepted definition of formalisation. So, the figurative meaning of formalisation has been tried to capture in the table 5

4.2 Antecedents to formalisation of HRM

Adoption and formalisation of HRM practices in MSMEs varies widely (Hornsby and Kuratko 1990; Deshpande and Golhar 1994, Cassell et al. 2002). The factors that impinge on adoption and formalisation of HRM practices in MSMEs are as given in the table 6 below:

4.3 Outcomes of Formalisation of HRM

The effects of formalisation as described by different authors is given in Table 7.

4.4 Formalisation of HRM in MSMEs.

Management systems of MSMEs are mostly informal by virtue. Nevertheless, as the organisation grows the pressure to formalise policies and procedures starts to build up. With growth in number of employees, systematic management becomes indispensable for sustenance (Barrett, *et al.*, 2007; Arthur, 1995). The formalised system, thereafter, becomes the mode of fair, consistent and productive management system. According to a study by de Grip and Siegen's (2009) government and regulatory bodies can impact the level of formalisation in pharmaceutical MSMEs. However, in most other industries, a formalised HR is missing.

The few possible reasons for absence of formalised HRM practices in small firms are given in Table 8.

4.5 Organisation Size

Daft (2004) defines size as the organisation's magnitude as reflected in the number of people in the organisation. It can be measured for the organisation as a whole or for specific components, such as plant or division.

Adler (1959) suggested that as the size increases, efficiency generally first rises and then falls off inversely proportionally to the number of employees. In accordance to research based on resource based view and transaction cost economics, company size has direct effect on the formalised training programs and regularity in performance appraisal (de Kok and Uhlaner, 2001). With increase in organisation size, the mode of recruitment has been noted to change. It becomes more widespread from word of mouth to newspapers and other formal recruitment sources. According to MSMED Act, 2006, in India, size is categorized according to investment in plant and machineries in both manufacturing and service sector. For the purpose of this study we use the definition as per the MSMED Act, 2006.

4.6 Labour Agreements

Government organisations in some industrialised countries clearly define the expectations required from HRM practices (Paauwe, 1998). International Labour Organisation (ILO), founded in 1919, protect worker's right by various intervening principles amongst which freedom of association and effective recognition of the right to collective bargaining and the elimination of discrimination in respect of employment and occupation are to be specially noted (Henry and Gravel, 2006).

This gives an explanation about the variation in HRM practices due to compliance to the expectations (Jackson, et al., 1989). A study done by de Kok and Uhlaner (2001) in Netherlands has found that amongst 800 labour agreements, majority contain requirement of formal HRM practices.

Another research indicated that economic reality of particular industry becomes the principle author of agreement content. The idea is all about utilizing labour resource under agreement conditions. Management also does get the right through collective bargaining to direct the workforce, hire whom they want and lay off workers when work is not available. But despite that management have lesser control (Riley, 1992).

The bargaining power of employees increases because of the presence of formal HR system (de Grip and Sieben, 2009). It also empowers employees to participate in the employment conditions.

4.7 Large Firm Association

Business association comes in various forms *viz.* joint ventures, strategic alliances, equity partnerships, licensing,

franchising alliances, and network alliances. Some of the most imperative and fastest growing business associations are supply chains and strategic alliances. There is a scope for future research in determining how membership in these associations influences businesses in ways other than their contribution to business success (Besser and Miller, 2011).

Institutional theory indicates that for MSMEs, association with large firms can be coercive in ways like complying with their values and norms. This can be due to the formal and informal rewards and sanctions associated. The probable rewards could be access to valuable information (Corolleur & Couriet, 2003; Malecki & Tootle, 1996), access to capital at favorable rates (Uzzi, 1999), and inclusion in lucrative business ventures (Galaskiewicz, 1997; Powell, *et al*, 1996). MSMEs rely on these associations with large firms to ensure inclusion in co-operative ventures (Davis, *et al*, 2006).

Noteboom (1993) suggest large firms as those who have larger volume of production, cost and more number of products in comparison to associated smaller firm. They are also superior in experience and capacity for acquisition of knowledge. While, except Noteboom's description no specific standardized definition for large firm was found in literature. Moreover, there is no description of large firm with respect to Indian context which can help the researcher to strike a comparison between large firm and MSME. It can very well understood because of the heterogeneous characteristic of small firms across the world which restricts for a generalized definition. Therefore, the researcher here denotes large firm in accordance to the MSMED Act. For manufacturing firms, those have more than 10 crore rupees as investment in plants and machineries will be considered as large firms. For service sector, firms exceeding 5 crore in investment in equipments will be considered as large.

The factors given in the literature review of formalisation of HRM practices are with special reference to MSMEs. The researcher intends to study the factors less researched upon according to literature. Since, all the chosen factors are not found to be practiced together in MSMEs, so effect on each factor will be studied separately. Also, the relevancy with respect to Indian context will also be considered before finally zeroing down to specifically study Gujarat. Gap in literature has been found between firm size and formalisation of HRM practices in Indian context. Dearth of literature was found on labour agreement aspect in Indian MSMEs making it worth studying. Large firm association has shown to display coercive force in adopting their policies and procedures. It would be interesting to know if any such coercive action is applicable with MSMEs in Indian context that are associated with large firms.

5. Research Hypothesis

Formalisation of HRM practices cannot be generalized as a homogeneous concept as wide variation has been found amongst practices in MSME's. de Kok and Uhlaner's (2001) studied regularity of performance appraisal, written job description and the availability of a formal training program as dimensions of formalised HRM practices. They found that they are completely unrelated to each other. But, they measure some aspects of formalisation. It was of utmost important to notice the absence of inter-relation amongst the various dimensions of formal HRM practice. Therefore, these dependent variables could be studied separately.

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

H2: Labour agreement in an organisation is positively related to formalisation of human resource management practices.

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

H4: Organisation size, Labour Agreement and Large Firm Association together is positively related to formalisation of human resource management practices

6. Research Methodology

6.1 Research Design

The methodology used was descriptive followed by quantitative analysis with the main aim of analyzing the role of formalised HRM practices.

The source of study was both primary and secondary. **Primary** data was collected through a self designed structured research questionnaire (tool for the data collection) comprising only close ended questions based on survey design. **Secondary** data was gathered from books, previous research papers and articles from the research journals and from the websites related to the study.

6.2 Tools for Data Collection

For measuring formalisation of HRM practices, scale from de Kok, Uhlaner and Thurik (2002) was adapted. Self designed close ended questionnaire was developed for the independent variables. Some questions inevitable was classification type while other questions might have closed answers. Further the reliability and validity of the formalisation scale was checked. The refined questionnaire was administered in person.

6.3 Sampling frame and Sampling technique

Participant organisations were selected from the database of Industries Commissionerate, Government of Gujarat. Various directories available in Gujarat Chamber of Commerce, Gujarat Small Industries Corporation Ltd were consulted for supporting data.

The unit of analysis was the organisation itself wherein owners or the person taking care of HR function was requested to fill the questionnaire. The respondents were met personally in their respective organisations and questionnaire will be filled in by one to one basis. The profiling of respondents are given in table 9 and table 10.

7. Analysis of Data

7.1 Measure

Analysis has been done using the SPSS 18.0 .The scale has been adapted from previous studies and checked for scale reliabilities (coefficient α). The construct indicator variable and scale reliability values are given in table 11. The descriptive values are given in table 12.

Skewness is a measure of symmetry of a dataset describing the location whereas kurtosis describes the variability of a dataset (Malhotra and Dash, 2009). The value of skewness is within limits and hence the distribution of data can be said as symmetrical. Kurtosis value is less than 3 and indicates platykurtic distribution, i.e., flatter than a normal distribution with a wider peak. The values expected to be wide spread around the mean.

7.2 Results

Hypothesis 1: Organisation size is positively related to formalisation of human resource management practices.

$$FHRMP = \alpha_1 + \beta_{11}OS + e_1$$

Table 13: Regression results for organisation size predicting formalisation of human resource management practices.

	Standardized coefficients			Collinearity Statistics	
	Beta	t	Sig.	tolerance	VIF
(constant)		43.623	0.001		
Organisation size	.455	7.588	0.001	1.000	1.000
R= 0.455, Adjusted R square = 0.207					
Dependent Variable: FHRMP, N=223					

Organisation size shows a significant ($p < 0.05$) relationship with formalisation of human resource management practices.

Hypothesis 2: Labour agreement is positively related to formalisation of human resource management practices.

$$FHRM = \alpha_2 + \beta_{21}LA + e_2$$

Table 14: Regression results for labour agreement predicting formalisation of human resource management practices.

	Standardized coefficients			Collinearity Statistics	
	Beta	T	Sig.	Tolerance	VIF
(constant)		34.303	0.001		
Labour agreement	-.104	-1.558	0.121	1.000	1.000
R= 0.104, Adjusted R square = 0.011					
Dependent Variable: FHRMP, N=223					

Labour agreement shows insignificant ($p < 0.05$) relationship with formalisation of human resource management practices.

Hypothesis 3: Large firm association is positively related to formalisation of human resource management practices.

$$FHRM = \alpha_3 + \beta_{31}LFA + e_3$$

Table 15: Regression results for large firm association predicting formalisation of human resource management practices.

	Standardized coefficients			Collinearity Statistics	
	Beta	T	Sig.	Tolerance	VIF
(constant)		31.715	0.001		
Large firm association	.460	7.695	0.001	1.000	1.000
R= 0.460, Adjusted R square = 0.211					
Dependent Variable: FHRMP, N=223					

Large firm association shows a significant ($p < 0.05$) relationship with formalisation of human resource

management practices.

Hypothesis 4: Organisation size, labour agreement and large firm association together is positively related with formalisation of human resource management practices.

$$FHRM = \alpha_4 + \beta_{41} OS + \beta_{42} LA + \beta_{43} LFA + e_4$$

Table 16: Regression results for organisation size, labour agreement and large firm association predicting formalisation of human resource management practices.

	Standardized coefficients			Collinearity Statistics	
	Beta	T	Sig.	tolerance	VIF
(constant)		20.781	0.001		
Organisation size	.352	6.089	0.001	.917	1.091
Labour agreement	-.064	-1.155	.249	.990	1.010
Large firm association	.352	6.055	0.001	.908	1.101
R= 0.573, Adjusted R square = .319					
Dependent Variable: FHRMP, N=223					

7.3 Discussion

The formalisation of HRM practices is moderately correlated (Pearson correlation = 0.455; $p = 0.000$) with organisation size. The R-squared value of 0.207 implies that the predictor variable, i.e., organisation size explained about 20% of the variance in the formalisation of HRM practices. Table 13 reveals that the F-statistics (57.571) is large and the corresponding p-value is highly significant (0.000), which means it is lower than the alpha value of 0.05. This indicates that the slope of the estimated linear regression model line is not equal to zero confirming that there is a linear relationship between organisation size and formalisation of HRM practices.

A relationship between labour agreement (LA) and formalisation of HRM (FHRMP) was tested using linear regression model (Table 14). The results revealed a weak negative correlation between the LA and FHRMP. Further, LA was found not to have a significant impact on FHRMP ($F=2.427$; $p = 0.121$). Therefore, the hypothesis was rejected.

The large firm association of MSME was evaluated to find how it can affect their venture success. A positive correlation was found between the large firm association and the FHRMP ($r = 0.46$; $p = 0.000$). The results obtained from this study suggest that these associations have a significant impact on the FHRMP ($F=59.207$; $p = 0.000$). Further, 21% of the variation in the FHRMP could be explained by large firm association suggesting that this is a good fit in predicting the FHRMP association (Table 15).

A multiple regression was run to predict the impact of organisation size, labor agreement and large firm association on FHRMP (Table 16). The assumptions of linearity, independence of errors, unusual points and normality of residuals were tested. The R-squared value of 0.329 indicates that the three predictor variables explain about 33% of the variance in the FHRMP practices used by the firms. The F-statistics (35.715) is large and the corresponding p-value is highly significant (0.000) indicating that the slope of the estimated linear regression model line is not equal to zero confirming that there is a linear relationship between FHRMP and the predictor variables. The Beta value for both organisation size and large firm association was 0.352 and were significant ($p = 0.000$), while on the contrary it was -0.064 for labour agreement suggesting that organisation size and large firm association positively contribute to the FHRMP while the same cannot be said so about the labour agreement.

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).

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. This can be explained with the recent researches which indicates that precarious employment and culture based control system has influenced this results. 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.

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 finance¹.

8. Implications

Growth and sustenance of any organisation is with its employees. In any given business situation, all other things remaining constant, the firm with better skilled employees will eventually gain a competitive advantage. This study to this extent draws out significant insight on absence of formal HR in MSMEs and also the factors that lead to formalisation. Using this insight government could draw this as an advocacy issue and to protect rights of laborers, encourage MSMEs to invest in formalizing processes of HR in their business unit.

9. Limitations and Future Studies

- The effect of organisation size on formalisation of human resource management practices is seen in this study. But individually the effect of each size class was not seen. Further studies could be done especially by considering each size class and their individual effect and study practices specific to them.
- This study has showed if large firms association is having any effect on the formalisation of human resource management practices in MSMEs. But further study could be done to find out if the MSMEs adopt their principle customer's practices or they have their own customized practice. The study can be extended to know the effect of such. Detailed study could be done to look the various prospects of such adopted or customized practices and the effectiveness.
- Dominant cultural effect was noticed during this study in different pockets of GIDC across the state. The practices also vary. Extensive study on each of these belts would enrich future research and would bring how different successful practices prevail in Gujarat.

References

- Adler, P.S. and Borys, B. (1996). Two types of bureaucracy: Enabling and Coercive. *Administrative Science Quarterly*, Vol. 41 Issue 1, pp. 61-89.
- Arches, J. (1991). Social structure, burnout, and job satisfaction. *Social Work*, Vol. 36 No.3, pp. 202-206.
- Armstrong, M (2004). *A Handbook of Human Resource Management Practice*. Kogan Page: London
- Arthur M. and Hendry C. (1990). Human resource management and the emergent strategy of small to medium sized business units. *International Journal of Human Resource Management*, Vol. 1, No. 3, pp. 233-250.
- Arthur, D. (1995). *Managing Human Resources in Small and Mid-Sized Companies*, American Association of Management, New York, NY.
- Barrett, R., Neeson, R. and Billington, L. (2007). Finding the "right staff" in small firms. *Education + Training*, Vol. 49 No 8/9, pp. 686-697.
- Barrett, R., Neeson, R. and Billington, L. (2007). Finding the "right staff" in small firms. *Education + Training*, Vol. 49 No 8/9, pp. 686-697.
- Besser, T.L. and Miller, N.J. (2011). The company they keep: How formal associations impact business social performance. *Business Ethics Quarterly*, Vol. 21, Issue 3, pp. 503-525.
- Brand M. and Bax E. (2002). Strategic HRM for SMEs: implications for firms and policy. *Education + Training*, Vol. 44, pp. 451-463.
- Cardon, M.S. and Tarique, I. (2008), "Organisational attractiveness of small businesses", in Barrett, R. and Mayson, S. (Eds), *International Handbook of HRM and Entrepreneurship*, Edward Elgar, Cheltenham.
- Cassell C, Nadin S, Gray M. and Clegg C (2002.) Exploring human resource management practices in small and medium sized enterprises. *Personnel Review*, Vol. 31, pp.671-692.
- Cassell C, Nadin S, Gray M. and Clegg C (2002.) Exploring human resource management practices in small and medium sized enterprises. *Personnel Review*, Vol. 31, pp.671-692.
- Chandler, G. and McEvoy, G. (2000), "Human resource management, TQM, and firm performance in small and medium-sized enterprises", *Entrepreneurship Theory and Practice*, Vol. 25 No. 1, pp. 43-58.
- Corolleur, F., & Courlet, C. (2003). The Marshallian industrial district, an organisational and institutional answer to uncertainty. *Entrepreneurship and Regional Development*, Vol.15, pp. 299-307.
- Daft. R. L.(2004). *Organisational Theory, Change, and Design*. Cengage Learning.
- Davis, A. E., Renzulli, L. E., & Aldrich, H. (2006). Mixing or matching?: The influence of voluntary associations on the occupational diversity and density of small business owners' networks. *Work and Occupations*, Vol. 33 No.1, pp. 42-72.

¹ Information available at <http://www.ilo.int/public/english/region/afpro/lusaka/download/tc/torsadvertagriculture.pdf>. Retrieved on 2 Nov, 2013.

- de Grip, A. and Sieben, I. (2009). The effectiveness of more advanced human resource systems in small firms. *The International Journal of Human Resource Management*, Vol. 20 No. 9, pp. 1914-1928.
- de Kok J. and Uhlaner L.M. (2001). Organisation context and human resource management in the small firm. *Small Business Economics*, Vol. 17 Issue 4, pp. 273-291.
- de Kok J., Uhlaner L. and Thurik A (2002). Human resource management with small firms; facts and explanations. ERIM Report Research Series Research in Management.
- Deshpande, P.S. & Golhar, Y.D. (1994). HRM practices in small and large manufacturing firms: A comparative study. *Journal of Small Business Management*, April, pp.49-56.
- Galaskiewicz, J. (1997). "An urban grants economy revisited: Corporate charitable contributions in the twin cities 1979-1981, 1987-89." *Administrative Science Quarterly*, Vol. 42, pp. 445-471.
- Hassan, Z.(2008).Strategic competitiveness, human resource strategy and organisational performance linkage amongst SMEs in the Malaysian manufacturing sector. In C. Harvie and B. –C. Lee, *Small and medium sized enterprises in East Asia*, Vol. IV, pp 368-394. Cheltenham, UK:Edward Elgar.
- Henry, D. and Gravel, C.E (2006). Free trade agreements and labour rights: recent developments. *International Labour Review*. Vol. 145, No.3
- Hornsby, J. and Kuratko, D. (1990). Human resource management in small business: Critical issues for the 1990s. *Journal of Small Business Management*, Vol. 28 No. 3, pp. 9-18.
- Hornsby, J. and Kuratko, D. (2003). Human resource management in US small business: a replication and extension. *Journal of Developmental Entrepreneurship*, Vol. 8 No. 1, pp. 73-92.
- Huselid, M.A., Jackson, S.E and Schuler, R.S (1997). Technical and strategic effectiveness as determinants of firm performance. *Academy of management Journal*, Vol. 4, No.1, pp. 171-188.
- Jackson, S. E ., R.S. Schuler, J.C. Rivero., (1989). Organisational characteristics as predictors of personal practices. *Personnel Psychology*, Vol. 42, pp. 727-786.
- Jorgensen B. and Messner M. (2009). Management control in new product development: The dynamics of managing flexibility and efficiency. *Journal of Management Accounting Research*, Vol. 21, pp. 99-124.
- Kakabadse, A. (1986). Organisational alienation and job climate. *Small Group Behavior*, Vol. 17, pp. 458-471.
- Klaas, B., McClendon, J. and Gainey, T. (2000). Managing HR in the small and medium enterprise: the impact of professional employer organisations. *Entrepreneurship Theory and Practice*, Vol. 25 No. 1, pp. 107-23.
- Kotey B and Slade P. (2005). Formal human resource management practices in small growing firms. *Journal of Small Business Management*, Vol. 43 Issue 1, pp.16–40.
- Mahoney, JT and JR Pandian (1992). The resource-based view within the conversation of strategic management. *Strategic Management Journal*, 13, 363–380.
- Malecki, E. J., & Tootle, D. M. (1996). The role of networks in small firm competitiveness. *International Journal of Technology Management*, Vol. 11, pp. 43-57.
- Marlow, S. (1998). So much opportunity-so little take-up: the case of training in small firms. *Small Business and Enterprise Development*, Vol.5 No. 1, pp. 38-47.
- Mazzarol T. (2003). A model of small business HR growth management. *International Journal of Entrepreneurship Behavioural Research*, Vol. 9, pp.27–49.
- Nolan C. (2002). Human resource development in the Irish hotel industry: the case of the small firm. *Journal of European Industrial Training*, Vol. 26, pp.88–99.
- Noteboom, B. (1993). Form Size effects on transaction costs. *Small Business Economics*, vol. 5, pp. 283-295.
- Nwahanye, E. (2015). Human resource management practices and financial performance: Test of Le Louarn and Wils (2001) Staircase model in a free financial market context. *European Journal of Business and Management*, Vol. 7, No. 6, pp. 169-182.
- Paauwe, J., 1998. HRM and performance: The linkage between resources and Institutional context, *RIBES paper 9854*, Rotterdam, The Netherlands: Erasmus University Rotterdam, RIBES.
- Powell, W. W., Koput, K. W., & Smith-Doerr, L. (1996). Interorganisational collaboration and the locus of innovation: Associations of learning in biotechnology. *Administrative Science Quarterly*, Vol. 41, pp. 116-145.
- Prahalad, C.K. and Hamel, G. (1990). The core competencies of the corporation. *Harvard Business Review*, May-Jun, pp. 79-91
- Ranger-Moore, J. (1997). Bigger may be better, but is older wiser? Organisational age and size in the New York life insurance industry. *American Sociological Review*, Vol. 62 No. 6, pp. 903-20.
- Reid R. and Adams J. (2001). Human resource management—a survey of practices within family and nonfamily firms. *Journal of European Industrial Training*, Vol. 25, pp.310–320.

- Reid, R., Morrow, T., Kelly, B. and McCartan, P. (2002). People management in SMEs: an analysis of human resource strategies in non-family business. *Journal of Small Business and Enterprise Development*, Vol. 9 No. 3, pp. 245-59.
- Riley M. (1992). Labour utilization and collective agreements: An international comparison. *International Journal of Contemporary Hospitality Management*, Vol. 4 No. 4, pp. 21-23.
- Rousseau, Denise M. (1978). Characteristics of departments, positions and individuals: Contexts for attitudes and behavior. *Administrative Science Quarterly*, Vol. 23, pp. 521-540.
- Singh M. and Vohra N. (2009). Level of formalisation of human resource management in small and medium enterprises in India. *The Journal of Entrepreneurship*, Vol. 18 Issue 1, pp. 96-116.
- Tanova C. (2003). Firm size and recruitment: staffing practices in small and large organisations in north Cyprus. *Career Development*, Vol. 8 issue 2. pp. 107–114.
- Uzzi, B. (1999). Embeddedness in the making of financial capital: How social relations and associations benefit firms seeking financing. *American Sociological Review*, Vol. 64, pp. 481-505.
- Wager T. (1998). Determinants of human resource management practices in small firms: some evidence from Atlantic Canada. *Journal of Small Business Management*, Vol. 36 Issue 2, pp.13–23.
- Williamson, I.O. (2000). Employer legitimacy and recruitment success in small businesses. *Entrepreneurship: Theory and Practice*, Vol. 25 No. 1, pp. 27-42.
- Williamson, I.O. and Robinson, J. (2007), “The effect of small firms’ recruitment practice portfolio composition on recruitment success”, in Barrett, R. and Mayson, S. (Eds), *International Handbook of HRM and Entrepreneurship*, Edward Elgar, Cheltenham.
- Williamson, I.O., Cable, D.M. and Aldrich, H.E. (2002), “Smaller but not necessarily weaker: how small businesses can overcome barriers to recruitment”, in Katz, J.A. and Welbourne, T.M. (Eds), *Managing People in Entrepreneurial Organisations: Learning from the Merger of Entrepreneurship and Human Resource Management*, JAI Press, Amsterdam.

Table 1: Definition of MSMEs according to MSMED Act, 2006.

Manufacturing Sector	
Enterprises	Investment in plant & machinery
<i>Micro Enterprises</i>	<i>Does not exceed twenty five lakh rupees</i>
<i>Small Enterprises</i>	<i>More than twenty five lakh rupees but does not exceed five crore rupees</i>
<i>Medium Enterprises</i>	<i>More than five crore rupees but does not exceed ten crore rupees</i>
Service Sector	
Enterprises	Investment in equipments
<i>Micro Enterprises</i>	<i>Does not exceed ten lakh rupees:</i>
<i>Small Enterprises</i>	<i>More than ten lakh rupees but does not exceed two crore rupees</i>
<i>Medium Enterprises</i>	<i>More than two crore rupees but does not exceed five core rupees¹</i>

Table 2: Current statistics of Micro organisations of Gujarat. Source-http://ic.gujarat.gov.in/?page_id=1421

District	Units Registered	Investment (Rs. In Lakhs)	Employment
Ahmedabad	4861	106053.7264	27540
Porbandar	20	52.6	137
Rajkot	1540	28920.0141	8663
Surat	11474	79351.444	61969
Vadodara	499	7909.858	3009

Table 3: Current statistics of Small organisations of Gujarat. Source-http://ic.gujarat.gov.in/?page_id=1421

District	Units Registered	Investment (Rs. In Lakhs)	Employment
Ahmedabad	259	46897.71	4227
Porbandar	3	544.68	24
Rajkot	241	42158.81	2930
Surat	693	56690.56	11300
Vadodara	50	9067.43	1392

¹http://dcmMSME.gov.in/publications/mMSMED_actx.html. Retrieved on 16 August, 2011.

**Table 4: Current statistics of Medium organisations of Gujarat. Source-
http://ic.gujarat.gov.in/?page_id=1421**

District	Units Registered	Investment (Rs. In Lakhs)	Employment
Ahmedabad	9	9122.63	1261
Porbandar	0	0	0
Rajkot	14	11843.17	542
Surat	26	20699.88	1662
Vadodara	4	4176	134

Table 5: Description of formalization

Year	Author	Describing formalisation
1996	Adler and Borys	The extent of written rules, procedures and instructions
2001	de Kok and Uhlaner	(a) Extent to which a rule or procedure is written down (b) The degree to which a procedure is regularly applied within the organisation (c) The degree to which the employer has assured that an activity should take place
2007	Barrett, <i>et. al.</i>	The practices used to recruit, select, manage and appraise employees' performance are written down, regularly applied or guaranteed they take place.
2009	Jorgensen and Messner	Creating formal structures (rules and procedure)
2009	Singh and Vohra	Formalisation can be of four continuum- (a) A specific HR department is present (b) Clear HR policy present but not implemented by specialist (c) Regular procedures of HRM imitated from large organisations (d) Decisions taken for HRM issues as an when need arise.

Table 6: Factors affecting adoption of formalisation of HRM in MSME's

Factor	Author
1.Firm Size	de Kok et al. (2002), Arthur and Hendry (1990)
2.HRM Department	de Kok et al. (2002)
3.Ownership type - Family - Non-family	Arthur and Hendry (1990), Reid and Adams (2001)
4.Owner - Beliefs - Values	Mazzarol (2003), Wager (1998), Nolan (2002)
5.Stages in organisational life cycle	Kotey and Slade (2005)
6.Organisational strategy and planning	de Kok et al. (2002),
7.Large firm association - Exporting - Franchising - Co-operation	de Kok and Uhlaner (2001)
8.Firm Sector	Marlow (1998), Tanova (2003)
9.Market and Economic conditions	Arthur and Hendry (1990) Marlow (1998)
10.Legal Regulations and Labour agreements	Brand and Bax (2002), de Kok and Uhlaner (2001)
11.Human resource supply	Arthur and Hendry (1990)
12. Culture	Arthur and Hendry (1990)
13. Resource	Cassell et al. (2002)
14. Presence of HR Champion	Cassell et al. (2002)

Table 7: Factors affecting formalisation

Year	Author	Positive Effects	Negative Effects
1978	Rousseau	<ul style="list-style-type: none"> Propensity to leave Physical and psychological stress 	<ul style="list-style-type: none"> Absence Innovation Job satisfaction
1986	Kakabadse	<ul style="list-style-type: none"> Powerlessness Self-estrangement 	-
1991	Arches		Job satisfaction.
2009	de Grip and Sieben	Slightly important for productivity level of workers.	-

Table 8: Table showing possible reasons for absence of formalisation in MSMEs

1981 1997	Welsh and White Ranger Moore	Lack of Resource
1997	Ranger Moore	Stability
2008	Cardon and Tarique	Organisational attractiveness
2000 2002 2007	Williamson Williamson, <i>et al.</i> Williamson and Robinson	Legitimacy as employers towards potential employees
2002	Reid, <i>et al.</i>	Costly and time consuming
2000 2000 2003	Chandler and McEvoy Klaas, <i>et al.</i> Hornsby and Kuratko	Absence of expertise in HRM area

Table 9: Profiling of Respondents –I

Characteristic	Names	Frequency	Percentage
Size of Organisation	Micro	44	20%
	Small	125	56%
	Medium	54	24%
Sector	Manufacturing	186	83%
	Service	37	17%
Age of Organisation	4 – 12 years	86	39%
	13 – 21 years	83	37%
	22 – 30 years	27	12%
	31 – 39 years	9	4%
	40 <years	18	8%
Type of Business	Sole proprietorship	60	27%
	Partnership	66	30%
	Private Ltd. Co.	93	42%
	Public Ltd. Co.	4	2%

Table 10 : Profiling of Respondents -II

	Micro	Small	Medium	Total
Number of approached organisations	80	301	121	502
Number of organisations responded	56	150	63	269
Number of organisations (from where data is collected)	44	125	54	223

Table 11: Construct indicator variables and scale reliability values

Measure	Label	Scale Reliability (Cronbach α)
R	Recruitment	0.875
S	Selection	0.857
C	Compensation	0.827
T	Training and development	0.916
A	Appraisal	0.873

Table 12: The Descriptive statistics for the studied variables

		osOS	LA	LFA	FHRMP
N	Valid	223	223	223	223
	Missing	0	0	0	0
Skewness		-.536	-.973	-.830	-.358
Std. Error of Skewness		.163	.163	.163	.163
Kurtosis		-.970	-1.063	-1.323	-.390
Std. Error of Kurtosis		.324	.324	.324	.324

The IISTE is a pioneer in the Open-Access hosting service and academic event management. The aim of the firm is Accelerating Global Knowledge Sharing.

More information about the firm can be found on the homepage:

<http://www.iiste.org>

CALL FOR JOURNAL PAPERS

There are more than 30 peer-reviewed academic journals hosted under the hosting platform.

Prospective authors of journals can find the submission instruction on the following page: <http://www.iiste.org/journals/> All the journals articles are available online to the readers all over the world without financial, legal, or technical barriers other than those inseparable from gaining access to the internet itself. Paper version of the journals is also available upon request of readers and authors.

MORE RESOURCES

Book publication information: <http://www.iiste.org/book/>

Academic conference: <http://www.iiste.org/conference/upcoming-conferences-call-for-paper/>

IISTE Knowledge Sharing Partners

EBSCO, Index Copernicus, Ulrich's Periodicals Directory, JournalTOCS, PKP Open Archives Harvester, Bielefeld Academic Search Engine, Elektronische Zeitschriftenbibliothek EZB, Open J-Gate, OCLC WorldCat, Universe Digital Library, NewJour, Google Scholar

