

A Study of Formal Adoption of Human Resource Management Practices and Size of Small and Medium Sized Enterprises with Special Reference to Bengaluru and Mysuru Regions

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Abstract - Human Resource practices can vary with the size of the company and are different between large and small businesses. The success of small businesses depends upon its human resource management practices. Overall mean is considered as a cut-off score to determine the status of formal adoption of human resource management (HRM) practices. Values above the overall mean is considered as formal adoption of HRM practices and values below the overall mean is considered as informal adoption of HRM practices. The study concluded that few small and medium sized enterprises (SMEs) have adopted formal recruitment and selection practices; training practices; performance appraisal practices; compensation and rewards practices; and welfare practices. Large size SMEs are more likely to adopt formal HRM practices indicating that as the size of SMEs increase, adoption of formal HRM practices also increase.

Keywords - Human resource practices, formal adoption, small and medium sized enterprises

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I. INTRODUCTION

The performance of small and medium sized enterprises (SMEs) increases with regular standard policies and procedures. The level of formalization is low in small firms and owner-managers play a crucial role in human resource functions. The level of formalization is high in medium firms and also with increase in employee strength [1]. Human Resource practices can vary with the size of the company and are different between large and small businesses. The success of small businesses depends upon its human resource management (HRM) practices [2]. According to Jeffery [3], HRM practices are more effective for smaller firms and also there is a relationship between lower employee turnover and manufacturing performance of the organization.

II. REVIEW OF LITERATURE

Manjari and Neharika [1] observed the level of formalization of human resource management in small and medium enterprises in India. They explored that the performance of SMEs increases with regular standard policies and procedures. The level of formalization was found to be low in small firms and owner-managers played a crucial role in human resource functions. They found that level of formalization is high in medium firms and also with increase in employee strength.

Vijaya [2] opines that hiring practices can vary with the size of the companies in Atlanta. Word of mouth appears to be a common element across the small businesses.

A study conducted by Jan et al. [4] in Dutch SMEs, highlighted that firm size has influence on formalization of recruitment and selection practices. Further, firm size is positively related with the probability that human resource department is present and in turn encourages the formality of human resource policies and practices. The formal compensation practices improve employee competence and commitment.

Bernice and Alison [5] carried-out a study in Queensland, Australia. According to them recruitment and selection process are informal in small size firms. As firms grow formal recruitment sources and selection procedures are followed. They explored that as the firm grows peer and self-appraisal methods are used and rating scales is one of the methods followed at the operational level.

Bernice and Peter [6] found that formal recruitment sources, formal selection process becomes predominant as the size of the Australian firm increases. Documentation of policies and procedures increases with the size of the firm's. As the size increases other forms of training are adopted by SMEs. Responsibility of training is delegated to middle management as the firm size increases.

Mona et al. [7] conducted a study on Human resource management practices in Thailand SMEs. She found that the HRM practices of SMEs are informal with less number of employees. She found that as number of employee's increases formality also can be witnessed. She found that the SMEs do not practice all HRM functions as that as large organizations.

Jan and Lorraine [8] examined training programs in small firms of Dutch. The variables included in their study are company size. They found that companies associated with large firms are likely to adopt training programs. They identified that firm size is associated with formal training programs. Also they identified that firm size is associated with formal performance appraisal.

Claire [9] examined in house and external training in New Zealand. His research explores that in small firms training is informal and performance of small firms is less compared to large firms.

Swamy and Balaji [10] conducted a study on SMEs in Karnataka, India. According to them age of the firm significantly contributes towards formal training, budgetary provision for training is independent of age of the firm. Further they described that training program increases organizational competitiveness. They also found that the size based on number of employees working in the organization is associated with formal training and budget for training is not significantly associated with the size of the firm. They found that firms larger in size were found to have adopted formal training.

Ojokuku et al. [11] studied HRM practices and small scale business performance located at Osun State of South Western Nigeria. They found that training had an inverse relationship with performance and also firm's size significantly contributed to adoption of HRM practices.

Ashu and Betsy [12] discussed on human resource issues in micro, small and medium sized enterprises of India. Their study shows that only few micro, small and medium sized enterprises have formal compensation practices.

III. METHODOLOGY

According to Likert and Renesis [13], "Resulting total score may be interpreted with reference to some comparison group, with respect to theoretical or empirical chosen cut-off scores". According to Nanjundeswaraswamy and Swamy [14], the overall mean is considered as cut-off score in case of five-point Likert scale. In this research, overall mean is considered as a cut-off score to determine the status of formal adoption of HRM practices. Values above the overall mean is considered as formal adoption of HRM practices and values below the overall mean is considered as informal adoption of HRM practices.

TABLE 1 Overall Mean of HRM practices

HRM Practices	Overall mean
Recruitment and Selection practices	3.06
Training practices	3.25
Performance appraisal practices	3.18
Compensation and rewards practices	3.28
Welfare practices	3.10

From table-1 it can be concluded that for recruitment and selection practices, values above 3.06 is considered as formal adoption. With respect to training practices values above 3.25 is considered as formal adoption. With respect to performance appraisal practices values above 3.18 is considered as formal adoption. With respect to compensation and rewards practices values above 3.28 is considered as formal adoption. With respect to welfare practices values above 3.10 is considered as formal.

IV. RESEARCH INSTRUMENT

The questionnaire covers questions on HRM practices viz. recruitment and selection, training, performance appraisal, compensation and rewards and welfare. All the questions framed were closed ended type with a five point Likert scales ranging from strongly disagree to strongly agree.

V. SAMPLE

The data was collected through a specially designed questionnaire administered to the owners/managers of 384 manufacturing Small and Medium Enterprises located in Bangalore and Mysore regions of Karnataka, India.

VI. SIZE OF SMES AND FORMAL ADOPTION OF HRM PRACTICES

Formal adoption of various HRM practices by SMEs has been analysed from the point of view of the size based on number of employees working in SMEs and the same is presented hereunder:

Table 2 shows the size of SMEs and their formal adoption of HRM practices. It can be seen from the table that out of 384 respondents, 71 (18.5%) SMEs have adopted formal recruitment and selection practices, out of which 8 SMEs are having an employee strength of less than 10, 22 SMEs have an employee strength between 11 and 25, 25 SMEs have an employee strength between 26 and 50 and the remaining 16 SMEs have an employee strength of more than 50.

Table 2 Size of SMEs and Formal Adoption of HRM Practices

Size of SMEs	N	HRM Practices				
		Recruitment and Selection Practices	Training Practices	Performance Appraisal Practices	Compensation and Rewards Practices	Welfare Practices
Less than 10 employees	80	8	6	10	10	6
11 to 25 employees	131	22	19	25	19	20
26 to 50 employees	144	25	39	31	29	27
More than 50 employees	29	16	12	14	14	11
Total	384	71	76	80	72	64

With regard to training practices, out of 76 SMEs who have adopted formal training practices (19.8%), 06 SMEs have an employee strength of less than 10, 19 SMEs have an employee strength between 11 and 25, 39 SMEs have an employee strength between 26 and 50 and the remaining 12 SMEs have an employee strength of more than 50.

Regarding performance appraisal practices, 80 (20.83%) SMEs have adopted formal performance appraisal practices, out of which 10 SMEs have an employee strength of less than 10, 25 SMEs have an employee strength between 11 and 25, 31 SMEs have an employee strength between 26 and 50 and the remaining 14 SMEs have an employee strength of more than 50.

In the case of compensation and rewards practices, out of 72 SMEs which have adopted formal compensation and rewards practices (18.75%), 10 SMEs have an employee strength of less than 10, 19 SMEs have an employee strength between 11 and 25, 29 SMEs have an employee strength between 26 and 50, where as the remaining 14 have an employee strength of more than 50.

With respect to welfare practices, 64 (16.7%) SMEs have adopted formal welfare practices, out of which 6 SMEs have an employee strength of less than 10, 20 SMEs have an employee strength between 11 and 25, 27 SMEs have an employee strength between 26 and 50 and the remaining 11 have an employee strength of more than 50.

VII. CONCLUSIONS

Few studies reveal that, human resource practices can vary with the size of the company and are different between large and small businesses. Further HRM practices are more effective for smaller firms and also firm size is positively related with the probability that human resource department is present and in turn encourages the formality of human resource policies and practices. From the study it is further concluded that few SME's have adopted formal recruitment and selection practices; training practices; performance appraisal practices; compensation and rewards practices; and welfare practices. Large size SMEs are more likely to adopt formal HRM practices indicating that as the size of SMEs increase, adoption of formal HRM practices also increase.

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