

**Analyzing HRM practices  
and their effect on companies' performance in SMEs' operating in Georgia**

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We, authors of this thesis project hereby declare that this paper is our own original work and does not include materials previously published or submitted to any other institution for assessment purposes. Furthermore, we confirm that all the sources used have been acknowledged and cited in the reference section.

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## **Abstract**

More than ever companies depend on quality, dedication, enthusiasm, expertise and flexible skills of their employees to realize their strategic goals in nowadays' dynamic and competitive innovation-driven business world. Therefore, it is crucial for every company to design human resource management system producing capable, knowledgeable and credible workforce.

A number of studies were carried out to investigate nature of HRM system and its effect on company's performance through enhancing employees' behavior and motivation in the company. Yet fewer studies are available that improves general understanding of HRM in context of Small and Medium sized Enterprises (SMEs). This is therefore surprising as SMEs represent critical components and major contributors to the strength of business sector and local economies. As in case of Georgia, SMEs account for up to 94 % of businesses and employee 70% of the people working in business sector.

One may think that HRM is not quite relevant in the context of SMEs as only large companies have capacity of producing and sustaining well-formulated HRM structure to keep their employees motivated and committed enough so that their behaviors contribute to organizational performance. But it is obvious that even smaller companies cannot avoid activities, such as recruiting, selecting, training, and compensating their employees. Therefore, small firms also need all the HRM advantages they can get. As in modern business world practicing effective human resource management is not a luxury only the large corporations can afford, but a competitive necessity.

Therefore, this research was carried out to observe and analyze Human Resource Management practices in small and medium-sized enterprises operating in Georgia, to identify which particular HRM practices and activities are most widely used by the Georgian SMEs and whether there is connection between executing those practices and performance of those companies.

To reach these goals, our team conducted survey and collected data from key actors of interest represented by the employees and managers of small and medium-sized enterprises. In total 122 respondents: 49 managers and 73 employees took part in this survey.

The findings of this study allowed the research project team to extend key assumptions on this preliminary stage of investigation and improve general understanding of HRM in Georgian SMEs, also to clarify key questions and directions for future research in this field.

**Key words**

Small and medium size companies, Georgia, Human Resource Management, HRM practices, Performance, Managers, Employees