

Impact of Human Resource Management Practices (HRM) on Performance of SMEs in Multan, Pakistan

Fareeha Naz¹

MS Scholar, Dept. of Management Sciences, COMSATS Institute of Information Technology, Islamabad, Pakistan

Junaid Aftab

MS Scholar, Dept. of Management Sciences, COMSATS Institute of Information Technology, Islamabad, Pakistan

Muhammad Awais

MS Scholar, Dept. of Management Sciences, COMSATS Institute of Information Technology, Islamabad, Pakistan

Abstract

Small and medium enterprises (SMEs) support countries' economies in financial context and also create employment opportunities. Human resource management (HRM) practices are very important to equip employees via training & development, employees' motivation through effective rewards policies and effective recruitment and selection process. The global competition is one of compelling force behind companies to adopt human resource management (HRM) practices professionally. Human resource plays a vital role to improve organizational performance and create competitive advantage in this competitive era. The world has been globalized and companies are facing cut throat completion in the market. Therefore, human capital is one of major source to enhance organizational performance. Pakistani SMEs are producing heterogeneous products related to trade, agriculture business and manufacturing. A collection of 320 self-administered and well-structured questionnaires were distributed among the employees of small and medium enterprises of Multan. Only 240 forms were got back. Statistical tests like correlation and regression were applied through SPSS V22. The outcomes revealed that HRM practices (employee recruitment & selection, training & development, rewards policy and

¹ Corresponding author's email: fareehagold@gmail.com

performance appraisals) are positively associated with SMEs performance. The results conclude that when HR experts of SMEs focus on improvement of these practices organizational performance would be increased.

Keywords: Human Resource Management, SMEs, Performance, Pakistan.

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Introduction

Human resource management (HRM) plays a vital role for the success of an organization whether it is a small medium or large. Human Resource Management practices assume as a basic part to enhance performance practices. It has been noticed that it is a basic zone to enhance performance practices and profitability. It is generally acknowledged that HRM can help small and medium enterprises to enhance organizational behavior in such ranges as staff responsibility, competency and flexibility, which in turn prompts made excellent staff performance (Koch and McGrath, 1996). We can say that, human resource management is the backbone of any enterprise for its smooth and successful running. Human resource management practices are very important to equip employees via training & development, employees' motivation through effective rewards policies and effective recruitment and selection process. The global competition is one of compelling force behind companies to adopt HRM practices professionally. Furthermore, researchers have been directed to test the relationship amongst HRM and performance show that high responsibility and/or high contribution HRM positively affect firm performance (e.g.Kaman *et al.*, 2001; Stavrou& Brewster, 2005). The world has been globalized and organizations are facing various challenges in their businesses. SMEs anticipate Pakistani economy to contribute vital part for specific budgetary contractual obligation. When organizational experts make effective strategies regarding human resource management performance than customer feedback is very necessary to boost organizational performance.

In Pakistan, SMEs are producing and delivering heterogeneous items identified with exchange market, agriculture business and manufacturing. This study prompted research components to update the SMEs performance to makePakistan powerful in worldwide business sector. So that we may able to contend in international market and achieve targets. The present research led to quantify the effect of HR management practices on SMEs in Multan. The current research would judge the contribution of recruitment & selection in SMEs performance; measure the contribution of employees training & development and measure the contribution of performance appraisal & rewards in SMEs performance in Multan, Pakistan. These outcomes will be advantageous for HR experts to apply HRM practices leading towards the improvement of SMEs performance to compete with current market requirements and fulfill customers' demands.

Research objectives are very important for research because researchers know that by conducting this research what they are going to contribute in the field. The objectives of this research were

- To identify the importance HRM practices on SMEs performance in Multan, Pakistan.
- To measure the contribution of HRM practices on SMEs performance in Multan, Pakistan.

Literature Review

Small Medium Enterprises (SMEs) are important for countries because these type of industries play important role to enhance countries GDPs and performance as well (Kongolo, 2010). Human resource management (HRM) practices consider very important to create effective role so that some organizational experts play important role to make best strategies and also implement them at organizational level (Todaro & Smith, 2003). In current study, four independent variables e.g. recruitment & selection, training & development, rewards policy and performance appraisal were used to determine the impact of human resource management practices on performance of small medium enterprises located in Punjab region of Pakistan.

Human Resource Management Practices

Recruitment and selection is vital in this competitive world. Becker and Huselid (1998) and Wright *et al.* (2001) stated that selection is frequently likened with regardless of whether formal tests were directed or whether or not organized meetings are utilized. Thus, powerful recruitment is connected with the number of qualified candidates for positions most every now and again contracted by the organizations.

When SMEs hire new employees and after that employees training and development, achievement of goal has become most important challenge for them. When organizational employees are equipped with effective skills and knowledge, they perform well and it also impact significantly on organizational performance (Barakat, 2001). Employees' training is considered to be the best tool to exploit organizational objectives. When employees are equipped with effective skills and they are being well trained, they would have excellent capacity to perform in organization. It has been observed that in the market SMEs are facing very tough competition to gain competitive advantages and companies are making and implementing effective employees training & development strategies to exploit organizational goals (Kotey & Slade, 2005).

Employees' motivation and performances both are challenges for companies. Organizations are either large or small both have key factors to involve employee's motivation and performance to enhance their motivational level. Some researchers argue that the market competition is one of challenge for organizational experts to enhance employee's motivational level and also employee's rewards system in organizations (Feeney & Riding, 1997). Some SMEs apply and have been adopted these type of practices at formal level and their performance is excellent as compare to other competitors in the market. Cook and Nixson (2000) discussed SMEs rewards policy is important to enhance its performance via employee's motivation. It has been investigated that employees motivation is directly associated with SMEs performance. So, it is

responsibility of organizational experts to apply and implement best rewards functions and system for their employees.

Performance appraisal generally includes 'evaluating performance in view of the judgments and feelings of subordinates, peers, directors, different chiefs and even laborers themselves (Jackson & Schuler, 2003: 455).

SMEs Performance

When organizational strategies develop properly and also implement effectively, SMEs performance would be enhanced and organizational goals will be achieved. De Kok and Uhlaner (2001) argued that employees training & development practices in SMEs helps to enhance organizational performance and also boost its productivity. These kinds of proactive planning and reactive planning are most important for best performance of SMEs to exploit organizational goals. Human resource management practices have become most important for SMEs to exploit organizational goals and these practices are included effective employees selection and recruitment, training and development of employees, organizational rewards systems and also employees' motivation techniques (Cassellet *al.*, 2002; De Koket *al.*, 2003).

Research Model

By keeping all above discussion and literature in mind the following research model was suggested to find out the influence of HRM practices on performance of SMEs.

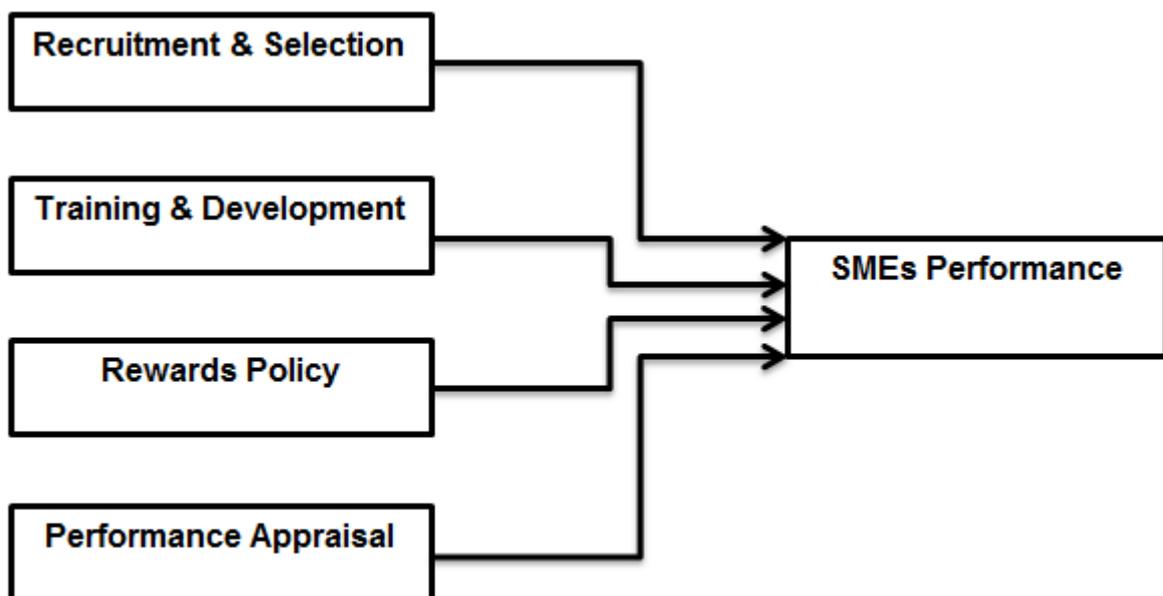


Figure 1: Research Model

According to the above research model there are four research hypotheses as given below

H₁: Recruitment and selection are positively associated with SMEs Performance.

H₂: Training and development are positively associated with SMEs Performance.

H₃: Rewards policy is positively associated with SMEs Performance.

H₄: Performance appraisal is positively associated with SMEs Performance.

Methodology

In research process, research methodology is very important part of study. To measure the impact of HRM practices on performance of SMEs well-structured questionnaire was used. First part was consisted on personal information of respondents while the second part was consisted on items of research variables. The items of performance, recruitment & selection, training & development and performance appraisal five items each were adopted from previous research by Masood, 2010 and 5 items of reward policy were self-developed. All the items were treated on 7-points likert scale where 1 stood for strongly disagree and 7 stood for strongly agree. A collection of 315 questionnaires were distributed among the employees of small and medium enterprises of Multan through convenience sampling. Only 240 forms were got back with response rate of 76.19%. These responses than transferred to SPSS sheet and tests like cronbach's alpha, correlation and regression were applied.

Results and Discussion

This section explains all the procedures and steps that were taken to analyze the data and draw the conclusion of this research.

Cronbach's Alpha

To check the internal reliability of the adopted items cronbach's alpha was applied. Cronbach's alpha value greater than 0.7 consider being acceptable to carry further research. Here all the variables have cronbach's alpha greater than 0.7 as shown in table 1.

Table 1: Reliability

Variables	No of Items	Cronbach's Alpha
SMEs Performance	5	0.884
Recruitment & Selection	5	0.781
Training & Development	5	0.804
Reward Policy	5	0.734
Performance Appraisal	5	0.893

Performance appraisal has the highest value of $\alpha=0.893$ while reward policy has lowest value of $\alpha=0.734$. Other variables like SMEs performance, recruitment & selection and training & development having values 0.884, 0.781 and 0.804 respectively.

Personal Information

In part 1 of our research questionnaire we gathered general information like gender, age and experience about the respondents. The result are shown in Table 2

Table 2: Personal Information

Variables	Frequency	Percentage
Gender		
Male	168	70.42
Female	72	29.58
Age		
Less than 20	29	12.08
21 to 40	122	50.83
41 and above	89	37.09
Experience		
Less than 1 year	34	14.17
1 to 5 years	77	32.08
6 to 10 years	92	38.33
11 years and above	37	15.42

Here 168(70.42%) respondents were males while the remaining 72(29.58%) were females. About 50.83% respondents were belonged to 21-40 years age group, 12.08% were less than 20 years old and 37.09% respondents were 41 and above in age.

Experience in years of respondents was as follow, 34(14.17%) had less than 1 year experience, 77(32.08%) had 1 to 5 year experience, 92(38.33%) had 6 to 10 year experience and 37(15.42%) respondents had 11 and more year experience.

Correlation

Correlation value lies between 1 to -1. Table 3 shows the correlation of dependent variable SMEs performance and HRM practices (recruitment & selection, training & development, reward policy and performance appraisal).

Table 3: Correlations

Variables	1	2	3	4	5
SMEs Performance (1)	1				
Recruitment & Selection (2)	.451*	.1			
Training & Development (3)	.636**	.533*	1		
Reward Policy (4)	.541*	.661**	.409*	1	
Performance Appraisal (5)	.723*	.697*	.579*	.829*	1

** Correlation is significant at the 0.01 level (1-tailed).

* Correlation is significant at the 0.05 level (1-tailed).

Correlations outcomes depict that performance appraisal has strong correlation with performance with $r=.723$ at $p=0.05$. Training & development and performance have strongly correlated to each other with $r=0.636$ at p -value is equal to 0.01. Similarly, recruitment & selection and reward policy are moderately correlated with ($r=0.451$ at p -value=0.05) and ($r=0.541$ at p -value=0.05) respectively.

Multiple Regression Analysis

Model summary presents that how much independent variables influence on criterion variable. The model summary is given in table 4.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.914	.836	.831	.16533

a. Predictors: (Constant), PA, R&S, T&D, RP

Here R-square is 0.836 and it shows that 83.6% influence on dependent variable SMEs performance is due to these four independent variables (training & development, performance appraisal, recruitment & selection and rewards policy). The value of adjusted R square is .831 and it helps to control the overestimation of model.

ANOVA tells the fitness of model that is included in study. The results of ANOVA is shown in table 5.

Table 5: ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.	
1	Regression	47.885	4	11.971	20.533	.000
	Residual	129.363	235	.583		
	Total	177.248	239			

a. Predictors: (Constant), PA, R&S, T&D, RP
 b. Dependent Variable: SMEs Performance

Here the F- value is ($11.971/0.583=20.533$) at p less and equal to 0.05. By using F-table at (5%, 4,235) the result would be 2.410 which is less than $F= \pm 20.533$. So, it is cleared that model was statistically significant.

The output of coefficients is shown in table 6. It shows that performance appraisal has highest values $\beta=0.534$ with t -value=2.156 at p -value=0.00. It means for each unit increment in performance appraisal, we predict a 0.534 point gain in the performance.

While recruitment & selection has minimum influence on performance as $\beta=0.293$ with t -value=8.804 and p -value=0.00. It means for each unit increment in recruitment & selection, we predict a 0.293 point gain in the performance.

Table 6: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	.590	.407		6.689	.007
	R&S	.270	.045	.293	8.804	.000
	T&D	.485	.014	.417	4.848	.012
	RP	.380	.090	.361	5.657	.000
	PA	.572	.087	.534	2.156	.000

a. Dependent Variable: SMEs Performance

Similarly, training & development and rewards policy have values ($\beta=0.417$ and $t\text{-value}=4.848$ at $p\text{-value}=0.012$) and ($\beta=0.361$ and $t\text{-value}=5.657$ at $p\text{-value}=0.000$) respectively. It validates all four hypotheses.

Conclusion

Small and Medium Enterprises (SMEs) play a vital part in improving the economy of any country. Pakistan is a developing country that needs high contribution from their SMEs to support the country economy. The center reason of this research was to clarify the influence of human resource management (HRM) practices on performance of SMEs in Multan. For this purpose, HRM practices such as recruitment & selection, training & development, reward policy and performance appraisal were treated as independent variable while SMEs performance was treated as dependent variable. Data was gathered from the employees of SMEs who are operating in Multan through convenience sampling. Statistical tests were applied on collected data. The results of regression and correlations showed that all four independent variables influence on performance of SMEs. The outcomes of this research would be helpful for management of SMEs to apply best HRM practices which lead towards the improvement of SMEs performance. Also, to compete with current market requirements and fulfill customers demand. Because when your human resources feel satisfied than they give their best efforts towards their work which increases the organization performance and ultimately organization profit.

Limitations and Future Research

This research would be helpful for the management of small and medium size enterprises to give special attention on HRM practices to increase the performance of their organizations. Although, there are many advantages of this research but there are few limitation also. For example, this research covered the SMEs of Multan city only so the outcomes might not be practicable in other cities of Pakistan. In future, researchers will increase the independent variable like employee's security & health and also increase the sample size by covering the SMEs of major cities of Pakistan to make the outcomes more generalized and helpful for management.

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