



Impact of Human Resource Management Practices on Business Performance of Small and Medium Enterprises (Evidence from manufacturing SMEs in Hambanthota District, Sri Lanka)

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Abstract

This study empirically examines eight human resource management practices (HRMPs) and their impact on business performance among small and medium sized enterprises in manufacturing sector (MSMEs) in Sri Lanka. There is a little attention given to the effect of HRMPs on performance of MSMEs in Sri Lanka. Thus, this study addresses this knowledge gap in the literature in relation to MSMEs. Fifty MSMEs in Hambanthota district in Sri Lanka (HDSL) were randomly selected as the sample. Structured questionnaire was administrated and in-depth interviews were conducted with owner-managers. Results revealed that selected MSMEs in HDSL are mainly adopting informal HR practices. On average, these firms adopted two out of eight possible formal HR practices. Two-thirds of MSMEs adopted fewer than three HR practices and one-third did not adopt any formal HR practices. Further, results revealed that most commonly adopted HR practices are using professional sources of recruitment, using written criteria for firing and having a Human Resource plan for the firm. The nature of HRMPs in MSMEs in HDSL differs according to owner-manager's education qualification and the firm size. Results illustrated that insignificant weak positive relationship between the formal Human Resource Management Practices and business performance of MSMEs in HDSL. There is a positive relationship between all the HRMPs variables, except presence of HR specialist(s) and overall business performance. Spending training for employees is the significant predictor of business performance of MSMEs in HDSL. It can also be concluded that there is a significant positive relationship among education qualification, firm size and formal HRMPs.

Introduction

Both large firms and small and medium-sized enterprises (SMEs) are struggling for attracting and retaining talented employees in the organizations. In a highly competitive global marketplace, it is very difficult to attract and retain skilled employees in organizations without having sound HR practices. The impact of human resource management (HRM) practices on performance have become the dominant research issue in the field of HRM (Guest, 1997, pp. 263). Theoretical and empirical studies (e.g. Beer et al., 1984; Devanna et al., 1984; Arthur, 1994; Huselid, 1995; MacDuffie, 1995; Youndt et al., 1996; Huselid et al., 1997; Guest, 1997; Ngo et al., 1998; Kaman et al., 2001; Bartel, 2004; Stavrou and Brewster, 2005; Wright et al., 2005) have generally focused on HRM practices of large firms in Western countries. Only a few studies (Welbourne and Andrews, 1996; Nguyen and Bryant, 2004) identified the link between the adoption of HRM practices and the performance of SMEs. Moreover, relatively little studies can be found in South Asian countries and few reported studies have examined the effect of HRM practices on the performance of SMEs in Sri Lanka (e.g. Umer, 2012; Madurapperuma, 2009; Wijewardena et al., 2004). "Though SMEs have not paid due attention for human resource managing practices (Hornsby and Kuratko, 1990), managing of human resource is a decisive factor as far as SMEs' performances are concerned" (Madurapperuma, 2009, p.57). Therefore, this study performs to identify the HRM practices adopted by manufacturing small and medium-sized enterprises (MSMEs) in Hambanthota district, Sri Lanka (HDSL) and to investigate whether HRM practices have an impact on business performance of these MSMEs.

SMEs in Sri Lanka

In today's rapidly growing and dynamic competitive global economy, small and medium enterprises (SMEs) have increasingly become a powerful engine for economic growth and development (Islam et al., 2011). SMEs play a key role in socio-economic development in developed and developing countries (Gamage,

2003). It is a major source of employment, revenue generation, innovation and technological advancement (Kotty and Meredith, 1997). Moreover, they contribute to the gross domestic products (GDP) and stimulate other economic activities.

The SMEs cover broad areas of economic activities such as agriculture, mining, manufacturing, construction, and service sector industries. SMEs play a vital role in the economy of Sri Lanka and are found in all sub-sectors of the economy. Within the manufacturing sector, small and medium scale industries (SMI) account for about 96% of industrial units, 36% of industrial employment and 20% of value-added (white paper, 2002). Currently, the SMEs account for nearly 70% of employment in the industry sector while contributing to about 26% of GDP in Sri Lanka. (Department of Census and Statistics, Sri Lanka, 2011). According to the recent (2006/07) survey done by the International Finance Corporation (IFC) of the SME Market in Sri Lanka, SMEs constitute 80-90% of total establishments and 20% of industrial value added. It shows the significance of the SME sector in Sri Lanka. Hence, "SMEs have been recognized as an important strategic sector for generating economic growth and reducing unemployment, inequality and poverty in Sri Lanka" (White paper, 2002, p.iii)

Significance of the Study

The impact of HRM practices on organizational performance has emerged as the dominant research issue in the field of Human Resource Management (Guest, 1997, p. 263). Findings from a number of empirical studies that have been conducted to test the relationship between HRM practices and organizational performance indicated that high commitment and/or high involvement HRM practices have a positive impact on organizational performance (e.g. Arthur, 1994; Bartel, 2004; Huselid, 1995; Huselid et al., 1997; Kaman et al., 2001; MacDuffie, 1995; Ngo et al., 1998; Stavrou and Brewster, 2005; Wright et al., 2005; Youndt et al., 1996). These theoretical and empirical studies have generally focused on HRM practices within large Western organizations. HR practices in SMEs have not received significant attention in management

research (Hornsby and Kuratko, 1990). Relatively little researchers have addressed the impact of HRM practices on firm performance in Asian countries. Very few researchers have addressed the HRM practices of SMEs and the impact of HRM practices on the performance of SMEs in Sri Lanka. Therefore, there has been a pronounced lack of focus on the impact of HRM practices on firm performance among Sri Lankan SMEs. Therefore, this study addresses this gap in the literature concerning MSMEs in Sri Lanka.

This study attempts to determine what HRM practices owner/managers are using, and how do HRM practices impact on the performance of MSMEs in Sri Lanka? Therefore, findings of this study will be helpful to describe that which HRM practices positively related to the business performance of MSMEs. Hence, findings of this research will be helpful to owners/managers to examine the success of HR practices which are currently implemented by them. As well as, they can make necessary changes of currently used HR practices in SMEs. Since small and medium-sized enterprises (SMEs) play a critical role in the Sri Lankan economy, findings of this study will contribute the economic development in Sri Lanka.

Objectives

There has been a pronounced lack of focus on the impact of HRM Practices on organizational performance among MSMEs in Sri Lanka. Hence, the main objective of this study is to fill up the gap as mentioned above in the literature concerning MSMEs. Besides, identifying the nature of HRM practices of MSMEs in Hambanthota District and exploring how HRM practices differ according to the firm size and educational qualification of the owner/manager are sub objectives of this study. Moreover, it aims to find out the relationship between HRM practices and the business performance of MSMEs in Hambanthota District, Sri Lanka.

Problem Statement

SMEs have been considered as one of the most important driving force behind economies of both developed and developing countries due to their multiple contributions. Performances of SMEs are determined by various factors such as management process, marketing, strategies, networks, technology, HRM practices, and so on (Madurapperuma, 2009, p.563). Adoption of such practices and the extent to which those are put in place, depending upon the management and workforce of a particular organization. Thus, without having positive support from the workforce, it is difficult to obtain desired results even though other practices such as marketing, strategies, management process and network are apparent in the firm.

In most of the developing countries, performance of SMEs is one of the key issues since they are less productive and faces many constrains of technological backwardness, lack of human resource skills, weak management systems, and entrepreneurial capabilities, unavailability of appropriate and timely information, insufficient use of information technology and poor product quality (Davidsson, 2004). As a result, there exists a low level of performance among SMEs (Asian Productivity Organization, 2006, 2011).

Research on HRM is generic and predominantly focused on large organizations (Dunn et al., 2008). Little research has been conducted on SMEs and more specifically in developing countries (Hung et al., 2016). The findings of HRM for a large organization or in developed countries cannot be generalized for SMEs in developing countries, as they each face different barriers specific to them (Kapurubandara and Lawson, 2006). Though, magnitude of researches investigating the impact of HRM practices on performance can be found in large western firms (Mihail & Kloutsiniotis, 2016; Karetape and Olugbade, 2016; Garg and Sharma, 2015; Karapte et al., 2014; Jang and Khan, 2013; Mihail et al., 2013; Moideenkutty et al., 2011; Messersmith and Guthrie, 2010; Zhang and Li, 2009; Camps and Luna-Arocas, 2009; Subramony, 2009; Becker and Gerhart, 1996; Pfeffer, 1995), it is difficult to find researches of this kind in SMEs in South Asian countries (Mihail and Kloutsiniotis, 2016). Few reported studies have examined the effect of HRM practices on the performance of SMEs in Sri Lanka. Thus it is worth to explore HR practices in SMEs. Madurapperuma 2009, p.57 stated that "Though SMEs in Sri Lanka have not paid due attention for HRM practices; this is a key factor as far as SMEs' performances are concerned". Further, Hung et al., 2016 came up with the same view that "Human resource management (HRM) has been identified as a crucial key success factor for SMEs in today's world". Human resource management (HRM) has been identified as a crucial key success factor for SMEs in today's world. Hence, this study focus on the impact of HRM practices on the performance of MSMEs in Hambanthota district, Sri Lanka. Under the above circumstances, this study fills the research gaps in the literature concerning HRM practices and the business performance of MSMEs in Sri Lanka. Therefore, the addressed research

problem was to find out whether there is a relationship between HRM practices and the business performance of MSMEs in HDSL.

Research Questions

Based on the problem statement, two research questions i.e. What is the relationship between HRM practices and business performance of MSMEs in HDSL? And what is the effect of HRM practices on business performance of MSMEs in HDSL? have been identified in this study.

Literature Review

SMEs have defined in a variety of ways by various countries using many criteria. Many organizations in Sri Lanka have defined SMEs by using different criteria such as many persons employed, amount of capital invested, amount of turnover, and nature of the business. Hence, there is no nationally accepted definition for SMEs in Sri Lanka. The various definition used for SME in Sri Lanka has been included in Table 1.

Table 1: Definitions of SMEs in Sri Lanka

Institution	Definition
Department of Census Statistic(DCS)	a) No criterion involving capital b) No of employees less than25
Department of Small Industries(DSI)	a) Initial capital exceeding Sri Lankan Rs.4,000,000 b) No criterion involving employees
Industrial Development Board (IDB)	a) Fixed assets excluding land, building and permanent capital not exceeding Rs. 4,000,000 b) No of employees less than 50
Ministry of Youth Affairs	a) Fixed assets not exceeding Rs. 500,000 b) Employment not more than3 persons excluding proprietor

Source: Premaratne, 2002.

HRM formality in SMEs

HR practices mean that it is a set of policies and practices which boost up the firm's human capital to contribute to the achieving of business objectives (Gürbüz, 2009, p.128).HR Practices are linked with the management of human resources, activities necessary for staffing the organization and sustaining high employee performance (Mahmood, 2004). The most common HR Practices are recruitment, selection, training, and development, compensation, rewards and recognition (Yeganeh and Su, 2008).

"Research has shown that the most significant difference between HR practices in SMEs and larger firms is not in what practices are adopted, but in how they are adopted" (Nguyen and Bryant, 2004, p.601). One important dimension in how HR practices are adopted is the level of formality in HR management. There is not a single universally accepted definition of HRM formalization. Barrett and Mayson, 2007 have covered almost all the important aspects of HR formality. According to their definition, formal HRM means that procedures or practices are;

- Written down (like a list of skills and qualifications for jobs)
- Regularly applied within an organization (like yearly performance review)
- Assured to take place (like employer sponsored training)

Nguyen and Bryant, 2004 defined HR formality as the extent to which HR practices are documented, systematized, and internalized. Thus, formal practices have identifiable policies, rules, and regulations that are documented and integrated into the firm. An informal mechanism exists when no system is in place and decisions are made on a personal and case - by - case basis (Nguyen and Bryant, 2004).

HRM Informality in SMEs

Studying of 43 small manufacturing firms, Marlow and Pattons, 2002 suggests that business owners face a tension between formality and informality of HR practices in general. The existing literature shows that the majority of the SMEs use informal HR practices. Managers/owners of SMEs often view HR practices as costly, bureaucratic and time-consuming (Anderson, 2003). Therefore, many SMEs are informal in terms of HR practices and are less likely to practice HRM compared to larger organizations (Bacon and Hoque, 2005). Most scholars agree that the owner/manager is the first factor who keeps SME HRM informal (Umer, 2012). Owners/managers avoid using formal HR practices as they prefer to keep

direct personal control of the firm and hesitate to delegate responsibilities to other managers. According to Klaas et al., 2000 formalized HRM practices require considerable development costs. Owners of SMEs are fear of adopting formalized HR practices due to lack of resources, such as time and money (Duberley and Walley, 1995; Bacon et al., 1996). Vision and knowledge of the owner/manager and limited time and resources play a role in keeping SMEs informal.

Firm size has been identified as the main organizational factor influencing HRM policies and practices of SMEs (Hornsby and Kuratko, 1990; Wagar, 1998; De Kok and Uhlener, 2001; Nguyen and Bryant, 2004; Kotey and Slade 2005). According to the results of research done by Nguyen and Bryant, 2004 revealed that firm size is positively related to HR formality. This is confirmed by Barrett and Mayson, 2007 in their study on HRM in small growing firms.

Table 2: The Distinction between Formal and Informal HR Practices

Practices	Informal adoption	Formal adoption
Who handle the HR function (specialist or not)	No specialist. Owner or one employee handles this function along with other functions.	Firm has HR specialist(s) or department to handle this function
Hiring	No written criteria or rule. Firm recruits each individuals case by-case basis.	Firm has a proper procedure for recruitment
Firing	No written criteria or rule. Firm dismisses individuals case by-case basis	Firm has a proper procedure for dismissing employees
Sources of new Employees	Candidates come on their own or firm mostly relies on personal network (family & friends)	Firms attract most new employees through professional organizations (Universities, Vocational school, employment agencies)
HR plan	No written plan. Only intuitive plans	Has written plan(s)
Training	Training is mostly individual's responsibility. Firm's budget for training is very small or non-existent.	Firm has a program(s) and budget for employees' training.
Job Description	No written job description for more than 90% of the jobs.	Firm has job description for at least 10% of the jobs.
Performance Appraisal	No written policy for performance appraisal	Firm has policy for performance appraisal for at least 10% of the job

Source: Nguyen and Bryant (2004), p.603.

Research Methodology

Sample and Data Collection

There are 187 registered MSMEs in Hambantota district. Fifty MSMEs were selected randomly to represent all the sub geographic location including city and rural areas within Hambantota district that established more than five years. The department of Small Industries (DSI) defines SMEs as those with a capital investment of less than Rs. 5 Million, and which employee less than 50 employees. Sample of manufacturing firms was chosen following DSI. For collecting data questionnaire was administrated and interviews were conducted with owner-managers of selected MSMEs in HDSL. Questionnaires were distributed only among owner - managers. Prior to data collection, the researcher conducted a pilot study with the owner/managers of ten MSMEs.

Measuring Instruments Business Performance

Various measures have been used in literature to measure the performance of firms. "Performance is a multidimensional concept and thus, use of single performance indicators likely produce biased results" (Fairoz et al., 2010, p.38). Studies have used both financial and non-financial measures of performance (Venkatraman and Ramanujam 1987; Greely, 1986). Both objective and subjective measures can be used to measure the business performance of SMEs (Murphy et al., 1996; Gupta and Govindarajan, 1984; Ramanujam et al., 1986). Tosi and Gomez-Mejia (1994) suggested that performance should be measured

with both financial and non-financial measures, employing subjective and objective data. Pushpakumari and Wijewickrama (2008) used both financial and non-financial indicators to measure the business performance of SMEs in Sri Lanka.

In this study, both financial and non-financial measures of annual sales growth, annual profits (pre-tax), employment growth, market share growth, and owner/manager satisfaction were identified to measure the business performance of MSMEs in HDSL. Above mentioned five items of measuring performance were developed and tested for reliability by Fairoz et al., 2010.

Information regarding sales growth, profit, and employment growth were obtained by filling a questionnaire through an interview with respondents and calculated the average growth rate from the year 2010 to 2012. The five categories of sales growth were used. They are: (1) less than 1%, (2) 1– 4%, (3) 4–7%, (4) 7–10%, and (5) more than 10%. Employment growth was measured as: (1) less than 1%, (2) 1 – 4%, (3) 4 – 7%, (4) 7 – 10%, and (5) more than 10%. Pre-Tax profit was measured by (1) negative profit, (2) less than 250,000 LKR (3) 250,000 – 600,000 LKR (4)600,000 – 1000, 000 LKR and (5) more than 1000,000 LKR. Market share growth was measured based on self-reported performance by the respondent from each MSMEs. The self-report measure was appropriate and reliable when the objective data is not available (Dess & Robinson, 1984). Five categories used to measure market share growth were: (1) stable, (2) less than 1% (3) 1 - 2%, (4) 2 - 3%, and (5) more than 3%. Owner/manager's satisfaction was assessed on a five-point Likert Scale ranging from "very low" (1) to "very high" (5).

HRM practices

HRM Variable of this study was measured with the help of multiple items adopted from prior studies. Three items were used to measure each HR practice of this study. Within the questionnaire, participants were asked to rate the degree of the extent to which each HRM practice is undertaken in the operation of the firm on a five-point Likert scale ranging from "never use" (1) to "always use" (5).

Firm Size

Firm size was measured by the number of employees in MSMEs. The distribution of number of employees was positively skewed. Hence, data was transformed using a natural logarithm for the correlation analysis only.

Results and Discussion

Reliability Analysis

The data sets were analyzed with the Statistical Package for Social Sciences (SPSS-Version 19). As the first step of the analysis, the reliability coefficient of all HR practices and business performances was measured. As the coefficient alpha exceeds the 0.70 level, the reliability of the measurements was achieved as recommended by Nunnally (1978).

Table 3: Reliability Analysis

Variables	Cronbach's Alpha	Number of items
HR Practices	0.814	08
HR practices and Business Performance	0.771	13

Source: Survey data, 2017.

Profile of Respondents

The background characteristics of owner-managers are shown in Table 4.70% of the respondents are both founders and owners of MSMEs. Most of the respondents are age category of 31-35 years. 42% of respondents of the sample have advance level qualifications and only 4% have University degrees. 32% of respondents of the sample have 5-8 years of previous business experience and 18% have more than twelve years of business experience.

Table 4: Owner-Manager Characteristics of MSMEs

Age of the respondent	Frequency	Percentage (%)
26-30	3	6
31-35	15	30
36-40	10	20
41-45	10	20

46-50	5	10
51-55	5	10
Above 55	2	4
Education Qualification		
Graduate	2	4
Advances level	21	42
Ordinary level	15	30
Below ordinary Level	12	24
Business experience		
Less than five years	12	24
5-8 years	16	32
9-12 years	13	26
More than 12 years	9	18
Current position of the respondent		
Founder and owner	35	70
Owner	11	22
Manager	4	8

Source: Survey data, 2017.

Characteristics of MSMEs

Table 5 presents the profile of MSMEs in HDSL. The sample consists of 48% of MSMEs from food and beverages, 22% from textile and wearing apparel, 16% from wood and products of wood, 8% from machinery & equipment. As shown in Table 5, 80% of the MSMEs are sole proprietorship. 42% of the sample MSMEs is included to the age category of 11-15 years old. In terms of firm size, 54% of firms have 11-20 number of employees.

Table 5: Characteristics of MSMEs

Age of the firm	Frequency	(%)
6-10 years	13	26
11-15 years	21	42
16-20 years	11	22
21-25 years	3	6
More than 25 years	2	4
Type of the Business		
Textile and wearing apparel	11	22
Food products and Beverages	24	48
Machinery and Equipment	4	8
Wood and products of wood	8	16
Jewelers	1	2
Others	2	4
Type of ownership		
Sole proprietorship	40	80
Partnership	6	12
Company	4	8
Number of employees		
6- 10	8	16
11-20	27	54
21-30	7	14
31-40	5	10
41-50	3	6

Descriptive results and correlation coefficients of key variables are summarized in tables 6, 7 and 8. Results revealed that the selected MSMEs have a very low level of HR formality. On average, these firms adopted 2.04 out of 8 possible formal HR practices (Table 7). Two-thirds of MSMEs adopted fewer than three HR practices and one-third did not adopt any formal HR practices at all (Table 6). Therefore, descriptive results revealed that selected MSMEs in HDSL are mainly adopting informal HR practices. Further, results illustrate most commonly adopted HR practices by selected MSMEs. They are (1) using professional sources of recruitment (36% of MSMEs), (2) using written criteria for firing (36% of MSMEs) and (3) having an HR plan for the firm (34% of MSMEs). As shown in Table 8, only 10% of the firms have spent on training for employees.

Table 6: Number of Formal Practices Adopted by Number of MSMEs

Number of Formal practices	Number of SMEs adopted	Percentage
0	17	34
1	10	20
2	8	16

3	3	6
4	2	4
5	5	10
6	2	4
7	2	4
8	1	2
Total	50	100

Source: Survey data, 2017.

Table 7: Mean and Standard Deviation of the Variables

Variables	Mean	Standard Deviation
Age of the respondent	3.44	1.593
Education qualification	2.26	0.876
Business experience	2.38	1.048
Current position	2.62	0.635
Age of the firm	2.20	1.278
Number of employees	2.36	1.064
Type of the ownership	1.32	0.653
Business Performance		
Sales growth	2.72	0.569
Profits (pre-tax)	3.27	0.429
Employment growth	3.17	0.467
Market share growth	3.15	0.453
Owner/manager satisfaction	4.02	0.589
Overall business performance	3.27	0.235
HR Practices		
Presence of HR specialist(s)	1.82	1.320
Written criteria for hiring	1.86	1.309
Professional sources of recruitment	2.42	1.540
Written criteria for firing	2.40	1.539
Existence of a HR plan for the company	2.18	1.535
Spending on training for employees	1.46	0.994
Written job descriptions	2.06	1.331
Written criteria for performance appraisal	2.08	1.353
Average of 8 HR practices	2.04	0.907

Source: Survey data, 2017.

As in the table 6, for the HRM practices, highest mean value (Mean = 2.42) reported for the *professional sources for recruitment* variable while lowest mean value represents the *spending on training for employees* (Mean = 1.46). For the performance category, highest mean value is 4.02; indicating owner/manger's satisfaction is high.

Table 8: Number of MSMEs Adopting Formal HR Practices

HR Practices	No. of SMEs adopting formal HR practices	(%)
Presence of HR specialist(s) (HRS)	11	22
Written criteria for hiring (HIR)	9	18
Professional sources of recruitment (REC)	18	36
Written criteria for firing (FIR)	18	36
Existence of a HR plan (HRP)	17	34
Spending on training for employees (TRA)	5	10
Written job descriptions (JD)	13	26
Written criteria for performance appraisal (PA)	11	22

Source: Survey data, 2017.

Relationship between Education Qualifications and HR Practices

The data in table 6 indicates that on average, MSMEs in HDSL adopted 2.04 out of 8 possible formal HR practices. That's selected MSMEs in HDSL are mainly adopting informal HR practices. Table 4 shows that 46% of owner/managers have A/L and A/L above education qualification. 54% of respondents are less educated people and have O/L and below O/L qualifications. It reveals that lower education level has been associated with informal HRM practices. There

is a significant strong positive relationship between educational qualifications of owner/manager and formal HRM practices is 0.820 (Table 9). Further, it tells that when the education level increases among owners/managers of MSMEs in HDSL, they seem to follow formal HRM practices.

Table 9: Correlation between Education Qualification and Formal HRM Practices

	Average of 8 HR practices variables	Sig.
Education Qualification	0.820**	0.000

** . Correlation is significant at the 0.01 level (2- tailed).

Relationship between HRM Practices and Business Performance

The correlation co-efficient between eight possible formal HRM practices and business performance is 0.170 (table 10). It indicates that insignificant weak positive relationship between the formal HRM practices and business performance of MSMEs in HDSL.

Table 10: Correlation between Overall Business Performance and HR Practices

	Overall business performance	Sig.
Average of 8 HR practices	0.170	0.237

Source: Survey Data, 2017.

It is worthwhile to explore the relationship between individual HRM practices and performance to identify if any of these practices significantly impacts performance. According to table 11, Pearson correlation coefficient suggests that there is a positive relationship between all the HRM practices variables, except *presence of HR specialist(s)* and overall business performance. Only one practice i.e. *spending training for employees* is the significant predictor of business performance of MSMEs in HDSL.

Table 11: Summary of the Correlation Coefficients

HR practice s	HR P	HRS	JD	RE C	HI R	P A	TR A	FI R
Sales growth	0.184	0.004	0.121	0.184	0.193	-0.023	0.112	0.099
Profits	-0.066	-0.043	-0.065	0.039	0.118	0.102	0.273	-0.107
Employment growth	0.308*	0.050	0.126	0.184	0.050	0.258	0.271	0.265
Market share growth	0.040	0.000	-0.015	0.144	0.219	0.236	0.346*	0.012
Owner satisfaction	-0.177	-0.179	-0.132	-0.190	-0.182	-0.079	-0.016	-0.144
Business performance	0.144	-0.084	0.013	0.137	0.150	0.180	0.387**	0.047

Relationship between HRM Practices and Firm Size

Table 12: Correlation between HRM Practices and Firm Size

	Average of 8 formal HR practices	Sig.
Firm size	0.670**	0.000

** . Correlation is significant at the 0.01 level (2-tailed).

There is a statistical evidence to claim that there is a significant positive relationship between firm size and HRM practices ($r = 0.670^{**}$, $p = 0.000$). It is evident that when the number of employees is large, such MSMEs tend to adopt formal HRM practices

Conclusions and Recommendations

This study aimed to carry out an empirical study on the impact of HRMPs on the business performance of MSMEs in HDSL. Eight HRM practices were identified consistent with prior researches. Most commonly adopted HR practices by selected MSMEs in HDSL are using professional sources of recruitment, using written criteria for firing and having an HR plan for the firm. Results show that identified eight HRM practices have been practiced by MSMEs in HDSL in different magnitude by showing the nature of formality and informality. Descriptive results revealed that selected MSMEs in HDSL are mainly adopting informal HR practices. Moreover, this research study suggested that owner-managers education qualification and the firm size are the reasons for the existence of different types of HRM practices in MSMEs.

Results illustrated that insignificant weak positive relationship between the formal HRM practices and business performance of MSMEs in HDSL. Pearson correlation coefficient suggests that there is a positive relationship between all the HRM practices variables, except the presence of HR specialist(s) and overall business performance. Only one practice i.e. spending training for employees is the significant predictor of business performance of MSMEs in HDSL. It can also be concluded that there is a significant positive relationship between firm size (number of employees) and formal HRM practices.

Since, results of this study showed the positive relationship between the formal HRM practices and business performance of MSMEs in HDSL, owner/managers of MSMEs in HDSL need to maintain a balance between introducing formal HRM practices to the firm and retaining informal HRM practices in their firms. Further, the positive relationship between formal HRM practices and business performance suggests that MSMEs may need to introduce more systematic and professional HR practices to the firm. Results of the study revealed that the selected MSMEs have a very low level of HR formality. Thus, MSMEs' owners should identify new formal HR practices and should be willing to introduce more formalization into their HRM practices.

Findings of this research will be helpful to the owner/managers of MSMEs to make necessary changes of currently used HR practices. Further research studies are suggested to examine the impact of HR practices on performance of SMEs since this study limited to MSMEs in HDSL.

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