

Human Resource Practices in Indian SMEs – An Exploratory Study

Upasna A Agarwal & Sumi Jha

The growing potential of Small and Medium size Enterprises (SMEs) as nurseries for entrepreneurship, employment and innovation is well recognized. Efficiently managed human resource practices significantly contribute to organizational performance. The objective of this research is to explore the human resource policies and practices in Indian SMEs. A qualitative study on eight SMEs in India was undertaken to examine the existing human resource (HR) practices areas across the HR value chain (recruitment, training, performance management and compensation)

Upasna A Agarwal (E-mail: upasnaagarwal@gmail.com) is Assistant Professor & **Sumi Jha** (E-Mail: sumijha05@gmail.com) is Associate Professor in the National Institute of Industrial Engineering, Mumbai.

Introduction

SME's occupy an important place in the economy of most countries. Globally considered as the nurseries for entrepreneurship and innovation, SMEs produce a diverse range of products to meet the needs of the local and global markets and the national and international value chains (Marlow, Patton & Ram, 2013). SMEs also contribute significantly to the nations' gross domestic product (GDP) and provide employment to a large number of people. It is forecasted that the future will be dominated by SMEs in terms of job creation, innovation and new patterns of work (Atkinson, 2007).

Demonstrating the importance of SMEs, it is cautioned that failure of SME's could lead to a situation of unemployment and the consequent social tensions (Saini & Budhwar, 2008). In recent times increasing market-related competition along with reduction of 'governmental patronage' (Frumkin & Andre-Clark, 2000;) has resulted in additional pressures on SME's to demonstrate effectiveness, efficiency, accountability and meet performance requirements (Salamon, 2002; Anheier & Seibel, 2001).

The role of human resources in enhancing firm efficiency and effectiveness (Guo et al., 2011) is well established. According to the resource based view of management (Barney, 1992), irrespective of the firm size, employees are a strategically important, indispensable resource to achieving an organization's objective. Despite the critical role the human resource practices play in enhancing organizational efficiency, mainstream management has focused on investing the role of HRP in larger firms research, ignoring them in SME sector (Purcell & Kinnie, 2007). Commenting on the paucity of research of HR policies and practices in SME's, Huselid (2003: 297) wrote, "We actually know very little about the science and practice of HR in (small firms)".

Given the uniqueness and importance of SMEs to national economies and local communities as source of employment, wealth and other social and relational benefits, examining the state of HRP within small firms is crucial and will enhance our understanding of managing the sector effectively (Barrett and Mayson 2007; Baron 2003). The objective of this paper is to explore the human resource policies and practices in the Indian SMEs.

Literature Review

In the last 20 years, research has shown that the strategic use of human resource management (HRM) is likely to be one of the most important determinants of organizational performance. Researchers have built the evidence that

links HRM practices with corporate performance (Wright, Snell & Dyer, 2005). Likewise, the well managed human resource practices can have a significant impact in performance of small firms. However lack of emphasis on human resources in SMEs has been found to be one of the main reasons for business failures (McEvoy, 1984). A recent study by Puplampu (2005) suggested that human resource efficiency and performance were the most significant reasons of any SME to be unsuccessful.

Human resource efficiency and performance were the most significant reasons of any SME to be unsuccessful.

The deficiency of systematic HRM research in SMEs may be a consequence of the two assumptions. First, that the small firms are essentially the same as the large firms but on a smaller scale (Welsh & White, 1981) and that what is good for the large firm is good for the small firms too (Hendry et al, 1995). Thus, the large firms are often considered as the 'model' that small firms should seek to emulate. Secondly, the success of SMEs largely depends upon the enthusiasm, competency, resources and commitment of a single person (owner) around whom the enterprise revolves. Since the owners often involve themselves in doing manual work and taking responsibility for employment matters including the determination of pay (Wilkinson, 1999), people issues are often taken for granted and managed informally (Matlay, 1999).

However, a brief look at the literature on small businesses reveals a variety of factors associated with being small that are likely to impact directly upon HRM policies and practices (e.g. the informality of relationships; limited resources, etc.). SMEs lack formal processes and much of the day to day tasks are carried out informally. There are no formal people practices and the working culture is relaxed and friendly with strong focus on relationships. Employees in SMEs are described as “the invisible workforce” (Curran, 2000) and good human resource management is in reality a “bleak house” (Sisson, 2005). These organizations are neither found to be involved in engaging in developing employees nor very forthright in spending in outsourcing HR activities. Research suggests that such brand image of SMEs makes them an unattractive destination for well qualified employees.

Not only has there been lack of formal policies in examining people practices in SMEs, research interest has also been limited. Table 1 provides a summary of the function wise extant literature and gaps of HR practices. As is indicated, there is deficiency of systematic HRM research in SMEs, a practice which has been bemoaned for long. In the Indian context the field is almost barren. Given the uniqueness of the SME sector as well as its potential role in the national development, this research examines the existence of HR practices and policies in Indian SMEs. This research also endeavors to examine the indigenous ways of people management practices in Indian SMEs.

Methodology

Given the exploratory nature of the research, a semi-structured, in-depth qualitative approach was chosen to examine the human resource practices in SMEs. The procedure is akin to the grounded theory perspective which suggests that theory should evolve from the data rather than applying *a priori* or potentially biasing theoretical models and frameworks to interpret the data (Glaser, 1992; Glaser & Strauss 1967; Krippendorff, 2012).

State of the art of existing HR policies and practices were explored by interviewing owners of eight small and medium enterprise firms situated in the western industrial belt of India. Manufacturing enterprises with an investment above Rs 25 lakhs up to Rs 10 crores and service enterprises with an investment above Rs 10 lakhs up to Rs 5 crores form the sample of the study. These SMEs were from different sectors –electronics component (one organization), textile and garment (one organization), auto ancillary (two organization), IT (one organization), financial services (one organization) and renewable energy (one organization) (Table 2). The employee strength of these organizations ranged from 9 to 200 employees. The turnover of the firms ranged from Rs. 1.2mn to Rs. 500mn. These firms were small and medium enough to ensure that relationships between the owner and all employees were direct.

Procedure

Interview questions were chosen based on the review of literature on

Table 1 SME Summary of Gaps in Literature of HRM in SMEs

No.	Function	Definition	Gaps at SME
1	Manpower planning	<p>“It is the process of anticipating and providing for the movement of people into, within, and out of an organization. Overall its purpose is to help managers deploy their human resources as effectively as possible, where and when they are needed, to accomplish the organizational goals.” (Bohlander & Snell, 2013:44)</p>	<p>It was noticed that SME organizations do not involve themselves in long term planning of manpower (Ritchie, 1993; Scott et al., 1989). This is mainly because of lack of government clarity on the area of thrust for SME in future.</p>
2	Recruitment/ Selection	<p>“It is the process of searching for and obtaining applicants for jobs, from among whom the right people can be selected.” (Aswathappa, 2013: 191)</p>	<p>SMEs do not have formal recruitment process by specialized authority (Matlay, 1999; Ritchie, 1993). It is conducted as required.</p>
3	Training and Development	<p>“It is the combination of activities organizations use to increase the knowledge and skills of employees.” (Bohlander & Snell, 2013:274)</p>	<p>SMEs practice on-the job training with the help of superior of the employees while performing the task (Daniel. et. al., 1993). It restricts the growth of employee only to the limited extent of superior’s knowledge.</p>
4	Performance Management	<p>“The process of creating a work environment in which people can perform to the best of their abilities.” (Bohlander & Snell, 2013: 322)</p>	<p>SMEs fail in measuring their employee’s performance because of lack of clarity in the task they perform. Usually employees engage in multitasking as per organizational requirements.</p>
5	Compensation	<p>“Direct compensation encompasses employee wages and salaries, incentives, bonuses, and commissions. Indirect compensation comprises the many benefits supplied by employers and non financial compensation includes employee recognition programs, rewarding jobs, organizational support, work environment, and flexible work hours to accommodate personal needs.” (Bohlander & Snell, 2013: 370)</p>	<p>The structure of compensation package provided to the employees of SMEs is not very well defined. It has basically only one component which is the in-hand salary that employee receives (Wilkinson, 1999). Apart from this as per industry practice the incentives are provided.</p>

Table 2 Description of the Organizations under Study

Company Type	Description	Manpower
<i>SME 1</i> : Electronics Component	Partnership	9
<i>SME 2</i> : Auto Ancillary	Partnership	9
<i>SME 3</i> : Software Business	Partnership	42
<i>SME 4</i> : Biogassification	Partnership	76
<i>SME 5</i> : Auto ancillary	Partnership	200
<i>SME 6</i> : IT firm	Owner	12
<i>SME 7</i> : Textile and Garment	Owner	100
<i>SME 8</i> : Financial Service	Owner	10

SMEs. Semi-structured interviews addressing the study's research questions were taken. As noted by Allen, Poteet and Burroughs (1997), respondents' answers might be based on beliefs and opinions rather than real behaviors or practices. For this reason, respondents were probed, as deemed necessary, for further explanation and examples that added breadth and depth to their answers. Participants were assured of confidentiality of all information provided. With permission, each interview lasted for about three-four hours in each organization. Interviews were digitally recorded and then transcribed.

Direct quotes have been used to support the discussion. It was assumed that the more frequently a particular category of obligation was cited, the more salient it was overall in the minds of respondents, and thus the more prominent the people practice (Krippendorf, 2012). The key points of the interview were taken down verbatim during the course of discussion and consistent with 24-hour rule by Eisenhardt and Bourgeois (1988), discourse was transcribed immediately after interviews.

We present here the results obtained from the content analysis of various interviews conducted with the SMEs in India. Since there is paucity of research literature on SME's, we have combined sections on specific HR functions and as well as insights obtained from the study.

Recruitment & Selection

Employee's relationship with the organization commences with the recruitment process (Rousseau, 2001). Studies examining the role of recruitment and selection in small-firm suggest that twenty-five percent of small businesses view a lack of qualified workers as a threat not only to their plans to grow and expand, but more importantly as a threat to their very survival. Despite its importance, recruiting is often quite problematic for small organizations (Gupta & Tannenbaum, 1989) due to limited financial and material resources (Freeman, 1984), lack of le-

Despite its importance, recruiting is often quite problematic for small organizations due to limited financial and material resources.

gitimacy as an employer-of-choice (Heneman & Berkley 1999), and the high number of jobs where employees typically perform multiple roles with unclear boundaries and job responsibilities (May, Korczynski & Frenkel, 2002). Several studies (Deshpande & Golhar, 1994; Heneman & Berkley 1999) indicate that recruiting in small ventures primarily involves use of sources that are convenient, inexpensive, and directly controllable by the company, such as direct applicants, personal and employee referrals, and newspaper ads (Heneman & Berkley, 1999).

The findings of this study corroborated with extant literature. Most SME owners we met were disapproving of the formal approaches to recruitment such as using the job centers or advertising in newspapers. They expressed discomfort in going to any technical institute or school for campus recruitment and preferred internal market or recruiting internally—friends or relatives of existing employees or handpicking them from known acquaintances to get the “right worker”. For most employers we met, ‘fitting in’ of employees with the culture of SME was an important concern.

In terms of the sources of recruitment, using word-of-mouth and internal connections were important. Interestingly however, SMEs, whose owners were well-qualified and pursued a growth strategy disapproved of ‘unprofessional and highly subjective’ (in SME owner words) methods of selecting employees. Some of these SMEs used modern sources of recruitment such as campus, advertise-

ment, job fairs etc. For instance one owner is of the following view:

“Recruitment based purely on social connections is not right. This will not help our business grow. The concern in today’s era has to be on meritocracy not on social connections. Our top layer of management is technically very competent. We typically recruit through advertisement, naukri.com and references. As the organization is growing, we have become more transparent. The emphasis is not loyalty but good work. We make concerted efforts to ensure nepotism is not prevalent, which cannot be avoided if we only use word of mouth to recruit. We have a very clean way of working and follow a unique process for recruitment. We first take students from nearby colleges for summer/winter projects. Thereafter based on the quality of their projects, we make final offers. The three months give both the prospective employees and us to assess one another” (Owner, SME 3)

The decision of recruitment source depended on the position/hierarchical level which needed to be filled. One of the owner shared:

“For junior positions we conduct walk-in interview, and online job postings. For senior positions (managers) we rely more on recommendation through some known professionals. We take this exercise seriously and owners are involved in the interview process for senior positions” (Owner, SME 5).

Literature on SMEs suggests that in small firms often manager’s focus on the

match of applicant competencies to general organization needs rather than to specific job requirements (Heneman & Berkley 1999). This involves “aligning the applicant competencies with organizational values and culture rather than aligning basic knowledge, skills, and abilities with minimum qualifications for the job” (Heneman & Berkley, 1999:17). The role of employees fitting in the organization as a primary concern echoed in our study too. Many owners shared that while they face problems of recruiting people, they are better off without an employee rather than a wrong employee.

Almost all the interviewees of this study expressed that retention of employees is a tedious job in their sector /industry. If somebody offers them a little higher piece rate or more work to do in a day, they tend to leave for a better future and higher earnings. However, some owners also shared that they made efforts to understand and address the weaknesses in the system by conducting exit interviews when an employee was leaving. One SME owner shared:

“I tell my people that if they want to leave, they can do so. I also give them recommendation letters if that helps them get a good job. I do not demand any notice period. It all depends upon the trust factor. But they need to give me honest reason(s) for leaving the organization” (Owner of SME 2)

Compensation

Compensation is a particularly important aspect of people management because

it significantly affects recruiting and retention efforts. Further, the compensation and reward system is also an important communication device to nurture and emphasize desired activities and to signal legitimacy to external stakeholders (Graham, Murray & Amuso, 2002).

All SMEs in this study paid their employees more than the minimum wages which they are legally required to pay. Pay raises were not a norm but were given in case the business performed well. The owners had an understating, albeit implicit, that in case of changes in the business cycle, the excess revenue will be shared as bonus. One of the owners maintained:

“Compensation is as per industry practice and most of them paid salary as well as conveyance in case employees needed to travel. There was no guarantee of yearly increment in SMEs”.

Training

In the new employment era, employability replaces employment security (Coyle-Shapiro, 2002). In such a scenario, when employees no longer expect their employer to guarantee a job or provide an assured career path; training and development opportunities have become an extremely important aspect of an employment relationship, perhaps the

Training and development opportunities have become an extremely important aspect of an employment relationship.

best promise employers can give to their staff (Kanter, 1989). The study by Martin, Staines, and Pate (1998) proved that training and development have become a very valued part of employee's psychological contract.

In an examination of differences in formal training between large and small organizations, Banks, Bures, and Champion (1987) discovered that for small organizations, the cost of training programs and time spent away from productive work are important considerations for determining if and what training opportunities should be provided to employees (Bankins, 2011). Given the money and time constraints, in small firms, unstructured training, informal on-the-job instruction and organizational socialization are most important sources of formal training processes (Chao, Cheung & Wu, 2011). In fact, many small firms pride themselves on providing workers with more hands-on highly interactive learning opportunities (Rollag, 2002) and avoiding formalized systems and practices more typical of large bureaucratic organizations.

Of the eight firms studied we found just one organization which saw merit in giving formal training to its employees. New employees in SMEs were mostly expected to learn 'on-the-job', with other colleagues charged with showing the new staff member how things are done. The findings of the present study also suggest that the emphasis in SMEs is on getting the product out of the door rather than removing the workforce from 'productive' activity to undertake train-

ing. It also emerged that in most cases training was a management's prerogative and in some cases the employer provided training in response to requests. Although there was no practice of providing formal training to employees, interestingly most SMEs had worked out indigenous training practices. Most of the SMEs had an understanding with larger firms to allow their employees to visit and spend time in bigger plants and learn the processes by 'observation'. The following statement clarifies the same: "When we recruited these people they were just barely educated, only a few of them were 10th pass. So given that our business involves technical knowledge, we had to train them. But we could not afford to send them out. Given the relationship we share with some of the bigger firms, they oblige us by allowing our employee to visit their plants. So we try to give our employees maximum field experience. And that is all we can afford!" (Owner of SME 2)

Owners also shared that the high attrition rates in SMEs discouraged them from investing in training to employees. One SME owner opined: "SME's are learning schools for workers and staff. People get on the job training. Since Gujarat is an industrially developed state, these resources are poached by bigger industries. (Owner of SME 1).

Performance Appraisal

Among the various HR practices, performance management processes in particular has been identified to play a key role, in determining employee-em-

ployer expectations (King et al, 2007). In fact studies view that the biggest issue and the greatest contribution HR can make in the changing employment scenario is in the area of evaluation and appraisal (King, 2000). Performance appraisal (PA) process involves employers setting performance standards and providing employees with feedback about their level of performance. The performance management includes the understanding of job role, the fair, timely and accurate evaluation of performance, fair distribution of pay and development opportunities and the provision of feedback to employees (Rousseau & Parks, 1993).

Given the nature of work in SMEs, it was not possible (or feasible) to construct objective measures of employee performance.

From the results of this study it emerged that in Indian SMEs, like training, Performance Appraisal (PA) is also owners prerogative and done on the basis of personal impression of the owner manager. Since there is no formal job design, there is nothing concrete to assess. Employee's assessment was based on perceptions. The owner managers of the current study shared that given the nature of work in SMEs, it was not possible (or feasible) to construct objective measures of employee performance.

Labor Relations

The impact of unionization on the small firm has been virtually ignored in the HRM literature. Of the few studies which have

examined the role of unions (Flanagan & Deshpande, 1996; Batt & Welbourne, 2002), it was found that the presence of unions in small firms can have a major impact on HRM practices of firms striving to build a competitive advantage through people (Flanagan & Deshpande, 1996), even for small ventures.

Research on SMEs in India, albeit limited, suggests that employees in many SMEs have been able to unionize themselves through their tenacity and determination or political support, but with the general decline in the incidence of unionism at the global level, including in India, unionization is now becoming more and more difficult (Saini & Budhwar, 2008).

In the current study employee relations were characterized by informality and close personal ties. Union representation was unusually low and workers voluntarily decided to lead a union-free workplace since most of their needs were taken care beyond expectation by their employers. Most owner managers also felt that employees are better off without a trade union. There was a strong sense of community within the firm, a context reminiscent of the Bolton (1971) "happy ship".

SME owners in the current study shared various initiatives they take to develop a familial work environment. One of the owners in current study shared:

"I consider the employees as my own family. To make their working comfortable, as head of the family, I often go beyond what I can afford. During sum-

mers, we use fridge and also install coolers. To break the monotony of work radio is playing throughout the work day. During world cup we even switch on the TV during working hours. All this may sound trivial, however for an SME these small expenses also make a difference. Our families go together for movies. This results in developing strong bonds and understanding. We frequently have *stayanarayanpooja* and *hawans* (religious ceremonies) at our workplace. All family members of employees are called. This is followed with lunch/dinner. (Owner of SME 1)

However while SME owners maintained a familial work culture, they were all aware of the statutory requirements which they were required to adhere. An SME owner shared:

“I have chosen to cover my staff under employee’s state insurance scheme (ESI) and provident fund (PF) schemes although legally I am not bound to do so¹. This is to give my staff the feeling that I care. This gesture has worked well and employees of my form have decided not to unionize. No one of my staff members has left since they joined. Otherwise money received was immediately spent” (Owner of SME1).

¹ The main labor laws that apply to most SMES in India are the Employees’ Provident Fund Act 1952 (EPF Act) 14 and the Employees’ State Insurance Act 1948 (ESI Act) 15.

The Employees’ Provident Funds (and Miscellaneous Provisions) Act, 1952 (EPF Act) essentially envisages a statutory form of

Although emphasis was on developing good social relationships among employees and owners and the organizations were analogous to ‘family’, the relationship between owners and employees were based on trust and respect.

The relationship between owners and employees were based on trust and respect.

For instance one owner shared that:

“SME’s are one man army. I have to do business development, sales and after sales service also. With limited man resources there is great amount of interdependence amongst each other. In SME’s the relationship works on trust not so much on legal and statutory norms. My cashbox is always open. I am travelling and I have to trust my people to be able to handle issues outside the organization. If trust is breached, there is li-

compulsory saving scheme that enable old and retiring workers to maintain their living standards in post-retirement years. This Act applies to units engaged in any industry listed in its Schedule I where 20 or more persons are employed. Under this Act, as on March 2005, about 408,831 units have been covered giving its protection to 41.1 million workers employed in 180 types of industries.

The Employees’ State Insurance Act 1948 (ESI Act) is the key instrument of social protection in India to the employees covered. It applies to factories covered under the Factories Act, 1948 and establishments employing 20 or more workers. Primarily, the Act provides for among others, cash benefits like sickness benefit, disablement benefit, dependents’ benefit and maternity benefit for employees, and medical services for employees and their family members.

ability. No one gives someone the trust again". (Owner of 2ndSME)

Discussion

SMEs are considered as backbone of an economy and it is fair to say that these firms have been found to significantly improve the health of the economy and act as a key source of innovation (see Storey, 1994). The large size of this sector and the high rate of failure among small firms however means that the small business sector are responsible for the greatest number of jobs lost. As per resource based view, firms capitalize on the unique resources it has developed (Conner & Prahalad, 1996). According to the theory, human resources of an organization can serve as an inimitable and non-substitutable source of competitive advantage. Since HR practices play an important role in enhancing human resource effectiveness of firms, the objective of this research was to explore the human resource practices of Indian SMEs.

The findings of this study corroborate with literature about the informality of approach towards employment relations in general and the use of HRM practices in specific (e.g. recruitment, training, and appraisal and labor relations) among SMEs in India. Like SMEs in the West, Indian SMEs begin to formalize people management processes-viz recruitment, training, appraisal, compensation and labor relations. Managing people issues is a low priority and informal relations play a large part in the day-to-day running of the firm, however. SMEs lack formal processes and much of the day to

day tasks are carried out informally, based on personal equations and relationships. Most SMEs studied seemed to be under the assumption that, given the scale of operations, formal HR systems are not needed and day today work can be easily carried out in a familial work environment. The results of this study also indicated that the owners' ideology made a huge difference in the extent of formalization of human resource systems and processes as a function of owner's willingness.

According to a recent study one of the biggest problems with SMEs is the availability of talent (http://www.business-standard.com/article/sme/talent-shortage-a-major-constraint-for-start-ups-1122700073_1.html). It is believed that the young educated youth are not attracted to SMEs given the compensation, career growth opportunities and unpredictability in the nature of jobs.

However, according to recent reports, graduates from Indian B schools are increasingly found to be attracted to entrepreneurial ventures turning down high paying jobs (http://articles.economictimes.indiatimes.com/2014-04-22/news/49318771_1_iim-calcutta-ashok-banerjee-entrepreneurship). Money, fame and independence are not the only driving factors. Several of these entrepreneurs are eager to join jobs which give them autonomy, offer them the opportunity to solve real life problems and contribute something to the society. This bodes very well for both the entrepreneurial ecosystem and industry. Perhaps, one issue which is coming in the way of

attracting prospective candidates is the limited awareness of SMEs among graduates as well as their brand image. As a policy implication, SMEs should consider designing new and effective recruitment messages and reach out to prospective candidates without prior biases. A more effective communication between both parties is needed to correct the supply demand gap.

SMEs should consider designing new and effective recruitment messages and reach out to prospective candidates without prior biases.

Further, although several scholars allude the importance of relaxed and friendly relationship-based work environments of small firms, evidence suggests that owners and managers of SMEs recognize that people issues result in more problems than any other area of organizing. It needs to be understood that when a firm employs more than 20 staff, the limits of informality become apparent, informal networks of recruitment dry up, informal styles of management communication will be stretched and adhoc responses to personnel issues create problems. Once the organization is above a certain size and age, management needs to be professionalized and delegated. Formalization of HR processes then becomes an important step to move up the business value chain. Lack of processes and a very loose management style may be resulting in more complex, informal and contradictory work style which is either harmonious or autocratic (Ram, 1991: 601). What may appear and

as flexibility to managers may seem to be arbitrary treatment to an employee. This could perhaps be one of the reasons for not attracting professionally qualified Gen Y who have different work values and expect a transparent and fair system.

The results of the current study also suggested that training was not a priority amongst owners. However, if SMEs have to become employers of choice, one of the fundamental practices which needs to be incorporated is the opportunity for constant learning and development. The National Employability Study 2011 observed that “Whereas large companies make investments in training, small and medium sized enterprises (SMEs) are unable to build training facilities or invest time in it. For them, candidates coming out of colleges should be able to learn on-the-job and start contributing early. The report goes on to observe that this is, and in the future shall become, a major impediment to the growth of SMEs in India.

Further SMEs should hire professionally trained managers in business management, as the lack of management expertise is always cited as a reason for their ultimate failure. Research suggests that SME managers or staff formally trained in business practices tend to run their business successfully. In a study (Smallbone, Leig, &North, 1995) it was found that in high-growth SMEs, 37 percent of employees had completed a formal course of management training, whereas in normal and low growth firms only 17 percent of employees had completed such training. Business graduates are invaluable human resources for SMEs.

Business graduates are invaluable human resources for SMEs.

Finally, informality and relational orientations between employee and employers is a source of competitive advantage within SMEs. Owner-managers of SMEs need to be mindful of this characteristics and unleash employee productivity and engagement by building social exchange relationships with employees. Higher levels of social exchange can reduce turnover and absenteeism which are a constant problem in SMEs and foster pro-social behaviors. This is important since given the nature of business, SME owners cannot continually specify in advance all desired employee behaviors, especially when SMEs are experiencing the turf of change constantly. Therefore SMEs will have to investigate the right level and/or balance between formal and informal management practices.

Given the limitation of their size and resources, SME's alone cannot devise mechanisms to enhance the competitive strength of its employees and make this sector healthy and successful. However, given the potential of SME's as the key growth drivers of economies, "large number of small companies" (SMEs) need to be supported. Government, universities and public private partnership, all together can initiate action plans to support the owner-managers to better manage the sector. For instance, it is found that SMEs are reluctant in spending or are cost sensitive when it comes to performing HR practices for better outcomes and do not have formally laid stra-

tegic recruitment practices. Thus, they end up getting employees who may not be suitable for the job. In collaboration with institutions, policy makers can focus on the providing support to SMEs on facilities such as recruitment process outsourcing (RPO) to SMEs (Bohlander & Snell, 2013) which can help SMEs get right candidate from right source at less cost. Since attraction and retention of talented employees are matters of great concern for firms, government could consider making working experience of SME's as an additional qualification/achievement to jobs in public and private sector and prefer to recruit students with such backgrounds.

Further mandatory on the job training and off the job training requirement of certain hour would help in attracting potential employees to SMEs. Government can develop a policy which will help employees of SMEs to receive training at a lesser cost for the benefit of relevant firm. Since universities are one place that provides extensive business management training to the students who will become future business professionals and managers of SMEs, education system could consider introducing managing SMEs as a course in the business curriculum.

Conclusions & Future Research

This study has certain limitations. First, the qualitative analysis represents human interpretation of the themes that emerged from the critical incidences and no software package has been used for analysis. Second, the study examined only SME owner's perspective regarding the human

resource practices and not employee's opinion. Future studies could incorporate perceptions of both the parties of employment relationship, employees and employers. Third, the study was conducted in a few SMEs but it did not represent all industries in the sector. Future studies could broaden the sample of the study.

SMEs are very informally managed and the employer's and employee's obligations to each other are implicit and based on trust. This informality in the SMEs and close personal relations between employees and employer raises interesting questions about the psychological contract between the SME owners and the employees making it a unique context to study the employment relationship. Studies in future could examine the nature and content of psychological contract in SMEs.

References

- Allen, T. D., Poteet, M. L. & Burroughs, S. M. (1997), "The Mentor's Perspective: A Qualitative Inquiry and Future Research Agenda", *Journal of Vocational Behavior*, 51(1): 70-89.
- Anheier, H. K. & Seibel, W. (2001), *The Non-profit Sector in Germany: between State, Economy, and Society* (Vol. 9), Manchester University Press.
- Aswathappa K. (2013), *Human Resource Management*, New Delhi: McGraw Hill Education (India) Pvt. Ltd.
- Atkinson, Carol (2007), "Building High Performance Employment Relationships in Small Firms," *Employee Relations*, 29 (5): 506-19.
- Banks, M. C., Bures, A. L. & Champion, D. L. (1987), "Decision Making Factors in Small Business: Training and Development" *Journal of Small Business Management*, 25(19)
- Bankins, Sarah (2011), "Tracking Employees' Twists and Turns: Describing a Mixed Methods Approach to Assessing Change in the Psychological Contract," *International Journal of Multiple Research Approaches*, 5(3): 351-66.
- Baron, Robert A. (2003), "Human Resource Management and Entrepreneurship: Some Reciprocal Benefits of Closer Links", *Human Resource Management Review* 13 (2): 253-56.
- Barney, J. B (1992), "Integrating Organizational Behavior and Strategy Formulation Research: A Resource Based Analysis", *Advances in Strategic Management*, 8(1):39-61.
- Barrett, Rowena & Susan, Mayson (2007), "Human Resource Management in Growing Small Firms," *Journal of Small Business and Enterprise Development*, 14 (2): 307-20.
- Batt, R. & Welbourne, T. (2002), "Performance Growth in Entrepreneurial Firms: Revisiting the Union Performance Relationship", *Research Volume on Entrepreneurship*, 5.
- Bohlander G. W. & Snell S. A. (2009), *Managing Human Resources South-Western Cengage Learning*; 15th edn , January 28.
- Bohlander, G. W. & Snell, S. (2013), *Principles of Human Resource Management*, 16th edition, South-Western: Cengage Learning.
- Bolton J.(1971), *Small Firms - Report of the Committee of Inquiry on Small Firms Cmnd 4811*, HMSO, London
- Chao, Joe MC, Francis YL Cheung & Anise, MS Wu (2011), "Psychological Contract Breach and Counterproductive Workplace Behaviors: Testing Moderating Effect of Attribution Style and Power Distance", *The International Journal of Human Resource Management*, 22 (04): 763-77.
- Coyle-Shapiro, J. A. M. (2002), "A Psychological Contract Perspective on Organizational Citizenship Behavior," *Journal of Organizational Behavior* 23 (8): 927-46.

- Conner, K. R. & Prahalad, C. K. (1996), "A Resource-based Theory of the Firm: Knowledge versus Opportunism", *Organization Science*, 7(5): 477-501.
- Curran, J. (2000), "What Is Small Business Policy in the UK for? Evaluation and Assessing Small Business Policies", *International Small Business Journal*, 18(3): 36-50.
- Daniels, L & Ngwira A. (1993), "Results of a Nation-wide Survey on Micro, Small and Medium Enterprises in Malawi", GEMINI Technical Report No. 53. New York: PACT Publications.
- Deshpande, Satish P. & Damodar Y. Golhar (1994), "HRM Practices in Large and Small Manufacturing Firms: A Comparative Study," *Journal of Small Business Management*, 32: 49-59.
- Eisenhardt, K. M. & Bourgeois, L. J. (1988), "Politics of Strategic Decision Making in High-Velocity Environments: Toward a Midrange Theory", *Academy of Management Journal*, 31(4): 737-70.
- Flanagan, David J. & Satish P. Deshpande. (1996), "Top Management's Perceptions of Changes in HRM Practices after Union Elections in Small Firms: Implications for Building Competitive Advantage," *Journal of Small Business Management*, 34 (4): 23-34.
- Freeman, R. E. (1984), *Strategic Management: A Stakeholder Approach*, Pitman, Boston, MA.
- Frumkin, P. & Andre-Clark, A. (2000), "When Missions, Markets, and Politics Collide: Values and Strategy in the Nonprofit Human Services", *Nonprofit and Voluntary Sector Quarterly*, 29 (suppl 1): 141-63.
- Glaser, Barney G. (1992), *Emergence vs Forcing: Basics of Grounded Theory Analysis*, Sociology Press.
- Glaser, Barney G. & Anselm, Strauss (1967), *The Discovery of Grounded Theory: Strategies for Qualitative Research*, Chi Cago: Aldine.
- Graham, Mary E., Brian Murray & Linda Amuso (2002), "Stock-Related Rewards, Social Identity, and the Attraction and Retention of Employees in Entrepreneurial SMEs," *Advances in Entrepreneurship, Firm Emergence and Growth* 5: 107-45.
- Guo, Chao, William A. Brown, Robert F. Ashcraft, Carlton F. Yoshioka, & Hsiang-Gupta, U. & Tannenbaum, J. A. (1989, June 27), "Enterprise: Labor shortages force changes at small firms", *Wall Street Journal*: B2.
- Hendry, C., Arthur, M.B. & Jones, A.M. (1995), *Strategy through People: Adaptation and Learning in the Small-Medium Enterprise*, Routledge, London.
- Kai, Dennis, Dong (2011), "Strategic Human Resources Management in Nonprofit Organizations", *Review of Public Personnel Administration*, 31 (3): 248-69.
- Hannan, M. T. & Freeman, J. (1984), "Structural Inertia and Organizational Change", *American Sociological Review*: 149-64
- Heneman, H. G. & Berkley, R. A. (1999), "Applicant Attraction Practices and Outcomes among Small Businesses", *Journal of Small Business Management*, 37(1): 53.
- Huselid, M.A. (2003), "Editor's Note: Special Issue on Small and Medium-Sized Enterprises: a Call for More Research". *Human Resource Management*, 42 (4): 297.
- Kanter, Rosabeth Moss (1989), "The New Managerial Work." *Harvard Business Review*, 67.
- Karpuzoglu, E. (2001), "Degisimve KOBİ'ler", *Executive Excellence*, September: 28,
- King, J.E. (2000), "White Collar Reactions to Job Insecurity and the Role of Psychological Contract: Implications for Human Resource Management", *Human Resource Management*, 39(1): 79-91.
- King, E. B., K. Chermont, M. West, J. F. Dawson & M. R. Hebl (2007), "How Innovation Can Alleviate Negative Consequences of Demanding Work Contexts: The Influence of Climate for Innovation on Organizational

- Outcomes”, *Journal of Occupational and Organizational Psychology* 80 (4): 631–45.
- Krippendorff, Klaus (2012), *Content Analysis: An Introduction to Its Methodology*, Sage.
- Marlow, Susan, Dean Patton, & Monder Ram (2013), *Managing Labor in Small Firms*, Routledge.
- Martin, G., Staines, H. & Pate, J. (1998), “The New Psychological Contract: Exploring the Relationship between Job Security and Career Development”, *Human Resource Management Journal*, 6 (3): 20–40.
- Matlay, H. (1999), “Employee Relations in Small Firms: a Micro-business Perspective”, *Employee Relations*, 21(3): 285–95
- May, T. Y. M., Korczyński, M. & Frenkel, S. J. (2002), “Organizational and Occupational Commitment: Knowledge Workers in Large Corporations”, *Journal of Management Studies*, 39(6): 775–801.
- McEvoy, G. (1984), “Small Business Personnel Practices”, *Journal of Small Business Management*, 22 (4): 1–8.
- Purcell, John, and Nicholas Kinnie. (2007). *HRM and Business Performance*, Oxford Handbook of Human Resource Management:
- Puplampu, B. B. (2005), “Skills, Structure and Leadership: Critical Variables in SME Internationalization”, in Kuada, J. (Ed.), *Internationalization and Enterprise Development in Ghana*, Adonis and Abbey, London.
- Ram, M. (1991), “Control and Autonomy in Small Firms: the Case of the West Midlands Clothing Industry”, *Work, Employment & Society*, 5(4): 601–19.
- Ritchie, J. (1993), “Strategies for Human Resource Management: Challenges in Smaller and Entrepreneurial Organizations”, in Harrison, R. (ed.), *Human Resource Management*, Addison Wesley, Wokingham.
- Rollag, Keith (2002), “First-Week Experiences: A Journal Study of Newcomers in High-Tech Startups,” in Babson-Kauffman Entrepreneurship Research Conference, Boulder, CO.
- Rousseau, D. M. (2001), “Schema, Promise and Mutuality: The Building Blocks of the Psychological Contract”, *Journal of Occupational and Organizational Psychology*, 74(4): 511–41.
- Rousseau, Denise M. & Judi McLean Parks (1993), “The Contracts of Individuals and Organizations”, *Research in Organizational Behavior*, 15: 1–1
- Saini, D. S. & Budhwar, P. S. (2008), “Managing the Human Resource in Indian SMEs: The Role of Indigenous Realities”, *Journal of World Business*, 43(4): 417–434.
- Salamon, L. M. (Ed.). (2002), *The Tools of Government: A Guide to the New Governance*, Oxford University Press.
- Scott, M., Roberts, I., Holroyd, G. & Sawbridge, D. (1989), *Management and Industrial Relations in Small Firms*, Department of Employment Research Paper, London
- Smallbone, D., Leig, R. & North, D. (1995), “The Characteristics and Strategies of High Growth SMEs”, *International Journal of Entrepreneurial Behavior & Research*, 1(3): 44–62.
- Storey, D. J. (1994), *Understanding the Small Business Sector*, University of Illinois at Urbana-Champaign’s Academy for Entrepreneurial Leadership Historical Research Reference in Entrepreneurship.
- Wilkinson, A. (1999), “Employment Relations in SMEs”, *Employee Relations*, 21(3): 206–17.
- Welsh, J. A. & White, J. F. (1981), “A Small Business is not a Little Big Business”, *Harvard Business Review*, 59(4): 18.
- Wright, P. M., Snell, S. A. & Dyer, L. (2005), “New Models of Strategic HRM in a Global Context”, *The International Journal of Human Resource Management*, 16(6): 875–81.