Abstract

Small and Medium Enterprises (SMEs) continue to play an immensely important role in Indian economy. While SME as a sector is on a growth trajectory, it is also facing several new challenges on the way. Efficient human resource (HR) management is one such daunting task. While, till few years back, HR management was limited to big corporate houses and MNCs, today, it is becoming important in Small and Medium Enterprises (SMEs) too. There is phenomenal growth in HR practice in SME sector with increase in the number of employees and the consequent need for more efficient employee management to achieve organizational goals. Infact, now HR policies are customized to suite the requirements of this sector and the challenges faced by it on HR management front. This paper is an attempt to find out the scope and prospects of HRM in small industries also.

1. Introduction

With the expansion of SMEs there is an immense need for a new HR management system. According to Mr Dinesh Agarwal\(^1\), founder & CEO, IndiaMART.com "Usually, in SMEs it is not more than one person taking care of HR responsibilities and this person often wears many hats within the organization. SMEs follow simple, non-elaborate HR practices and processes. As SMEs grow in size, their requirements in terms of talent recruitment and employee engagement change. Looking at this, they may consider investing in the formation of HR as a separate vertical. In our case

\(^1\) The Economic Times Delhi; Jan 24, 2012; Section: Spl Report; Page: 21
also, we began with a single person, flourished to hundreds and today, more than 3500 employees form our team. At each stage, we saw changes in our HR practices."

HR Management assumes an important position as hiring right talent and retaining it becomes crucial to the growth of the business. Kanthi D Suresh\(^2\), managing director, Konnexions HR Pvt. Ltd adds, "With the changing trends and aggressive competition from the bigger corporate houses SME’s are compelled with the need to benchmark their process. HR is now looked at by the SME’s from the perspective of attaining better efficiency and control and be competitive primarily from the point of hiring and retention."

Neha Bhatia\(^3\) had mentioned in her article that in a smaller set up there is greater proximity among employees. In fact management and employees share a closer relationship. And it has several advantages too, as Rajiv Oza, director HR, Dr Reddy’s Laboratories says, "HR will play an important role in attracting and retaining talent to work in SMEs. For those who would like to fold their sleeves and manage dynamics very near to the market will enjoy their career in SMEs. HR plays multiple role in SME sector. In my view the role has more canvas which covers multiple functions like HR, personnel, IR, Corp Communication, PR and so on. Most of the SME operate in an environment of cut throat competition with limited resources. The core role of HR is to be a thought partner to the Promoters and Business leaders; manage growth or stagnancy with limited resources; balance growing needs of employees with that of the organizations ability to provide them." But as the organization expands it become difficult to maintain this kind of relationship.

What becomes quite challenging is to keep the large pool of employees motivated. Agrees Agarwal, "When we had staff strength of less than 100, the small team size allowed us to network with employees closely and regularly. We even introduced recognition methods to reward high performers. At the stage when we had between 100-1000 employees, we

---

\(^2\) Ibid
\(^3\) Neha Bhatia (2012), “The role of human resource management assumes an important position as hiring right talent and retaining it becomes crucial to the growth of SMEs”, Economics Times, 24.1.12.
saw innovative products develop and even smallest developments mattered. Engagement and communication with employees at the time was on a high. However, there was relatively less intervention from top management."

2. Objectives and Research Methodology

Objectives of study are as given below

i. To find out the challenges for HRM in MSME organisations
ii. To find out the major characteristics of MSME organisations
iii. To evaluate importance of HRM in MSME.

Research Methodology

Research methods can be classified in different ways, the most common distinction is between the quantitative and the qualitative approaches (Myers, 2007\(^4\)). Quantitative approaches were originally used while studying natural sciences like: laboratory experiments, survey methods and numerical methods. A qualitative study is used when the researcher wants to get a deeper understanding on a specific topic or situation. Myers (2007)\(^5\) stated that the qualitative approach was developed in social sciences in order to support the researcher in studies including cultural and social phenomena. Sources included in the qualitative approach are interviews, questionnaires, observations, documents and the researcher’s impression and reactions. The chosen approach is qualitative.

This study typically takes the form study of secondary data available on Human Resource Management system in Micro Small and Medium organisations. The reports on the study topic have also been collected to understand and conclude the effectiveness of the HRM process.

3. Major Characteristics of MSME Organisations

Small businesses have a greater likelihood of coincidence of power between owners and managers. Small business owners usually have direct


\(^5\) Ibid
impact on operations and activities of businesses than owners of large businesses (Cooper 1982; Cressy 1996; Wiklund 1998a, 1998b; Jenkins 2004). A direct role of SME entrepreneur imply multidimensional goals; a commercial orientation as well as personal preferences, objectives and ambitions such as desire for lifestyle, family and reputation in communities (O"Farrell and Hitchens 1988; Birley and Westhead 1994; Spence and Rutherford 2001; Southwell 2004). The basic values that SMEs reflect are trust, cost consciousness, agility, high level of risk taking ability, centralized decision making, culture of driving business by intuition and relationships rather than facts and professionalism. Within an ambiance of business diversity, small businesses exhibit a general characteristic of informality which is illustrated by a lack of written management procedures and practices, such as human resource management (Kotey and Slade, 2005).

More often than not, the values of the promoter or owner of small businesses are the expected values or culture of the organization. Consequently, the owners play a more critical role in the development of their business than owners of larger businesses (Shuman and Seeger 1986; O"Farrell and Hitchens 1988; Wiklund 1998a, 1998b), prompting Storey (1994, p. 10) to argue a small business is „not simply a scaled down version of a large firm“. And this perhaps is one of the most important aspects restricting the growth of SMEs as there is a dire need for change in the organization culture to match the challenges of business. The process of decision making in the small business organization acts as a grid lock in the high growth rate of SMEs. Another cultural impediment faced by SMEs is that the existing employees who are well adjusted to the conventional culture generally develop differences with the employees who are recruited from professionally driven big companies.

Human resource is a vital factor that could affect the performance of organization Pfeffer (1998). Therefore, it is important to understand how to manage human resources so as to maximize productivity and enhance creativity as well as control the costs (Combs, Liu, Hall, & Ketchen, 2006; Dart, Ng, & Sarkar, 1990). HR strategies give valuable foundations to the rising number of diversified SMEs, (Sethakaset & Santimataneedol, 2008).
The SME sector as a whole is basically promoter driven. The problem of SMEs is that the promoter reflects values which are different from the values that the employee groups reflect and this difference becomes critical in the business growth process. This is where there is a need for the decision makers to understand about the need for change.

4. Challenges for Human Resource Management in MSME

SMEs face unique challenges and to tackle them HR management is becoming more heterogeneous. Shares Agarwal, "SMEs certainly encounter universal HR issues like attracting right people, selection processes, motivating on-board employees, development and retention of potential talent. But there are certain constraints specific to SMEs which are challenging and do need to be addressed. One major challenge that SMEs face today is to select the right kind of person for the right kind of job at the right time and at the right amount." Oza is of the view that SMEs face unique challenges that stem largely from their size. "The major challenge in SME is attracting talent at middle and senior position. The second big challenge is retaining them in an environment which is pursuing the path of professional maturity since significant piece of talent is poured in is from very professionally managed companies. SMEs also loose lot of talent to large companies because of brand name and at times good salary packages. Also the fact is that there are reasonably good amount of SMEs who work in a limited manpower budgets in such cases the attracting and retaining talent becomes more challenging.". The challenges for HRM in MSME are given as below:

4.1 Recruitment:

In the today’s liberalized and globalised economy, the nourishing of any organization depends on the integral growth of employee’s. Talent crunch can impact any organization’s bottom line and growth. SMEs are struggling to fill talent gap, find skilled workers especially at workmen level and middle level positions. Identifying right candidate for a right job with right skill, and aligning their business for getting the quality cost scale balance

---

6 Ibid reference # 1
right, stands as a huge challenge to any SME's. One more important challenge is to, how they can retain their key talent.

SMEs are less inclined towards adopting modern methods of hiring, which is why candidates have less information about the available job opportunities across the board. Role clarity is a major ingredient of successful recruitment. Often SME's does not invest money in doing clear job analysis and fail to give proper job description. Most of the candidates tend to accept the roles without understanding and asking for any clarity and crib later. SMEs are at a disadvantage in their ability to offer competitive pay packages. SMEs require determining skills gap and employee’s needs. SMEs seldom offer a detailed orientation program to new joinees.

4.2 Retention:

As mentioned earlier, the major challenge for SME's is to retain their talent pool because of lack of competitive salary. The job of the HR personnel increases when the present employees are leaving the organization at the time of crisis. The HR personnel should try to retain the present employees by following some of the efficient strategies which include, offering a competitive benefits package that fits the employee needs and expectations, using contests and incentives to help keeping workers motivated and feeling rewarded. Creating open communication between employees and management develops trust in the employees. Fostering employee development and getting managers involved in this activity will give employees a visibility of their own career path. The managers need to spend time in coaching employees, helping good performers move to new positions and minimizing poor performance. Conduct “Retention interviews, in addition to performing exit interviews to learn why employees are leaving, consider asking longer-tenured employees as to what made them to stick to the organization as per The Wall Street Journal (2012). In today’s competitive world, SMEs must recruit and select the best talent where they have openings and upgrade talent in areas where it will advantage the business. It is necessary for the SMEs to take a step back and evaluate workforce plans, as well as talent
acquisition processes and enabling technology and determine a strategy that works for the organization in the retention process.

4.3 Motivation:

The motivation of employees is one of the key factors that affect the progress of an industry. In SMEs the lack of employees' motivation is a major management deficiency. Keeping employees satisfied on the job is another important human resource activity in the SME's. As financial benefits are not competitive as those of larger and more established firms, the human resource manager of the small firm needs to ensure that its employees remain satisfied on the job. For SMEs the heart of the motivation process lies in ensuring and maintaining smooth and harmonious working and personal relationships among its employees. Respectful language at workplace provides support and encouragement and enables employees to develop good working relationships. Mentoring adds up in the strengthening of harmony in the SME.

Effective co-operation and harmony in the workplace ensures less conflict and stress at work. This also leads to higher work motivation, improves labour productivity and in turn ensures higher retention rate. Motivating the employees, specifically for the small firms is to reduce the rates of absenteeism and staff turnover. High levels of absenteeism and turnover adversely impact on the productivity given the number of employees in the small firm and the high cost of recruiting and replacing exiting employees (SME.com, 2012)

The HR should motivate the employees by communicating with them about the benefits offered by the SME. He should also highlight the various opportunities of personal growth, job growth by the organization that can motivate the employee to reach greater heights of productivity within the limited time period. Thus through motivation, the HR professional could improve the efficiency and the effectiveness with which the employees work. Alongside

4.4 Job security:
Any employee prefers to do a job which is secure for him. The SME's should always try to provide the job security for the employees so as to reduce the retention rates. Employees always want to have a „Secured Job“.

4.5 Empowerment:

Empowered employees feel they have the ability to make decisions and put them into action. Empowered personnel are expected to act, at least in some small way, like owners of the company rather than just employees. One of the major tasks faced by HR personnel’s is empowering the employees with certain decision making powers and authority. Every employee feels that he should have certain decision making powers with him to do a particular job. The empowerment of employees can happen when the clear definition of the values and mission of the company is explained and imbibed in them. Secondly, company must help employees in acquiring the relevant skills. Thirdly, employees must be supported in their decision-making, and not criticized or do the constructive criticism, when they try to do something extraordinary. And lastly workers need to be recognized for their efforts. Managers have to understand that empowerment is an important strategic tool. In order to reap the benefits, managers should implement the above practices. Otherwise, talk about empowerment will be perceived as “lip service” by employees, and have no positive effect

4.6 Employee Engagement:

Small and medium enterprises (SMEs) are worst affected during challenging economic era when resources are scarce, competition is intense and customers are more demanding than ever. Thus for SMEs it is even important to have emotionally engaged and passionate employees. They play a critical role in driving innovation and propelling the organization forward. Emotionally engaged employees are generally more willing to recommend the organization to others and commit time and effort to help the organization succeed (Gupta, 2009) In SME sector, to build a great workplace and increase employee engagement, there are a few innovative practices which can be adopted to leverage the advantage of the companies as explained in the figure below (Caccamese, 2012).
4.7 Workforce diversity:

In the highly globalized era, the more interaction among people from diverse cultures, beliefs, and backgrounds than ever before is required. People no longer live and work in an insular marketplace; they are now part of a worldwide economy with competition coming from nearly every continent (Byrne, 2011). Cultural diversity training programs must also be set for all the employees and managers or supervisors concerned. This training will help them be aware of the different cultures and beliefs for a diverse workforce existing in company. In a like manner, a seminar or workshop on team building should be frequently conducted and implemented for cohesiveness and unity amidst the diversity of the work. The HR personnel should educate his employees the benefits they will get by working with diverse workforce.

4.8 Organization Citizenship Behaviour:

As defined by Organ (1988), Organization Citizenship Behavior represents „individual behavior that is discretionary, not directly or explicitly recognized by the formal reward system, and that in the aggregate promotes the effective functioning of the organization”. It refers to employee efforts that go „above and beyond the call of duty” (Bolino and Turnley, 2003). Organizational citizenship behavior makes a difference in organizational outcomes (Organ, 1997). Specifically in every SME, the number of workforce is very limited. So there is a desperate need of every employee to have and show the belongingness towards the organization. This ensures the organizations to sustain in the today”s competitive world. According to the studies of Organ (1988) and Podsakoff et al. (1990; 2000), organizational citizenship behavior consists of five categories listed below, which needs to be fostered innovatively by the HR managers of SME”s.

4.9 Conscientiousness:

Conscientiousness is defined as ‘behaviors on the part of the employee that go well beyond the minimum role requirements of the organization, in the areas of attendance, obeying rules and regulations and taking breaks’ (Podsakoff et al, 1990). Diligent employees will increase performance
levels and they will be willing to work above their average results (Podsakoff et al., 2000). As one of the strategy of HR, employees have to be brought in to the culture of conscientious, which increases the productivity by itself. These employees do not need much supervision which provides extra time for the supervisor to handle his other tasks (Podsakoff et al., 2000). The working environment in SME is informal and there exist less communication. Thus SME need to recognize and value the employees who are hardworking and trustworthy to follow organizational policies even when they are not monitored.

4.10 Sportsmanship:

Sportsmanship is defined as the ‘willingness of employees to tolerate less than ideal circumstances without complaining’ (Podsakoff et al., 1990). This attitude among the SME employees can enable smooth operation without many hitches of complaints with regards to unimportant matters and focus on what went well instead of what went wrong. This saves time for more productive purposes. Sportsmanship behavior of employees set an example for others which will reduce complaining, increase satisfaction and enhance employee retention (Podsakoff et al., 2000). Within a small organisation, complaining and spreading complaints throughout the workforce diminishes the morale. Sportsmanship behavior is therefore very important for maintaining the valued team spirit.

4.11. Courtesy:

Courtesy is defined as „discretionary behavior on the part of an individual, which involves helping others by minimizing work-related problems to occur” (Podsakoff et al., 1990). Behaving courteously will allow employees to gel well among themselves which in turn prevent conflicts. This will decrease the amount of time and energy spent by the supervisor in negotiating conflicts which otherwise would have occurred. Within SMEs, in order to maintain productivity with the small workforce, it is of special importance that employees help their leaders by preventing problems from occurring (Podsakoff, 2000). Courteous behavior enhances organization"s ability to quickly adapt to environmental changes, thus having a positive impact on the organizational performance (Podsakoff, 2000).
5. The Importance of Human Resources Management in the Success of SMEs

The SME sector is a manufacturing and services sector and performance assessment generally depends on the performance of the staff employed in them. A highly qualified, motivated and happy staff is the main factor for the success of SMEs. Good customer service remains the main factor to distinguish from one SME to another SME and the competitiveness of each market. There are several reasons for this:

- Good service is a key factor that explains why a potential customer chooses a particular SME or why existing customers stay or leave an SME.
- Best impressions of a service, expressed from a friend or relative, effects in choosing a SME. Moreover, a bad impression on service will send customers to other competing firms.
- High customer service gives all SMEs sustainable and long term competitive advantage.

This service will be difficult to duplicate and surpassed by competitors in the short term. Good service is not reached immediately, it takes many months, if not years, of investment in the training and dedication to achieve it.
6. Conclusions

SMEs put extra pressure on HR professionals to prove the merit of its programs and activities for the success of the organization. There are many opportunities to recreate the role and deliver new value to the employees. SMEs must understand the difference between the traditional and the conventional approach of Talent Attraction to execute the much required change for effective hiring. SMEs largely require focusing on recruiting individuals with the appropriate skills, using suitable evaluation procedures that verify the candidate’s expertise. HR professionals are challenged with the difficult task of understanding the employees in leading and empowering the employees. While some argue that the financial conditions of SMEs are difficult and ambiguous, but it is an opportunity for HR transformation that will successfully lead, impact and endure the employees to perform well and develop the organization.
HR functions deal with different dynamics when contributing to SME growth plan. While the organization plans to follow a successful trajectory, there is a need for both HR and the Promoters to appreciate and agree on change management agenda through change in organization culture. HR has the responsibility to understand business dynamics in SME environment before implementing the standard HR practices, policies and processes. Due to low degree of bureaucracy and leaner work force structure, it is easier for HR to implement change management programs in SMEs. The mutual appreciation will help HR to be an effective business partner.

7. References

1. The Economic Times Delhi; Jan 24, 2012; Section: Spl Report; Page: 21


