

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS AND MANAGEMENT

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EXPLORING HRM PRACTICES IN SMEs

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ABSTRACT

India has undergone drastic changes from a planned to a market-oriented economy. Economic structural change has caused changes in the organizational behavior of Enterprises, especially in the small and medium sized enterprises (SMEs), which have gained much more management autonomy since the economic reform. Key research Questions are, Have Human Resource Management (HRM) practices in Indian SMEs been changed?, 2) What are HRM approaches that are best suited for Indian enterprises? & 3) Is there an interrelationship between HRM and SME performance in India? This Paper examines HRM practices in 50 selected Indian SMEs, using cluster analysis. The results from the cluster analysis demonstrate that HRM Practices like HRP and Job analysis can help companies to obtain better productivity from the employees where as scientific selection and effective on the job training can help the companies in achieving better performance. There appears an underlying association among HRM practices, HRM outcomes and enterprise performance in Indian SMEs, especially However, because of the distorted factors existing in the transitional economy, such as the one in India, this relationship is not clear in all Indian SMEs. In the present paper the researchers tries to understand the HRM practices in SMEs and try to make causal relationship of HRM practices and its impact on firm's performance.

KEYWORDS

Human resource management, small and medium enterprise, firms performance, HRM practices, HRM outcomes.

INTRODUCTION

ver the last few decades there has been a tremendous growth in SMEs. More and more of such enterprises are now struggling to survive due to immense pressure created both by globalization and giant multinational companies (e.g., Mulhern & Stewart, 2003). As SMEs contribute significantly to a nations' gross domestic product (GDP) and provide employment to a large number of people, therefore it is in the interest of governments to encourage their survival and growth. Their failure could lead to a situation of unemployment and consequent social tensions. To ensure viability of help to the SME sector, the Indian government has been analyzing the need for a shift in its approach towards their growth. So far they have been looked at as an area of government subsidy in different spheres of their working, which has resulted in a situation of pure 'governmental patronage'. In this regard now a need is being felt for a paradigm shift; as a result banks are being encouraged to look at the provision of credit to SMEs, more as an opportunity for profit rather than a social obligation under directed subsidized credit (Government of India, 2006). We believe it is important to re-examine different aspects of working of the SMEs and their foundational strengths.

At present firms are acknowledging the efficient management of human resources as a critical factor in their success or failure (e.g., Huselid, Jackson, & Schuler, 1997; Paauwe, 2004; Schuler & Jackson, 1999). Does this equally apply to SMEs? The existing literature shows a strong deficiency of systematic HRM research in SMEs. The situation in the Indian context is far worse; the field is almost barren. Scholars considerHRM to be a phenomenon related to large organizations (e.g., ISED, 2005; Wilkinson, 1999: 206) and workers in SMEs have been described as "the invisible workforce" (Curran, 1986). Indeed working in SMEs does not involve much paper work, policies, systems, procedures, rules and strategies, and even the presence of an HR officer is missing. Not surprisingly then HR issues are not considered to be critical for their growth and survival, and accordingly very less is invested in employee training and development (e.g., Stewart & Beaver, 2003).

This paper examines the extent to which indigenous ways of people management are practiced in Indian SMEs. This research analysis is based on the existing literature on indigenous management practices in developing countries (see, Budhwar & Debrah, 2004; Kanungo & Jaeger, 1990; Kiggundu, Jorgensen, & Hafsi, 1983; Warner & Ying, 1998) .The realities in the context of Indian SMEs are analyzed in the areas of, Manpower Planning, recruitment, Selection, skill development, Training, Development & retention. The remaining paper is structured as follows. The next section analyses the concept of SME with a specific reference to India. This is followed by the need of research, Formulation of Objectives & Research hypothesis. Finally, the analysis of work in progress and further studies on linking HRM practices with firm's performance.

SMES IN GENERAL AND THE INDIAN SCENARIO

SMEs are generally started by a single entrepreneur or a small group of people, and are often managed by owner- managers (Ritchie, 1993). Their organization structure is mostly flat. SMEs do not have many layers (mainly due to small number of both employees/supervisors and specializations) because the owner/s is/are mostly at the helm of affairs (which still keeps them bureaucratic as most of the times employees do not dare to challenge the supervisors/ owner/s). Nevertheless, it adds to their flexibility (Scott, Roberts, Holroyd, & Sawbridge, 1989). Many researchers argue that entrepreneurs seek to derive several advantages by undertaking operations at a smaller level in terms of flexibility, informality, sustainability, and structural adaptability. On the contrary, larger firms find it difficult to derive such benefits from their operations (e.g., Gibbs, 1997; Hendrickson & Psarouthakis, 1998; Matlay, 2000; Pfeffer, 1994; Storey, 1994). SMEs are known to focus more on the operational aspects and neglect people-management issues. Technological advancements have contributed to significant changes to the nature of present production systems. This has also impacted the nature of work, workers and the skills involved. While small entrepreneurs do imbibe these advancements in their operations, they do not recognize the critical role of effective HR policies for their success. Nevertheless, the need for a skilled workforce in SMEs certainly emerges during periods of such technological changes. In particular, SMEs have to undergo some change when they compete with global companies and other large buyers, as they are dependent on supply contracts from the same. This puts considerable pressure on SMEs to control both their costs and quality and meet the different legal requirements. This is a serious challenge for SMEs, especially for those operating in developing countries with labor-intensive technologies, where labor cost is a major concern (e.g., Stewart & Beaver, 2003). Many of them resort to questionable practices, such as employment of child labor to reduce labor costs and violation of labor standards including denial of minimum wage, and other minimum-work conditions. Most of them also lack access to relevant data and information about new markets, legal provisions regulating their working, and product innovations, which hinders their survival. Their accessibility to professional management tools is almost absent.

The concept of SME itself is quite problematic. As Storey (1994: 8) notes, "there is no single, uniformly acceptable, definition of a small firm. There are differences as to size, shape and capital employed. In the USA there is no standard definition of small business. Even a firm employing up to 1500 employees is considered as small by American Small Business Administration. The concept in USA is industry-specific; mostly income and persons employed will determine whether a firm falls in the category of small business or not." The European Commission classifies firms according to the number of employees as: micro (0–9), small (10–99) and medium (100–499). In China, it includes companies employing less than 200 persons; and in Japan those employing less than 300 persons are considered to be SMEs (e.g., Srivastava, 2005: 166). The definition of SMEs sometimes also depends on the stage of national economic development and the broad policy purposes for which it is needed. Whatever may be the definitional problems, SMEs occupy an important place in the economy of most countries; especially they are favored for developing countries due to their employment potential.

In India, until recently there has been no formal concept of SME or medium enterprises. However, the term small scale industry (SSI) is well known; this is different from the SME sector in other countries. The Government of India had a policy of providing assistance of different types to SSIs through various state agencies. Lately, Indian Parliament has enacted the Micro, Small and Medium Enterprises Development Act, 2006 As per this Act, medium manufacturing or production enterprises are those which have an investment in plant and machinery between Rs. 50 million and 100 million (1\$ US = Rupees 40.10 approximately in July 2007). The investment referred to in this definition is that in "initial fixed assets" i.e., the plant and machinery (which excludes land & building). Under this Act, a micro enterprise has been defined as one where the investment in plant and machinery does not exceed Rs. 2.5 million and a small enterprise as one where such investment is more than Rs. 2.5 million but does not exceed Rs. 50 million. Whereas, a medium enterprise is one in which the investment limit is between Rs. 50 million and Rs. 100 million. In this Act there is no reference to the term SME. One may, however, combine the definitions of small and medium enterprises to derive a concept of SME. This would mean that an SME in the Indian context is an enterprise in which the investment in plant and machinery is between 2.5 million and 100 million

The definition of the terms "small" and "medium" enterprise in India is investment specific, while in the rest of the world it reflects a combination of factors including terms of employment, assets or sales or combination of these factors. Since the term "medium" enterprise in India is a recent one, hence, the data available is only for SSI units. Details regarding the key contributions of SSI towards Indian economy are presented in Table 1. An important thing to note is the decline in the gross number of SSIs since 1998–1999; this is due to the exclusion of tiny units from the category of SSI (for more details on SSIs in India, see Datt & Sundharam, 2005). The data in table show that in the last 15 years the total output contributed by SSIs has gone up from Rs. 1787 billion in 1991–1992 to Rs. 4187 billion in 2004–2005. It also shows that the total employment in them has gone up from 13 million in 1991–1992 to Rs. 28.3 million in 2004–2005. This data is just about the SSIs; information on the medium-scale industry is not officially documented separately due to problems of clear identification of the concept of medium enterprise. As revealed by the findings of the last National Sample Survey Organization (NSSO) in India (61st round conducted in November 2006), the employment in the organized sector (i.e. the sector covered by key labor laws) stood at 25.4 million in the year 2004–2005. Most SSIs are able to keep themselves out of this sector even as some of them might be covered otherwise. They do so through legal or extra-legal means—something too well known in Table 1 to have grown from Rs. 138 billion in 1991–1992 to Rs. 976 billion in 2003–2004. This shows how much importance one needs to attribute to this sector in view of the peculiar socio-economic realities in India. Before Independence in 1947, SSIs in India were denoted as the village and the urban cottage industries.

The Industrial Policy Resolution of 1948 and the document of the First 5 Year Plan defined an SSI on the basis of the number of persons employed. It stated that the small-scale industry included all those units which employed less than 10 workers when used power or employed less than 20 workers if did not use power. Later on the criteria was changed to that of an "investment limit". Interestingly, now units with investment up to Rs. 2.5 million are not part of SSI units and are categorized separately as "micro enterprises."

Financial year	No. of units (million)	Output at current prices (Rs. million)	Employment (nos. million)	Export (at current prices Rs. million)
1991–1992	2.08 (6.9)	1,786,990 (15.0)	12.98 (3.6)	138,830 (43.7)
1992–1993	2.24 (7.9)	2,093,000 (17.1)	13.41 (3.3)	177,850 (28.1)
1993–1994	2.38 (6.0)	2,416,480 (15.5)	13.94 (4.0)	253,070 (42.3)
1994–1995	2.57 (8.0)	2,939,900 (21.7)	14.66 (5.2)	290,680 (14.9)
1996–1997	2.86 (4.9)	4,126,360 (15.8)	16.0 (4.8)	392,420 (7.6)
1997–1998	3.01 (5.5)	4,651,710 (12.7)	16.72 (4.5)	439,460 (12.0)
1998-1999	1.2	2,129,010 (12.5)	22.06 (3.5)	489,790 (10.2)
1999–2000	1.23	2,342,550 (10.0)	22.91 (3.9)	542,000 (10.7)
2000-2001	1.31	2,612,890 (11.5)	23.9 (4.4)	697,970 (28.8)
2001-2002	1.38	2,822,700 (8.0)	24.9 (4.2)	712,440 (2.1)
2002-2003	1.47	3,119,930 (10.5)	26.01 (4.4)	860,130 (20.7)
2003-2004	1.56	3,577,330 (14.7)	27.14 (4.3)	976,440 (13.5)
2004-2005	1.66	4,182,630 (16.9)	28.3 (4.3)	1,04,320 (14.1)

TABLE 1: OVERALL PERFORMANCE OF INDIAN SMALL-SCALE INDUSTRY (SSI) SECTOR

(1) Figures in parenthesis in columns 2–4 indicate growth as compared to previous year. (2) Figures in parenthesis in column 5 denote SSI share of exports to total exports by Indian exporters. Source: Computed from Annual Economic Surveys, Government of India, different years.

NEED OF THE RESEARCH

When big organizations go on a rampage, small ones have to think smart. This is the wisdom for India's small and medium enterprises (SMEs) that fail to keep pace with the growth juggernaut. Amidst lot of competition within SMEs, it becomes very important for the SMEs to benchmark various processes in order to remain competitive within the marketplace and ensure they can benefit from what their competitors are doing to stay one step ahead of the game.

HUMAN RESOURCES ARE ONE OF THE MOST ESSENTIAL GROWTH INDICATORS FOR THESE ORGANIZATIONS. GROWTH-HUNGRY LARGE COMPANIES ARE SCOURING THE MARKET FOR HUMAN RESOURCES (HR), LEAVING ONLY CRUMBS FOR SMES WHO CAN NEVER OUTPAY THE BIG ONES WHEN IT COMES TO SALARIES.

Moreover, typical about micro firms is the predominantly horizontal structure that one wants to preserve. The employees that surround the entrepreneur are mostly a tight group that communicates informally. That is why the challenge an entrepreneur is faced with in this phase is directly linked to maintaining the climate of participation unique in a micro firm. When the organization grows, it becomes more difficult to involve all employees equally in operational decisions. Moreover, with an ever growing team it becomes extremely difficult for the entrepreneur to keep the close partnership with every employee. The creative, intuitive approach that was fruitful in the start-up phase appears to become an obstacle for a number of employees. There is a lack of formalization, structure and clarity when thinking of performance, training or reward management. More specifically, employees report a need for a transparent training and compensation policy and a standardized introduction procedure for new employees. Employees miss a uniform strategy and functional organizational structure.

The lack of "in place and streamlined" HR functions in these organizations come as a weakness when all the efforts invested in building a team become fruitless because of high attrition rates. There can be several reasons to this such as dissatisfaction with pay, HR policies and practices, lack of hygiene factors, employee loyalty issues, and the like. Some HR Issues in SMEs are discussed below in the present research paper.

RESEARCH METHODOLOGY

Both quantitative and qualitative methods were adopted. Primary research amongst Indian SMEs is not easy — there are problems due to recession (for example, managers are reluctant to divulge information). Preliminary research indicated that the most effective method would be to questionnaire survey — and 50 small and medium size enterprise managers spreading in region of Central Gujarat- Vadodara were selected and surveyed.

The questionnaire was designed with the combination of open ended and close ended questions asking the manager about size of the firm, No of employees they are having, HRM practices like HR Planning, Recruitment, Selection, Training & Development and retention.

KEY RESEARCH QUESTIONS

It has been discussed, in theory (e.g. Beer, Spector, Lawrence, Mills & Walton 1984; Fombrun, Tichy & Devanna 1984; Guest 1987; 1997; Schuler 1988; 1997), that the practice of HRM might lead to better HRM outcomes that can enhance firm performance. The empirical studies on the linkage between HRM and performance result in two different arguments.

One supports the view that the underlying practices of HRM enhance firm performance (Delaney & Huselid 1996; Huselid 1995; Huselid, Jackson & Schuler 1997; Youndt et al. 1996; Stroh & Caligiuri 1998).

The other argues that there is a weak link between HRM and performance (Lee & Chee 1996; MacDuffie 1995; Purchell 1995; Dunphy & Stace 1992; Wong et al. 1997).

Key research Questions are,

1) Have Human Resource Management (HRM) practices in Indian SMEs been changed?

2) What are HRM approaches that are best suited for Indian enterprises? &

3) Is there an interrelationship between HRM and SME performance in India?

As a result, firms are more able to create sustainable competitive advantage. In the context of Indian economy, what are the key elements of HRM practices that may contribute to better behavioral outcomes, and thus lead to better enterprise performance? More importantly, is there a linkage between HRM and performance also in Indian SMEs? These are the basic research questions the paper aims to answer.

HYPOTHESIS

The basic hypothesis is that better HRM activities will generally be associated with better performance (Beer et al. 1984; Fombrun et al. 1984). Better HR management (see discussions from Child 1994; Ding et al. 1997; Goodall & Warner 1997; Laaksonen 1988; Lin & Yao 1999; Thomas 1993; Tsang 1994; Zhao 1994; Zhu 1997; 1999) in Indian SMEs is characterized by firms practicing the following seven elements of HRM:

- 1. HR Planning (HRP)
- 2. Recruitment (R)
- 3. Selection (S)
- 4. Promotion (P)
- 5. Compensation Plan (CP)
- 6. Training & Development (T&D)
- 7. Retention Policy (RP)

It is also hypothesized that practices of the above-mentioned elements of human resource management will lead to better HRM outcomes, which is characterized by four outcome Indicators (Beer et al. 1984):

- A low level of staff turnover suggests that the organization will achieve cost effectiveness via less staff turnover (Clayton 1994; Huselid 1995). Annual staff turnover rate less than 10 percent is regarded as achieving one of the better HR outcomes as a result of HRM practices (Arthur 1994; Beer et al. 1984);
- Staff commitment means that staff is willing to sacrifice individual self-interest to achieve organizational objectives (Benkhoff 1997; Guest 1987; 1997; Mowday, Porter & Steers 1982).
- Staff congruence means that staff personal career goals are consistently linked with organizational goals, and staff is generally enthusiastic about likely advancing personal career within the environment of current organizational setting (Guest 1987; Benkhoff 1997).
- Competent staff is generally well educated and trained. They are also constantly developed in their skills and knowledge to meet new market demands and achieve organizational objectives (Beer et al. 1984; Zhu 1999).
- Better HR management and HRM outcomes should lead to better firm performance.
- Better firm performance is generally measured by increasing sales and productions, market competitiveness and growth potential (e.g. Lähteenmäki, Storey & Vanhala 1998; Ngo et al. 1998), which are characterized by:
 - Firms' increasing sales and productions for a consecutive period of three years;
 - Market competitiveness of firms in terms of their market position and market shares; and
 - Firms having expansion plan to display their developmental 'blueprints' for the future in terms of staffing, production, and sales and profits attainments.

RESEARCH OBJECTIVE

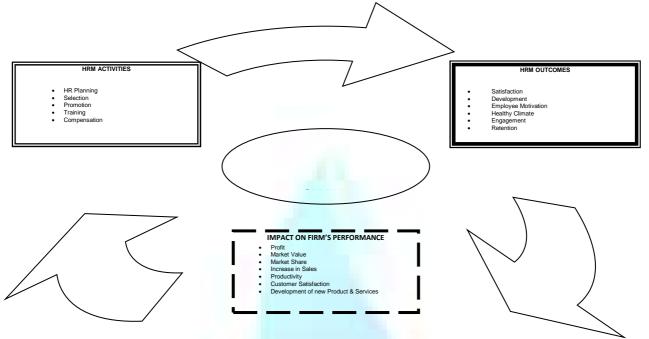
- The Primary objective of the study is,
- To understand the nature of SMEs in Indian Context
- To understand the HRM practices in SMEs.
- To determine Recruitment & Selection practices
- To understand the manpower acquisition & development strategy in SMEs
- To explore inter linkage of HRM practices and its impact on firm's performance.
- To find ways to increase sustainable development for SMEs in India, via the chain of better HRM practices, better HRM outcomes, to better firm performance, and then to better and more sustainable economic performance in the national economy.

The Secondary objective of the study is,

- To propose the HRM model establishing the HRM activities linkages to HRM outcomes and further to Firm's performance.
- To validate the data using statistical tool and prove the model proposed in the research.

Because of the complex nature of Indian systems and culture, it is unlikely that there would be a simple linear correlation between the variables. Therefore, there is a need to look at the patterns of association between variables through clustering approach.

PROPOSED MODEL FOR CHECKING THE RELATIONSHIP BETWEEN HRM PRACTICES AND ITS IMPACT ON FIRM'S PERFORMANCE



SURVEY DESIGN

Based on theories, concepts, and frameworks discussed in the literature review, the author designed a survey as the primary means of data collection for the study. The instrument included 7 Sections. The first section includes basic information about company, year of establishment, its size, no of employees & skill mix. The second section covers HR practices on Planning & Recruitment. The third section covers Selection. The fourth is about promotion practices while Fifth is on Training practices, the sixth is on Development practices and the Seventh on retention strategy adopt by the SMEs.

SAMPLE

The target population of Sample is Small and Medium size Enterprise in the Vicinity of Vadodara and members of VCCI- Vadodara Chambers of Commerce and Industries. The sample size is 50. Sampling is of convenience sample.

ANALYSIS

After studying 50 companies in the area of Micro, Small & Medium Enterprises, we have made the following analysis:

- Majority of Companies (66%) are not following manpower planning which is very much helpful in keeping company lean and thin in today's recession like situation.
- 72% of companies follow casual & temporary recruitment which can be avoided through proper job analysis and man power planning which in turn will improve the productivity of the company.
- 60 % companies do not advertise for their Recruitment which results into less competitive or unskilled pool of candidates.
- Only 44% companies opted skill test as part of selection procedure.
- Only 32 % companies offer both on the Job training & Off the job training which is very much required for technical jobs
- 74% of companies are not having development program which gives employees an opportunity for developing knowledge, skills and attitude for the job as well as for company.

FUTURE STUDIES ON LINKING HRM PRACTICES WITH FIRM'S PERFORMANCE

HRM practices used in pilot study suggest that, effective HRM practices like, HR planning, Recruitment, Selection & Compensation will lead to positive HRM outcomes like, Satisfaction, Development, Employee Motivation, Healthy Climate, Employee Engagement & Retention of Employees hence Various hypothesis in this areas will be tested and parameters which depicts firm's performance like Profit, Market Value, Market Share, Increase in Sales, Productivity, Customer Satisfaction, Development of new Product & Services can be linked with firms HRM practices. New research questionnaire covering all the above aspects is being construct which will be sent to larger sample of SMEs to establish core interrelationship between HRM practices and its impact on firm's performance.

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ANNEXURE

ANNEXURE: 01 QUESTIONNAIRE



- 1. DO YOU OFFER ANY DEVELOPMENT PROGRAMME?
- YES [] NO []

IF YES THEN HOW FREQUENTLY?

37

- (B) 6 MONTHS []
- (C) YEARLY []

RETENTION

- 1. DO YOU HAVE ANY RETENTION POLICY?
- YES[] NO[]
- 2. WHAT DO YOU DO TO RETAIN YOUR TALENTED EMPLOYEE?

> YOUR SUGGESTIONS PLEASE

THANK YOU

ANNEXURE-02 TABULAR ANALYSIS

Textile Industry5Dimond Industry6Food Industry11Entertainment Industry10				
2.Company size Micro 16 Small 21 Medium 13				
3.Employee MixSkilled19Semi Skilled23Unskilled850				
4.HR Planning				
4.1	Do you Follow HR planı	ning		
	YES NO	12 38		
4.2	How Frequently Quarterly Six Monthly Yearly	4 2 6		
4.3	Type Of Recruitment Casual Regular Temporarily/contract	20 14 Contract 16		
4.4. Advertisement for Recruitment	t			
YES	20	1		
NO	30			
4.4.1 If yes, Media/sources used		-		
		11		
News Paper		3		
News Paper Local media		5		
Local media		2		12.
Local media	- 1 - 1			13
Local media People to People	1	2		1
Local media People to People Contacts		2 2 2		1/r
Local media People to People Contacts Web Site 5.0 Selection Process	31	2 2 2 Number of companies		1
Local media People to People Contacts Web Site 5.0 Selection Process Skill Test	j.	2 2 2 Number of companies 22		I
Local media People to People Contacts Web Site 5.0 Selection Process Skill Test GD	j	2 2 2 2 2 Number of companies 22 3		1
Local media People to People Contacts Web Site 5.0 Selection Process Skill Test GD PI		2 2 2 2 2 Number of companies 22 3 12		I
Local media People to People Contacts Web Site 5.0 Selection Process Skill Test GD PI Technical Interview		2 2 2 2 2 Number of companies 22 3		I
Local media People to People Contacts Web Site 5.0 Selection Process Skill Test GD PI Technical Interview 6.0 Promotion Policy		2 2 2 2 2 Number of companies 22 3 12		
Local media People to People Contacts Web Site 5.0 Selection Process Skill Test GD PI Technical Interview		2 2 2 2 2 Number of companies 22 3 12	28	
Local media People to People Contacts Web Site 5.0 Selection Process Skill Test GD PI Technical Interview 6.0 Promotion Policy Experience based Performance based		2 2 2 2 2 Number of companies 22 3 12	28 22	
Local media People to People Contacts Web Site 5.0 Selection Process Skill Test GD PI Technical Interview 6.0 Promotion Policy Experience based Performance based 7.0 Salary Structure		2 2 2 2 2 Number of companies 22 3 12		
Local media People to People Contacts Web Site 5.0 Selection Process Skill Test GD PI Technical Interview 6.0 Promotion Policy Experience based Performance based 7.0 Salary Structure 1 Entry Level	22	2 2 2 2 2 Number of companies 22 3 12		
Local media People to People Contacts Web Site 5.0 Selection Process Skill Test GD PI Technical Interview 6.0 Promotion Policy Experience based Performance based 7.0 Salary Structure	22 16 12	2 2 2 2 2 Number of companies 22 3 12		

A Monthly Double-Blind Peer Reviewed Refereed Open Access International e-Journal - Included in the International Serial Directories www.ijrcm.org.in 8.0 Compensation Plan

D.A	5
H.R. Allowance	3
Medcal Allowance	7
Transportation Allowance	8

9.0 Training

On The Job	8
Off The Job	26
Both	16

9.1 Offer any development programm		
Yes	13	
No	37	

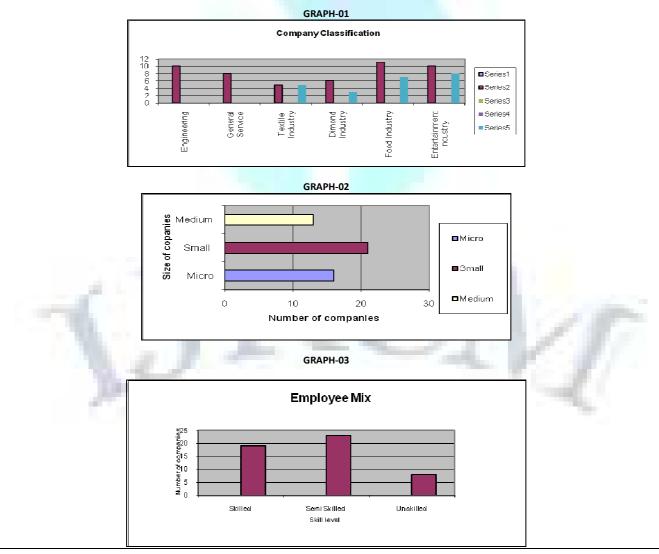
9.2Development Programme period

3 months	2
6 months	3
yearly	7

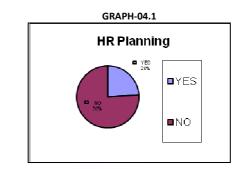
10.0 Retention policy

Yes	17
No	33

ANNEXURE-03 GRAPHICAL ANALYSIS

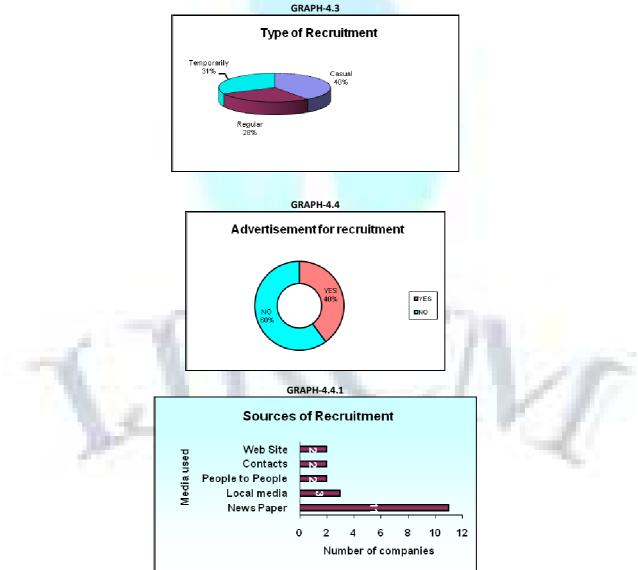


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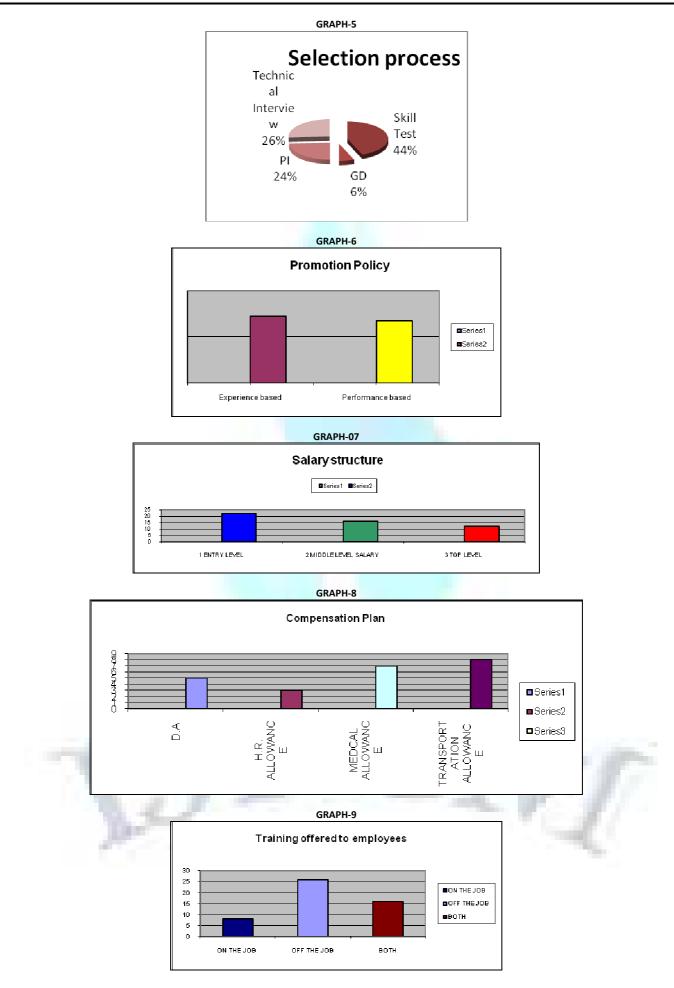


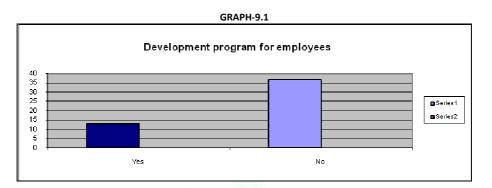
GRAPH-4.2





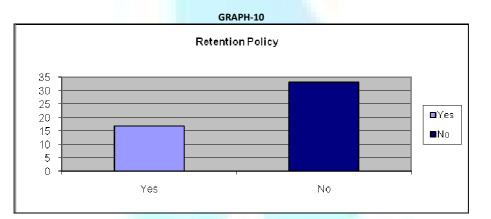
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Academically yours

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