

2014

***Aarhat Multidisciplinary
International Education
Research Journal (AMIERJ)***

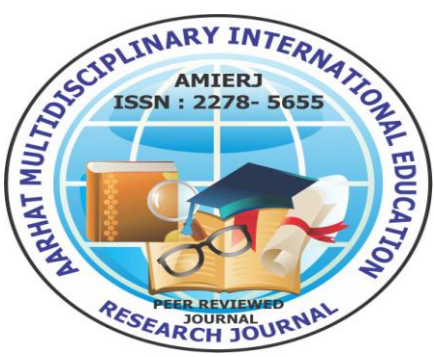
***(Bi-Monthly)
Peer-Reviewed Journal
Impact factor: 0.948***

VOL - III Issues: V

***Chief-Editor:
Ubale Amol Baban***

30/11/2014





INNOVATIVE HR PRACTICES IN SMALL AND MEDIUM SCALE ENTERPRISE

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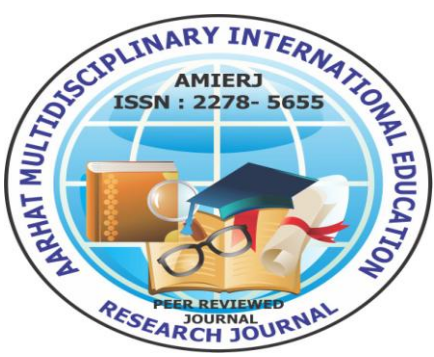
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Abstract

Small and Medium Enterprises (SMEs) play a vital role for the growth of Indian economy by contributing 45% of industrial output and 40% of exports, employing 60 million people, creating 1.3 million jobs every year and producing more than 8,000 quality products for the Indian and international markets. The contribution of SMEs to the Gross Domestic Product (GDP) in 2011 was 17% and increased to 22% by 2012. There are approximately 30 million MSME units in India and 12 million persons are expected to join the workforce by 2015.

"With the evolution of electronic commerce, globalization, consolidations, and intricate strategic alliances, companies will be challenged to do their work well". The competitive environment both domestically and overseas is pressing human resource (HR) professionals to bring adequately talented workers on board, while they themselves need to be competent at strategizing and partnering with a clear understanding of the organizational business.

Managing HR presents significant challenges to any firm, but SMEs face unique challenges that stem largely from their size, with regard to the attraction and retention of employees which is clearly linked with the ability to offer a competitive benefits package. Research shows that managers of small firms lack training in formal personnel management practices and they do not consider the use of generally accepted HRM practices as essential for



improving productivity. It was found in previous research that most of the medium scale enterprises have no formal HR department or exclusive person for this function.

Therefore, the thrust of the research is to identify a group of HR practices adopted by few small and medium scale enterprises that reflect management innovation which aimed at improving organizational efficiency and productivity.

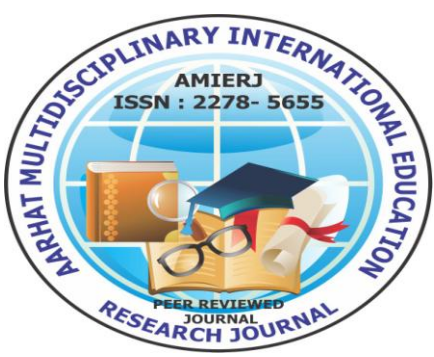
Keywords: *Human Resource Management, Small and Medium Scale Enterprises, Recruitment, Retention, Training and Development, Incentive based Pay, Employee Welfare*

1. INTRODUCTION

Small and Medium Enterprises (SMEs) play a vital role for the growth of Indian economy by contributing 45% of industrial output and 40% of exports, employing 60 million people, creating 1.3 million jobs every year and producing more than 8,000 quality products for the Indian and international markets. The contribution of SMEs to the Gross Domestic Product (GDP) in 2011 was 17% and increased to 22% by 2012. There are approximately 30 million MSME units in India and 12 million persons are expected to join the workforce by 2015.

Micro, small and medium enterprises (MSME) sector has been recognised as an engine of growth all over the world. The sector is characterized by low investment requirement, operational flexibility, location wise mobility, and import substitution. As per the Development Commissioner of Micro, Small and Medium Enterprises (MSMEs) (2001), the sector has the credit of being the second highest in employment, and stands next to the agricultural sector. MSMEs in India face problems of getting skilled labor for manufacturing; services and marketing.

For small businesses and large conglomerates alike, the human resources or personnel function can be helpful for much more than simply processing payroll or handling the open enrollment season once a year. Human resources plays an essential role in developing a company's strategy as well as handling the employee-centered activities of an organization. An organization cannot build a good team of working professionals without good Human Resources. The key functions of the Human Resources Management (HRM) team include recruiting people,



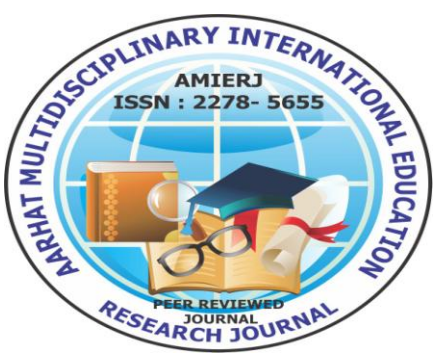
training them, performance appraisals, motivating employees as well as workplace communication, workplace safety, and much more.

HRM PRACTICES AT MEDIUM SCALE ENTERPRISES

Managing HR presents significant challenges to any firm, but SMEs face unique challenges that stem largely from their size, with regard to the attraction and retention of employees which is clearly linked with the ability to offer a competitive benefits package. While larger organizations face the challenge of retaining and developing talent within their organizations, SMEs face the more basic challenge of hiring the right kind of people for themselves. If SMEs can achieve the right mix of effective leadership, innovative management, decision-making autonomy, growth opportunity and financial attractiveness, they would be able to create the much sought after unique employer brand, enabling them to attract the right talent to deliver on their promises. Leadership, management and performance orientation form the core of the HR challenges faced by SMEs. It was also concluded that the absence of HR policy is the root cause of most of the anomalies in the HR spectrum. They found that the mechanism for fixation of compensation for employees is widely varied. Research shows that managers of small firms lack training in formal personnel management practices and they do not consider the use of generally accepted HRM practices as essential for improving productivity.

It was found in previous research that most of the medium scale enterprises have no formal HR department or exclusive person for this function. Payroll/attendance/statutory compliance are either completely outsourced or part-timers perform record maintenance functions, or the owner himself controls this function. In these units, there is no formal performance management system. In some medium scale enterprises office persons function as the 'HR' of the organization and mainly do record keeping/pay roll/statutory compliance/liaison and employee grievance handling. Only few medium scale industries have a formal HR person taking care of HR administration and employee relations.

In most of the medium scale enterprises, there is no empowerment to this function. All HR/ employee relations policies are owner-driven. Increments/promotions are totally decided by



the owner on his gut feel and personal understanding of the employee. His likes and dislikes play an important role in this function. Only few medium scale industries have some formal system/process of recruitment /induction / performance evaluation and training.

OBJECTIVE OF THE STUDY

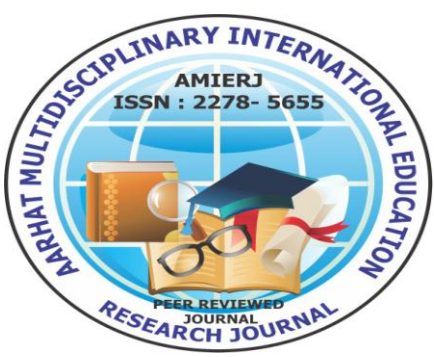
1. To study the major HRM functions and practices adopted by Small and Medium Scale Enterprise.
2. To study the impact of HR practices in increasing the performance of medium scale industries.

REVIEW OF LITERATURE

A few related studies at national and international levels are discussed here

Sameer, S. P. (2014). attempts to study the HRM practices in Indian firms. It was found that there exists a lack of professional approach towards Human Resource (HR), and the managers are unaware of the developments taking place in management in general and HR Management (HRM) in particular. The HRM practices in small and medium firms were found to be very different, and previous literature also shows that the results vary with countries. It is important for small firms to realize the effectiveness of sound personnel policies and make a concerted effort to address personnel problems.

Doherty, L., & Norton, A. (2014) explains how "good" HR practice is characterised in SMEs and what the drivers are for adopting this good practices. The research was carried out in one SME, a bakery based in South Yorkshire. It was an action research project which utilised semi-structured interviews, participant observation on the factory floor and analysis of company documentation in the diagnosis phase. The drivers of good HR practice were found to be size, market position, external "coercive networks", presenting issues, the ideology of the managing

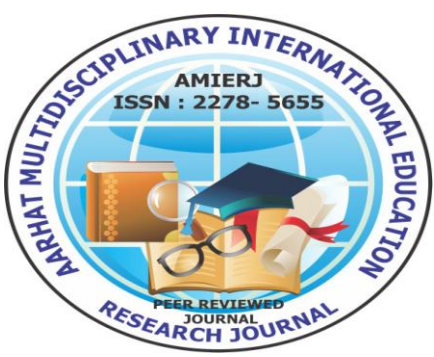


director and the energy of an HR champion. The findings demonstrate that the impact of "good" HR practice can be best evaluated in SMEs through one-shot, cost-based metrics or more strategic qualitative measures.

Ana-Maria Grigore, (2013), focused about HRM – politics, development, practices, tendencies – in SME`s of Romania . It was found that there exists a considerable variation in human resources practices; a statistically significant relation has been discovered between the educational level of the entrepreneur and such variables as HR strategies and politics or the size of the firm. The chronic lack of resources of the smaller firms forces these organizations to practice a different approach when dealing with HRM topics.

Shamaila, H. K., Farooq-E-Azam Cheema, Nadeem, A. S., & Asim, M. (2013) conducted an exploratory study which aim to exploring the level and extent to which the human resource practices are formally used in the small and medium enterprises (SMEs) in Pakistan. Finding of this study corroborates findings of most of the researchers who had concluded that SMEs in developing countries do not practice HRM the way it is observed in the developed countries. The reason may be that the SMEs in developing countries like in Pakistan mostly function through weaker infra structures, systems and expertise. The study concluded that SMEs in Pakistan must move towards the formal HR practices regime. By having the HR practices implemented by the non-HR staff in the firms in an informal style, the owner-managers might have saved costs, but in the long run chances of their development and growth become slimmer. For the purpose of this study five HR functions/practices were selected to work with: * Job Description Manual,* HR Planning,* Recruitment & Selection,* Performance Management,* Application of Labor Laws.

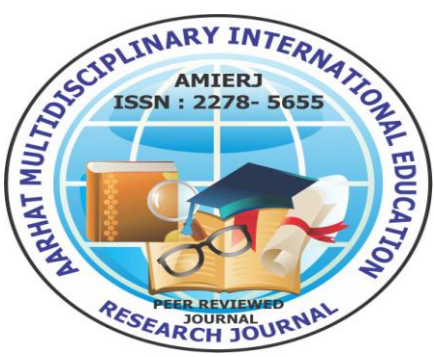
Naveed R Khan, Marinah Awang, Che Mohd Zulkifli, (2013) aims to study the in-depth context of HR outcomes and organizational commitment linked with best HR practices and proposed a framework of HR practices to elucidate its influence on OC and HRO in small and medium-sized enterprises . Six HR practices are selected to examine its impact on OC and HRO (i) staffing, (ii) job design, (iii) training and development, (iv) performance appraisal, (v)



compensation, and (vi) career planning. These findings provide a basis for developing a model to advance the HRP, OC and HRO in SME.

Nayak, S., & Harisha, G. J. (2012). tries to answer the question, what is the quality of work life for IT professionals engaged in software services and development in small and medium enterprises in India by selecting 3 cities which are known for small and medium enterprises (SME's) in IT sector. The study was carried out by giving a questionnaire to 32 IT professionals in the cities of Bangalore, Goa and Pune. Regular assessment of Quality of Work Life (QWL) can potentially provide organizations with important information about the welfare of their employees such as job satisfaction, work-family balance, job security and job stress. The global recession has led to the decline in the margins of the Indian IT industry as a result of which salaries of IT professionals have reduced and feelings of insecurity are increasing. The study highlights the fact that SME's particularly are at a disadvantage as they are unable to justify the best talents in the industry, owing to their limitations in infrastructure. Information Technology professionals are highly educated with high career aspirations and have a growing consciousness of their rights. Hence it is only imperative that organizations that employ them must be concerned about their quality of work life.

Osman, I., Ho, T., & Maria, C. G. (2011) in their study examines the significant differences in terms of employees' job satisfaction and firms' performance for Malaysian SMEs that has their own Human Resource (HR) department against organisations who doesn't have their own HR department. Based on the findings of this study organisations larger in size have their own HR department have shown a greater degree of implementation in areas of training and development, performance appraisal, and employee relations and communication . SMEs without a HR department do not seem to engage in training and development of their employees as much as SMEs with a HR department. Hence, this lack of training and development may, impede the growth and survival of the organization. They found that training is able to improve skills and abilities that are relevant to employees' tasks. As a result, employees' satisfaction with their jobs and workplace will increase.

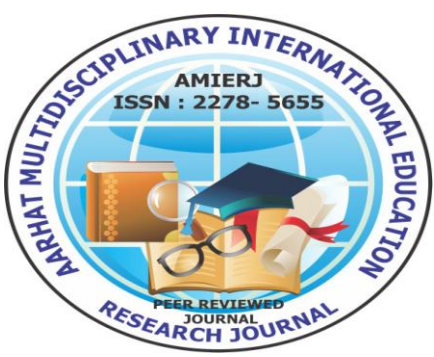


Fred, A. F., & Amaria, P. (2011) investigated the impact of human resource management (HRM) practices on the performance of small firms in Florida during a period of economic recession in unfavorable economic condition. The study focused on six human resource practices - recruitment and selection, training and development, performance appraisal, employee participation and decision making, compensation, and staff welfare services. One hundred and thirty-one small firms from certain counties in Florida were sampled using questionnaire to ask HR managers to determine the extent to which they implement the six HRM practices during the recession period and the impact on their organization's performance. ANOVA and correlation analysis were conducted to observe the differences and relationships between the HRM practices and firm performance - profitability, market share, sales growth, employee morale, customer satisfaction, and quality of product and services. The study found significant positive relationships between the HRM practices and small firm performance for both types of firms affected or not affected by the recession.

Findings and Conclusion

It was found that few SME owner showed reluctance to discuss future plans with their employees although they did tend to consult employees who would be affected directly by any change. Communication within SMEs was predominantly informal. The researcher explores the nature of the four HRM activities - motivation, communication, skills and training. And they highlighted, it is not sufficient to provide just financial support but also there is a need for training and skills development.

The important conclusion reached is that increasing the core competencies of the firm, in particular in HR, is the key element to the success of the firm. Moreover, it is posed that the growing involvement of the HR in the development and implementation of business strategy will lead to the increased effectiveness of the organization and the industry as a whole. Finally, the competitive advantage a firm enjoys can come from the distinctive capabilities which provide it with a core competence in HR. The result provides empirical support that training; performance



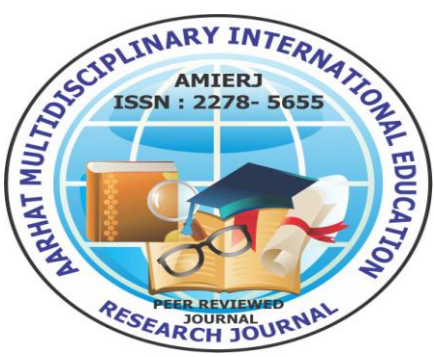
appraisal and incentive compensation have positive effects on SME performance, with incentive compensation having the greatest impact. The findings indicate that micro enterprises practice a wide variety of HR activities in-house with little outsourcing. Limited organizational support is provided in terms of HR personnel and formal HR practices. HR practitioners in this study have had significant experience, but limited formal HR education. Respondents have average perceptions of their ability to perform HR functions, and prefer short seminars and webbased instruction to gain additional HR expertise

From this, we attempt to identify a group of HR practices adopted by few medium scale industries that reflect management innovation aimed at improving organizational efficiency and productivity.

- Free market selection and recruitment
- Incentive rewards
- Performance evaluation and promotion
- Training and development
- Worker participation in the decision-making process
- Industrial relations

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