

## Impact Of People Equity On Sme Performance: Evidence From Garment Sector Of Pakistan

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**Abstract**— this study explains the impact of People Equity (PE) on Small and Medium Enterprises (SME) performance. This is a neglected area of research in the literature. This study talks about strategic human resource management practices (SHRM) functions leading to firm performance. Small and medium SMEs are spread all over Pakistan with a significant concentration in all provinces i.e. Punjab (65.4%). The share of Baluchistan in the country's (SME) sector happens to be the smallest (2.3%) Sindh and Khyber-Pakhtunkhwa are 18% and 14.3%, respectively. This research article seeks to contribute to add some valuable results in already existing body of knowledge by investigating the impact of High Align Workforce, High Capable Workforce and High Engage Workforce on Firm Performance in developing country like Pakistan. Since no workable data relating this topic were available, so the researcher thought to apply a quantitative investigation. Therefore, the researcher used causal and correlational research design because he wants to describe the importance of this topic for the prosperity of industry as well as the body of knowledge. Particularly this empirical investigation has been conducted on a sample of 50 SMEs with some of 140 respondents. Results describe that the implementation of People Equity is positively related to SME performance. This study has been focused especially on garment sector just too prostate the significance of this sector in the economy of Pakistan. It is a cross-sectional study due to some financial and time resources but next study could be designed as a longitudinal study.

**Keywords**—SME; firm performance; people equity; high align workforce; high capable workforce; high engage workforce; strategic human resource management; garment; Pakistan

### I. INTRODUCTION

In the present knowledge economy Obeidat (2012) explained that firm's prosperity based on the performance of their human resource. Al Ariss and Dessler (2012) narrated that all relating to the process and activities that include the human resource dimension inside the firm, there should be the linkage of these functions with firm strategy. Seidu (2012) said that research has shown that there is a theoretical dichotomy between competitive advantage and performance, and that competitive advantage drives toward performance and not on any different way, strategic HRM investigation grounded in the resource-based view has examined the positive relationship between human resource management practices and performance rather than competitive advantage. Ahmed and Asia (2013) explained that Pakistan is the eighth biggest exporter of cotton items (Karachi– Lahore and Faisalabad: where female labor is easily accessible). The Textile and garment sector is the main driver of the monetary framework of the country for last 67 years. In International Statistics report Shah (2013-14), said in the global export of textile and clothing has slowly increased to US\$709 billion in 2013 with a rate of 0.425 percent. On the other side the exports of Pakistani textile and clothing trade has shown a decreasing trend in the rate of 5.84 percent from US\$13.7 billion to US\$12.9 billion in 2012 and 2013 respectively. The contribution of Pakistani textile and clothing to global textile and clothing trade is 1.81 percent. According to N. Desk (2014), SMEs has prevailed in throughout the Pakistan with a prominent appearance in Province of Punjab, which is 65.4%, Province of Balochistan's participation in this context is the lowest which is 2.3% at the same time its share in Province of Sindh and Province of Khyber Pakhtunkhwa Khan is 18% and 14.35 respectively. Saleem (2008) presented an illustration that the SME part is the spine of Pakistani economy.

#### **Problem statement:**

Apart from this, nobody denies the importance of strategic human resource management practices (SHRMP) but its practical implementation condition is so poor in Pakistani industries. When one discusses SHR practices with respect to garment sector SME's the answer is no implementation. The SME sector is the backbone of Pakistan's economy so due to lack of (SHRMP) implementation this sector is hanging on the same position for decades. No contribution from the governmental side in pursuit to highlight the significance of this particular sector, even though the SME garment sector of Faisalabad is not globally recognized. Consequently, neither SME owners nor Pakistan's economy is enjoying real prosperity due to poor strategic human resource management condition.

#### **Research questions:**

- How much High Align Workforce influence the Firm Performance?
- How much High Capable Workforce influence the Firm Performance?
- How much High Engage Workforce influence the Firm Performance?

#### **Research objectives:**

In this empirical study researcher will investigate the significance of three SHRM practices (Alignment, Capability and Engagement) on SME performance. The objectives include:

- To identify the influence of the high aligns workforce on firm performance.
- To analyze the influence of high capable workforce on firm performance.
- To test the influence of high engages the workforce on firm performance.

**Significance of research:** SMEDA CEO Muhammad Alamgir (N. Desk, 2014), while delivering a talk on SME's situation in Pakistan, he told that here 99% firms are SMEs in India are 80%, in China are 99% and in Malaysia are 90.2%. Regarding the SMEs share to GDP Pakistan's SME sector is far ahead than that of China 60%, Japan 55% and India 17%. Mr. Alamgir told that due to less technological advancement, scarce financial resources, less skill development programs, legal barriers and less value addition are the black reasons that play negative role in SME growth in Pakistan. With SME's growth Pakistan could not control the rate of unemployment.

## **II. LITERATURE**

### ***Firm performance:***

To the measure the firm's performance, Armstrong and Taylor (2014) explained that it is not easy to adopt every rising environmental change rather than already set firm's objectives like revenue, people satisfaction, production, development and firm's social responsibility. Beside of this that conventionally performance meanings were only understood as financial measures, some of the researchers suggested a vast performance concept that includes non-financial measures by summing in others product quality, market share and firm position in customer's mind. After a comprehensive investigation some researchers April Chang and Chun Huang (2005) shown that we can exchange the objective measures of performance with perceived measures of performance and it should positively correlate with objective measures of performance. Furthermore, Waiganjo et al. (2012), told that a firm's performance in the industry is influenced by external economic issues. Investigations have identified the problem in proposing objective measures of performance and presenting managers to identify their firm's performance and then compare it with others firm of the same industry.

### ***High align workforce:***

The Results-Oriented Performance Culture system, OPM (2005), emphasis on aligning performance with firm's objectives. To develop such a system employees should align their performance with firm's vision and mission. These linkages should be coordinated and understood by employees, to concentrate on achieving those milestones which are the pillars of the firm's mission. Every employee of the firm is equally responsible for achieving those objectives which are the part of firm strategy. Through OPM system firms can formulate employee performance strategies aligned with firm's objectives. These performance strategies should not only be defined in the job description of the employees, but also mention their the necessity to achieve these objectives for the sake of the firm's performance. Iman and Hartono (2007) explained that information technology, human resource planning and business strategy has been discussed for last three decades. These issues now became the main objectives of every firm. To optimize performance Bradshaw (2012), it's significant to try to gain alignment of employees and firm's working values. During selection, which is the most strategic practice of HRM, emphasize to select those employees whose values get the best alignment with firm's working values.

### ***High capable workforce:***

T Hussain, Akhtar, and Butt (2009) said that workers received as a resource for firms striving for quality and benefit. The quick rate of mechanical progression requests prepared and talented workforce in multidimensional occupations. Fancied performance objectives could be acknowledged from quality management practices by getting them prepared and educated in both their business range and quality management. The conduct of workers inside firms has essential implications for a firm performance while, human resource management practices can influence singular representative performance through their impact over representatives' aptitudes and inspiration; and through firm structures those permit workers to enhance how their occupations are performed.

### ***High engage workforce:***

The basic obstacle in defining engagement Sakovska (2012), is the unavailability of a widely accepted definition of employee engagement but employees' work engagement is a modern concept. Basically the definition of engagement consists of three factors, behavioral, cognitive and emotional. Firstly, Bhattacharya (2014), behavioral factors measure the tendency to work in a proper way with complete skills deployment and a tendency to do something extra apart from the job description. Secondly, the cognitive factors of engagement based on employee thoughts about the firm, management and work values. Thirdly, the emotional factors Bhattacharya (2014), and Rai (2012), define as the positive attitude about the firm leadership, its culture and work values. One of the first and most accepted definitions of engagement is obtained by Sakovska (2012), "the harnessing of organization members' selves to their work roles; in engagement, people employ and express themselves physically, cognitively, and emotionally during role performance (p. 694)". Many researchers suggest González-Romá, Schaufeli, Bakker, and Lloret (2006), that engagement is the positive aspect of employee values. González-Romá, Schaufeli, Bakker and Lloret (2006) and Ach et al. (2001), elaborated that engagement can be segregated through efficacy, energy and involvement. Resource base theory is the base theory for this study. Wernerfelt, B. (1984) explained first time about a resource- based view of the firm. after that Pfeffer (1994), Huselid (1995) and Gooderham et al. (2008) have utilized the resource based theory as an approach to looking at the effect of human resource development on firm performance.

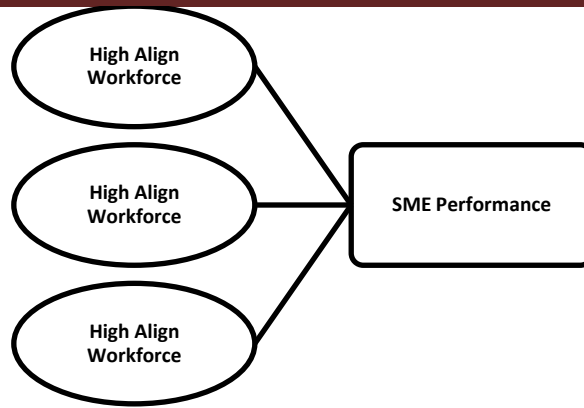


Figure No. 1 Theoretical Framework

H1: High Align Workforce (HAW) is positively related to SME performance (SMEP).

H2: High Capable Workforce (HCW) is positively related to SME performance (SMEP).

H3: High Engage Workforce (HEW) is positively related to SME performance (SMEP).

**METHODOLOGY**

**Research design:**

The data has been collected through questionnaires and administrated by the researcher. The data collection approach was a non-probability sampling and sample size was 140 correspondents. The population for this study consists of all SME garment units of Faisalabad (Biggest textile city of Pakistan).

To approach this purpose researcher selected the option of quantitative research type. Since no workable data relating this topic were available, so the researcher thought to apply a quantitative investigation. Therefore, the researcher used causal research design because he wants to identify the cause and effect between people equity and correlation among all variable.

**Sampling characteristics:**

In this investigation researcher has been used non-probability sampling and in non-probability sampling there are some sub-types convenience sampling, purposive sampling, quota sampling, this study based on convenience sampling. Researcher visited the SMEs in garment sector and got permission from the owner for the collection of data from the employees. The researcher has visited 50 SMEs of garment sector and collected 140 questionnaires aggregately. As the respondent had completed the questionnaire the researcher verified the completeness of this questionnaire at the same time.

**Gender of Respondents: Table: I**

	<i>Frequency</i>	<i>Percent</i>	<i>Cumulative Percent</i>
<b>Male</b>	114	81.4	81.4
<b>Female</b>	26	18.6	100.0
<b>Total</b>	140	100.0	

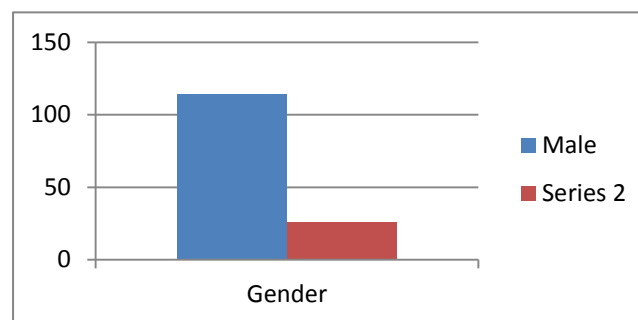


Fig. No. 2 Age group of

Respondents:

TABLE: II

Age Distribution of Employees			
Age groups	Frequency	Percent	Cumulative Percent
18-30	60	42.9	42.9
31-40	73	52.1	95.0
41-50	5	3.6	98.6
51-above	2	1.4	100.0
<b>Total</b>	<b>140</b>	<b>100.0</b>	

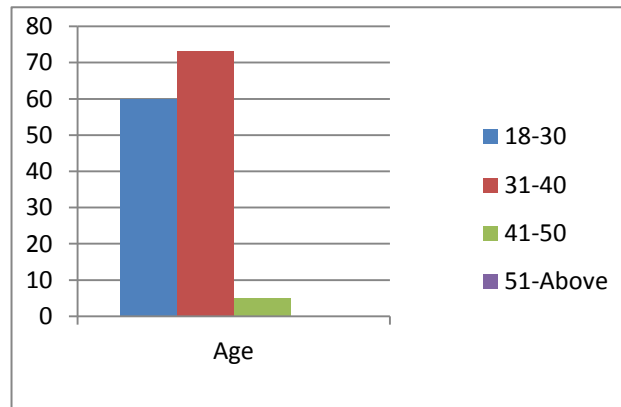


Fig. No. 3

**Education of Respondents:**

TABLE: III

Employee's Education				
	Frequency	Percent	Valid Percent	Cumulative Percent
Metric	99	70.7	70.7	70.7
Intermediate	23	16.4	16.4	87.1
Graduate	9	6.4	6.4	93.6
Master	7	5.0	5.0	98.6
M.Phil-Above	2	1.4	1.4	100.0
<b>Total</b>	<b>140</b>	<b>100.0</b>	<b>100.0</b>	

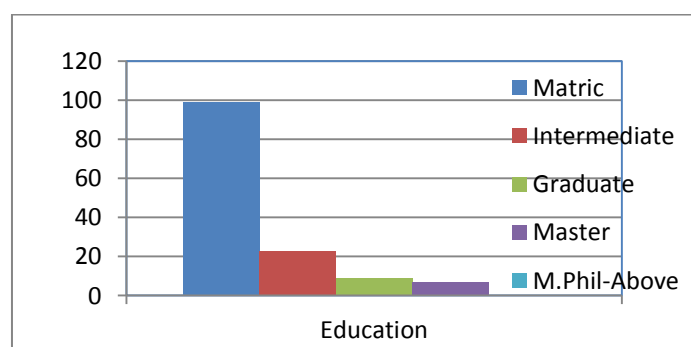


Fig. No. 4

**Instrumentation:**

The questionnaire items in this research have been adopted from previous literature. Every item has been measured at five points as Likert scale and answers are ranked as 1=strongly disagree, 2=disagree, 3=neutral, 4=agree and 5=strongly agree.

To estimate, the dependent variable of FP three items adopted from Gavrea, ILIEȘ, and Stegorean (2011) and this variable includes three items. For the measurement of first independent variable (HAW) A, Schiemann, Group, and Inc (2008), three items has been adopted for this study. To measure the (HCW) which is the second independent variable six items has been also adopted from study of A, Schiemann et al. (2008). This variable also adopted from the same study A, Schiemann et al. (2008), from which other two independent variables are adopted and six items for this variable. Akehurst et al. (2012), three most usable demographic variables like gender, age and education for developing people equity has been adopted.

TABLE: IV

<i>Variables</i>	<i>Items</i>	<i>Cronbach a</i>	<i>Reference</i>
Firm Performance	3	.65	Gavrea, ILIEȘ, and Stegorean (2011)
High Align Workforce	3	.64	A, Schiemann, Group, and Inc (2008)
High Capable Workforce	6	.75	
High Engage Workforce	6	.85	
<b>Total</b>	<b>18</b>	<b>.73</b>	

**III. RESULTS**

Researcher used SPSS version 23 for the analysis of collected data. This investigation has been used different statistical tools to evaluate above formulated hypothesis. Some tables' used and better description of data makes it easy to understand, evaluate and useable. And the crux of this research article precisely interprets the suggested goals and the results following the application in the firm's environment.

**Descriptive statistics: Table: V**

<b>Descriptive Statistics</b>			
	<i>N</i>	<i>Mean</i>	<i>Std. Deviation</i>
<b>Gender</b>	140	1.19	.390
<b>Age</b>	140	1.64	.626
<b>Education</b>	140	1.50	.925
<b>FP</b>	140	3.7857	.73843
<b>HAW</b>	140	3.9619	.61825
<b>HCW</b>	140	4.0440	.53779
<b>HEW</b>	140	3.8655	.85005
<b>Valid N (list wise)</b>	140		

**Correlation analysis:**

TABLE: VI

<b>Correlation Matrix of Variables</b>				
	<i>HAW</i>	<i>HCW</i>	<i>HEW</i>	<i>FP</i>
<b>HAW</b>	1			
<b>HCW</b>	.603**	1		
<b>HEW</b>	.354**	.539**	1	
<b>FP</b>	.463**	.503**	.478**	1

*\*p<.05, \*\*p<.01 ,(p=.000)n =Total Respondents = 140, FP = Firm Performance, HAW = High Align Workforce, HCW = High Capable Workforce, HEW = High Engage Workforce*

In above table it is indicated that positive and good ( $p < .01$ ,  $r = .603$ ) correlation is there between High Align Workforce (HAW) and High Capable Workforce (HCW). Positive and moderate ( $p < .01$ ,  $r = .478$ ) correlation is there between Firm Performance (FP)

and High Engage Workforce (HEW). Again positive and moderate ( $p < .01$ ,  $r = .463$ ) correlation found between High Align Workforce (HAW) and Firm Performance (FP).

Positive and moderate ( $p < .01$ ,  $r = .539$ ) correlation has been calculated in between High Capable Workforce (HCW) and High Engage Workforce (HEW). And also positive and moderate ( $p < .01$ ,  $r = .503$ ) correlation witnessed between High Capable Workforce (GA) and Firm Performance (FP). Lastly also positive and moderate ( $p < .01$ ,  $r = .478$ ) correlation exists between High Engage Workforce (HEW) and Firm Performance (FP).

**Testing of hypothesis: Table: VII**

Predictors	Linear Regression Analysis					Empirical Evidence
	R Square	F	Beta	T	Sig.	
H1:HAW → MEP	.215	37.758	.463	6.145	.000	Accepted
H2:HCW → MEP	.253	46.744	.503	6.837	.000	Accepted
H3:HEW → MEP	.229	40.961	.478	6.400	.000	Accepted

**IV. CONCLUSION DISCUSSION AND RECOMMENDATIONS**

**Interpretation and explanation of results:**

The H1 is significant and positive because F value is 37.7 ( $p < 0.01$ ) and R square = .215, means that high align workforce explains 21.5% variation in the firm performance. Results also explicate that high align workforce is positively impacting firm performance as standardize beta value is ( $p < 0.01$ ,  $\beta = .463$ ). The individual association of high aligns workforce with firm performance is ( $p < 0.01$ ,  $t = 6.14$ ) that is also very significant.

The H2 is also very significant and positive it F value is 46.74 ( $p < 0.01$ ) and R square = .253, shows that high capable workforce solves 25.3% variation in the firm performance. Results also explicate that highly capable workforce is positively impacting firm performance as standardize beta value is ( $p < 0.01$ ,  $\beta = .503$ ). The individual association of a highly capable workforce with firm performance is ( $p < 0.01$ ,  $t = 6.83$ ) that is also very significant.

The H3 is again very significant and positive as F value 40.96 ( $p < 0.01$ ) and R square = .229, tells that high engage the workforce explains 22.9% variation in firm performance. Results also explicate that high engage workforce is positively impacting firm performance due to standardize beta value ( $p < 0.01$ ,  $\beta = .478$ ). The individual association of high engages the workforce with firm performance is ( $p < 0.01$ ,  $t = 6.40$ ) that is also very considerable.

**Justify your approach:**

As elaborate that empirical study result show that a high align workforce is a major factor that cause to increase firm performance. To optimize performance Bradshaw (2012), it's significant to try to gain alignment of employees and firm's working values. During selection, which is the most strategic practice of HRM, emphasize to select those employees whose values get the best alignment with firm's working values. It is being referred Tajammal Hussain and Rehman (2013) said that human resource has been realized and validated asset of organizational survival, growth and excellence. Modern era organizations equipped with technology, automation and state of the art infrastructures find themselves helpless and shallow without high value human resource. Heneman and Milanowski (2011) found that to make an aligned HR framework, the firm should first focus the current condition of its HR framework's arrangement. So such an analysis will permit the firm to get a reasonable assessment of how well every HR practice is associated with the performance of SME.

**Practical implication:**

People Equity (PE) is a new concept in Pakistani industry, not only in the SME sector, as well as in the corporate sector. This is an emerging combination of strategic human resource practices that provide real chance to a firm for gaining competitive advantage. Through its spiritual application in different sectors of the Pakistani economy, one can enjoy a real increasing trend regarding firm performance. Performing firms, organizations and institutions are always key observers for economists because these are just like an engine for a developing economy like Pakistan.

**Limitations, future directions and critical evaluation:**

Ghauri (2010) explained that it is very essential for educational study to describe the limitation of the research investigation. So it is much important to curse here the limitation of the current research study before going further. This research study is investigating the impact of people equity on garment sector SMEs of Faisalabad and investigation has formulated a direct and significant linkage between the application of People Equity and Firm Performance in a sample of 50 SMEs in garment sector of Faisalabad. In future, researchers would incorporate some new variables like job values and employee work value analysis. This study is measured and explained the firm performance of SMEs in garment sector of Faisalabad. In future the sector of SMEs can be changed from garment to wood furniture, sports industry and surgical goods etc. It is a cross-sectional study due to some financial and time resources but next study could be designed as a longitudinal study.

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*Writing throughout this research article I remember the effort of two persons, without acknowledging them this piece of research is incomplete. My grandmother she taught me this first word and now I am here today. Secondly my friend Ch. M Arif Dogar, who supported me on every step of this research article.*

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