
By Muhammad Umer

The University of Lahore

Introduction

In the era of globalization, business environment becomes highly dynamic with high risk and uncertainty. This uncertainty decreases market share and increases organizational inefficiency. The increasing attention on human resource management (HRM) in small and medium enterprises (SMEs) is a comparatively recent phenomenon. HR-researchers have largely ignored the SMEs, even though smaller companies could be fruitful subjects for empirical investigation because of their numbers, the growth-rates and not least diversity in the qualitative aspects of management practices.


Muhammad Umer

1. Introduction

In the era of globalization, business environment becomes highly dynamic with high risk and uncertainty. This uncertainty decreases market share and increases organizational inefficiency. The increasing attention on human resource management (HRM) in small and medium enterprises (SMEs) is a comparatively recent phenomenon. HR-researchers have largely ignored the SMEs, even though smaller companies could be fruitful subjects for empirical investigation because of their numbers, the growth-rates and not least diversity in the qualitative aspects of management practices. Thereby HRM in SME’s has been a white spot on the map, and this despite the characteristic Pakistan industrial structure, i.e. the large proportion of SMEs; the long tradition for a rather institutionalized and well unorganized labor market, which could provide a basis for a more professional approach to human resources, and finally the supposed very good basis for future competitiveness, due to the values characterizing employees as well as managers in Pakistani companies, i.e. democratic management style.( A Democratic Management Style has moderate approach to a situation whether at work or in a social places. The way things are get done is to seek opinion from your staffs as opposed to giving a direct instruction. In the case of a social place example a community meeting, your tend to seek opinions and points of view from those turn up for the community meeting. As a democratic manager, you still need to give instruction but before you do that, you will solicit ideas and opinion from your staffs and you allow the voice of your staffs and make your own decision based on those feedback. Sometimes the decision made are similar to the feedback but not always the case in the case of a Democratic Management Style) informal organizing, flexible working arrangement etc.

The implications caused by the lack of interest are many, both for SME’s and for the HR-domain. As Larsen (2000, p. 11) is emphasizing:

“We still lack the conceptual framework and methods applicable for the majority type of companies – small and medium-sized companies. Hierarchical thinking and stability that we rarely find in smaller organizations characterize large companies. Not only have we neglected to deal with the segment that represents the majority of Danish companies, but in parallel we experience that the so-called large companies are increasing assuming the characteristics of small companies. This fact should be sufficient reason for us to engage in research and development that hopefully will make us understand small and medium-sized companies, and/or large companies that carry the characteristics of small companies”.

As elsewhere, Pakistani SMEs too are affected by the recent global economic meltdown. Escalating inflation in Pakistan further compounded the situation for SME growth.

Small and Medium-sized Enterprises (SME) are recognized as a significant part of both developed and developing economies. Numbers signify their importance as SMEs usually represent more than 99 percent of all enterprises in almost every country. For developing economies they are especially important as SMEs play a critical role in poverty reduction through employment generation. In the past, HRM scholars have focused mainly on large firms. Recently, research attention has increased as scholars seem to realize the importance of HRM in SMEs better. Researchers looking at smaller companies focus on issues like the determinants of HR in SMEs (De Kok & Uhlaner, 2001; Wagar, 1998) individual HR management practices (Cassell et al. 2002; Hornsby & Kuratko, 2003) and the level of HR formality (De Kok & Uhlaner, 2001; Kotey & Slade, 2005; Nguyen & Bryant, 2004). Most studies researching HR formality conclude that in SME’s in general, HRM is informal, intuitive and ad hoc. Many implicitly suggest that this is a bad thing, or at least ‘sub-optimal’, though some explicitly state informality is precisely what is needed for these companies?

Research shows that as firms grow and get bigger in size (number of employees) they become
more formalized. This can be easily understood. As numbers increase, direct communication and direct supervision become inadequate tools to coordinate activities. This holds for HR as well; as in most small SMEs the owner/manager takes care of all HR related activities it obviously becomes difficult for him/her to manage employees when firm size increases. Consequently, the owner/manager starts thinking to delegate HR responsibilities to others, inevitably leading to more formalization. In fact, owners/managers themselves believe that it is important to achieve a certain level of HR formalization (De Kok & Uhlane, 2001; Kote & Slae, 2005; Nguyen & Bryant, 2004; Wagor, 1998) due to size, requirements from institutions like the government or banks and to deal adequately with stiff competition. Furthermore, many scholars seem to advocate that a certain level of HR formality is also indispensable for attracting better employees and customers for firm growth and profitability in the long run.

From all these arguments it seems HR formality is crucial for SMEs, but remarkably so far hardly any study is able to demonstrate this formal HR across SMEs in reality. Looking at the importance and several calls for this focuses, we decided to explore this issue further. Following research question is developed to understand the reality of HR formality for SMEs. What is the level of HR formality in Pakistani manufacturing SMEs? These sub questions is used to answer the main research question perfectly; What shapes owners/managers thinking to opt formal procedures for managing their business operations especially management of employees? The paper begins with a literature review on HRM within SMEs. After research methodology, and the results of the exploratory studies discussed in detail. Finally in the conclusion, we discuss our findings to answer our main research question and elaborate on what this denotes for future research at the intersection of HRM and SMEs, and how attached complexity with this context can be simplified to understand the mechanism which helps to investigate HRM in the way it should be examined in SMEs.

It is therefore observed that retention is one of the major problems in small and medium size industries. Slightly better emoluments provide good reasons to an employee to switch over from one organization to another organization. Growth in salary in SME sector is far behind the growth in inflation (just because of Pakistan culture, there is no practicing HR polices properly specially at small, no bonuses, no incentives, no salary growth, no employees contracts etc the same salary when they hired till they fired or retired. which is a source of depression and made them less productive at their workplace. This situation has precipitated negative impact on the overall economy of Pakistan. How can we reverse the situation? Organizational ability to practice HR function and retain human capital is critical for future survival. Thus, HR policies and practices may provide solution to this problem.

a) Pakistan’s Economy and SMEs

Despite its unique cultural set-up, a large and capable workforce educated and well versed in English, liberal privatization and investment policies, and strategic geographical importance (the gateway to the Central Asian Republics, bordering China and Russia in the North and adjoining India on its eastern borders), Pakistan has been largely ignored in management research. However, findings of rare research on HRM suggest that HRM holds a promise for employees in Pakistan and is the way forward. Employees recognize the significant role of HRM and aspire towards it (Khilji 2000). Pakistan is an economy comprising mainly of SMEs. Small and Medium Enterprises Development Authority (SMEDA) is the only official managerial authority for small business management in Pakistan. SMEDA has formulated an SME policy for further implementation to boost up this sector in the country. It is important to note that Government of Pakistan approved this SME policy for the first time in January 2007. This government has recognized the importance of this sector in the national economy by approving policy to implement several measures for the development of this sector. SME policy also address various issues relating to human resource development and its impact, these include inadequate and generic education and insufficient, poorly focused and underserving training infrastructure. Furthermore SMEs mostly draw their employees (including the owners) from either the higher education institutions or the technical training infrastructure, both of which are not attuned to the SME needs nor equipped to address them. This situation limits the capacity and capability of SMEs to innovate, add value, upgrade technology and devise new marketing strategies. According to the recent Economic Census of Pakistan (2005) for Establishments conducted by the Federal Bureau of Statistics (FBS) there are about 3.2 million economic establishments in Pakistan. Out of these small and medium size enterprises (with employment base up to 99) constitute about 90% of all private enterprises employing approximately 78% of non-agriculture labor force. SMEs contributed over 30% to GDP, 25% in export earnings besides sharing 28% in manufacturing value addition.  

b) HRM and Pakistani SMEs

Pakistan is facing a big challenge to manage its human resource in many aspects (In this ever changing competitive world it is become very difficult for the companies to become differentiated from others. Each

company can have the same infrastructure, technology, policies, SOP’s, raw material and processes. The only one resource which can give competitive edge to one company over the others. This competitive edge enables the company to sustain and increase their market share. The strategic role of Human Resource Management has been realized world over a period of time. Organizations have realized the dire need of establishing well developed Human Resource Department that can contribute toward organization’s productivity. Human Resource Department performs both core and supporting functions. Unfortunately not much heed has been paid to Human Resource Management in Pakistan. We are still in the process of renaming our Personnel Departments as “Human Resources”, whereas the developed markets are raising questions: “Is HR a career in crisis?” The fact is, the role of HR is evolving constantly and we need to move away from the traditionally administrative function and consider it as a major contributor in organizations successes by aligning the HR goals with the Organizational Goals. Our situation is different to that of the developed markets because HR here is mainly practiced by multinational companies. A few enlightened Pakistani firms also have HR functions but mostly intermingled and not well defined. There is an increasing trend of outsourcing the HR functions like recruitment and selection, training and development. In many organizations various Western HR models are applied as such ignoring the cultural difference, infrastructure difference and size of organization. However, the criticisms about HR seem to be the same around the world and this is at the heart of the issue. HR is progressing very fast. More and more companies are now looking for HR Managers to manage their human assets and their issues. More people are coming in the field. Institutes have also emerged from no where varying HR courses are being taught realizing the market demand. Different organizations have different perception about Human Resource. In some organizations HR personal faced resistance from old employees and from top management too. Resistance from top management as they do not understand the true nature of HR. At one place the top management used to forward every problem to HR whether it had a link with HR or not. Production is not up to the mark, problem comes to HR. Security cameras are not working the problem is forwarded to HR. It was difficult to convince the people at the top that these problems were out of the scope of HR. At one place employees used to disregard HR and at first it looked like that it would be impossible to create the HR department over there. In the absence of HR department, its responsibilities are shared by other departments. When HR is created people feel that HR is trying to reduce their authorities and as a result conflicts start arising. What they don’t know is that HR will actually benefit them by streamlining the activities and creating a transparent, fair equitable system that could provide equal employment opportunities, justified promotions, tenure track and providing solution to the queries related to insurance, medical e.t.c. They would get an organized organizational structure with proper grading, proper pay structures, promotion plans and employee compensation and benefits plans etc. There is a need to increase awareness among employees in other departments, top people, owners and directors regarding HR. In most of the organizations in Pakistan the top management suddenly discovers that the solution to all their problems is in establishing an HR department. HR Manager is hired and the HR professional comes in. First of all he/she has double pressure on him/herself. He/she has to develop an HR department and for that he/she needs to design all the required formats and flowcharts of processes that fit to that organization. He/she also looks into problems that are urgent and need his attention and then comes the operational side of HR; recruitment and selection, training and development, performance appraisal, compensation and increments etc. All the key people start pushing him/her from all sides. Top management pressurizes him/her to show quick results. And the HR Person is left with confusion with what to do and what not to do. The ongoing market trend therefore asks the institutes to develop a corporate academia linkage so as to discover that what HR related courses must be taught to the HR students. Just teaching the courses is not enough preparing them to deal with the professional life issues that may arise.), especially for small business management which constitutes up to 78% of all private enterprise employment as mentioned above. Small business constitutes major part in any economy which can play key role in developing country’s economy but how and what are the ways which can lead to that development is still unidentified and lack of interest to disclose is continued at both government and private level in this country. There are some efforts now going on to start some programs with private public partnership as Lahore University of Management Science (LUMS) has opened up an entrepreneurship and SME center in private sector (Hypermarkets typically have business models focusing on high-volume, low-margin sales. Through research it has been learnt that the general retail businesses are unable to compete against the fast growing hypermarket chains, hence amid fears that smaller stores would be forced out of business. On the other hand, the retail businesses, in comparison to hypermarkets, operate at very low scale and scope; hence lack the abilities to compete. The retail scenario in Pakistan is also facing drastic changes, with emergence of global hypermarkets, where a trend of customer base shifting to hypermarkets can be observed. To survive the hypermarkets onslaught, retail businesses need to modify...
their strategies by understanding the transformation of environment and learn new tactics like collaboration with other retailers to achieve scale economies. This training encapsulates not only these topics, but also extends to the issues in opening retail chain stores, management control, use of information technology, sales force training and management, etc. Scan the ongoing changes in the retail environment

- Recognize the challenges and opportunities in the dynamic retail scenario
- Expand retail business through collaboration with their counter-parts
- Deploy information technology to enhance business operations
- Train and manage sales force
- Expand their network of business contacts.

Efforts like establishment of SMEDA as mentioned above and SME Bank on the government side are worth but quite a lot work is ahead to do, specifically on education and scientific research to really boost this sector up, for value addition that is truly necessary for the development turn.

It is very hard for these institutions and supporting bodies for SMEs to directly add quality to management practices, with its efforts by eliminating impediments to successful working of these small units. Unfortunately, there is evident lack of scientific empirical studies in this sector due to several reasons for instance, lack of sound collaboration between educational institutions and SMEs for conducting research through any kind of mutual cooperation, true scientific research institutions for business with exceptions of LUMS and Institute of Business Administration Karachi (IBA). Currently few initial studies in this sector explain various concerns, including human resource development and management. It is quite difficult to manage low qualified employees, with old traditional management practices.

One study in this sector in Pakistan shows that SMEs lack formal training and performance appraisal practices to manage its key resource (Arif et al., 2005). Findings of the same study also depict positive relationship (correlation) between HRM formalization and firm performance in Pakistani SMEs. These results make sense that entrepreneurs do realize the positive impact of formal HR; however it’s hard for them, to decide what kind of formal HRM policies and/or practices. Additionally, there is no framework available to choose in a specific contextual, institutional and cultural setting. These management concerns require adequate empirical studies to explore and recommend framework and findings which might help this sector.

Institutions and concerned bodies for SMEs lack real theory for drafting and enforcing business friendly policy as they focus on general debates and observation of management policies and practices of some developed nations for drafting SME policies. This simply won’t work without clear understanding of in-depth system of local SMEs in Pakistan because local SMEs have different institutional and cultural setup. Current research is limited and show severe concerns for long term success of this sector in the country.

Beside other studies Heneman et al. (2000) have identified some articles from various sources, in which 129 out of 403 explicitly address HR management issues and they concluded that HRM studies in SMEs are rich in prescription rather than sound descriptive studies and without analytical analyses. I am afraid to see, that not even a single article is related to or from Pakistan on this issue, even in all 403 selected articles by the author. Similar depiction can also be seen in the paper (Cardon and Stevens, 2004) ‘managing human resource in small organizations’ for review of research on managing people, which includes no article or research work related to Pakistani SMEs in all selected 83 articles for the study. In such a situation an exploratory study on HRM in Pakistan is conducted back in 2000 by Khilji3; a PhD student from University of Cambridge. She is continuously engaged in HRM studies in Pakistan, from starting study in her PhD and these are mainly in the single banking industry (large companies) of Pakistan with research focus on cultural impact on HRM. She has added valuable findings to scientific knowledge on HRM and culture in Pakistan.

Pakistani SMEs having dynamic and varied characteristics, possessing some sort of HRM picture is still a question mark. HRM sophistication and/or formalization within SMEs research in Pakistan is highly demanded for valuable findings for scientific researchers and policy makers in this area. The proposed study can add something important and valuable to the empirical work on this specific context. At the same time, cross cultural applicability of different management practices is also questionable. Current studies emphasize on difficulties in cross culture applicability of management practices. (Noorderhaven and Tidjani 2001: 32) argue as ‘it is becoming more and more obvious to scholars as well as practitioners that governance systems and theories from one culture are not transferable to another culture without modifications and adjustments according to the values prevalent in the receiving culture.’ In this situation researchers can not advocate ‘best practice’ as suitable for gaining competitive advantage.

It is necessary to investigate inside into management practices, what systems this specific SME sector has and most importantly the question ‘why’. It is possible that these might possess wide variety of HRM policies and practices due to non availability of uniform system, lack of information and resources. On the other hand, there might be some factors which hinder SME

---

3 http://gsehd.gwu.edu/?kat=Search+faculty&c=20&pid=006f52e9102a8d3be2fe5614f42ba989
owners to use ‘best practice’ in its real form due to political, economic, institutional and/or cultural differences and limit for a certain HRM system. The purpose of this study is to investigate this situation within SMEs in Pakistan to further recommend the framework and/or practices which can positively impact firm performance, in this unique setting.

Findings of HRM formalization research within SMEs in Pakistan will help to improve management control, for policy and strategy concerns shown by SMEDA, beside contemporary initial efforts started in this sector in Pakistan. SMEDA has also warned the availability of scientific and empirical findings in SMEs for various utilization purposes to address policy issues in a right manner. Research work clearly depicts lack of interest or scarcity of work by scientist and with the newness theme of HRM within SMEs in Pakistan. Several studies conducted in various other developing countries on such issues, address and recommend managerial control issues for efficient and effective management of key resource leading to the development of this high growth SME sector for any transitional economy.

Recent studies of Nguyen and Bryant (2004); De kok and Uhlener (2001); and De Kok et al., (2003) on HRM formalization (some also call it sophistication) in SMEs are worth to mention here as first study is somewhat exactly conducted in almost same setting, as we are intended to conduct in Pakistan but this is on particular country Vietnam (which is also a developing country) and on the other side second study has taken a deep look into the theory with the help of some case studies in Dutch SMEs. Nguyen and Bryant, (2004) studied formalization of HRM practices in 89 private Vietnamese SMEs. They focus on three points for investigation in this study; formal HR policy and practices, factors influencing that formality and how these influence firm performance. We can not say that they have measured and defined HRM formalization in an ideal way as they only count written HR practices used by SMEs.

Moreover, research depict that small firms are often difficult to access by researchers and usually reluctant to reveal financial information. It won’t be easy to convince SME owner-mangers for this study in Pakistani context where empirical studies are rare. It is also expected that they might not have some systematic ways of registering data, even for their own purpose. Summing up, it is unlikely to expect radical change from a single study in a situation like this. However this endeavor would be a milestone initiative to stimulate and start an ongoing epoch of scientific research complimented with further studies by similar and other authors on identified future research.

II. Literature Review

If all companies had the same resources, they would develop and create the same products and services, thus cannot create competitive advantage (Peteraf 1993). Sustained competitive advantage of firm depends on the resources and their durability. Resources can be complex to build, or to obtain, what determines their differentiation power. During 1980s, the dissatisfaction with the emphasis on industry structure and competitive positioning leads to increased interest in the role of firm resources for strategy formulation and the appearance of a number of contributions under the name resource-based view of the firm (Grant, 1991). It was Wernerfelt, who used resource based view of the firm (RBV) for the first time in 1984. Wernerfelt (1984) has defined firm’s resources “as tangible and intangible assets which are tied semipermanently to the firm such as brand names, in-house knowledge of technology, employment of skilled personnel, trade contacts, machinery, efficient procedures, capital, etc”. He also focuses on the performance element as he argues that one can identify specific type of resources leading to high profits.

It must be acknowledged that there are controversies of defining the concept of human resource management, especially when compared with previous personnel management and industrial relations which have had great influence in the western management theories. An argument on what is the essence of human resource management theory is still an on going debate. A review and research agenda put forth by Guest (1997) has endeavored to pull all those arguments together and this paper summarizes his points on the theory of HRM and its link with performance as follows.

- There are three types of theory about HRM, namely strategic, descriptive and normative. Strategic theories of HRM are primarily concerned with the relationship between a range of possible external contingencies and HRM policy and practice. They hypothesize that those firms that have a fit between business strategy, structure and HRM policy and practice will have superior performance. Descriptive theories of HRM attempt to capture the broad field and to address some of the interrelationships between HRM policy and practice and key outcomes. The theories emphasize that the essential inputs of a fit of HRM policy and practice such as creating employee influence, enforcing HR flow, setting incentive rewards system and pleasant work systems will lead to four key HR outcomes (i.e. 4C commitment, competence, congruence and cost effectiveness as shown in Beer etal (1984)’s model) that will produce low labour turnover, loyal and faithful team of employees who commit themselves to an organization’s profit, goodwill and effectiveness as well as to improve their individual well-being, ultimately to create social well being to the whole society (Beaumont 1993). Normative theories of HRM are more prescriptive in their approach. They provide a basis for prescribed best
Human Resource Management Theory and Practices in Small and Medium-Sized Enterprises (SMEs) and Enterprises Performance in Pakistan

practice or that a set of values that indicates best practice, and hypothesize that an integrated set of HRM practices is applied with a view to achieving the normative goals of high commitment to the organization plus high quality and flexibility, then higher worker performance will result, assuming that higher worker performance would have a positive impact on organizational performance.

According to Guest, there is no general theory about performance per se. It is often rather troublesome to link job satisfaction with firm performance. In the sense, a firm with high growth may not necessarily have good HRM outcomes from all staff. Nonetheless, we can still distinguish the content of performance, and try to provide some measures of performance by looking at firm’s output (sales and production), time (including lateness, absence, lost working time, failure to meet deadlines), financial indicators which could include a large array of possibilities (i.e. profit, expansion plan etc.), and lastly staff attitude on work and their professionalism. By these exercises, the performance theory concludes that there may be some linkages within a broad view of performance which could explore causal links between HRM and performance.

In addition to Guest’s review on HRM and performance, there is a growing body of literatures that support the correlation between high performance as a result of HRM practice and various measures of firm performance. Poole & Jenkins (1996) examined the development of comprehensive human resource management policies by surveying 909 firms in Britain, and found that HRM is one of the major keys for firms to gain a competitive edge or a lasting and sustained advantage over their competitors in the modern world. Results from Purchell (1995)’s quantitative analysis on 176 companies show that there is no direct link between human resource management strategy and corporate strategy, it is obvious though that from resource-based approach, unique human resource capabilities - development of a core competence will create competitive advantage for firms, hence could contribute to profits and growth.

Dunphy and Stace (1992) seem to echo Purchell in linking business strategy with human performance and argue that people themselves and their skills are the key to added value, the management of people becomes the critical factor in achieving organizational excellence, hence HRM should be included in setting up firms’ business strategy. Wong et al (1997)’s study looked at management training and development based on intensive survey and interviews on 138 firms during 1990-1991, and displayed the subtle impact of management training and development on the organization and performance of small and medium enterprises. Other studies (Bratto & Gold 1994, Beanwell & Holden 1994 and Storey 1995) demonstrated that a firm’s drive to improve performance and pursue ‘excellence’ leads to the greater emphasis on HRM. These studies have indicated that HRM policies and practices contribute to business success; hence there are interrelationships between HRM and organizational performance.

Smaller entrepreneurial firms generally are challenged by HRM because the small size of the firm often does not warrant hiring professionals exclusively dedicated to HRM activities (Hornsby & Kuratko, 1990; 2003; Bacon et al., 1996). Apart from some exceptions of SMEs implementing strategic HR practices (Bacon et al., 1996) most studies claim that HRM in SMEs is rather informal, intuitive and ad hoc and usually not very sophisticated (Hornsby & Kuratko, 1990; Jackson et al., 1989; Nguyen & Bryant, 2004; Pfeffer, 1994; Storey, 1994). Some authors argue that an informal approach is actually more suited to the small firm. For example, Hill & Stewart (1999) suggest that smaller firms should be more flexible and informal to be able to cope with the high levels of environmental uncertainty they usually experience. On the other hand, De Kok, Uhlaner & Thurik, (2003) referring to Hendry, Jones, Arthur & Pettigrew (1991) argue that its lack of foresight or looking forward and/or lack of resources which lead to less use of formal HRM practices in small businesses. Other studies mention informality is indeed preferred by owners/managers as they consider it less expensive and less time-consuming. A study by De Kok & Uhlaner (2001) agrees that SMEs generally have less formal HRM practices, but a substantial amount of unexplained variation still remains across small firms. It is recognized increasingly that SMEs are heterogeneous, complex and influenced by a range of factors and encompass firms of various sizes with varying degrees of complexity in management practices (Kotey & Slade, 2005; Wagar, 1998). So far, scholars who mostly studied the formality (adoption and nature) of the prevailing HRM policies and practices in SMEs could not simplify this complexity (Banks et al., 1987; Cassell et al. 2002; De Kok et al., 2003; Deshpande & Damodar, 1994; Hornsby & Kuratko, 2003; Little, 1986; McEvoy, 1984; Nguyen & Bryant, 2004).

So, what is formal, and is formalization a ‘good’ thing in SMEs or not? Generally speaking, there is not a single universally accepted definition of HRM formalization. Amongst others, Barrett & Mayson (2007) have covered almost all the important aspects of HRM formalization. According to 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)
This is the view that will be adapted to depict HR formality and its associated benefits. Proceeding further, we first explained informal nature of HR practices in SMEs and then the rationality for using more formalized HR practices in SMEs.

a) HR informality in SMEs

The mainstream literature shows that the majority of the SMEs use informal HR practices. Most scholars agree that the owner/manager is the first factor who keeps SME HRM informal. 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. They equally dislike limiting their room for maneuvering by making explicit rules and procedures which they themselves will then have to follow. Bartram, (2005) referring to Chandler (1968) further suggested that management may possess inadequate training concerning HRM and broader management issues, or have an inadequate understanding of the impact of HRM on the business. Next to this, there is also some debate concerning the ability of SMEs to adopt formal HRM practices due to the lack of resources, such as time and money (Bacon et al., 1996; Duberley & Walley, 1995). According to Klaas, McClendon & Gainey, (2000) formalized HRM practices require considerable development costs and due to the tight supply of financial resources SMEs fear this as cost disadvantage. Thus, vision and knowledge of the owner/manager and limited time and resources play a role in keeping SMEs informal.

b) Rationality for HRM formality in SMEs

To understand persistent demands for formal HR policies and practices, we tried to find the rationality behind RM formality in SMEs. Various studies have identified firm size as the main organizational factor influencing HRM policies and practices in SMEs (De Kok & Uhlane, 2001; Hornsby & Kuratko, 1990; Kotey & Slade 2005; Nguyen & Bryant, 2004; Wag, 1998). According to research, as firms grow, they develop formal, identifiable rules, regulations and policies that define and oversee the employment relationship (Marlow, 2002; Nguyen & Bryant, 2004). This is confirmed in a recent study on HRM in small growing firms by Barrett & Mayson (2007). They state: our analysis of the data does support the argument that growing small firms are more likely than non-growing small firms to use formalized HRM practices’ Barrett and Mayson (2007). Firm size and its impact on HRM formalization have also emerged from other studies on HRM in SMEs (e.g. Hornsby & Kuratko, 1990) they examined HRM practices of 247 U.S. SMEs in three size categories and reported increased sophistication in HR practices with increasing firm size.

De Kok et al., (2003) in their research in six sectors of Dutch SMEs made a division into three ‘size-classes’ (20-49 employees, 50-99 employees and 100-199 employees) to explain variation and complexity of personnel practices. They revealed that firm size has an impact on HR formalization. Further, firm size is positively related with the probability that HR department is present, which in turn stimulates the formality of HR policies and practices. Nguyen & Bryant (2004) support these findings. So we could say as size increases, it leads to more complexity in the firm which necessitates some kind of standardization and formalization of HR practices to manage employees.

Secondly, highly competitive and rigid environments of SMEs also demand a certain level of HR formality to stay attractive for employees and customers. Bartram (2005), referring to Rigby & Lawlor, (2001) states that formalizing HRM is an important part of legal compliance. In their study on HRM formalization among Australian SMEs Kotey & Slade (2005), explain that when owners/managers become distanced from employees, it is necessary to maintain detailed records of each employee for necessary control purposes. These records also serve as reference documents in the event of litigation. De Kok & Uhlane (2001), describe that the level of HR formalization has also been used to refer to the extent to which the HRM practices conform to legal requirements (e.g., equal employment opportunity), comply with professional standards (e.g., the Society for Human Resource Management in the United States), and/or are properly validated against some performance criteria (e.g., validated selection tests). For example, approximately 800 collective labour agreements (CLAs) have been signed in the Netherlands which frequently contain requirements for more formal HRM practices (De Kok et al., 2003 referring to Rojer & Puller 2000). So it is obvious that legislation and/or dealing with certain legal procedures may persuade SMEs to adopt formal HR practices.

Thirdly, the biggest challenge for small firms is to balance between formal and informal management practices to be able to compete effectively in the marketplace (Bartram, 2005). On the one hand, Nguyen & Bryant, (2004) explain that interaction and competition with larger firms may push SMEs toward applying a higher level of HR formality. Usually SMEs contract and supply their products to larger firms. These large customers could ‘savagely squeeze the margins of their small sub-contractors’ (Marlow, 2002), and thus, owners of small subcontractors have to impose an absolute control over the labour process. On the other hand, they explain that SMEs and larger firms do not only compete for customers, but also for good employees. They believe that this may pressure SMEs owners to develop appropriate HR policies to match with their larger competitors; in order to attract superior employees. These findings lead us to believe that adoption of formal HR practices may distinguish one firm from its competitors and so provide benefit for attracting more and better employees.
Finally, SMEs usually knock at the door of micro credit institutions and/or banks when they require extra funds to fulfill their financial needs. Nguyen & Bryant (2004) in the Vietnamese context pointed out that private firms with low levels of HR formality are not well regarded as loan applicants by senior credit officers. Bank officials perceived firms with low HR formality to be unreliable and lacking transparency in management, which can be translated into high risks for misusing the loans' (Nguyen & Bryant, 2004: p. 600). In order to qualify for loans from these institutions SMEs feel pushed to formalize their management as well as HR practices. So, this debate leads us to believe that decisions on the level of HR formality are actually influenced by a complex set of cultural, economic and institutional factors and not simply by the benefits attached to it. This finding is consistent with the findings of Ram, Marlow & Patton (2001), in South Asian restaurants in the UK and Nguyen & Bryant (2004) in SMEs in Vietnam.

Given these results, there is a clear need to research this issue further to explain how relevant it is for SME’s to use formal HR practices. Based on the literature, it seems clear that a certain level of HR formality is necessary and beneficial for SMEs. The main issue here is to identify the right level and form of formality, given the context, and specify HR systems which might be of advantage for this heterogeneous population. As our interpretations obviously are based on research conducted mainly in the west (developed economies) it is still unknown how SMEs are managing their employees in developing economies like Pakistan. Evidence and data on this population is hard to get. The only study available in this sector in Pakistan shows that the majority of the SMEs lack formal training and performance appraisal practices (Arif et al., 2005). Findings of the study (Arif et al., 2005) however do show a positive relationship (correlation) between HRM formalization and firm performance in Pakistan. These results show that entrepreneurs do realize the positive impact of formal HR; however it's hard for them to decide what kind of formal HR policies and practices to pursue. Additionally, there is no framework available to choose from in this specific contextual, institutional and cultural setting.

There is a model below which is determining the impact of HR formalities on SME performance. (Rojer & Pulleman)
III. Research Methodology

This study is designed to investigate the level of HR formality in manufacturing SMEs in Pakistan. It is geared toward helping Pakistani SME owners/managers make rational decision regarding which HRM policies and practices to adopt for their particular circumstances and environment. Several approaches have been used to measure patterns of HR formality in SMEs. Authors use different HR variables by selecting various practices on their own criteria for measurement of HR formality.

We decided to use a HRM formalization scale based on 'a system' approach with basic and context specific HR practices relevant to our particular population. There are two reasons to use such a scale: 1 it will provide the level of HR formality by identifying different prevailing HR configurations in the sample. 2 it will help in differentiating the HR formality in different size classes (variance in use of HR policies and practices with difference in firm size). We focus on the usual categories of HR practices (recruitment, selection, training, compensation and appraisal). Here is HR would be dependent variable to check the HR practices is adopted or not being adopted in random cities and after with all cities. And after progress would be the dependent variable to check HR practices impacts on organization’s performance.

For data collection, ten firms were contacted through Pakistan's major cities. They were requested to take part in this exploratory study. The basis for selection of these firms besides sector is size (number of employees between 20 and 100) and location (Lahore, Rawalpindi, Karachi, Gujrat, Gujranwalla, Sialkot, Faisalabad, Sahiwal, Jehlum, Islamabad). A letter with details of the research and an agenda of the meeting was delivered by author to these firms and take all of them contact numbers. Author didn’t go to Karachi for interview; he just talked to respondents through telephone and told him the scenario of this research. After this communication author's brother went over there to fill just questionnaires. Four days later, all firms were contacted via telephone to make an appointment with the owner/manager. After extensive calling to all the firms for over a week only sixty seven (67) firms finally agreed to participate in this research. Our target was to conduct interviews with at least 100 firms. To achieve this number we send the same letter to 20 additional firms and repeated the same procedure. Eventually, this led to a response of 67 firms (about 62.5% response). (see table 1 for the distribution of sample firms).

Few interviews were as a rule taped, but few firms did not allow us to use the tape recorder. In some cases, respondents were more than one because owners/managers required assistance from their staff to answer our questions. During these interviews, we also found some questions to be difficult and/or complex for the SME owners/managers. Particularly most of the questions related to the organizational strategy, culture and the national and international community. It was hard for the respondents to respond on questions like business, product and HR strategies. Their typical responses to such questions were: we do a simple business and we know what to do and how to do it. So we don’t need such kinds of strategies for such a simple and small business.

Regarding data collection from SMEs, it is not easy in any case. But in the specific context of Pakistan it proved even more difficult. It was hard to get cooperation from owners/managers for this study. There
are several reasons that might explain their reluctance. Trust plays a key role in such research in the context of countries like Pakistan. The small business community is hardly familiar with scientific research and the usage of data collected therein. They usually are approached by revenue departments and/or other government authorities in the normal course of their business which makes them attentive to what to disclose and what not. Another point is that in Pakistan SMEs of this size have no obligations to publish their financial results. In such a situation, snowball sampling seemed to work well to reach a sufficient sample. Every firm in this sector has some links or associations with other (if not all) rival firms and they can refer the researcher to at-least one firm. This method practically helps in getting adequate responses, but unfortunately self selection also leads to a possible sample bias; we were able to get only those firms that are willing to participate and that might perform better than average in this particular sector. Results of this exploratory study are discussed in the next section using information from the forty nine firms where these interviews have been conducted in late 2011.

Interviews with owners/managers brought usable information related to several aspects of HRM policies and practices. SMEs in this sector seem informal and only few HR practices are in use. Our exploratory study covered the following topics: HR function, HR planning, policies and practices.

IV. Hypotheses Of The Study

Hypothesis 1: Pakistani SME will follow ‘best practices’ of HRM (selection of staff, performance appraisal, training and development, job description, retaining)

Hypothesis 0: Pakistani small and medium sized enterprises that practice HRM, those firms have any significant impact on performance, growth, market competitive edge and expansion plan.

V. Data Collection And Research Methods

The author interviewed 67 HR managers or the managers with main responsibility for HRM issues. 32 interviews were carried out during October 2011 – November 2011 and the rest were finished during November- December 2011.

The author took the advantage of, how they interviewing applicants and meetings with other staff and what kind of environment they have during lunch or break time) visiting trips to the various cities in Pakistan where contacts were available. Most of firms were introduced by the author’s friends and their circle of influence. There is a particular reason why the sample is more focused on one city than the other. For instance, the largest group of 21 enterprises in Lahore City, (because author got more contacts in this city than others and author is also belongs to Lahore which is easy for him to access the firms on time).

<table>
<thead>
<tr>
<th>Names of cities</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Gujrat</td>
<td>3</td>
<td>2.6</td>
<td>4.1</td>
<td>4.1</td>
</tr>
<tr>
<td>Faisalabad</td>
<td>10</td>
<td>9.6</td>
<td>14.9</td>
<td>18.9</td>
</tr>
<tr>
<td>Sialkot</td>
<td>10</td>
<td>9.6</td>
<td>14.9</td>
<td>33.8</td>
</tr>
<tr>
<td>Gujranwala</td>
<td>2</td>
<td>1.8</td>
<td>2.7</td>
<td>36.5</td>
</tr>
<tr>
<td>Jehlum</td>
<td>8</td>
<td>7.0</td>
<td>10.8</td>
<td>47.3</td>
</tr>
<tr>
<td>Lahore</td>
<td>17</td>
<td>18.4</td>
<td>25.4</td>
<td>75.7</td>
</tr>
<tr>
<td>Karachi</td>
<td>5</td>
<td>4.4</td>
<td>6.8</td>
<td>82.4</td>
</tr>
<tr>
<td>Rawalpindi</td>
<td>6</td>
<td>5.3</td>
<td>8.1</td>
<td>90.5</td>
</tr>
<tr>
<td>Sahiwal</td>
<td>3</td>
<td>3.5</td>
<td>5.4</td>
<td>95.9</td>
</tr>
<tr>
<td>Islamabad</td>
<td>3</td>
<td>2.6</td>
<td>4.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>67</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Here you can in the above table distribution of cities; it is also showing the distribution among various categories (Table 3). They cover sectors such as electronics (14%), trading (9%), technology (8%), pharmaceutical & printing & paper (both 7%), and others. Pakistani SMEs is perhaps an exception according to the common view that most of SMEs in the Asia Pacific are service-oriented with less capital and technology intensive (Hall 1995). Instead, the majority of SMEs interviewed indicates a market advantage in developing high-tech and capital-intensive products and services.

Table 3: Interview Samples - Industry Distribution

<table>
<thead>
<tr>
<th>Industry distribution</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>agriculture</td>
<td>2</td>
<td>2.6</td>
<td>4.1</td>
<td>4.1</td>
</tr>
<tr>
<td>chemical</td>
<td>4</td>
<td>3.5</td>
<td>5.4</td>
<td>9.5</td>
</tr>
<tr>
<td>construction</td>
<td>5</td>
<td>4.4</td>
<td>6.8</td>
<td>16.2</td>
</tr>
<tr>
<td>electronics</td>
<td>8</td>
<td>8.8</td>
<td>13.5</td>
<td>29.7</td>
</tr>
<tr>
<td>hospital</td>
<td>4</td>
<td>3.5</td>
<td>5.4</td>
<td>35.1</td>
</tr>
<tr>
<td>manufacturing</td>
<td>2</td>
<td>2.6</td>
<td>4.1</td>
<td>39.2</td>
</tr>
<tr>
<td>Packaging and material</td>
<td>3</td>
<td>3.5</td>
<td>5.4</td>
<td>44.6</td>
</tr>
<tr>
<td>pharmaceutical</td>
<td>5</td>
<td>4.4</td>
<td>6.8</td>
<td>51.4</td>
</tr>
<tr>
<td>printing</td>
<td>5</td>
<td>4.4</td>
<td>6.8</td>
<td>58.1</td>
</tr>
<tr>
<td>real estate</td>
<td>3</td>
<td>3.5</td>
<td>5.4</td>
<td>63.5</td>
</tr>
<tr>
<td>retail and wholesale</td>
<td>4</td>
<td>3.5</td>
<td>5.4</td>
<td>68.9</td>
</tr>
<tr>
<td>services</td>
<td>4</td>
<td>3.5</td>
<td>5.4</td>
<td>74.3</td>
</tr>
<tr>
<td>information technology</td>
<td>5</td>
<td>5.3</td>
<td>8.1</td>
<td>82.4</td>
</tr>
<tr>
<td>trading</td>
<td>7</td>
<td>6.1</td>
<td>9.5</td>
<td>91.9</td>
</tr>
<tr>
<td>others</td>
<td>6</td>
<td>5.3</td>
<td>8.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>67</td>
<td>64.9</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Table 4: Interview Samples - Years of Establishment and Staff Number

<table>
<thead>
<tr>
<th>Years of Establishment</th>
<th>Number of Enterprises</th>
<th>%</th>
<th>Staff Number Category</th>
<th>Number of Enterprises</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1&lt;Y&lt;5 (not including establishment for 5 years)</td>
<td>23</td>
<td>34</td>
<td>1&lt;N&lt;10</td>
<td>12</td>
<td>18</td>
</tr>
<tr>
<td>5&lt;Y&lt;10 (not including establishment for 10 years)</td>
<td>30</td>
<td>45</td>
<td>11&lt;N&lt;100</td>
<td>38</td>
<td>57</td>
</tr>
<tr>
<td>Y&gt;10</td>
<td>14</td>
<td>20</td>
<td>101&lt;N&lt;500</td>
<td>17</td>
<td>25</td>
</tr>
<tr>
<td>Total</td>
<td>67</td>
<td>100</td>
<td>Total</td>
<td>67</td>
<td>100</td>
</tr>
</tbody>
</table>

Up to December 2011 when the data were tabulated and analyzed, 80% of SMEs interviewed have established their business less than 10 years, among them 34% being established less than 5 year (Table 4). More than 70% of those firms have only been set up within five and ten years. There are few which have been set up for more than ten years and there percentage is just 20%. It shows that the trend of establishing SMEs in
VI. RESULTS AND ANALYSIS

To test the hypothesis 1, 4 best practices selection of staff (performance appraisal, training and development, job description, retaining) within HRM framework have determined (See Table 5) separately with different cities and at end with among all the mentioned cities.

a) Human Resource Management Practice

The impact of human resource management on performance has become the dominant research issue in this field (Guest, 1997: p. 263). The interest in quantifying the impact of HR practices on financial performance has led to a number of studies which linked the impact of HR practices to specific firm outcomes. Ulrich in a review of previous studies on HRM and results concludes that HRM practices seem to matter; logic says it is so; survey findings confirm it (Ulrich, 1997), this depiction is shown in detail below Strategic perspective on HRM pertains to how the overall set of HRM practices is generally associated with firm performance and competitive advantage (Ferris et al., 1999). As discussed in the theoretical literature review (Barney 1991; Wernerfelt, 1984), human resource which is believed to be the most valuable asset any organization have and key tasks for organizations will therefore be the effective management of employees (Guest et al., 2003) to create organizational effectiveness for gaining sustained competitive advantage. It is notable that gaining competitive advantage seems fairly possible but sustaining it over a long time requires considerable managerial effort and strong planning horizon with dynamic resources, in highly challenging world of today’s business. A similar depiction is made in the concluding remarks by Paauwe and Boselie, (2005), a real contribution to performance (in its multidimensional meaning) will happen only once we approach HRM from a more holistic and balanced perspective, including part of the organizational climate and culture, aimed at bringing about the alignment between individual values, corporate values and societal values. This will be a unique blending for each organization, which is difficult to grasp by outsiders (including competitors) and thus contributes to sustained competitive advantage’.

Table 5: HRM Practice in Selected cities in Pakistan

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>90.0% Confidence Interval for B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td>t</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>5.917</td>
<td>2.760</td>
<td></td>
<td>2.144</td>
<td>.085</td>
</tr>
<tr>
<td>Job Description</td>
<td>-1.008</td>
<td>.900</td>
<td>-.495</td>
<td>-1.119</td>
<td>.014</td>
</tr>
<tr>
<td>Recruitment</td>
<td>-2.203</td>
<td>.847</td>
<td>-2.106</td>
<td>-2.600</td>
<td>.048</td>
</tr>
<tr>
<td>Training</td>
<td>1.023</td>
<td>1.169</td>
<td>.891</td>
<td>.875</td>
<td>.022</td>
</tr>
<tr>
<td>Retaining Policy</td>
<td>.045</td>
<td>.445</td>
<td>.030</td>
<td>.101</td>
<td>.023</td>
</tr>
<tr>
<td>Performance Appraisal</td>
<td>.774</td>
<td>1.104</td>
<td>.627</td>
<td>.701</td>
<td>.014</td>
</tr>
</tbody>
</table>

a. Dependent Variable: HR
b. Selecting only cases for which name city = Sialkot

This figure is showing HR practices in Sialkot, here is HR is dependent variable and others are independent variables at 90% level of confidence. All results are significant.

Table 5: HRM Practice in Selected cities in Pakistan

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>90.0% Confidence Interval for B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td>t</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>3.402</td>
<td>1.682</td>
<td></td>
<td>2.023</td>
<td>.061</td>
</tr>
<tr>
<td>Job Description</td>
<td>.586</td>
<td>.331</td>
<td>.406</td>
<td>1.773</td>
<td>.097</td>
</tr>
<tr>
<td>Recruitment</td>
<td>.253</td>
<td>.364</td>
<td>.152</td>
<td>.696</td>
<td>.097</td>
</tr>
<tr>
<td>Training</td>
<td>.178</td>
<td>.321</td>
<td>.199</td>
<td>.555</td>
<td>.087</td>
</tr>
<tr>
<td>Retaining Policy</td>
<td>-.594</td>
<td>.260</td>
<td>-2.281</td>
<td>.038</td>
<td>.104</td>
</tr>
<tr>
<td>Performance Appraisal</td>
<td>-.059</td>
<td>.233</td>
<td>-.078</td>
<td>-.253</td>
<td>.104</td>
</tr>
</tbody>
</table>

a. Dependent Variable: HR
b. Selecting only cases for which name city = Lahore
This figure is showing HR practices in Lahore, here is HR is dependent variable and others are independent variables at 90% level of confidence. All results are significant except performance appraisal, which is 10.4%.

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>90.0% Confidence Interval for B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>6.577</td>
<td>3.059</td>
</tr>
<tr>
<td></td>
<td>Job Description</td>
<td>-956</td>
<td>.327</td>
</tr>
<tr>
<td></td>
<td>Recruitment</td>
<td>-204</td>
<td>.305</td>
</tr>
<tr>
<td></td>
<td>Training</td>
<td>377</td>
<td>.744</td>
</tr>
<tr>
<td></td>
<td>Retaining Policy</td>
<td>-.332</td>
<td>.267</td>
</tr>
<tr>
<td></td>
<td>performance Appraisal</td>
<td>-.408</td>
<td>.287</td>
</tr>
</tbody>
</table>

*a. Dependent Variable: HR  
*b. Selecting only cases for which name city = faislabad

In this above figure you can see HR practices in Faislabad, like before here is HR is also dependent variable and others are independent variables at 90% level of confidence. All results are significant except recruitment, which is 23.3%

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>90.0% Confidence Interval for B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>4.339</td>
<td>.667</td>
</tr>
<tr>
<td></td>
<td>Job Description</td>
<td>-983</td>
<td>.178</td>
</tr>
<tr>
<td></td>
<td>Recruitment</td>
<td>-984</td>
<td>.128</td>
</tr>
<tr>
<td></td>
<td>Training</td>
<td>949</td>
<td>.234</td>
</tr>
<tr>
<td></td>
<td>Retaining Policy</td>
<td>-110</td>
<td>.118</td>
</tr>
<tr>
<td></td>
<td>performance Appraisal</td>
<td>-975</td>
<td>.186</td>
</tr>
</tbody>
</table>

*a. Dependent Variable: HR

In this above figure you can see HR practices in selected cities of Pakistan, four variables were selected to examine HRM outcome as a result of selected HRM approach in the interviewed Pakistani small and medium sized enterprises like before here is HR also dependent variable and others are independent
variables at 90% level of confidence. All results are significant except retaining policy, which is 35.6%.

**b) Enterprises Performance**

Only few studies (Nguyen and Bryant, 2004; Welbourne and Andrews, 1996) identified the link between adoption of HRM practices and small firm performance. Research explains acute shortage of identifying and validating human resource practices in small firms, and even less research focusing on the relationship between strategy, human resource practices, and small firm performance (Chandler and McEvoy 2000). Furthermore, in larger firms only recently has research begun to document the relationship between HRM practices and organizational performance (Boselie et al 2001; Delaney and Huselid, 1996; Delery and Doty, 1996; Huselid, 1995; Paauwe and Richardson 1997; Pfeffer, 1998; Youndt et al., 1996). According to Chandler and McEvoy (2000) 'most of the studies seek to investigate the human resource/performance relationship using large companies as research sites. It is important to note that research has suggested that smaller organizations present a "unique opportunity for studying human resource management" and its relation to firm performance (Welbourne and Andrews, 1996).

Our assumption here is that such an HRM system (able to select, motivate, develop employees ideally) of HRM practices pose the way to increase HRM practices in firm. The more use of coherent HR practices the more HRM sophistication. Ehrnrooth, (2002) proves that 'HRM sophistication' is directly, significantly and positively related to the 'Organizational performance, including all controls, there is a strong and significant direct relationship also between 'profitability' and 'HRM practices', thus offering support also for hypothesis 0, (the HRM practices system will be positively related to organizational profitability and progress or development).

Table 7: Enterprises Performance in the Selected SMEs in Pakistan

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>90.0% Confidence Interval for B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>3.531</td>
<td>.355</td>
<td>.958</td>
<td>.000</td>
<td>2.940</td>
</tr>
<tr>
<td>- ICR/SP</td>
<td>.084</td>
<td>.220</td>
<td>.048</td>
<td>.382</td>
<td>.004</td>
</tr>
<tr>
<td>- MKT</td>
<td>-.238</td>
<td>.222</td>
<td>-.146</td>
<td>-1.071</td>
<td>.088</td>
</tr>
<tr>
<td>- EXP</td>
<td>.188</td>
<td>.222</td>
<td>.114</td>
<td>.849</td>
<td>.099</td>
</tr>
</tbody>
</table>

**Notes:**

a) ICR/SP- firm’s sales/production in past few years since the firm has been established.
b) MKT – firm’s market position comparatively with last few years and its market share.
c) EXP – firm’s future plans (expansion, increase in production and staff etc)

In figure above u can see dependent variable is HR practices and independent ICR/SP, MKT and EXP which are explained in notes under figure. HRM have significant impact over organization’s performance or which author selected the elements (ICR/SP, MKT and EXP) against the performance of organization.

**VII. Discussion and Conclusion**

It is the hard reality, with which scholars may agree that right efforts has not been devoted to understand the relevance of HRM formality for SMEs as majority of the scholars wisely tried to escape from this by advocating formality is required when SMEs grow, pressurize from larger counterparts and so on. As literature review suggests that an appropriate level of HR formality is required and these formal HR practices are believed to help owners/mangers in hiring the right candidates, developing employees, compensating and judging their performance which in return helps organizations achieve better results. But in reality things are different, as hardly any study able to clearly identify ‘what HR formality means for SMEs’. It is important to note that most studies used simple survey technique and counted how many formal HR practices a firm use (comparing with large firms). We are changing our approach to qualitative conducted face-to-face semi-structured interviews to investigate the level of HR formality and its relevance for SMEs, but our results could not bring much about HR formality similar to earlier findings. Therefore, our findings suggest that HR formality is irrelevant at least for these sample SMEs. However, our attempt brought some valuable insights due to this right methodology. Results explain that SME
employees are managed in a pragmatic, but not ad hoc, random or haphazard way. We also realized that pragmatic approach is useful and most effective to manage employees in SMEs. As an example, in response to our question regarding their recruitment practices, few owners/managers mentioned that they first ask from friend and family, then they advertise internally and if they still fail to get the required people, then they also use external sources, in that case mostly advertisements in daily regional and national newspapers. This at least resembles a well-thought out order of things and explains their pragmatic approaches to HRM.

The results of this study show that few of the interviewed SMEs in Pakistan are now practicing at least some elements of HRM within their firms. As a result of employment system, firms have more autonomy in recruiting their own staff, introducing motivation and competition mechanism, reducing lifetime employment and wages. However, the focus on employment training is still rather weak in the firm’s interviewed. There is also room for improvement in the areas of performance appraisal. Performance evaluation should be aimed at promoting staff based on skilling, training and education rather than on GM’s personal opinions and relationship with subordinates as well as the length of services. Great power distance between the top and middle management in Pakistan may have been the reason for low level of staff involvement in management decision making, examination of SME performance indicates that Pakistan’s enterprises interviewed are growth-oriented, having relatively market advantages and will be continuously expanding. Nonetheless, it is difficult to conclude that the performance is necessarily the direct result of HRM practice. It is found only in some enterprises.

However, we are short of adequate information regarding what is happening in the field of personnel management in SMEs as in particular in Pakistan. From this difficult, but useful experience we learned that a unique approach is needed to research SMEs admitting firmly their reality as entirely an independent entity (neither a scale down version nor nursery of large firms). Consequently, considering used definition, operationalization and results, we could assert that we need a precise definition and operationalization which should predominantly be relevant to the very context of SMEs (tailored made). Furthermore, scholars should not look for written regularly applied and employer sponsored practices, but SME relevant formality that is (pragmatic) means use of well thought out, clear and systematic routines and procedures which serve in a best way for the current needs and requirement of HR management in SMEs. Only then we will be able to simplify the complex reality, which is not that complex as made by our own preference/selection of erroneous methodologies (large firm approaches). For this we recommend an integrated (tailor-made) approach using contingency theory to understand what makes HR management effective in SMEs. Furthermore, one way response (only from the owners/managers) also makes difficult to confirm actually what owners/managers say they do and plan; do they actually implement or use these practices. For this, a context specific questionnaire for employees might help for a better and more authentic analysis between intended and implemented HR in SMEs. But it should be precise and simple as both features play a key role in increasing response rate. We are confident that this will help in finding intentions on one end (owners’ response) and its implementation on the other (employees’ response) for a better conclusion. Until then, this study has just laid down some ground work for further such research in the topics.

References Références Referencias


10. Wright, P. M., & Sherman, W. S. (1999). Failing to
human resource management theory and practices in small and medium-sized enterprises (smes) and enterprises performance in pakistan


12. Pak-India Trade: A Case of Fan and Bicycle Industry, A study of the Economics Department, GC University, Lahore.


19. Thakur, S. P., (1999), Size of investment, opportunity choice and human resources in new venture growth


other sources for relevant data used and further references


2. Lahore University of Management Sciences, Lahore, http://www.lums.edu.pk/


HRM Subscales

HRM Subscale Items:

1. HRM Department Written HR policies

Recruitment

- Newspaper
- Magazines
- Agency
- Private Employment Agency
- Referral by employees
- Referral from other sources

Selection

- Walk-ins
- Open house
- Internet

Training

- On-The-Job
- Formal training budget
- Apprenticeships
- Coaching
- Seminars
- Computer-Aided Instruction
- Recent introduction of formal training programs
- external training

Compensation

- Market Rate
- Performance pay
- Job Requirements
- Experience/Seniority
- Minimum Wage
- Group incentive programs
- Individual incentive programs
- Commissions
- Bonuses
- Profit Sharing
- additional financial benefits, other than pensions (for example,
- insurance and savings arrangements)
- Benefits
- Health Insurance
- Life Insurance
- Disability
- Pension

Performance Appraisal

- Rating Scales
- Narrative Essay
- Goal Setting
- appraisal conducted by line manager

(Based on: Hornsby and Kuratko, 1990; De Kok et al., 2003; Desislava 2005)