

IMPACT OF HR PRACTICES ON BUSINESS PERFORMANCE

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ABSTRACT

Objectives: An attempt is made to examine HRM Practices adopted by Indian SMEs and Its Impact on Firm's Performance & Productivity of manufacturing SMEs Registered under Chamber of Commerce and Industries of Gujarat.

Research Methodology: A mail survey was developed and distributed to owner(s)/manager(s) in manufacturing SMEs in the state of Gujarat. One thousand questionnaires were distributed among the SMEs registered in the state of Gujarat under the definition of MSME Act'2006. Two hundred twenty-six (226) questionnaires completely filled were received that is equivalent to twenty two point six percent (22.6%) response rate. The owner(s)/manager(s) was (were) asked the level of adaptation of Eight (8) HRM related practices, namely, HR Planning, Staffing, Incentives, Training, Performance Appraisal, Training, Teamwork, Employee Participation, & CSR practices towards employees employed during the past three years. In relation to these practices they were asked to reveal their perception about the Operational Performance, Non-financial and financial performance during the same period. It was based on the questionnaire administered. HRM Practices & Operational Performance is taken as independent variables while Firm's Performance is taken as Dependent Variables, years of operations of firm are taken as control variables. SEM and Multivariate Analysis techniques used for data analysis.

Findings : Real results bring more interesting findings in terms of practical implications to the industries. As Pearson Product moment Correlation study supports the strong correlation between HRM practices and firm's Operational Performance as well as Firm's Performance. Multiple Regression Analysis among HRM practices and firm performance revealed positive impacts. While Moderating effects of Management Style on HRM practices suggests that, SMEs are having mixed management style where it need to have decentralization in their decision making style to make the firms globally competitive in this fast changing world. Research study finds weak culture in SMEs. It suggests lack of trust among employees and weak employee- employer relations. Hence the present research study is set as a lamp post for viewing usage of Human Dimension of SMEs and its potential to improve SMEs performance financially as well as strategically.

Implication : While investigate the relationship between HRM practices and Operation Performance, it is found positive relationship between HRM practices and operational performance. Adopting these strategies align to HRM strategies, firms can reduce work error, scrap rate, bottleneck of production process through preventive maintenance of machines. As a results cost is cut, quality is improved and customer satisfaction is increased through high quality and low cost and on time product delivery.

Keywords : HRM Practices, Operational Performance, Firm Performance, Financial and Non-Financial Performance.

INTRODUCTION

Background of the Study

Today's market environment is dynamic. Market stability today may become an uncertainty tomorrow. In the kind of market, the intensity of competition increases from time to time. Firms are trying to defeat one another in order to be the last survival and are able to enjoy total benefits as the market leader. Facing this situation, managers must keep their

fingers on the pulses and are ready to respond to any abrupt changes. Moreover they need to be sure that the resources and capabilities are available for next steps and fights.

Traditionally, product technology and process, accessible capital source, etc are essential to win the games. But these kinds of resources, suggested by Pfeffer (1994) failed to fulfill their roles to defeat competitors presently. The decrease vitality of those primitive resources has drawn

practitioners and academic's attentions to explore other types of assets which can capture and retain competitive advantage and at the same time, are not easily imitated and copied by competitors (Barney, 1991). Question of what kind of asset can provide sustainability, competitive advantage, and superior performance had been asked and discussed among managers and scholars over the past decades.

Now days, the whole world has recognized that human resources are very vital to get things done successfully in the most effective and efficient ways. But still, a small number of firms are able to elicit the hidden power of human resources and bring them into use to become leaders in the markets. The first formal human resource function and department were initiated since the 1920s (Ferris et al., 1999). Traditionally, HRM function was considered by managers as a tool to deal with staff function, record keeping and file maintaining for organizations. Very few corporations had understood HRM function as a crucial agent to both strategic formulation and implementation. The world has been instilling in people mind and it has been realized gradually, especially for people in business environment.

As Schuler and MacMillan (1984) mentioned that: The result of effectively managing human resources is an enhanced ability to attract and retain qualified employees who are motivated to perform are numerous. They include greater profitability, low employee turnover, high product quality, low production costs, and more rapid acceptance and implementation of corporate strategy.

Based on synthetic evidences from past researches on the paramount effects of HRM on firm performance above, the focus of this study is to test and prove power of HRM practices. The study attempts to generalize efficacy of HRM practice dimensions on operational performance and overall performance of manufacturing SMEs in Gujarat. The study also seeks to lend credence to previous studies by scholars on improvement of firm performance through applications of HRM practices in SME organizations.

HRM PRACTICES IN INDIAN SMES

Over the last few decades there has been a tremendous growth in small and medium enterprises (SMEs). SMEs have come to play a mounting role in growth of developing nations. A number of countries have witnessed successful SME-led economic growth and development. In India, 95 percent of industrial units (3.4 million) are in small-scale sector with a 40 percent value addition in the manufacturing sector. Enterprises of this type provide the second highest employment level after agriculture and account for the 40

percent of industrial production. Due to booming economy, friendlier regulations and Government Subsidiaries, the SMEs sector has achieved rapid growth in recent years.

As SMEs focus more on running the business on a day-to-day basis, they find less time to manage the HR processes which is perceived as non priority. SMEs do not feel like revamping existing organizational structure, especially when they know that the status quo is delivering the output. Competitiveness of SMEs can be enhanced through better HRM practices of recruitment, selection, training and compensation. Indian SMEs need to reduce overall cost of products to remain competitive with Chinese manufacturers and exporters. Apart from other functional areas such as production, finance, marketing, inventory and logistics, SMEs also need to focus on implementing best HR practices. (Madhani, 2011).

RESEARCH MOTIVATIONS

The attention to applying human resource management into practices has become acknowledgeable and more popular among practitioners and scholars. Many managers have implemented HRM practices with different methods on the purpose of finding out the most effective ways to achieve and capture desired outcomes and benefits. Some firms may pursue strategic human resource management to be cost leaders and some orient their paths toward product differentiators. Different organizations use HRM policy in different ways to achieve distinct goals. But we can draw on ultimate objectives of them, which are profitability, excluded non-profit organizations.

How HRM can be applied appeared in debate among HRM scholars. Along with the hot issues, there is one significant argument that HRM practices would perform very well when they were combined together as "bundled practices". The idea is that productivity is the best served by the systematic interactions among the practices (Boxoll, 2003). It is intuitively able to assume that HRM bundles may outperform individual HRM. Most HRM criteria have reciprocal effects on one another and can help improve better performance when they are combined together consistently and correctly. For example, good incentive plan provided to employees is to boost employees' productivity, but if no training provided to them to improve their skills; productivity may rise to some limit level.

The second motivation of this study is to observe the effects of HRM practices on operational performance and firm performance in a single model. Past researches focused on either operational performance (Ahmad & Schroeder, 2003)

or organizational performance in separate studies.

The third motivation of the study is to seek the moderating effects of management style, social capital, and corporate culture on firm performance when applied with HRM practices. A number of researches on the practices of HRM integrated with moderating effects to business performance seem to be increasing. Some authors have already included moderating effect to manufacturing strategy along with HRM practices into to boost firm performance (e.g. Youndt et. al., 1996). But study on moderating effects of soft HRM issue, like culture, to bolster firm performance has yet not been popularly adopted among researchers.

It's expected that HRM practices, integration with moderating effects, such as management style, social capital, and culture is likely to boost business performances than the application of HRM practices alone. This study aims to explore and prove this kind of interesting findings.

RESEARCH OBJECTIVES

1. To explore the relationship between HRM practices and firm performance and operational performance.
2. To measure the effect of Management Style on relationship between HRM practices and firm and operation performance.
3. To investigate the effect of Social Capital on relationship between HRM practices and firm & operational performance.
4. To study the effect of Corporate Culture on relationship between HRM practices and firm & operational performance.
5. To analyses the difference in of HRM Practices, Firm Performance, and Operational Performance across year of operation of the firm.

LITERATURE REVIEW

Sarbapriya Ray & Ishita Aditya Ray (2011) in their study on Small and Medium Sized Iron & Steel Firms in India, explored that, that factors like performance appraisal, participation in decision making, training and development, empowerment, compensation influencing human resource management(HR) practices have significant association with job satisfaction (JS).

Shikha Khera (2010) in her studies on HRM Practices and its impact on productivity found that through the use of strategy-based HR policies and practices, firms create a more competent and committed workforce, which in turn provides

a source of sustainable competitive advantage.

A.Khandekar(2005) in his studies on Organizational learning in Indian organizations: a strategic HRM perspective reveals that, reveals that there is a positive relationship between organizational learning, strategic HRM and sustainable competitive advantage.

HRM and Indian epistemologies: A review and avenues for future research M.Singh & N.Vohra (2009) integrates and discusses research on HRM in India with a focus primarily on the past fifteen years. It is within this complexity that research on India and its workforce is presented by illuminating HRM as embedded in the Indian environment with its intricate epistemologies and transitions in a period of dynamic change.

G.Theriou, P.Chatzoglou, (2008)"Enhancing performance through best HRM practices, organizational learning and knowledge management: specific processes that mediate between best HRM practices and organizational performance.

P.Budhawar (2000) in his study on 137 Indian manufacturing firms have suggested that, number of significant correlations between a set of contingent variables (i.e., age, size, ownership, life cycle stage and HRM strategies of an organization, type of industry and union membership) and four HRM functions of recruitment and selection, training and development, compensation and employee communication. Similarly, four national factors (namely national culture, institutions, dynamic business environment and business sector) are suggested, which influence Indian HRM policies and practices.

M.Chand (2010) in his study on Human resource management practices in Indian hospitality enterprises revealed that, harmonized terms and conditions, formal manpower planning, flexible job description, formal system of induction, production/service staff responsible for their service, social appreciation and recognition may constitute the most important HRM practices in the Indian hospitality enterprises.

S. Kundu & D. Malhan (2009) in his study on "HRM practices in Insurance Companies: A Study of Indian and Multinational Companies" concluded that, Competitive advantage of a company can be generated from human resources (HR) and company performance is influenced by a set of effective HRM practices.

A.Paul & R.Anantharaman (2004) "Influence of HRM practices on organizational commitment: A study among software professionals in India" reveals that HRM practices

such as employee-friendly work environment, career development, development oriented appraisal, and comprehensive training show a significant positive relationship with organizational commitment.

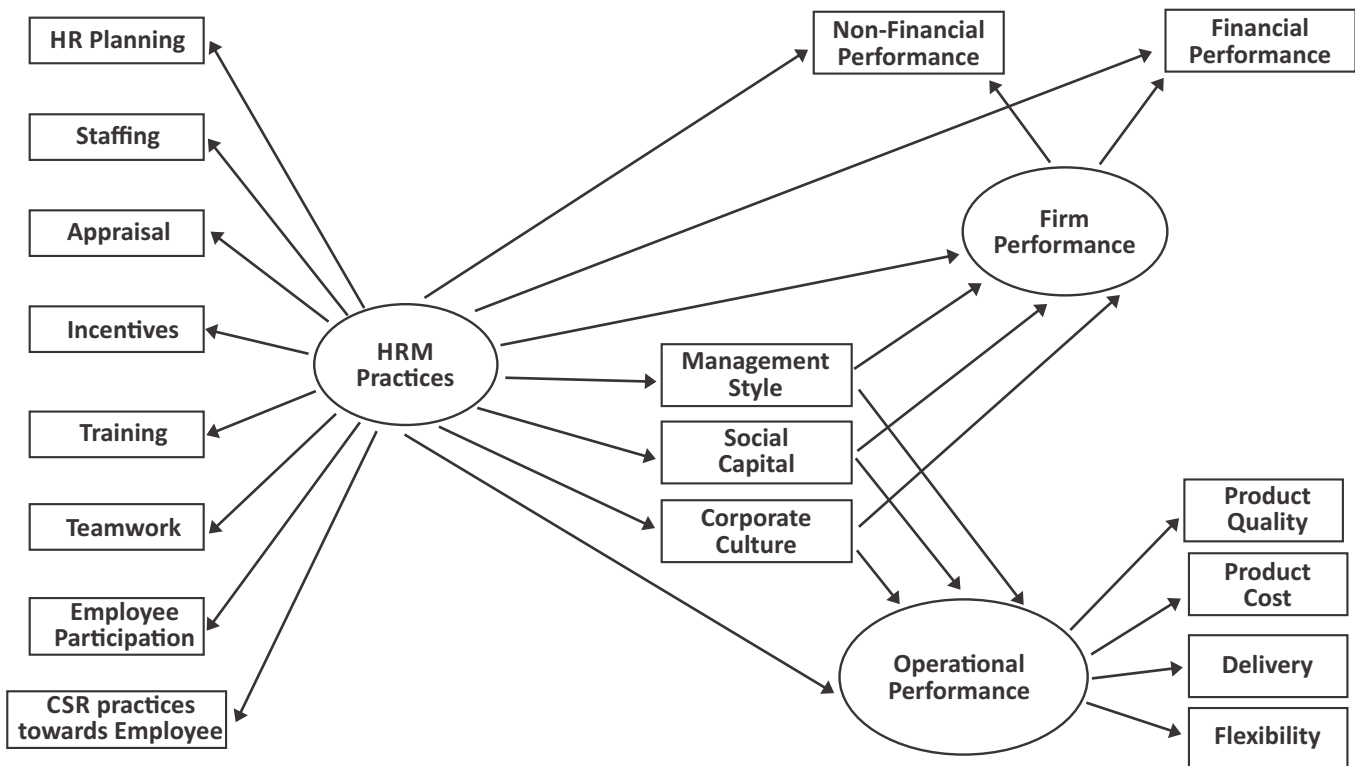
P.Kasturi, et.al, (2006) " HRM systems architecture and firm performance: Evidence from SMEs in a developing country "In their study shown that the attitude of the firm's owner(s) towards its employees is a major determinant of the firm's profitability. The effect of HRM philosophy on productivity is smaller, albeit still highly significant.

A. Som (2008) in his study on, "Innovating Human Resource Practices and Corporate performance in the context of Economic liberalization in India" shown that, innovative recruitment and compensation practices have a significant relationship with firm performance. It was observed that, recruitment, role of the HR department and compensation practices seem to be significantly changing within the Indian firms in the context of Indian liberalization.

M.Joshi & N.Vohra (2009) in their research work on, Level of Formalization of Human Resource Management in Small and Medium Enterprises in India reveals that, level of formalisation of HRM systems in SMEs was low and owner-managers played a central role in the HR functions of their enterprises. Compared to small enterprises, the level of formalisation was found to be higher for medium enterprises

N.Akhuri & R. Sharma(2010) "HR Determinants of Organizational Success amongst Small & Medium Enterprises in Indian Automobile Sector" Three scales have been developed by the researchers- Engaging Leadership (from the leader's perspective), Engaging Leadership (from the subordinate's perspective) and Employee Engagement. At a later stage a full scale research can be carried out on a larger sample size and in more number of firms. One of the direct uses could be 360 degree feedback based on these scales in these SMEs for developmental purposes.

Research Model:



HYPOTHESIS FORMULATION

- H1 : HRM practices are positively related to firm & operational performance.
- H2 : HRM practices are positively related to operational performance.
- H3 : HRM practices have impact on firm's financial & non financial performance.
- H4 : HRM practices have impact on firm's financial performance.
- H5 : Management Style (Decentralization Vs Centralization) moderates the relationship between HRM practices and operational & organization performance.
- H6 : Management Style (Decentralization Vs Centralization) moderates the relationship between HRM practices and organization performance.
- H7 : Social Capital (Trust Vs Distrust) moderates the relationship between HRM practices and Operational and firm Performance.
- H8 : Social Capital (Trust Vs Distrust) moderates the relationship between HRM practices and firm performance.
- H9 : Corporate culture (Proactive Vs Reactive culture) moderates the relationship between HRM practices and operational & organizational performance.
- H10 : Corporate culture (Proactive Vs Reactive culture) moderates the relationship between HRM practices and organizational performance.
- H11 : There is no difference in of HRM Practices, Firm Performance, and Operational Performance across year of operation of the firm.
- H12 : HRMP, SC, MS and CC (treated as an independent variable) have impact on Firm Performance and Operation Performance.

RESEARCH METHODOLOGY

Types of Research Design: Researcher has reviewed variety of research methods which can be used in study of social sciences. However considering the typical topic researcher in consultation with the guide decided to use exploratory research design, which is an effort to know the impact of HR

practices on the firm's Operational Performance & Firm's Performance.

Sampling Method:

Target Population: Target population of the research is restricted to the firms that fall under the category of SME's in India as Sampling Universe and Sample population has been derived from the SME firms registered in the state of Gujarat.

Sampling Design: Here the nature of research is in the area of Small & Medium Enterprises registered in Gujarat; hence Random Sampling is the ideal sampling method for carrying out the research.

Sample Size: The sample size for the real research is 1000 respondents with the response rate of 22.6%. So the final total sample size is 226.

INSTRUMENTS USED IN RESEARCH

Open ended as well as closed questions were included in the questionnaire to determine the context of the research by asking general questions like age, gender, and occupation. Multiple choice questions were employed with Likert scales so respondents could indicate the 'level of agreement' of their perception towards each HRM practices, 'Level of achievement' with respect to Operational practices as well as Firm Performance, 'The Likert scale had a range of options from 'Strongly Agree' to 'Strongly Disagree' as well as from 'Very Low to Very High'. This gave respondents the ability to make fine distinctions between adoption of various HRM practices as well as Operational & Firm Practices (Dundas, 2004). For moderating variables bipolar questions are asked according to the degree of achievement or adoption of firm. There are two sides of each factor, left & right. Respondent asked to choose one between the left & right and rate with five degrees, ranging from 1,2,3,4 to 5 which means (5) Very High, (4) High, (3) Moderate, (2) Low & (1) Very Low.

Test Used: Preliminary Analysis (Preliminary analysis includes Assessing normality, Multicollinearity, Checking outlier, Homoscedasticity, Independence of Residual, Scatterplots), Reliability Analysis, Correlation coefficient Analysis, Multiple regressions Analysis, ANOVA

Software Used for Data Analysis: MS EXCEL, IBM SPSS, AMOS

ANALYSIS AND DISCUSSION

Characteristics Survey Data

Table No.1 Characteristics Survey Data

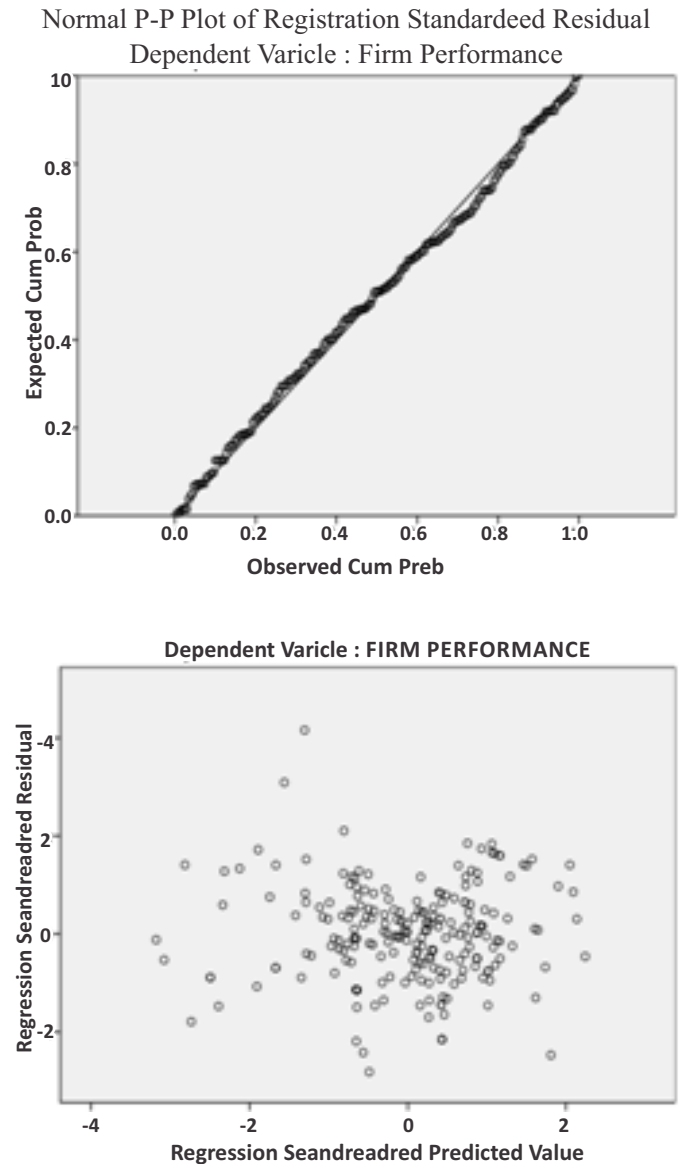
	Frequency	Percent
GENDER		
Male	209	92.5
Female	17	7.5
AGE		
Less than 30	54	23.9
30 to 40	82	36.3
41-50	54	23.9
51-60	31	13.7
More than 60	5	2.2
EDUCATION		
Bachelor	113	50
Post Graduate	36	15.9
Master	67	29.6
Others	10	4.4
POSITION		
Entrepreneur	71	31.4
Employees	62	27.4
Supervisor	9	4
Manager	67	29.6
President & Vice President	17	7.5
EMPLOYEES		
Less than 50	107	47.3
51-100	54	23.9
101-150	10	4.4
151-200	13	5.8
More than 200	42	18.6
CLASS OF FIRM		
Local	180	79.6
Foreign/Export Oriented	25	11.1
Joint Venture	19	8.4
Others	2	0.9
YEAR OF OPERATION		
Less than 5	22	9.7
5-10	46	20.4
11-15	49	21.7
16-20	26	11.5
More than 20	83	36.7
INDUSTRY TYPE		
Manufacturing	226	100
TOTAL	226	

Normality of Data :

All skewness value is from -0.019 to -1.175 and kurtosis value is from 0.014 to 1.348. According to the guideline suggested by Kline (1998), all variables are univariate normal and the individual variable is normal in a univariate sense and that their combinations are also normal. So researcher can conclude that HRM data is multivariate normal and should be used for further multivariate analysis.

One of the ways that these assumptions can be checked is by inspecting the residuals scatterplot and the Normal Probability Plot of the regression standardized residuals that were requested as part of the analysis.

Figure No. 1 P-PPlot& Scatterplot



In the Normal Probability Plot (Figure No. 1), we observed that our points have lie in a reasonably straight diagonal line from bottom left to top right. This would no major deviations from normality. In the Scatterplot of the standardized residuals (Figure No.1) we observed that the residuals were roughly rectangular distributed, with most of the scores concentrated in the centre (along the 0 point). Standardized residual (as displayed in the scatterplot) of more than 3.3 or less than -3.3.

Cronbach Reliability

Table No.2 Cronbach Reliability

Reliability Statistics	HRM Practices		OP		FP	
	Cronbach's Alpha	N of Items	Cronbach's Alpha	N of Items	Cronbach's Alpha	N of Items
	.908	36	.755	13	.783	13

Model Validity:

Table No.3 Goodness-of-Fit Statistic (Measurement Model-SERVQUAL).

Goodness-of-fit model index	Recommended Value*	Conceptual HRM Model
Chi-square/degree of freedom(CMIN/df)**	≤ 5.00	2.16
Goodness-of-fit index(GIF)	≥ .90	.90
Adjusted goodness-of-fit index (AGFI)	≥ .80	.86
Normalized fit index (NFI)	≥ .90	.91
Tucker-Lewis index (TLI/NNFI)	≥ .90	.94
Comparative fit index (CFI/RNI)	≥ .90	.95
Root mean square error of approximation (RMSEA)	≤ .08	.06
Standardized root mean square residual (standardized RMR)	≤ .08	.0429

* These criterias are according to Hair et al. (1998,2010) and Arbuckle and Wothke (1995)

** Ullman (1996) recommended chi-squar/degree of freedom value of < 5.00.

The score obtained from the analysis suggested an excellent fit between the data and model ($\chi^2 = 430.51$, $df=199$, $\chi^2/df=2.16$, $TLI=.939$, $CFI=.947$, $RMSEA=.06$). All the fit indices comply with the values recommended by Haire et.al.(2010) and Arbuckle and Wothke (1995).

Hypothesis Testing

H1: HRM practices are positively related to firm's performance.

Table No.4 - Correlations between HRMP and FP

		HRMP	FIRM PERFORMANCE
HRM Practices	Pearson Correlation	1	.494**
	Sig. (2-tailed)		.000
	N	226	226
FIRM PERFORMANCE	Pearson Correlation	.494**	1
	Sig. (2-tailed)	.000	
	N	226	226

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

There is linear positive correlation between HRM Practices and Firm Performance. The correlation coefficient is 0.494 and is statistically significant as the p-value is less than 0.05. In other words, researcher failed to accept the Ho and leads to rejection of Ho.It means, HRM practices are positively related to firm's performance.

• Correlation between HRM Dimensions and Financial & Non-Financial Performance

Table No.5 Correlations between Nonfinancial and Financial Performance

		Nonfinancial Performance	Financial Performance
HR Planning	Pearson Correlation	.499**	.130
	Sig. (2-tailed)	.000	.050
	N	226	226
Staffing Practices	Pearson Correlation	.294**	.287**
	Sig. (2-tailed)	.000	.000
	N	226	226
Incentives Practices	Pearson Correlation	.329**	.214**
	Sig. (2-tailed)	.000	.001
	N	226	226
Performance Appraisal	Pearson Correlation	.464**	.163*
	Sig. (2-tailed)	.000	.014
	N	226	226
Training Program	Pearson Correlation	.271**	.153*
	Sig. (2-tailed)	.000	.022
	N	226	226

Teamwork	Pearson Correlation	.121	.182**
	Sig. (2-tailed)	.068	.006
	N	226	226
Employee Participation	Pearson Correlation	.189**	.295**
	Sig. (2-tailed)	.004	.000
	N	226	226
CSR towards employees	Pearson Correlation	.414**	.227**
	Sig. (2-tailed)	.000	.001
	N	226	226

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

There is linear positive correlation between HRM Dimensions and Financial & Non-Financial Performance. The correlation coefficients are positive and are statistically significant as the p-value is less than 0.05 except team work.

H2: HRM practices are positively related to Operation performance.

Table No.6 Correlations between HRMP and OP

		HRM	OPERATION PERFORMANCE
HRM Practices	Pearson Correlation	1	.399**
	Sig. (2-tailed)		.000
	N	226	226
Operation PERFORMANCE	Pearson Correlation	.399**	1
	Sig. (2-tailed)	.000	
	N	226	226

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

There is linear positive correlation between HRM Practices and Operation Performance. The correlation coefficient is 0.399 and is statistically significant as the p-value is less than 0.05. In other words, researcher failed to accept the Ho and leads to rejection of Ho. It means, HRM practices are positively related to of Operation performance

H3: HRM Practices has impact on firm's non financial performance.

Table No.7 ANOVA- HRM Practices & financial performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	810.929	1	810.929	75.920	.000 ^a
	Residual	2392.633	224	10.681		
	Total	3203.562	225			

a. Predictors: (Constant), HRMP, b. Dependent Variable: Non : Financial Performance

The value of R-Square is .250, which means that about 25 per cent variation in the dependent variable-non-financial performance is explained by the independent variable- HRM Practices. The F-value is the Mean Square regression divided by the Mean Square Residual, yielding F=75.920. The p-value associated with the F value is very small (.000). Here we can say that HRM practices explain the significant amount of variation in the Non-Financial performance of the firm.

Table No.8 Coefficients- HRM Practices & financial performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.196	1.506		2.786	.006
	HRMP	.102	.012	.503	8.713	.000

a. Dependent Variable: Nonfinancial Performance

From above table, the beta of HRMP variable is .503 and its significant (p<.05), it means HRMP have strong impact on Non-financial performance of firm.

H4: HRM practices have impact on firm's financial performance.

Table No.9 ANOVA- HRM practices and financial performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	419.268	1	419.268	22.223	.000 ^a
	Residual	4226.007	224	18.866		
	Total	4645.274	225			

a. Predictors: (Constant), HRMP, b. Dependent Variable: Financial Performance

The value of R-Square is .090, which means that about 9 per cent variation in the dependent variable-financial performance is explained by the independent variable- HRM Practices. The F-value is the Mean Square regression divided by the Mean Square Residual, yielding $F=22.223$. Here we can say that HRM practices explain the significant amount of variation in the financial performance of the firm.

Table No. 10 Coefficients HRM practices and financial performance

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	19.282	2.002		9.633	.000
HRM	.073	.016	.300	4.714	.000

a. Dependent Variable: Financial Performance

From above table, the beta of HRMP variable is .300 and it's significant ($p < .05$), it means HRMP have strong impact on Financial Performance of firm.

H5: Management Style (Decentralization Vs Centralization) moderately affects the relationship between HRM practices and firm's Operational performance.

Table No.11 Sequence of Regression Analyses to establish the Mediating Effect of Management Style on Operation Performance

		R Square	F	Sig.	Beta	sig.***
a	HRMP→MS	.017	3.904	0.049	0.131	0.049
b	HRMP→OP	.160	42.53	0.000	.399	0.000
c	HRMP and MS→ OP	.160	21.18	0.000	.401*	.000
					-.008**	.894

*beta of HRMP, **beta of MS,***Sig. at 95% Confidence Level

Here, the mediator variable Management style has no significant effect ($p > .05$, in equation no.3) on the relationship between HRM practices and Firm's Operation Performance.

H6: Management Style (Decentralization Vs Centralization) moderately affects the relationship between HRM practices and firm's performance.

Table No.12 Sequence of Regression Analyses to establish the Mediating Effect of Management Style on Firm Performance

		R Square	F	Sig.	Beta	sig.***
a	HRMP→MS	0.017	3.904	0.049	0.131	0.049
b	HRMP→FP	0.224	72.23	0.000	0.494	0.000
c	HRMP and MS→ FP	0.237	36.01	0.000	0.492*	0.000
					0.292**	0.771

*beta of HRMP, **beta of MS,***Sig. at 95% Confidence Level

Here, the mediator variable management style has no significant effect ($p > .05$, in equation no.3) on the relationship between HRM practices and firm's Operation performance.

H7: Social Capital (Trust Vs Distrust) moderately affects the relationship between HRM practices and firm's Operation performance.

Table No.13 Sequence of Regression Analyses to establish the Mediating Effect of Social Capital on Operation Performance

		R Square	F	Sig.	Beta	sig.***
a	HRMP→SC	.100	24.79	0.000	-.316	0.000
b	HRMP→OP	.160	42.53	0.000	.399	0.000
c	HRMP and SC→ OP	.160	21.18	0.000	.397	.000
					-.007	.908

*beta of HRMP, **beta of SC, ***Sig. at 95% Confidence Level

Here, the mediator variable Social Capital has no significant effect ($p > .05$, in equation no.3) on the relationship between HRM practices and firm's Operation performance.

H8: Social Capital (Trust Vs Distrust) moderately affects the relationship between HRM practices and firm's performance.

Table No.14 Sequence of Regression Analyses to establish the Mediating Effect of Social Capital on Firm Performance

		R Square	F	Sig.	Beta	sig.***
a	HRMP→SC	.100	24.79	0.000	-.316	0.000
b	HRMP→FP	.244	72.23	0.000	.494	0.000
c	HRMP and SC→ FP	.244	35.98	0.000	.489	.000
					-.014	.824

*beta of HRMP, **beta of SC, ***Sig. at 95% Confidence Level

Here, the mediator variable Social Capital has no significant effect ($p > .05$, in equation no.3) on the relationship between HRM practices and Firm Performance.

H9: Corporate culture (Proactive Vs Reactive) moderately affects the relationship between HRM practices and firm's Operation performance.

Table No.15 Sequence of Regression Analyses to establish the Mediating Effect of Corporate culture on Operation Performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	810.929	1	810.929	75.920	.000 ^a
	Residual	2392.633	224	10.681		
	Total	3203.562	225			

a. Predictors: (Constant), HRMP b. Dependent Variable: Non Financial Performance

The value of R-Square is .250, which means that about 25 per cent variation in the dependent variable-non-financial performance is explained by the independent variable- HRM Practices. The F-value is the Mean Square regression divided by the Mean Square Residual, yielding F=75.920. The p-value associated with the F value is very small (.000). Here we can say that HRM practices explain the significant amount of variation in the Non-Financial performance of the firm.

Table No.8 Coefficients-HRM Practices & financial performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.196	1.506		2.786	.006
	HRMP	.102	.012	.503	8.713	.000

a. Dependent Variable: Nonfinancial Performance

From above table, the beta of HRMP variable is .503 and its significant (p<.05), it means HRMP have strong impact on Non-financial performance of firm.

H4: HRM practices have impact on firm's financial performance.

Table No.9 ANOVA- HRM practices and financial performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	419.268	1	419.268	22.223	.000 ^a
	Residual	4226.007	224	18.866		
	Total	4645.274	225			

a. Predictors: (Constant), HRMP, b. Dependent Variable: Financial Performance

The value of R-Square is .090, which means that about 9 per cent variation in the dependent variable-financial performance is explained by the independent variable- HRM

Practices. The F-value is the Mean Square regression divided by the Mean Square Residual, yielding F=22.223. Here we can say that HRM practices explain the significant amount of variation in the financial performance of the firm.

Table No. 10 Coefficients HRM practices and financial performance

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	19.282	2.002		9.633	.000
HRM	.073	.016	.300	4.714	.000

a. Dependent Variable: Financial Performance

From above table, the beta of HRMP variable is .300 and it's significant (p<.05), it means HRMP have strong impact on Financial Performance of firm.

H5: Management Style (Decentralization Vs Centralization) moderately affects the relationship between HRM practices and firm's Operational performance.

Table No.11 Sequence of Regression Analyses to establish the Mediating Effect of Management Style on Operation Performance

		R Square	F	Sig.	Beta	sig.***
a	HRMP→MS	.017	3.904	0.049	0.131	0.049
b	HRMP→OP	.160	42.53	0.000	.399	0.000
c	HRMP and MS→ OP	.160	21.18	0.000	.401*	.000
					-.008**	.894

*beta of HRMP, **beta of MS,***Sig. at 95% Confidence Level

Here, the mediator variable Management style has no significant effect (p>.05, in equation no.3) on the relationship between HRM practices and Firm's Operation Performance.

H6: Management Style (Decentralization Vs Centralization) moderately affects the relationship between HRM practices and firm's performance.

Table No.12 Sequence of Regression Analyses to establish the Mediating Effect of Management Style on Firm Performance

		R Square	F	Sig.	Beta	sig.***
a	HRMP→MS	0.017	3.904	0.049	0.131	0.049
b	HRMP→FP	0.224	72.23	0.000	0.494	0.000
c	HRMP and MS→ FP	0.237	36.01	0.000	0.492*	0.000
					0.292**	0.771

*beta of HRMP, **beta of MS,***Sig. at 95% Confidence Level

Here, the mediator variable management style has no significant effect ($p > .05$, in equation no.3) on the relationship between HRM practices and firm's Operation performance.

H7: Social Capital (Trust Vs Distrust) moderately affects the relationship between HRM practices and firm's Operation performance.

Table No.13 Sequence of Regression Analyses to establish the Mediating Effect of Social Capital on Operation Performance

		R Square	F	Sig.	Beta	sig.***
a	HRMP→SC	.100	24.79	0.000	-.316	0.000
b	HRMP→OP	.160	42.53	0.000	.399	0.000
c	HRMP and SC→ OP	.160	21.18	0.000	.397	.000
					-.007	.908

*beta of HRMP , **beta of SC, ***Sig. at 95% Confidence Level

Here, the mediator variable Social Capital has no significant effect ($p > .05$, in equation no.3) on the relationship between HRM practices and firm's Operation performance.

H8: Social Capital (Trust Vs Distrust) moderately affects the relationship between HRM practices and firm's performance.

Table No.14 Sequence of Regression Analyses to establish the Mediating Effect of Social Capital on Firm Performance

		R Square	F	Sig.	Beta	sig.***
a	HRMP→SC	.100	24.79	0.000	-.316	0.000
b	HRMP→FP	.244	72.23	0.000	.494	0.000
c	HRMP and SC→ FP	.244	35.98	0.000	.489	.000
					-.014	.824

*beta of HRMP , **beta of SC, ***Sig. at 95% Confidence Level

Here, the mediator variable Social Capital has no significant effect ($p > .05$, in equation no.3) on the relationship between HRM practices and Firm Performance.

H9: Corporate culture (Proactive Vs Reactive) moderately affects the relationship between HRM practices and firm's Operation performance.

Table No.15 Sequence of Regression Analyses to establish the Mediating Effect of Corporate culture on Operation Performance

		R Square	F	Sig.	Beta	sig.***
a	HRMP→CC	.105	26.37	0.000	-.325	0.000
b	HRMP→OP	.160	42.53	0.000	.399	0.000
c	HRMP and CC→ OP	.160	21.30	0.000	.389	.000
					-.031	.631

*beta of HRMP , **beta of CC,***Sig. at 95% Confidence Level

Here, the mediator variable Corporate Culture has no significant effect ($p > .05$, in equation no.3) on the relationship between HRM practices and firm's Operation performance.

H10: Corporate culture (Proactive Vs Reactive) moderately affects the relationship between HRM practices and firm's performance.

Table No.16 Sequence of Regression Analyses to establish the Mediating Effect of Corporate Culture on Firm Performance

		R Square	F	Sig.	Beta	sig.***
a	HRMP→CC	.105	26.37	0.000	-.325	0.000
b	HRMP→FP	.244	72.23	0.000	.494	0.000
c	HRMP and CC→ FP	.254	38.04	0.000	.458	.000
					-.109	.077

*beta of HRMP , **beta of CC, ***Sig. at 95% Confidence Level

Here, the mediator variable Corporate Culture has no significant effect ($p > .05$, in equation no.3) on the relationship between HRM practices and Firm Performance.

H11: There is no difference in of HRM Practices, Firm Performance, and Operation Performance across year of Operation of the firm.

Table No.17 ANOVA-HRMP and Year of Operation

HRM PRACTICE					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	2286.562	4	571.641	1.677	.156
Within Groups	75326.079	221	340.842		
Total	77612.642	225			

F-value is the ratio between-groups mean squares and within-group mean square. The F-ratio equals 1.677 and its associated p-value (sig.) is reported as .156. It indicates the probability of observed value happening by chance. The result shows that the difference between means of five groups (categories) of years of Operation of firms is non-significant. Thus, we fail to reject null hypothesis and say that there is no difference in of HRM Practices across year of Operation of firm.

• There is no difference in Dimensions of HRM Practices of firm belonging to its year of Operations.

Table No.18 ANOVA on Dimensions of HRM Practices of firm belonging to its year of Operations.

		Sum of Squares	df	Mean Square	F	Sig.
HR Planning	Between Groups	71.184	4	17.796	2.002	.095
	Within Groups	1964.219	221	8.888		
	Total	2035.403	225			
Incentives Practices	Between Groups	40.560	4	10.140	1.859	.119
	Within Groups	1205.693	221	5.456		
	Total	1246.252	225			
Performance Appraisal	Between Groups	15.076	4	3.769	.711	.585
	Within Groups	1171.066	221	5.299		
	Total	1186.142	225			
Employee Participation	Between Groups	27.655	4	6.914	1.544	.191
	Within Groups	989.814	221	4.479		
	Total	1017.469	225			
CSR towards employees	Between Groups	352.331	4	88.083	1.041	.387
	Within Groups	18700.045	221	84.616		
	Total	19052.376	225			
Staffing Practices	Between Groups	56.820	4	14.205	2.239	.066
	Within Groups	1402.242	221	6.345		
	Total	1459.062	225			
Training Program	Between Groups	29.140	4	7.285	.933	.446
	Within Groups	1726.082	221	7.810		
	Total	1755.221	225			
Teamwork	Between Groups	19.705	4	4.926	.857	.490
	Within Groups	1269.764	221	5.746		
	Total	1289.469	225			

The result shows that the difference between means of five groups (categories) of years of Operation of firms is non-significant in all the dimension of HRM Practices. Thus, we fail to reject null hypothesis and say that there is no difference in HR Planning, Incentives Practices, Performance Appraisal, Employee Participation, CSR towards Employees, Staffing Practices, Training Program, Team work across year of Operation of firm.

There is no difference in Firm Performance (Financial and Non-financial Performance) belonging to its year of Operations.

Table No.19 ANOVA Firm Performance (Financial And Non-Financial Performance) Belonging To Its Year Of Operation

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
Financial Performance	Between Groups	256.504	4	64.126	3.229	.013
	Within Groups	4388.771	221	19.859		
	Total	4645.274	225			
Nonfinancial Performance	Between Groups	56.831	4	14.208	.998	.410
	Within Groups	3146.731	221	14.239		
	Total	3203.562	225			

The F-ratio in financial performance equals 1.677 and its associated p-value (sig.) is reported as .013. It indicates the probability of observed value happening are not by chance. The result shows that the difference between groups (categories) of years of Operation of firms is significant. Moreover, thus we reject null hypothesis and say that there is significant difference in of financial across year of Operation of firm. Moreover F-ratio in non-financial performance .998 and its associated p-value (sig.) is reported as .410. It indicates the probability of observed value happening by chance. The result shows that the difference between groups (categories) of years of Operation of firms is non-significant.

There is no difference in Operation Performance of firm belonging to its year of Operations.

• **Table No.20** ANOVA-difference in Operation Performance of firm belonging to its year of Operations.

OPERATION PERFORMANCE

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	231.397	4	57.849	1.401	.235
Within Groups	9128.568	221	41.306		
Total	9359.965	225			

F-value is the ratio between-groups mean squares and within-group mean square. The F-ratio equals 1.496 and its associated p-value (sig.) is reported as .204. It indicates the probability of observed value happening by chance. The result shows that the difference between means of five groups (categories) of years of Operation of firms is non-significant. Thus, we fail to reject null hypothesis and say that there is no difference in of Operation of Firm across year of Operation of firm.

H12: Impact on HRMP, Management style, Social Capital and Corporate Culture on Non Financial performance, Financial Performance and Operation Performance

Impact on HRMP, Management style, Social Capital and Corporate Culture on Non Financial performance

Table No.21 Regression Analysis

Coefficients					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	10.173	1.811		5.618	.000
Management style	-.022	.036	-.034	-.620	.536
Social Capital	7.123E-5	.046	.000	.002	.999
Corporate Culture	-.211	.046	-.334	-4.604	.000
HRM PRACTICE	.081	.012	.399	6.866	.000

a. Dependent Variable: Nonfinancial Performance

From above table, the beta of HRMP and Corporate Culture variables are -.399 and .334 respectively and it's significant (p<.05), it means HRMP and Corporate Culture have strong impact on Non-Financial Performance of firm.

Impact on HRMP, Management style, Social Capital and Corporate Culture on Financial performance

Table No.22 Coefficients- HRMP, Management style, Social Capital and Corporate Culture on Financial performance

Coefficients^a					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	15.423	2.553		6.041	.000
Management style	.050	.050	.064	1.004	.317
Social Capital	.098	.065	.128	1.508	.133
Corporate Culture	.030	.065	.040	.468	.640
HRM PRACTICE	.084	.017	.345	5.074	.000

a. Dependent Variable: Financial Performance

From above table, the beta of HRMP variables is .345 and it's significant (p<.05), it means HRMP have strong impact on Financial Performance of firm.

Impact on HRMP, Management style, Social Capital and Corporate Culture on Operation performance

Table No.23 Coefficients- HRMP, Management style, Social Capital and Corporate Culture on Operation performance

Coefficients^a					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	29.607	3.529		8.389	.000
Management style	-.007	.069	-.007	-.105	.917
Social Capital	.019	.089	.018	.216	.829
Corporate Culture	-.046	.089	-.042	-.509	.611
HRM PRACTICE	.136	.023	.392	5.919	.000

a. Dependent Variable: OPERATION PERFORMANCE

From above table, the beta of HRMP variables is .392 and it's significant (p<.05), it means HRMP have strong impact on Operation Performance of firm.

CONCLUSIONS

From the findings of HRM practices and Firm Performance Correlation studies, it was found HRM Practices has a positive impact on Financial Performance. And the most positively related that has impact of CSR practices towards employees, Employee Participation & and staffing. HR planning and Training are failed to create any significant impact, hence HR Planning and training has less influence on firm's financial performance. This may be explained that using great amount of money investing in selective staffing to get talented people can somewhat cut down cash flow for market share expansion. Sales Growth of the firm can enhance by CSR practices towards employee, employee participation, training and staffing which indicates that, well trained sales staff can effectively convert cold call into sales call thereby impressing upon company's market share and its contribution towards his employees wellbeing in a form of CSR activities.

Regression analysis of HRM practices on firm performance found that, impact of HRM practices on Firm Performance is positive but it shows more impact in non-financial performance than to a firm financial performance. It reveals that, in SMEs the role of HRM is shattered by the marketing, finance and production role due to limited machine, material and money.

Similar findings reveals in the study of that, Small entrepreneurial firms in India do not implement formal HR practices due to limit operations in low technology, low margin business encouraging great lack of formal systems and practices prominently in human resources management.

Our findings on Moderating role of Management Style on the relationship between HRM practices and Firm performance as well as HRM practices and Operational Performance shows that, top management's decentralization role delegates the operational tasks and authority to perform this task to middle and junior management develops confidence among employees to become responsible and contribute towards the performance.

Present findings are significantly contributing to the non financial performance than to financial performance so future studies should be towards individual practices and how it is impacting the firm's financial performance.

Present study has taken management style, culture and social capital as moderating variables, other variables such as firm strategy and environmental uncertainty can be tested on HRM and firm performance relationship as well as HRM – operational performance relationship.

Further studies could also consider undertaking more complex research than the present research by adding control variables other than firm size and employees' strength in the firm.

While this study makes a number of contributions, it also has a number of limitations. The major limitations of this study revolve around sampling issues as the small sample size (226 firms) reported here may have affected the current results. Even though the findings might have indicated certain results, these findings cannot be construed as an independent model to ensure performance of the entire SME sector. As nature of SMEs is keep changing based on SME clusters. Hence separate studies should be undertaken for SMEs of textile, manufacturing, gems and so on.

Nonetheless, this model has provided insight into possible reasons for organizational performance. In addition to that, the study focused on perceptions of organizational performance and HR practices as reported by the employees.

Hence, it is subject to common source and common method bias.

A longitudinal approach would have placed the researcher in a better position to draw causal conclusions. Therefore, only conclusions or discussions of the general relationships between the variables of interest could be drawn.

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