



Human Resource Practices in SME Sector: An Exploratory Case Study of Pakistan

Naveed R. KHAN

Faculty of Management and Economics, Malaysia

naveed.r.khan@gmail.com

Mustafa Rehman KHAN

Faculty of Management Sciences, Pakistan

mustafarehmankhan11@gmail.com

Abstract: The role of human resource practices (HRP) at its significance in small and medium enterprises (SME) become an emerging topic, especially in developing countries. This study aims to gauge the level of HR practice being exercise in SME. Quantitative approach has been followed and data was collected from 195 SMEs through a structure questionnaire. Findings suggested that SME are performing moderate level of HR practices and owner/managers are aware with the importance of HR practices in their organizations. Moreover, compensation is the most significant factor of HR practices followed by employee performance, recruitment and selection and training and development. HR function has been substantially implemented and HR practices are being carried out in number of SME and is contributes at all phases of organization's functions. The globalization and dynamic milieu is forcing the SME sector to switch informal functions to formal manner. However more coherent approach is required to replace the traditional way of practicing HR functions. This study validates the implementation of HR practices in SME as documented in the literature. It further provides a reference for academicians and practitioner to build upon a contention for future research.

Keywords: recruitment and selection, training and development, employee performance, compensation.

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. As elsewhere, Pakistani SMEs too are affected by the recent global economic meltdown. Escalating inflation in Pakistan further compounded the situation for SME growth. Human resource working in SME sector plays a vital role in economic growth without any space for their personal growth. 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 which is a source of depression and made them less productive at their workplace (Khan, 2011).

SMEs are identified as the leading employment generation sector, nation wide. In context of the Karachi city which contributes 30% in manufacturing sector of Pakistan and 90% in Sindh's GDP and around 20% of the total GDP of Pakistan. These figures indicate the potential and further growth in

this sector further it prove the argument that SME sector shall plays pivotal role and have potential to grow. Moreover, extensive economics activities at sea ports and industrial zones increase the significance of Karachi city, hence is called the financial and business hub of Pakistan, providing millions of economic opportunities (Ghouri et al., 2011).

This study has been conducted to measure the gap between philosophies and practices of HR practices. HR scholars have argued that SMEs are insignificantly practicing the HR function in Pakistan. It may be consider that the owner / managers are not able to utilize their human resource strategically and coherently. Perhaps this is due to the shortage of HR professional in SME sector. Further, fragile structure and substandard formalization intends management to ignore organization's most valued assets, that is, the workforce. This ignorance causes the job dissatisfaction in employees and ultimately affects the organizational performance. However, employees perform the essential tasks within the organization, and organizational human resource systems are designed to support and manage this human capital.

This study aims to measure HR practices in SME operating in Karachi, Pakistan. The city is considered as the hub of commerce and financial activities of Pakistan. SMEs operating are having a mix of proper and casual setup. The study is designed to measure the level of HR practices and identify the most significant HR practice among recruitment and selection, training and development, compensation and employee performance.

Consistent with the discussion so far, this study seeks to answer the following questions.

1. What is the level of HR practices followed in the SME?
2. What is the most/least important practice of HR, among four facets, in SME?

1.2 Brief Overview of Employment in Pakistan

Over the years, Pakistan has substantially moved from agriculture economy to manufacturing economy. Economically active size is the largest in the total population of the country. Human capital is enriched with diverse skills from unskilled labor to high-skilled critical mass. Pakistan's urban growth rate is highest in South Asia. Estimated in 1980s, urban population growth rate was 4.5% per annum and projected to 60% by the turn of the century. That proved true. Karachi's urban economy and its employment pool is the glaring example of this. Its formal and informal sectors provide greater employment potential and are in a position to use human capital efficiently (Khan et al 2011).

At present, SMEs are recognized as the backbone of the country's economy by representing nearly 90% of all the enterprises in Pakistan. SMEs form a significant portion of the manufacturing and services sector. According to the Lahore Chamber of Commerce & Industry's report (2010) the labor force today is divided in agriculture 43%, manufacturing 13%, construction 7%, transport 6%, and services 14% and the other head carrying the rest of the burden. The total workforce in Pakistan is 102.7 million; out of which 55.77 million people are employed in 2010 with \$2400 per capita income; this labor force will increase to 154.4 million by 2030 with the growth rate of 2.05. However, 15.2% unemployment rate was recoded in 2010. SMEs provide 80% employment of the non-agricultural labor force. In Pakistan small and medium enterprises offer diverse employment and production and share 40% in annual GDP of Pakistan (Khan, 2011).

2. Literature Review

Pakistan's SMEs sector is very different from SMEs working in industrialized world. Here, small and medium size businesses are usually not documented mostly with purpose. Pakistan has also a unique culture of not sharing information with others. Freedom of public information is only on paper. Businesses profiles are not uploaded on the website and it is even so difficult for field researchers to collect basic information through interviews. Limited academic studies are conducted so far on HR practices in Pakistan's SME environment. This study thus dependent on earlier researches conducted in environment other than Pakistan for conceptual understanding and theory development. Selected literature is reviewed for this study whose results are generalizable to any other environment.

Basically, employees perform the essential tasks within the organization, and organizational human resource systems are designed to support and manage this human capital (Gramm and Schnell, 2001). HRM philosophy emphasizes on the benefits of meeting employee needs and enables them to have control over their work, moreover, satisfied workers willing to improve their efficiency, effectiveness and productivity to get the work done.

The extensive use of high-involvement work practices represents a significant investment in human capital. Basic microeconomics suggests that investments in human capital (employees) are justified when such investments are more than offset by future returns in the form of increased productivity. Thus, firms will make greater use of such practices when employees are viewed as particularly vital to firm success (MacDuffie, 1995).

By adopting effective HR practices firms can acquire not only new skills and knowledge and change the attitudes of their employees but also improve their organizational performance. Through effective HR practices firm can get rid of traditional ineffective and inefficient practices which in turn enable the firm to maximize the achievement of its objectives (Delery and Doty, 1996). Armstrong (2006) defines human resource management (HRM) as the strategic and coherent approach to the management of an organization's most valued assets - the people working there who individually and collectively contribute to the achievement of the objectives of the business.

Findings from previous studies indicated that increased concern for HR practices among firms resulted from the need to develop HR as a source of competitive advantage (Wright and McMahan, 2001; Wright and Snell, 1991). In relation with the SMEs recent studies acknowledged the relevance and applicability of HR practices in small and medium scale firms (Nankervis et al., 2002; Singh and Vohra, 2005; Chang and Huang, 2005)

SMEs who successfully integrate their HR system with their vision and organizational objectives, are achieve their goals in a more organized manner (Singh and Vohra, 2005). Hence it would build-up more comprehensive business strategy to retain the position in the industry. According to Chang and Huang (2005) human resources are viewed as a strategic asset that creates value when embedded in the operational system in a manner that can enhance firm's abilities to deal with a turbulent environment. Several studies indicated that to improve organizational performance and develop a competitive advantage, firms need to implement an effective HR practice system (Zheng et al., 2006; Osman, 2011; Katou, 2012; Paul and Anantharaman, 2003).

Studies on HR practices indicated that HR theories and models are assumed that they are applicable to all types of organizations regardless of their type, sizes and nature of human resource practice functions (Arthur, 1994; McDuffie, 1995; Huselid, 1995; Yound et al., 1996). However, Nankervis et

al. (2002) study findings suggested that previous empirical evidences are still not able to provide enough evidence to suggest that HR practices works for all kinds of organizations. Traditional literature on human resource practices identified four general categories, which include: Staffing, training, evaluation and compensation (Dessler 2008; Mathis and Jackson 2008; Fisher, et al. 2006). In few cases, these categories are aggregated in a slightly different manner, and certainly there is overlap and interrelationship among them (Shub and Stonebraker 2009).

Shub and Stonebraker (2009) define these categories as: Staffing generally involves the human resource activities of planning, job analysis and design, recruitment and selection. Training generally involves the HR activities of employee training, organization development and career development. Evaluation generally involves HR activities of various evaluation designs, both formal and informal, and different evaluation periodicities. Lastly, Compensation generally involves the HR activities of base wage or salary system, incentive system and perks, as well as benefits. Generally, the relationship-based approaches to staffing, training, evaluation, and compensation are shown in the literature to be directly associated with firm performance (Huselid, 1996; Osman et al., 2011; Ngo et al., 1998; Stavrou and Brewster, 2005)

2.1 Human Resource Management and its Measurability

Stone (2005) defined human resource management as it involves the productive use of people in achieving the organization's strategic business objectives and the satisfaction of individual employees need. This definition clearly indicates that the organizations' objectives are dependent on their work force productivity. Moreover, work task, work environment, freedom in work, opportunities provided and the benefits are provides are few of the most important needs a worker may perceive. The effective HRM practices are able to link these practices with organization structure and objectives. Many studies investigating human resource management practices have looked primarily into an organizational structure construct. To accurately measure "human resource practices", a number of HR functions may need to be evaluated. However, these characteristics or facets may not be of equal importance to every organization. One of the most comprehensive and widely used measures for human resource practice is presented by Dessler (2008) and Fisher, et al. (2006). In this study human resource management practices is characterized as multidimensional, and it has four major facets namely i) recruitment and selection, ii) training and development , iii) compensation, iv) employee performance evaluation.

2.1.1 Practice of Recruitment and Selection

Recruitment and selection is the first facet of human resource practice, which involves planning, forecasting, and job analysis for the future demand of employees according to the need and demand of the firm. Moreover, various tools and techniques have been used by the firms for the improvement of staffing process to avoid the loss in terms of time, money and potential employees.

2.1.2 Practice of Training

Training is another dimension of human resource practice where firms invested on the development of their employees' knowledge, skills ability and other on-job required skills to improve the productivity of employees. Training can transform human resource to human capital where skilled employee would better perform in the success of organization as compare the employees who can get training lesser or never.

2.1.3 Practice of Compensation

Compensation is one of the most extrinsic practices of human resource function in an organization setting. This dimension determines the level of job of an employee on the basis of their perceived knowledge and experience. Moreover, the matching of their job knowledge with the pay or compensation provided them must demonstrate the market level competitive packages. Good compensation plan would therefore, inevitably influence on employees' performance. However, the extent to which an employee who is getting the good compensation package will perform well would also depend on his/her overall assessment of various factors like the compensation package in other organizations in relation to the work load and the possibility of getting better compensation packages (Purani and Sahadev 2008).

2.1.4 Practice of Evaluation

This aspect of human resource practices generally involves the activities of various evaluation designs, both formal and informal, and different evaluation periodicities (Shub and Stonebraker 2009). It is a means of getting better results by understanding and managing performance within an agreed framework of planned goals, standards and competency requirements. It functions as a continuous and evolutionary process, in which performance improves over time. Moreover, it provides the basis for regular and frequent dialogues between managers and individuals about performance and development needs (Armstrong 2006).

3. Research Methodology

The study comprises on a quantitative survey of 195 SMEs. The data was collected from the companies operating in Karachi through a self-administered questionnaire. The study covered manufacturing and service sectors SMEs. In the study, SME referred to the firms employed between 10 to 250 employees, this definition have been adopted from the SME policy 2007 and SMEDA. The SME were identified and randomly selected from the listing of Korangi Association of Trade and Industry (KATI) and Jamal's Yellow Pages. The questionnaire was adopted from Chew (2008) and modified according to the nature and objectives of the study and tested for reliability, prior to data collection. The questionnaire used in this study consisted of three sections. Section one focused on collecting background information of the respondents. Section two captured the characteristics of the firm and last section obtained the information concerning the HR practices adopted by the firm. To examine the hypotheses of the study, descriptive statistics analysis were performed using SPSS 17. The sample size for this study was 300 however only 195 questionnaires, with response rate of 65%, were found acceptable for analysis.

3.1 Reliability Testing

To measure the reliability of the instruments used, Cronbach's alpha was employed. According to Sekaran (2005), if the alpha value is greater than 0.7, the instrument is acceptable.

The internal consistency reliability coefficients (Cronbach's alpha) for the scales used in this study are well above the level of 0.7, thus are acceptable for the analysis purpose.

In Table 3.1, alpha scores of all variables with complete response of 195 SMEs are given.

Table – 1: Reliability Coefficients of the Constructs (n = 195)

Constructs	No. of Items	Cronbach's Alpha
Recruitment and selection	4	.750
Training and development	6	.792
Compensation	6	.845
Employee performance	5	.824

4. Research Findings

4.1 Characteristics of the Respondents

The characteristics of the respondents are presented in the following table.

Table – 2: Characteristics of the Respondents (n = 195)

Variable(s)	Frequency	%age	Variable(s)	Frequency	%age
Gender			Marital Status		
Male	167	85.6	Married	130	66.7
Female	28	14.4	Unmarried	64	32.8
			No response	1	0.5
Age			Position in Firm		
20-25 yrs	29	14.9	Owner but not manager	14	7.2
26-30 yrs	48	24.6	Owner and manager	108	55.4
31-35 yrs	40	20.5	Manager but not owner	70	35.9
36-40 yrs	32	16.4	No Response	3	1.5
41-45 yrs	16	8.2			
46-50 yrs	21	10.8			
Over 50	9	4.6			
Education			Work Experience		
Intermediate	3	1.5	1 - 4 Years	42	21.5
Bachelors	77	39.5	5 - 7 Years	37	19
Masters	103	52.8	8 - 10	45	23
MS/M.Phil	7	3.6	11 - 13	20	10.2
PhD	0	0	14 - 16	19	9.7
Other	5	2.6	> 17	32	16.4
Total	195	100.0	Total	195	100.0

As shown in the table 2, statistics of the respondents clearly and logically depict the picture of their characteristics. In total of 195 respondents 167 were males and 28 were females. Likewise 130 respondents were married and 64 were unmarried. The age and years of work experience among the respondents ranged from 20 to more than 50 years and one to more than 17 years respectively. In terms of education 3 respondents obtained intermediate certificate, 77 obtained bachelor's degrees, 103 have master's degree and 7 have MS/M.Phil degree, however none of the respondent has a PhD.

The in-depth analysis of statistics highlighted some interesting facts of the respondents. The Female owner/manager represented the 14.4 % of total respondents which show significant contribution of females in the total workforce, however, this proportion need to be increase at substantial level.

Moreover, sixty percent respondents' age ranged from 20 to 35 years, it shows that young entrepreneurs/managers are coming into the industries with new passion for growth. Likewise 52.8 percent respondents have a Master's degree. This combination of 'young age' along with 'education' shall change the mind-set of traditional business practices and may bring new innovative ideas and measures which shall boost the SME sector in near future.

4.2 Characteristics of the Firm

The characteristics of the firm are summarize in Table 3. These characteristics depict the picture of the firm's form of business, number of employees working, age of the firm and type of business.

Table – 3: Characteristics of the Firm (n = 195)

Variable(s)	Frequency	%age	Variable(s)	Frequency	%age
Form of Business			No of Employees		
Solo proprietor	24	12			
Partnership	74	38	10 to 50	45	23.2
Private limited	97	50	51-100	16	8.2
Age of Company			101-150	26	13.3
3-5 years	23	11.7	151-200	73	37.4
6-8 years	15	7.6	201 – 250	35	17.9
9-11 years	42	21.5	Type of Business		
12-14 years	51	26	Manufacturing	89	45.6
> 14 years	64	32.8	Services	106	54.4
Total	195	100.0	Total	195	100.0

The in-depth statistical analysis shows that fifty percent SME are the private limited firms and 32.8 % firms are operating since more than 14 years. Likewise, 37.4 % SME employed the workers range from 151 to 200. Lastly, 54.4 % SME are fall under the category of services firms.

4.3 Distribution of firm by Business sector

The SME, participated in this study, represented various business sectors in the manufacturing and services industry. The distribution of the sample firms by type of business sector is presented in table 4.

Table – 4: Characteristics of the Firm (n = 195)

Variable(s)	Frequency	%age
Business Sectors		
Financial Institution	18	9.2
Engineering/Construction	23	11.8
Energy/Petroleum	5	2.6
Chemical/Pharmaceutical	18	9.2
Education	15	7.7
Textile	19	9.7
Telecommunication	18	9.2
Logistics	17	8.7
Others	62	31.8
Total	195	100.0

The statistics indicated that eight different business sector firms were participated in this study. Most of the firms are from Engineering/Construction business sector which comprises of 11.8% of the firms participated in the study. Energy/Petroleum business sector have the least presentation in the sample which comprises of only 2.6%. However, the ‘others’ head carrying the rest of the burden comprises of 31.8%.

4.4 Human Resource Practices

The mean and standard deviation scores of HR practices variables which include recruitment and selection, training and development, compensation and employee performance are recorded, from the firms, are presented in table 5.

The results depict that the mean scores of HR practices ranged from 3.352 to 3.683. Hence, at the general level, results suggest that the SME in the study practiced the HR function, to a certain extent. Furthermore, recruitment and selection is moderately practiced in the organization (mean = 3.49, SD = 1.10) along with training and development (mean = 3.35, SD = 1.081), compensation (mean = 3.68, SD = .975), and employee performance (mean = 3.69, SD = 1.34).

Table – 5: Descriptive Statistics of Variables (n = 195)

9	Mean	Standard Deviation (SD)
Recruitment and selection	3.497	1.10
Training and development	3.352	1.081
Compensation	3.683	.975
Employee performance	3.682	1.349
Overall HRM Practices	3.553	1.126

4.4.1 Recruitment and selection

Table 6 highlights the descriptive statistics for each item. Out of the four items of selection, “only the best people are hired to work in this organization” (mean = 3.74, SD = 1.07) followed by “the values and beliefs of this organization are discussed in interviews with potential employees” showed the second highest mean value of 3.69 (SD = 1.054), followed by, “when new employees are hired, they must go through an extensive hiring process in which they are interviewed a number of times” (mean = 3.44, SD =1.153), and “employees of this organization are involved in the hiring of their peers” (mean 3.11, SD = 1.152). In general, the SMEs appeared to have moderate level selection practices in their organization.

Table – 6: Descriptive Results of recruitment and selection (n=195)

Items	Mean	SD
Only the best people are hired to work in this organization.	3.6923	1.05405
The values and beliefs of this organization are discussed in interviews with potential employees.	3.7436	1.07737
When new employees are hired, they must go through an extensive hiring process in which they are interviewed a number of times.	3.1128	1.15213
Employees of this organization are involved in the hiring of their peers.	3.4410	1.15337
Total Mean (Selection)	3.497	1.10

4.4.2 Training and development

Table 7 highlights the descriptive statistics for each item. Out of the six items, “people are properly oriented and trained upon joining this organization” showed the highest level of training practice (mean = 3.67, SD =1.042), followed by “the company provides enough training for the employees to learn new ways to do their job” (mean = 3.59, SD = 1.037). “This organization does provide regular opportunities for personal and career development” (mean = 3.43, SD = 1.045). “Training provided by the firm often consists of both classrooms teachings and On-Job-Training (OJT)” (mean = 3.27, SD = 1.168); “This organization subsidizes, assists or reimburses employees for training they get outside the organization”, mean = 3.22, SD = 1.097). However, “employees in this organization receive additional compensation” have the lowest level of practice in the variety of activities (mean = 2.90, SD =1.099).

Table – 7: Descriptive results of Training and development (n = 195)

Items	Mean	SD
People are properly oriented and trained upon joining this organization.	3.6769	1.04202
This organization does provide regular opportunities for personal and career development	3.4359	1.04524
This organization subsidizes, assists or reimburses employees for training they get outside the organization	3.2205	1.09713
Employees in this organization receive additional compensation	2.9077	1.09906
Training provided by the firm often consists of both classrooms teachings and On-Job-Training (OJT).	3.2769	1.16885
The company provides enough training for the employees to learn new ways to do their job	3.5949	1.03793
Total Mean (Training)	3.352	1.081

4.4.3 Compensation

Out of the six items in table 8, “Employees are given positive recognition when they produce high quality work” showed the highest level of compensation practice (mean = 3.89, SD = .965), followed by “This organization pays well” and “This organization offers good opportunities for promotion” (mean = 3.723, SD = .927) and (mean = 3.723, SD = 1.018) respectively. “The way in which employees in this organization are compensated” (mean = 3.65, SD = .920). “This organization values individual excellence over teamwork” (mean = 3.61, SD = 1.015); “This organization offers a good benefits package compared to other organizations”, mean = 3.49, SD = 1.007).

Table – 8: Descriptive Results of Compensation (n = 195)

Items	Mean	SD
This organization pays well	3.7231	.92793
The way in which employees in this organization are compensated	3.6513	.92024
This organization offers a good benefits package compared to other organizations	3.4974	1.00706
This organization values individual excellence over teamwork	3.6154	1.01574
Employees are given positive recognition when they produce high quality work	3.8923	.96522
This organization offers good opportunities for promotion	3.7231	1.01800
Total Mean (Compensation)	3.683	.975

4.4.4 Employee performance

SMEs are highly intended to let its employees know, how they are performing (mean = 4.08, SD = 2.98). Table 9 the descriptive statistics is highlighted for each item. The measurement of an employee's performance on the job is a priority in this organization receives the 2nd highest mean value (mean = 3.77, SD = .895), followed by the measurement of turnover and absenteeism is a priority in this organization” and “when evaluating the employees for promotion, seniority is one of the criteria taken into account” (mean = 3.517, SD = .937) and (mean = 3.517, SD = .970) respectively. However, “this organization makes a point of keeping track of factors that it considers critical for success” receive the lowest mean value (mean = 3.50, SD = .959).

Table – 9: Descriptive Results of Employee performance (n = 195)

Items	Mean	SD
The measurement of an employee's performance on the job is a priority in this organization.	3.7795	.89534
This organization makes a point of keeping track of factors that it considers critical for success.	3.5077	.95986
The measurement of turnover and absenteeism is a priority in this Organization	3.5179	.93799
When evaluating the employees for promotion, seniority is one of the criteria taken into account	3.5179	.97041
Does your company lets its employees know how they are performing	4.0872	2.98408
Total Mean (Evaluation)	3.682	1.349

5. Discussion and Conclusion

Small and medium enterprises may have a significant contribution in the economic growth of a country. The swift progress in entrepreneurial set-ups depicts healthy business activities. The findings of this study measure the level of HR practices in SME. The mean score of overall HR practices reported at 3.553 indicated a moderate level of HR practices, followed in the firms. The adequate level of HR practices is an indication that the SMEs, participated in the study, are involved in implementing and practicing HR activities in their organizations.

However, sophistication HR practices bring ample opportunities to gain competitive advantage in the market in terms of HR outcomes i.e. employee retention, satisfaction, competencies and commitment. This increase in HR outcomes may significantly effect the SME performance. Hence HR practices should consider as the source of sustain competitive advantage and owner / manager should therefore put the HR agenda in central to any strategy. Human resources are consider as the activators of all non-human resources and are means for developing competitive advantages in the market place (Stone 2005).

Compensation practice of employees has a significant role followed by employee performance. These are considered as the key factors in managing HR in SME. Hence are practices in a comprehensive manner. However recruitment and selection and training and development practices are still need the attention and would like to practice in a more sophisticated manner. Especially, training and development, since, trained and motivated employees and managers contribute effectively under these practices. Moreover, scant attention is being paid to new HR practices to manage knowledge and its effective use (Taha 2006).

Efficient HR practices in a SME may bridge the information gap and improve the organizational performance. Moreover, HR practices framework in SMEs requires a collective approach to practices HR functions working as a set or “bundle” rather than independently (Delery 1998).

SMEs owners and managers should broaden the scope of HR practices. It will increase the retention rate of employee, enhance the competencies and commitment in work force and levitate the level of satisfaction among employees. This shift in-turn enhances the organizational performance in terms of quality, productivity and market share. Successful HR system also helps to integrate the other organizational functions in lesser time. This integration will open long term investment opportunities through organizational strategy. Finally, appropriate strategies at national level may enable the SME sector to boost the national economy.

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