



## HRM PRACTICES AND EMPLOYEE SATISFACTION IN SMES: AN EMPIRICAL STUDY

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### **Abstract**

*Growing academic research indicating the profound and positive link between Human Resource Management and job satisfaction is well documented in literature. However, barring some rare exceptions, the employee or supervisors' voice has been offered very little attention. Besides, researchers have used separate measures for assessing the relationship between HRM and JS. The present study therefore, using a sample of 153 supervisors from three firms falling in Cement Industry of the state of Jammu & Kashmir, made a couple of useful deviations from the existing line of research in studying employee satisfaction towards select HRM practices: (a) instead of separately studying the various HRM practices and relating those to employee satisfaction which is the normal trend found in the extant literature, the study attempted to directly investigate the extent of employee satisfaction with the select HRM practices; (b) the study gathered information from a number of employees in a bid to capture a comprehensive picture with regard to employee satisfaction towards given HRM practices rather than depending upon a single respondent usually a HR manager from the given organisation. Results of the study on the whole indicate low satisfaction among employees from the select HR practices.*

**Key Words:** *Human Resource Management; Private Sector, SMEs, Job Satisfaction.*

### **INTRODUCTION**

Most research in the area of human resource management (HRM) has been conducted from a managerial or academic perspective and, apart from some rare exceptions (Cully, & Woodland, O'Reilly and Dix 1999; Guest 1999; Nazir & Sabiya, 2008), the employee or supervisors' voice has been afforded very little attention. This situation developed even though employees are considered to be an organisation's most important asset and most models of HRM identify them as being an important stakeholder in the employment relationship. Given this, the paper builds the supervisors viewpoint into HRM by exploring their views on HRM practice and identifying what it is about HRM Practices they consider important.

All variants of HRM are ultimately concerned with the effective management of people so that organisations achieve their objectives and goals. However, at least according to the British literature (Keenoy 1990), the two principal models of HRM that came from the United States in the 1980s differ significantly. There is the strategic model of HRM (Fombrun, Tichy and Devanna 1984), characterised as 'hard', and the Harvard variant (Beer, Spector, Lawrence, Quinn-Mills and Walton 1984; Walton 1985) characterized as 'soft'.

Under the hard model, the effectiveness of HRM is measured using some sort of criteria that reflects organisational performance (for example, profitability, productivity levels, absenteeism, and turnover rates – see Becker and Gerhart 1996; Huselid 1995). Here the outcomes from the effective utilization of human resources for the organization are of paramount importance, whereas outcomes for employees do not enter into the equation thus with this model employees are largely considered a means to an end. Under soft model of HRM however, business performance continues to be a primary objective, but importance is also accorded to employee well-being, employee satisfaction and employee commitment. Employee satisfaction is an end in itself, and can be used as a measure of effectiveness of HRM (Guest 1999). It is also a means to employee commitment, which in turn is a means to improved business performance as indicated in the extant literature.

Moreover, the extant literature provides three categories of studies indicating the link between HRM practice and organizational effectiveness (Nazir & Sabiya, 2008). For example, studies that confirm a direct link between HRM and organizational outcome variables (c.f. Arthur, 1994; Fernie, Metcaf and Woodland, 1994), studies which relate HRM activities to HRM outcomes including employee commitment, satisfaction, well-being with their subsequent influence on firm effectiveness (c.f. d'Arcimoles, 1995; Kellerberg & Moody, 1994; Ting, 1997),

and the studies that argue moderation in HRM activities due to firm performance (c.f. Henry, Pettigrew and Sparrow, 1989). And, research testing this link is still in infancy and restricted to the developed nations including US and UK with some studies extended to countries like China, Spain, Australia and the like and mostly in service sector organizations. Given this scenario, the present study occupies all the more importance in assessing the employee satisfaction from HRM practices in the manufacturing units in the state of Jammu & Kashmir in India.

The study begins with sketching the evolution of HR/PM functions in India followed by review of literature between HRM practices and employee satisfaction. Then the research design besides critically reviewing the methods used in the measurement of HRM practices highlights the sample selection and data collection methods. Next section spots the findings of the study supported by the extant literature. Conclusion and limitations to the study form the last section of the paper.

### **EVOLUTION OF HR/PM FUNCTIONS IN INDIA**

The personnel function in India has been a product of various factors including labour legislation, concerted efforts by employers as well as unions. For example, Tata group implemented a number of welfare measures like provident fund and leave rules as early as in 1920s. The Bombay Mill Owners' Association and Jute Industry in India appointed labour officers in 1931 to look into employee grievances and disputes. A number of legislations like the *Trade Unions Act* of 1926, the *Factories Act* of 1948, *Standing Orders Act of 1948*, coupled with the recommendations of Royal Commission of 1932, laid the foundation of personnel function in India (Balasubramanian, 1994; 1995). The domain of personnel function expanded beyond labour welfare aspects in the 1960s and covered the labour welfare, industrial relations, and the personnel administration as well (Venkata Ratnam and Shrivastava, 1991). While 1970s witnessed organizational efficiency and effectiveness focus in Indian personnel functions, the 1980s dominated the issues like human resource management and human resource development (Singh, 2004). Further the establishment of the National Human Resource Development Network (NHRD) in 1985 and the Academy of HRD (AHRD) in 1990 gave a much needed impetus to the personnel functions in India. All in all, these two bodies fastened the shift of personnel function towards the human resource management and development orientation (Singh, 2004).

However, given the pace of liberalization which started in 1991, the firms in India are facing tremendous pressure to prove their metal in the face of this unprecedented competition from the overseas firms. And with the belief that foreign firms in India have better-skilled human resources (Budhwar and Khatri, 2001) the HR functions in Indian firms need to be more rationalized and structured to prepare and develop their employees in a bid to counter the overseas firms in skills, efficiency and effectiveness (Krishna and Monappa, 1994; Venkataratnam, 1995; Sparrow and Budhwar, 1997). While a good number of firms have positively reacted to these newer challenges (Sodhi, 1999), however, reasonably a few studies have been undertaken to properly examine the reaction of Indian firms to the people management issues in view of these latest developments. And more importantly, the extant research is conspicuously absent in assessing the employee reactions to these people management developments in the Indian context. Therefore, the present study was undertaken to fill up this gap given the interest western firms have in India as a place with huge domestic market (Datta and Sundharam, 1999).

### **HRM AND EMPLOYEE SATISFACTION: A REVIEW**

HRM is composed of the policies, practices, and systems that influence employees' behaviour, attitude, and performance (Noe, Hollenbeck, Gerhart, and Wright, 2007). It refers to the policies and practices involved in carrying out the 'human resource(HR)' aspects of a management position including human resource planning, job analysis, recruitment, selection, orientation, compensation, performance appraisal, training and development, and labour relations (Dessler, 2007). Of late researchers began to investigate the consequential impact of HR practices on various organizational outcome variables with the belief that HR policies and practices are intended to creating a committed and satisfied workforce. For instance, a number of scholars and practitioners hold that rigorous HR practices result in better level of job satisfaction with an impact on organizational performance (Appelbaum,

Bailey, Berg and Kalleberg, 2000). Using estimated regression model, Jeet & Sayeeduzzafar (2014) found that HRM practices like Training, Performance Appraisal, Team Work and Compensation bear a significant impact on job satisfaction. Likewise, Thang and Buyens (2008) stated that training and development lead to superior knowledge, skills, abilities, attitudes, and behavior of employees with an ultimate impact on financial and non-financial performance of the organizations. Judge, et. al, (1993), also found employee satisfaction to be positively correlated with motivation, job involvement, organizational citizenship behaviour, organizational commitment, life satisfaction, mental health, and job performance, and negatively related to absenteeism, turnover, and perceived stress and identify it as the degree to which a person feels satisfied by his/her job. Gürbüç (2009) remarked that in order to sustain in the market human resource management (HRM) practices and job satisfaction of employees have many significant benefits for organization.

The above and many other studies (see for example, Cully et al 2000; Edgar et al, 2005; Fletcher and Williams, 1996; Guest, 2002, Ray and Ray, 2011, Yang & Wang, 2013) indicated the positive and significant relationship between HRM practices and employee work related attitudes. Together with this, research has also claimed that adoption of formal HR practices is consistent with the rationalized and systematic employment system prevalent in the country. For example, plenty of evidences indicated the presence of structured employment system in the western countries like UK (see Gospel, 1992). However, the extant research in the Indian context on the whole reveals the unstructured and ad hoc nature of HR practices in the Indian organizations especially in the private sector (see for example, Bordia & Blau, 1998; Dutta, 1997; Ramaswamy et al 2000, Nazir & Sabiya, 2008). Venkataratnam (1995) for example, argued that rules regarding HR practices like recruitment, training, promotion and retrenchment are ad hoc in nature and easily manipulative.

Dutta (1997) also stated that private sector organizations were more used to these ad hoc and manipulative practices especially in recruiting and promoting people to top positions. He further revealed that social contacts and personalized relationships normally outweigh the merit and employee performance in promotion, pay benefits and transfer practices of the organizations. Piramal (1996; 1998) observed that the adoption of professional approach to managing HR in Indian organizations was considered as a threat to the owners' ability to enforce control. However, the situation with regard to adoption of HR practices in public sector organizations was found relatively better. Sharma (1992) found that public sector organizations exhibited a higher probability of being training providers. Similarly, Amba-Roa et al (2000) argued that private firms provide significantly less feedback on employee performance and that public sector firms were more hierarchical than private sector.

Further, given the scarcity of this line of research in the Indian organizations, research in the comparative HRM practices have suggested examining the basic HR functions including compensation, training and development, PAS, and the like (see for example, Budhwar et al 2004; Boxall, 1995). Based on the differences in the adoption of HR practices in the public and private sector firms as revealed above and the relatively unstructured HR scenario in India, it can be assumed that the level of employee satisfaction towards the select practices will be low in the firms studied. More specifically, the study hypothesizes as under:

*Hypothesis 1:* The overall level of employee satisfaction toward given HR practices will be low in the firms studied.

## **RESEARCH DESIGN**

Well there has been a growing body of evidence that HR practices are related to various work-related attitudes like employee commitment, satisfaction, turnover, well-being etc. But, of late researchers started voicing criticism on the methodology used in measuring the HR practices (see for example, Edgar & Geare, 2005; Fiorito, 2002; Guest, 2002). An attempt was therefore made here, to critically review the various approaches/methods used in the extant literature in measuring the HR practices followed by the methodology used in the present study.

### **The Additive method**

The literature cites this as one of the most common approaches used for assessing HR practices and their relationship with various employee related attitudes. In this approach, the employer reports about the prevalence

of HR practices in the organization on a “yes/no” response format from a pre-determined list of these practices. With the assumption that a higher sum indicates better HR, the “yes” responses are added together. Even though this approach received a wide acclaim from researchers, but it also attracted a strong criticism for being too simplistic. Besides, some argued this approach allows an employer to be at liberty in reporting a practice which may even have a token presence in the organization (see for example, Fiorito, 2002; Guest, 2002). In view of this weakness, researchers used employer self-reports capturing the strength of the HRM practices present in the organization.

### **Employer self-reports about the strength of HRM practice**

In this approach, the extent or strength of HRM practices is measured using response bands such as those contained in Likert scales. The approach stresses either on the degree employer considers HRM practices to be effective (Delaney & Huselid, 1996) or alternatively on the extent to which HRM practices are practiced in the organization.

However, this method is also not regarded adequate in highlighting the true picture regarding the presence of HR practices in the organization. As the title suggests, the method takes into account the employers’ views only about the presence of the HRM practices hence suffers from the employers’ bias. Therefore, in order to gain the accurate picture regarding the prevalence of HR practices in organizations, researchers began to study the perceived differences between the employers’ and employees’ views on the presence of various HR practices ( see for example, Appelbaum et al, 2000; Kane et al., 1999).

### **Employee self-reports about the strength of HRM practices**

Given the wide and significant perceptual differences between employers’ and employees’ on the presence of HR practices in the organizations, the third approach entails reporting the employees’ perceptions regarding the strength/degree of operationalization of HR practices in the organization. This approach has received a good support in the literature (see for example, Edgar & Geare, 2005; Fiorito, 2002; Gibb, 2001).

Given the latest trend in literature as cited above, this research measured the strength of HR practices as follows: the personnel managers of the sample firms were asked about the presence and operationalisation of select HR practices in their organizations using a semi-structured interview schedule. Based on this and guided conversation with the concerned managers, a questionnaire was developed for assessing the level of employee satisfaction with the select HR practices on a Likert type scale with the responses ranging from highly satisfied to highly dissatisfied.

## **METHODOLOGY**

### **Sampling Design & Data Source**

In the absence of the universally accepted definitions of SMEs at the international level; the set criteria to define SMEs vary from country to country. As such EU countries for example, make a general distinction between small and medium sized businesses based on the following criteria:

**Table 1: Classification of business on the basis of No. of Employees**

Number of employees-	Nature of Business
10-49	Small business
50-249	Medium size business

Source: *Effective Policies for Small Business: A Guide for the Policy Review Process and Strategic Plans for Micro, Small and Medium Enterprise Development (2004), UNIDO and OECD.*

In the Indian context, small and medium enterprises as per the MSME Development Act, 2006 are defined based on their investment in plant and machinery (for manufacturing enterprise) and on equipment for enterprises providing or rendering services. According to the Micro, Small and Medium Enterprises (MSME) Development Act of 2006, (India), a medium enterprise is where the investment in plant and machinery is 5 crore rupees. A

small enterprise is where the investment in plant and machinery is more than twenty five lakh rupees but does not exceed five crores rupees. In the case of the enterprises engaged in providing or rendering of services,

- a) A small enterprise is one where the investment in equipment is more than ten lakh rupees but does not exceed two crores rupees.
- b) A medium enterprise is one where the investment in equipment is more than two crores rupees but does not exceed five crores rupees.

According to the Ministry of Micro Small and Medium Enterprises, recent ceilings on investment for enterprises to be classified as small and medium enterprises are as follows:

**Table 2: Classification of Business on the basis of ceiling of Investment**

Classification	Manufacturing enterprise*	Service enterprise**
Small	Rs. 50 million /Rs. 5 Crore	Rs. 20 million/ Rs. 2 crore
Medium	Rs. 100 million/Rs. 10 Crore	Rs. 50 million/ Rs. 5 Crore

\*Investment limit in Plant and machinery

\*\*Investment limit in equipment

### Sample Respondents

Three types of respondents were required for the study including one, Owner/CEO/MD of the firm as necessitated by the structure/design of the study. The number of respondent was 1 from each firm and information was gathered in order to know the overall background and history of the establishment. Second, the HR Manager of each firm studied with the purpose of procuring first hand information from them regarding the HR Policies and Practices prevailing in the establishment and the third type of respondents were the supervisors of each sampled organization for assessing their level of satisfaction from the existing HR practices.

A stratified random sample of 159 supervisors was drawn from the three firms studied. Of the 159 questionnaires administered to them personally, a total of 157 questionnaires were returned out of which only 153 were usable for data analysis. The majority of the respondents were male (90 percent), the average age was 39.73 years, and the average length of service was nearly seven years. The employee strength was more than 200 in each firm and all the firms were in operation for more than 10 years. Research in the field of HRM states, that firms with more than 200 employees are more likely to have formal HRM function (Brewster and Hegewisch, 1994).

### Questionnaire Development

Extant research indicated that a crucial aspect of survey methodology is the development of the questionnaire which suits to its purpose (Sheatsley, 1983; Churchill, 1991). Consequently, a research instrument was developed covering five HRM practices: training and development, performance appraisal, compensation, grievance mechanism and promotion to meet the purpose of the study. These practices were selected as they were found related to various employee work related attitudes like satisfaction etc. (see for example, Bordia et al 1998; Edgar et al 2005).

Table3: Factor analysis of employee satisfaction from the HR practices

Item	loadings	Alpha
Grievance	.73	.90
Performance appraisal	.49	
Training	.53	
Compensation	.61	
Promotion	.58	
Eigen value	3.22	
Proportion of variance	49.06	

Four items concerned satisfaction from grievance handling, and the alpha of these items was .79. Performance appraisal was measured by 2 items which showed an alpha of .61. Satisfaction from training was measured with four items and its alpha stood at .63. Compensation dimension included 3 items with an alpha of .88. Promotion was measured by 2 items which showed an alpha of .61. All the items were measured on a 5 point Likert scale. Table (3) shows the result of factor analysis of these items. All five employee perceptions regarding their

satisfaction from the said HR practices were factored as one major factor, explaining 49.06 per cent of the total variance. Reliability among these variables was .90.

On the whole there were 15 items in the questionnaire and the respondent was asked to indicate his level of satisfaction from the given HR practice on a 5 point Likert scale with the response band ranging from highly satisfied (5) to highly dissatisfied (1) and the question was labelled as: "To what extent are you satisfied with ...". There was acceptable internal reliability ( $\alpha = .90$ ) for the whole scale. The cronbach alpha coefficients range between .61 and .88 (see table 1). Two of the five dimensions had alpha above the Nunnally (1978) criterion of .70 and of the rest three was just below this criterion. However, in contrast to the Nunnally (1978) criterion of .7, Peterson (1994) and Slater (1995) suggest that .60 is the "criterion in use".

## RESULTS AND DISCUSSION

The mean, mean percentage scores of HRM items for all the firms studied are presented in table 4. The 15 item instrument used 5 point scale resulting in mid-point three. A cursory look at the table indicates that employees seem to have low satisfaction from the HRM Practices prevailing in the firms studies. The mean percentage score and mean score on all the items is 64.25 and 2.57 respectively as can be noticed from the said table. On individual basis, item no. 13 regarding managements' readiness in providing financial aid to the needy employees in meeting their contingency/unusual expenses has received the highest mean score of 3.34 and a mean percentage score of 83.5, while item no. 15 'methods used in imparting training and development to employees in this organization' .has a lowest mean score of 2.15 and mean percentage score of 53.8. The other items fall in between these two extremes. Pertinently, the overall mean score (2.57) is relatively lower than the mid-point 3 on the Likert scale used in the study.

**Table 4: Showing overall perceived satisfaction among Supervisors towards prevailing HRM Practices (n=153).**

Items	Statements	Obtained Score	Mean (N=153)	% of Mean Score
1.	Promptness in getting the employee grievances redressed in this organization.	372	2.43	60.75
2.	Selection of employees for various training and orientation programmes in this organization.	350	2.29	57.3
3.	Identification of talent & potential in employees through Annual Progress Reports/Performance Appraisal System (APRs/PAS).	410	2.68	67.0
4.	Compensation criteria followed in this organization.	448	2.93	73.25
5.	Promotional avenues available to employees in this organization.	335	2.19	74.5
6.	The settlement machinery for the redressal of employee grievances in this organization.	418	2.73	68.3
7.	Facilities for employees for upgrading their skills.	355	2.32	58.0
8.	Fairness & transparency of PAS/APRs in this organization.	402	2.63	65.8
9.	Financial incentives like bonus, subsidized loans and advances etc to employees.	482	3.15	78.8
10.	Promotion criteria followed in this organization.	402	2.63	65.75

11.	Functioning of the grievance handling cell in this organization.	389	2.54	63.5
12.	Identification of training and development needs of employees in this organization.	343	2.24	56.0
13.	Managements' readiness in providing financial aid to the needy employees in meeting their contingency/unusual expenses.	511	3.34	83.5
14.	Representation given to the unions in the grievance settlement machinery.	347	2.27	56.8
15.	Methods used in imparting training and development to employees in this organisation.	329	2.15	53.8
	<b>Total</b>	<b>5893</b>	<b>2.57</b>	<b>64.25</b>

Also the level of employee satisfaction on the given HR practices was measured using a five way goodness employee satisfaction scale developed by Ganguly (1994). The scale categorizes the employee level of satisfaction into 5 parts with the extreme categories labelled as highly satisfied and highly dissatisfied based on the total and obtained score on the given scale (table 5).

**Table 5: Five way goodness of employee satisfaction**

Satisfaction sub-group	Standard scores of satisfaction
Highly satisfied	66% and above
Satisfied	51-65%
Average to moderate satisfaction	31-50%
Dissatisfaction	16-30%
Highly dissatisfied	15% and less

Source: Nazir & Tanveer (2005) "Computerization, nature of work and employee satisfaction in Banks" NMIMS, Management Review, Mumbai (India), Vol.. XVII No. 2.

The obtained scores on employee satisfaction are displayed in table 5. The obtained responses on satisfaction were 5893 out of a maximum possible score of 11475 indicating a just above average (51.36%) level satisfaction. Thus the above results clearly support our hypothesis that the level of employee satisfaction will be low in the firms studied.

**Table 6: level of employee satisfaction by Ganguly goodway criteria**

	Public
Maximum possible score	11475
Obtained score	5893
%age level of satisfaction	51.36

Bordia and Blau (1998) reported a higher pay satisfaction in private sector firm employees than their counterparts in the public sector. Similarly, Rekhi (1994) also reported that private sector across all industries in India witnessed a tremendous hike in pay due to market-driven forces while public sector has not.

Taking cue of Bordia and Blau (1998) study who reported that family and friends' pay referent comparison in the Asian families strongly contributed to the pay level satisfaction of employees and the limited job alternatives available to the youth of the state, those who are employed find themselves more than happy in being engaged in any commercial activity rather than being idle like most of their friends and family members (Nazir & Sabiya, 2008). As a consequence, employees have shown a higher level of satisfaction on compensation compared to any other HRM practice studied.

The present research attempted to gauge the level of employee satisfaction toward HRM practices in the private sector firms falling in manufacturing. On overall basis, results indicate a moderate level of employee satisfaction (51.36%), in the firms studied. As argued elsewhere in this paper it is the operationalization of the HRM policies

that ultimately influence the employee attitudes like commitment, satisfaction etc. It can therefore be argued that poor operationalization of the HR policies might have resulted in the low employee satisfaction. This research and similar other studies in the Indian context, strongly argue that given the paradigm shift in the world of business order, and given the widely accepted argument that “human resource” is the source of success responsible for outstanding organizational performance (Pfeffer, 1994), organizations need to exhibit paramount of professionalism and rationalism in their HRM functions. And given the positive impact of HRM practices especially training and compensation on the organizations performance as reported by Singh (2004), Indian organizations seem to have realized the ever important concern in proactively dealing with the people management issues for better future and excellent performance. For example, in one of the case studies in Indian manufacturing units, Saini (2006) reported a profound impact competition had in awakening the managements’ sensitiveness towards people management issues in the sample unit. Likewise some functions, for instance training rose both in terms of status as well as in investment in the Indian firms. Vinay Hebbar, MD, Harvard Business Publishing opines that Indian Corporates see L&D as an investment for future. At ITC, also where over 126,000 person-days of formal training was organized for employees at various levels in 2011-12, planning begins much before the commencement of the year and flows from the various business plans and capability requirements emerging thereof. Bharathan (2007), a module leader at Wipro Technologies, one of the country’s giant IT firms, reported that “over the last five years training has grown in status to a core function for organizations”. The training budget of the firms in India also rose substantially in the recent past.

Researchers also report that Indian organizations irrespective of the sector they belong to have shown, though to a limited extent, structured and rationalized HR functions. The research further reports that future work pattern in the Indian organizations will witness a more formalized and rational HR functions like recruitment procedures, training and development, appraisal system, competence based remuneration system and the like (see for example, Bhudhwar et al (2004), which is expected to promote employee well being and satisfaction. However, the trend is in its infancy compared its counterparts in the developed nations like US, hence, more concerted efforts need to be undertaken especially in small and medium scale units given the existing exploitative management policies coupled with the gullible nature of workers (Nazir, 2006) working in these units. For example, as per the ASTD State of the Industry Report, US firms spent to \$156.2 billion on training and interestingly smaller firms training expenditure was higher than the medium and large firms (ASTD Report, 2012 [www.astd.org/Publications/Blogs/ASTD-Blog/2012/12/156-Billion-Spent-on-Training-and-Development](http://www.astd.org/Publications/Blogs/ASTD-Blog/2012/12/156-Billion-Spent-on-Training-and-Development)).

## CONCLUSION AND IMPLICATIONS

The study makes a couple of useful deviations from the existing line of research in studying employee satisfaction towards select HRM practices. For example, instead of separately studying the various HRM functions and relating those to employee satisfaction which is the normal trend found in the extant literature, the study attempted to directly investigate the extent of employee satisfaction with the select HRM practices. And as recommended by Bhudhwar et al (2004), the study gathered information from a number of employees in a bid to capture a comprehensive picture with regard to employee satisfaction toward given HRM practices rather than depending upon a single respondent from the given organisation. However, similar research needs to be conducted to test the validity and relevance of this line of research design. Nevertheless, the study suffers from some limitations including small size of sample respondents and firms, thus limiting the generalizability of results. However, within these limitations, the study makes sound empirical contributions and adheres to the concerns raised by the recent literature in the measurement of HRM practices.

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