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“The Significance of HRM in Small Enterprises of Pakistan”
(A Theoretical Research)

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“The Significance of HRM in Small Enterprises of Pakistan”
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Abstract:

Human resource management practices have become the de facto standard for almost all large organizations. Today’s organizations consider human resource management as an all inclusive practice and view it playing vital role in their development. However, the significance of HRM practices in small enterprises is not yet fully realized and only a handful researches are done so far on HRM practices (Heneman & Berkley, 1999). This paper suggests the imperative role of HRM Function in small enterprises of Pakistan. The propositions made on the basis of literature review in order to emphasize this research are; firstly; HRM practices are likely to be significant for the survival of small enterprises. Secondly; because of this essential role of HRM for the survival of small enterprises, it is also likely to be vital for their growth. Thirdly; it is suggested that HRM practices, if implemented in early stages of the organizational life cycle of small enterprises, are likely to curtail down the unhealthy resistance to change by the old incumbents of organization.

Key Words: HRM Practices, Small Enterprises

Introduction:

Human Resource Management plays a vital role in the sustainability and growth of the organizations. It generates a formal management system in shape of proper policies and procedures, organizational structures, employment relations and execution of various HRM functions (e-g recruitment & selection, Performance and compensation

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management etc.). All the said practices can manage and organize the employees of any enterprise.

The lack of information about human resources in small enterprises is problematic for theory, research, and practice. Current human resource theory is often developed and tested in large organizations. Hence little is known about the extent to which the theory extends to smaller entrepreneurial organizations. This is problematic given that a critical component of sound theory is the description of those circumstances, such as organizational size and structure that serve as boundary conditions to the theory (Heneman, Tansky & Camp: 2000). To the most of our knowledge, till now, research in HRM, has been conducted in the context of large organizations, whereas, the smaller organizations receive a nominal mention in the mainstream HRM discussions despite the fact that small enterprises in most countries contribute towards employment (Bawa, Jantan & Ali: 2001). Bacon (1996) also reports that small firms have traditionally been neglected in the academic literature in general. Hornsby and Kuratko (2003) found that there are no studies about the relationship between HRM and the success of small enterprises. This gap generates the need of more and more academic research in this area with special focus on HRM practices and their role in the firm development and success. This paper discusses the importance of HRM in the sustainability and growth of small enterprises and along with it the importance of these practices in small Pakistani firms.

Human Resource Management & its Practices:

“Human Resource Management (HRM) has been defined as the process of attracting, developing and maintaining a talented and energetic workforce to support organizational mission, objectives, and strategies. (Kok, Thurik & Uhlaner: 2003). The traditional

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understanding of HRM focused on managing, measuring and controlling organization's workforces. Tactical or technical HRM includes selection testing, training, performance measurement and administration of benefits. However a second dimension of HRM activities: strategic HRM includes employee participation and empowerment, communication, team based work design, and development of managers of the organization. Thus the human resource system that is based on commitment is focusing on the psychological links between organizational and employee goals, and is also associated with higher involvement in managerial decisions, participation, providing training and rewards. Moreover a human resources system that is based on control focuses on directly monitoring and rewarding employee behavior or the specific outcomes of that behavior. (Arthur: 1994)

The HRM practices include recruitment and selection, training, performance appraisal, development of human resource (HR) policies, and maintenance of HR records (Kotey & Slade: 2005). The previous research suggests that HRM Practices increase productivity by increasing employee skills and motivation. Moreover, HRM practices contribute to business objectives through strategic innovation or technical competence. (Huselid, Jackson, & Schuler: 1997). "Effective HR Practices are becoming increasingly important in the modern "knowledge-based" economy as companies face the double challenge of the need for more highly trained employees coupled with the shortage of qualified labor. These challenges coupled with the third trend toward smaller firms in general, reinforce the need for effective HRM Practices in the small firms" (Kok, Thurik & Uhlaner: 2003). HRM practices - usually - can vary with the size of the company, and can be quite different between large and small businesses. The success of a small business, in

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particular, can depend heavily on its human resource management practices (Perumalla: 2000)

Small Enterprises:

Small businesses are an important part of the economic system of a country (Peterson, Kozmetsky & Ridgway: 1983). There is no precise definition of what constitutes a small business for two main reasons. Firstly, there is no single measure of size that would suit the purpose of all those concerned to identify small businesses. Measures could include asset base, sales turnover or number of employees. The second problem is that the upper limit of what constitutes a small business is different in different countries (Gilbert, Jones: 1998).

In the context of business environment in a country like Pakistan; a small enterprise entity is defined as a business with an initial investment in productive assets (not including land and building) ranging between Rs. 2-20 million and employing between 10-35 employees (SMEDA Definition). According to The Federal Bureau of Statistics of Pakistan, a small enterprise is one which has less than a total of 10 employees.

HRM in small enterprises:

Basic confusion in managing small business is their ability to have a clear cut organizational structure and to incorporate training and development as an integral part of their managing system. Reorganization of small business with separate departments and clear cut reporting structure is necessary. This management technique is suitable for a small business that has expanded and decentralized fully (Singh, Pathak, Kazmi, Sharma & Terzioviski: 2007). Employees in small firms are the key factor distinguishing

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successful from unsuccessful ventures. A well-motivated, highly skilled workforce is considered important as a determinant of a small firm's ability to remain competitive in the modern business environment (Hornsby, Kuratko: 2003). Employee effectiveness might be even more important in small companies compared to bigger companies (Mulhern: 1995). The employees become effective when they possess a disciplined behavior. Thus in smaller firms the discipline is more vital than in large firms, as each employee is supposed to be a crucial link for a smaller firm. Each employee could interact with all other employees, with customers, or with the limited resources of the firm. Misbehavior or inadequate performance by one employee then, has a negative impact on all other employees and ultimately it has adverse affects on the performance of the firm (Gulbro, Tucker: 1993). In order to become competitive through skilled and disciplined employees in small enterprises, various HRM Practices e.g. training, orientation, job descriptions, could make a long run contribution (Schuler: 1987). The practice of effective HR management is one that small businesses need to develop and improve as they expand and grow. In many cases, the small businesses handle the HR functions since they are usually limited when the firm employs only a few people. But there are numerous businesses that are categorized as "small" that employ a large number of people and need effective HR policies for their workforce (Hornsby, Kuratko: 1990). Formalization and modernization of HRM functions and practices of small firms lead to lower costs and greater employee productivity (Gulbro, Tucker: 1993).

HRM for the survival of Small Enterprises:

Many hopes and expectations are connected with the development of the concept of small enterprises, but these hopes are justified only if these small businesses survive. But most

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empirical evidence shows that a high proportion of new business organizations fail within a short time. Three groups of factors that affect the survival chances of new and small enterprises have been extracted from previous research: (1) individual characteristics of the founder; (2) attributes, structural characteristics, and strategies of the business itself; and (3) conditions characterizing the environment of small firm. (Bruderl, Preisendorpher & Ziegler: 1992)

Peterson, Kozmetsky and Ridgway (1983) stated that small businesses are perceived to be the heart and soul of the enterprise system of any country. Failure rates of small businesses, however, are at an all-time high. Even though the number of failures among small businesses is increasing, relatively little empirical research has addressed the general causes of small business failure. However, in their study they found that the most frequently cited cause of small business failures was "lack of management expertise." They further argue that according to their research the single most frequently cited suggestion for reducing small business failures was "increased management education." Hence, it would appear that a program of hands-on management education would be a first step in reducing the failure rate among small businesses. Hornsby & Kuratko (2003) quote that each year there are a large number of failures in smaller firms where managerial incompetence is reported as the major underlying cause. One specific area of managerial incompetence that is frequently cited concerns the handling of employee issues. Included here are ineffective recruitment of personnel, inappropriate selection, poor or nonexistent training, lack of benefits, lack of incentives, inequitable compensation and weak or nonexistent performance appraisal.

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After the conception and development of a firm through invention and development of a product / service or technology, where all activities are decided by the entrepreneur, the firm needs to expand its number of employees in order to sustain its business. So it must create structures and task systems beyond product development; so that the new recruits could be managed properly and work effectively. Thus the effective management of human resources is the key to survival for smaller enterprises (Marlow & Patton: 1993).

If small firms are creating new jobs and hiring new employees, then one of place to begin would be in the area of Human resource management. HRM also has value because it provides an interface between an owner and the firm's current employees. Thus the ability to find and keep good employees, to interact with employees, and to create a climate for their performance could have a positive impact on survival of the firm (Kilmann: 1990). Small enterprises need to devise suitable methods to gain a competitive edge in the effective management of human resources in order to succeed in the global business environment, as this is essential for their survival (Bawa, Jantan & Ali: 2001).

For small firms to survive, their owners will have to improve their recognition of the value of practices that could have a positive influence on employee performance. That would especially include human resource management practices, since these practices have been shown to have an impact upon employee performance (Foulkes: 1980). HRM practices have been said to produce a climate of trust and confidence that contributes to long-run firm effectiveness and efficiency. The practices relating to employees (HRM Practices) would thus be important to the firm's survival (Huselid: 1994). Schuler (1987) explains that training and job descriptions are such formal practices that could make a valid contribution to the survival of a small firm, and if promotion from within were to be

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a successful practice, training and preparation of employees would be needed and should also be rated as an important HRM practice. Promoting employees who are unprepared for their jobs would not help small firms survive.

Formal HR Policies and procedure regarding recruitment of talented staff is also vital for the small firm's survival. (Kotey & Slade: 2005). Adler and Borys (1996) in one of their studies on small firms recommended the increased role of formal policies and procedures in order to reduce the employee job stress and to enhance the employee commitment.

Hence it is suggested that in order to survive in the modern business world the implementation of HRM practices is imperative for small enterprises. The HRM and its practices required for survival – at start of the organization - may include proper organizational structure (organogram), proper job descriptions of employees, recruitment and selection, training and development, performance appraisal, employee records, attendance and payroll management. Digging further into its roots, we can say that formal HRM is also necessary for survival of the small firm, because a sustainable HR system is necessary to attract and retain good Human resources to the firm, as the established systems within a firm will also give a sense of security to the employees. In the absence of a proper system in the organization, people recruited would be difficult to manage and retain as well; and failure to keep the smart employees in the initial stages of a small firm result in the failure of the firm. Likewise, in support of the literature cited above, our first proposition is;

Proposition # 1: *HRM practices are significant for the survival of small enterprises.*

HRM for Growth of Small Enterprises:

Growth of a small enterprise is characterized by high growth in both sales and number of employees. It is a stage where the hierarchy and functional specialization development of the firm takes place (Dr. Liao: 2006). To achieve success and growth and viability, a firm would need employees that could be productive and would be committed to helping the organization succeed (Kilmann: 1990). It has been said that, for a firm to grow and add jobs, the owner must develop internal systems, delegate authority, and formalize management practices (Baumback: 1988). The HRM practices like development of human resource (HR) policies, recruitment and selection, training, performance appraisal, and maintenance of HR records are those areas of human resource management which are prone to increased formalization with firm growth (Kotey & Slade: 2005).

Theoretically human capital (skills knowledge and experience that helps in the tasks of getting one's work done) acts as a resource to a small firm. It makes business owners / employees more efficient in doing their work, which results in business growth and success (Bruederl, Preisendoerfer & Ziegler: 1992). At the same time, effective human resource management practices have been shown to be an integral part of the success of small enterprises (Hornsby & Kuratko: 1990).

Human resources are essentially important and an optimal utilization of skills and knowledge increases small business growth. Thus, one can improve the probability of success by increasing human capital in a firm and by developing and utilizing human resources. So human resources are important factors producing changes in growth of small enterprises (Rauch, Frese & Utsch: 2005). Just as a Chinese proverb suggests that "if you wish to grow something for a season - grow mangoes; if you wish to grow

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something for a year - grow rice; but, if you wish to grow something for a life time grow man power.” A firm therefore should focus on the best and maximum utilization of human resources in the organization in order to grow. So building upon the argument that has been developed above, our second proposition is;

Proposition # 2: *Because of the essential role of HRM for the survival of small enterprises, it is also vital for their growth.*

HRM in early stages of Small Enterprises:

Organizational Life Cycle (OLC) models are numerous and they vary widely on a number of features, including the actual number of stages. Usually, the typical OLC model includes birth, growth, maturity, and sometimes decline. According to OLC models, an organization must move through one stage before proceeding to the next. There may be as much variation within broad categories of such models as there is between categories. For example, the OLC is typically described as static and deterministic. However, OLCs may differ in the number of stages they have, the degree to which progress through a particular sequence of stages is seen as essential for organizational effectiveness, and the degree to which the model is sensitive to environmental forces. Not only is there wide variability among these change model categories, but a given change model may sometimes just as easily fall into one category as another. (Milliman, Glinow & Nathan: 1991)

Organizational life cycle (OLC) research shows the evidence that firms change over time. OLC has been classified into four stages: entrepreneurial (conception and development), collectivity (structures and task systems), Growth (formalization and control), and Stability (elaboration of structure). The Entrepreneurial stage involves the invention and

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development of a product or technology. Structure and formal procedures are virtually nonexistent in this stage, and all activities are decided by the entrepreneur. The second stage, collectivity stage, must create structures and task systems beyond product development. The third stage, growth stage, is characterized by high growth in both sales and number of employees. A hierarchy and functional specialization development takes place in this phase. The fourth stage, stability stage, concentrates on developing next-generation products, establishing a market position, and seeking other growth opportunities. Each stage would manifest integral complementarities among variables of environment, strategy, structure and decision making methods. Organizational growth and increasing environmental complexity would cause each stage to exhibit certain significant differences from all other stages along these four classes of variables (Dr. Liao: 2006).

Dr. Liao (2006) further explains that the characteristics of an organization vary from early to late life-cycle stage. For a firm in early stage, the organization is in its infancy. Creativity is high. Goals tend to be ambiguous. Communication and structure within the organization remains essentially informal. In contrast, for a firm in late stage, formal rules and procedures are imposed. The organization structure becomes more complex and elaborated. We can see from the findings, the effect of fit between early stages of organizational life cycle and HRM do exist.

Firms at their initiation must be associated with higher levels of HR practices. It is likely because newer firms have the chance to introduce new practices without having to worry about the baggage of those deeply entrenched practices which would be difficult for employees to leave at the later stages of organizational life cycle (Bawa, Jantan & Ali:

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2001). It is always difficult for the companies to bring in new policies because of the resistance by the uneducated old staff that enjoys management's favors. (Jamil: 2005).

When HR department is developed at the maturity stage of a firm (when organization becomes medium or large) it becomes difficult to implement the HR policies and functions on the people within the organization. It is so, because the old employees, who are habitual of working in the informal management structures (self generated policies for their own comfort), do not accept it and show their resistance to the change which HR department is likely to bring. It is in the benefit of organizations, that a proper HR system be implemented in the early stage of the business, the existing and upcoming employees will understand the HR policies and procedures since start and they will not resist nor bypass in the later stages of firm development. Thus our third proposition is;

Proposition # 3: *HRM practices, if implemented in early stages of the organizational life cycle of small enterprises, are likely to curtail down the unhealthy resistance to change by the old incumbents of organization.*

HRM in Small Enterprises of Pakistan:

A majority of businesses in Pakistan (both local and foreign) have restructured their personnel divisions as Human Resource divisions. However, they do not provide information about what this change entails. HRM in Pakistan is passing through an embryonic stage. Most Pakistani organizations are following a piecemeal approach whereby only certain HR activities had been introduced in installments. Many organizations have adopted pay for performance and are making concerted attempts to expand the role of their training programs. Despite these efforts, most of these organizations suffer from lack of communication, a gap between managers' promises and

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implementation of policies and an inconsistency of HRM practices among employees and the centralized structure of the organizations. (Khilji: 2001)

There is a communication gap between management and employees. Typically, HR policies and practices are made in isolation; feedback from employees during formulation process or afterwards is not sought. Employees seldom know what decisions are being made at their HR departments as communication between employees and HR departments is kept to a minimum. The ‘talk’ of management does not always match their ‘walk’ (Khilji: 1999a). The other set of practices, mainly pursued by less successful and smaller local organizations lacks the initiative and promise exhibited by the Multinationals or large local companies in Pakistan. In the smaller firms of Pakistan, the social status of candidates often guides recruitment decisions. Training is considered an expense and is limited to bare minimum. Employees are assessed without any input from appraisee. The concept of feedback is alien to these organizations (Qureshi; 1995). “Though the companies in Pakistan have started recognizing the growing importance of HRM, yet very few are conceptualizing them in strategic terms. Many organizations have as a fashion titled their Personnel and Administration departments as HR department, while frequently practicing reactive HRM. The managers heading such departments are hardly trained in HRM techniques and practices. That’s because most organizations have just to keep in line with the ongoing trend, have created HRM sections within the personnel. As a result their problems are compounded and opportunities missed. Thus on the whole we can say that the concept of HRM is still in its preliminary phase in Pakistan and in small business it is almost non existent” (Jamil: 2005). Yet HRM holds a promise for employees in Pakistan and is the way forward. Employees recognize the significant

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role of HRM and appraise towards it. There seems to be a large amount of room for growth for HRM activities as the economy develops further (Khilji: 2001).

Human resource management in Pakistan as whole is at its infancy whereas it is totally nonexistent in the small enterprises of Pakistan, but it still has the room for development in Pakistani enterprises. If gets implemented in small enterprises of Pakistan, HRM will make them survive and grow; and the organizations will not face the resistance to change from the old employees, which they are likely to face in the later stages of firm development. The idea is that there are two variables 1) HRM and its practices, and 2) Small Enterprises; these two variables are combined together by discussing the benefits of Human resource management and its practices for the small enterprises. And in the light of these benefits and the present situation of HRM in Pakistan, the implementation of HRM and its practices in the small enterprises of Pakistan, has been suggested. Thus after discussing the significance of HRM practices for small enterprises of Pakistan, the following model has been developed.

(Figure – 1: See exhibit # 1)

Conclusion:

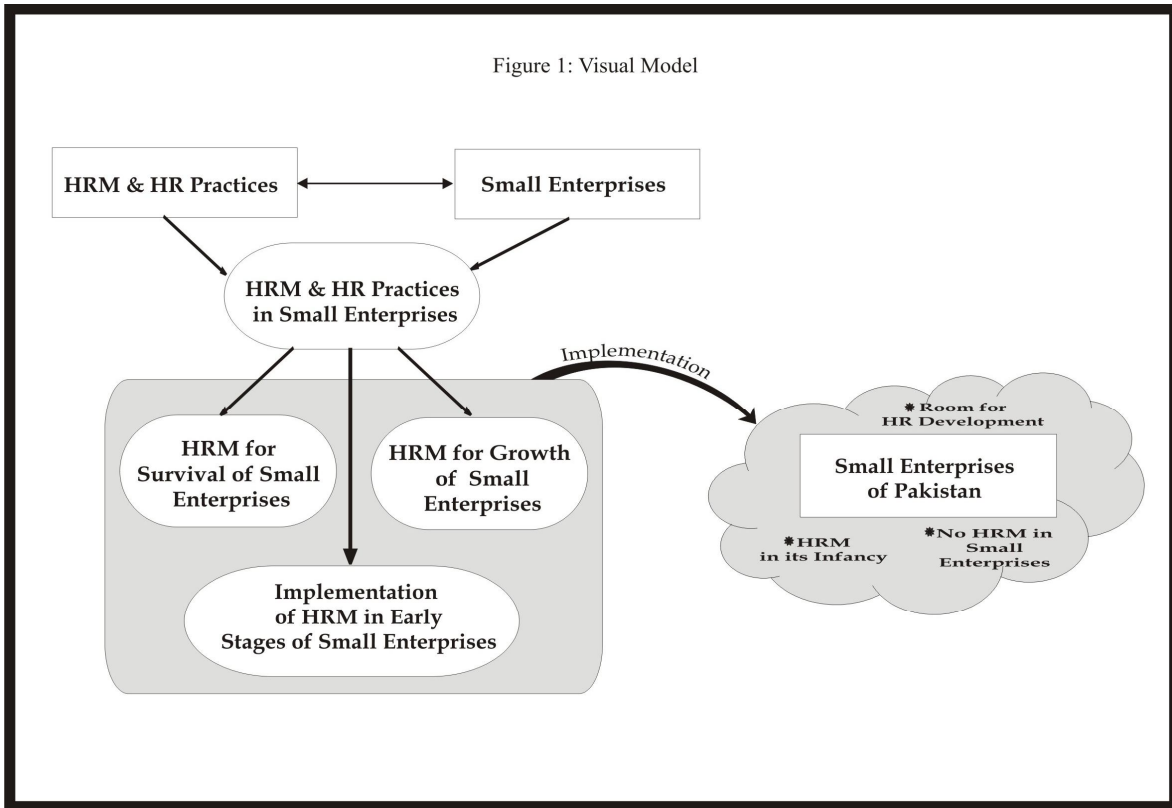
Worldwide, the field of human resource management has been ignorant in the context of small enterprises, both theoretically and practically. This paper addresses this issue by discussing the significance of HRM and its practices in small enterprises in general, and then conferring about it in the specific scene of Pakistan's small business environment. So it has been concluded that HRM practices are important for the success of small enterprises of Pakistan. Several implications for small business owners as well as academicians can be drawn from this analysis. Perhaps the most important practical

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implication of this research is that it suggests the entrepreneurs of small enterprises to implement the HRM in their firms. This can be done by hiring a professional HR manager or by the outsourcing the HRM activities to some HRM outsourcing or consultancy firms. Hay and Ross (1989) also suggested that “for an owner and a firm to succeed, help and information are needed from experts. According to their research, those who can best obtain this help also tend to achieve most success”.

From an academic perspective, an important implication of this research is that this paper provides the basis for researchers to do the empirical researches in the area of HRM significance for small enterprises especially in the context of developing countries like Pakistan. Future studies in this area might also increase the HRM literature w.r.t. small enterprises and can become common in upcoming years, by having a direct and practical impact on the combination of HRM and small business environment.

Exhibit # 1



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SMEDA Small Enterprise Definition (proposed under SME act of Pakistan) <http://www.smeda.org/main.php?id=2> (accessed at: 12th October, 2007)

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