MSMEs Handshake with HRM- A Vehicle for Sustainable Economic Growth & Development of India.

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Abstract:  
"MSMEs are said to be the lifeblood of any vibrant economy and are known as the silent drivers of a nation's economy"  
Micro, Small and Medium Enterprises (MSMEs) represent more than 90% of all businesses & occupies a central part of the Indian economy. From Indian perspective, they provide bread and butter to many people in India & are essentially the drivers of the Indian economy. MSMEs sector has performed exceedingly well and enabled our country to achieve a wide measure for its advancement. Their contribution to economic growth, income and employment generation is therefore not in doubt & is really praiseworthy. Though there are many studies on MSMEs the focuses of most of the studies were on the financial aspects at the expense of the most valuable assets-the human resource. Today, Human resource management (HRM) practices are very important because its functions, practices and procedures are increasingly becoming important, considering the growth of the economy. Human resources in any enterprise, constitute an important area of study as most of the people spend a majority of their life at working place. Careful HRM creates good opportunities to ensure efficiency in the production process of goods &services that guarantee a satisfactory level of living in society. The uniqueness of this paper is the emphasis on the HRM perspective which is important for MSMEs to progress and be competitive in India. Specifically suggests professional approach to various dimensions of HRM in the light of various constraints the MSMEs encounter. It also maps out the background, the various issues faced by MSMEs and various strategies which would help them to be more resilient. It concludes that there is informality and high flexibility in the practice of HRM and formalization of practices is essential.

Key Words: MSMEs, HRM

Introduction  
Micro, Small and medium-sized enterprises (MSMEs) form an increasingly important feature of the global economy, constituting more than 99% of all enterprises in many countries. Current research focuses on how the HRM function may be used to serve the strategic interests of the organization and how HRM may increase the capacity of organizational members. Yet, the role of HRM in MSMEs especially in India appears to receive little attention in the MSME literature as opposed to the issues of accounting and finance. Thus, there is the need for HRM research on MSMEs which are viewed as bedrock of economic development in many countries of which India is of no exception. The human resource is the most important factor that makes the difference between success and failure of these firms. Small and medium enterprises are comparatively labor intensive and thus create more employment opportunities per unit of capital employed. This potential to create employment opportunities necessitates effective management of labor force. Most of the small and medium enterprises are of the view that professional management of human resources is applicable to large firms only. Perhaps the limited size of work force employed in these industries may not force them to think about the necessity of adopting professional practice in regard to human resource spectrum. They are quite unaware of negativities associated with frequent recruitment, labor turnover, poor work performance, inadequate training facilities, and poor wage payment and so on. The effective management of human resource is key to survival of small and medium ventures & has emphasized the importance of well-motivated, highly skilled work force as a determinant of small enterprises ability to remain competitive in the contemporary business environment. Over the last few decades there has been a tremendous growth in MSMEs. In most developing countries, MSMEs constitute the bulk of the industrial base and contribute significantly to their exports as well as to their GDP or GNP.
Human Resources Management in the Success of MSMEs

HRM is the function deals with issues such as recruitment, performance management, benefits, employee motivation, and training. It is devoted to shaping an appropriate culture which reflect and support the core values of the enterprise and ensure its success. Generally in small organizations with less than a 100 employees, there may not be an HR department. So, the owner will be responsible for the functions of HRM. Even though people are the key to an organization’s success but small business owners do not pay attention to HRM at first. They thought that since their companies are not so large so it is possible for them to handle the employees in the company by himself.

HRM in MSMEs has received much attention in recent years. There is a need for MSMEs to adopt more formal practices of HRM in their business. The MSME sector is a manufacturing and services sector and performance assessment generally depends on the performance of the staff employed in them. A qualified, motivated staff is the main factor for the success of MSMEs. The way in which people are recruited, developed and utilized by the management largely determined whether the organization will achieve its main objectives and goals or not. Organizing human effort and motivating employees is of utmost importance everywhere in the MSME units. HRM practices are very important because majority of the people are spend their major portion of life at their working place especially in MSMEs. Number of works in HRM practices in MSMEs found that informal practices have followed in the selection process and industrial relations. Hence the present study is aimed to understand the issues of HRM practices followed by the MSMEs in India.

Micro, Small & Medium Enterprises (MSEs) Sector – An Overview:

The MSMEs Sector continues to be a vibrant sector of the Indian economy. It is estimated that there are about 12.8 million units in this sector employing nearly 31 million people. This sector contributes nearly 39% of the total industrial production and accounts for approximately 33% of the total exports. This sector has consistently registered a higher growth rate than the rest of the industrial sector. There are over 6500 products ranging from traditional to high-tech items, which are being manufactured by the small enterprises in India. After agriculture, the MSMEs sector provides the maximum opportunities for both self-employment and jobs in the country. The small enterprises sector in India holds great potential for further expansion and growth in the future. These SMEs are further categorized into medium-sized companies, small enterprises and micro-enterprises, as indicated in Table. The Government of India enacted Micro, Small and Medium Enterprise Development (MSMED) Act, 2006. According to ministry of MSMEs, recent ceilings on investment for enterprises to be classified as micro, small and medium are as follows:

<table>
<thead>
<tr>
<th>Classification</th>
<th>Manufacturing Enterprises</th>
<th>Service Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>Rs. 2.5 million</td>
<td>Rs. 1 million</td>
</tr>
<tr>
<td>Small</td>
<td>Rs. 50 million</td>
<td>Rs. 20 million</td>
</tr>
<tr>
<td>Medium</td>
<td>Rs. 100 million</td>
<td>Rs. 50 million</td>
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</tbody>
</table>

MSMEs have been rightly tagged as the engine & the backbone of Indian economy. The Indian MSMEs: market is worth $ 5 billion. The MSME sector in India is definitely growing at an exceptional rate. They employ close to 40% of India’s workforce and contribute to 45% of India’s manufacturing output. MSMEs plays critical role in generating millions of jobs, especially at low level skill.

Main Reasons for MSME Growth

- Foreign and local fund providers are taking huge interest in the small and medium enterprises of India.
- Banking sector has also shown a keen interest in lending credit to these enterprises.
- The sector significantly contributed towards the domestic production & export earnings.
- Low investment is required to start and maintain these enterprises.
- Technological growth is also a factor for growth of MSME’s in India.
State of HRM in MSMEs
Every MSME has its own history and experience with people who build it and worked in it. Because of it, in an ideal situation, every one of MSMEs should be examined separately and its HRM needs should be identified individually. Usually the owner personally manages the firm, which allows free movement of employees from one position to another; delegation becomes more flexible, which becomes an advantage especially at the time of sudden crisis. The most challenging part for owner of MSME is disorientation and frustration of employees who become tired from changes and uncertainty of their situation which may lead to lower effectiveness of their performance and boost the employee’s rotation.

The available empirical information on HRM within MSMEs suggests that smaller firms make less use of high performance HRM practices, operate in an informal and flexible manner than larger organizations. Both managers and employees are less likely to get formal training in a small firm. Smaller companies are found to have less formalized performance appraisals, less bonuses based on company productivity and less training than larger firms do. In addition of being characterized as informal, small firms are often held to be less specialized, have to perform a greater variety of tasks than larger firms. Specialists are less likely to be found in smaller firms.

HRM Practices in MSMEs
The increasing attention to HRM in MSMEs is comparatively new phenomenon. MSMEs also need HRM in their organization in order to create more innovation, develop their organization and support their organization’s growth to achieve their goal. HRM can contribute to understanding the issues that the entrepreneur of a small business has to face. It is most commonly found that HRM in small firms reflect concerns: record keeping, staffing activities like recruitment and selection of staff and retention and motivation like compensation and reward practices. Basically, MSMEs can either follow informal HRM practices or formal HRM practices.

1. Formal HRM :
As the number of employees increase within the firm, the need for formal HRM becomes more dominant. As small firm grows, managers use their informal staffing contacts and need to build up more formal methods to recruit employees to sustain growth. HRM in MSMEs is adopted as an informal system, but they argued that as a small firm grows, more formal HRM practices are implemented by the firm which should be as follows (Kotey and Slade, 2005):
- Recruitment and selection- used in formal way, such as newspaper advertising, agencies, employees referrals.
- Training, shifting the role of owner- managers to managing managers.
- Performance appraisals – use of peer and self-appraisals.
- Development of human resource policies and records- health and safety care, incentive administrative procedures.

2. Informal HRM :
HRM can give MSMEs with the internal ability to adjust and adapt to their competitive environment by aligning HRM policies and practices with their business strategies. Usually in MSMEs, the entrepreneur or the owner of the firm will be the one who overcomes the managerial capacity problem and makes decisions about the important factors of HRM to bring about the best outcome for their firm’s performance. It is difficult for MSMEs to have human resource department in their organization because HRM is considered too costly for the firm. The small and medium sized firms do not generally make expenditure on employee training and development. MSME do not provide much formal training, because of cost of training & being the ignorance of the owner. Generally MSMEs are likely to utilize recruitment sources that are convenient and inexpensive. Since MSMEs are increasing in their growth rate, they must put HRM in their system of organization or adjust their HRM system to make their company more efficient and more organized.

HR Issues in Indian MSME’s
A competent workforce is perhaps the most important asset for any organization. Company irrespective of its size positively focus on HR management. However, it is rather sad that the HR activities are often neglected
by many Indian MSMEs. As per a survey conducted by the Confederation of Indian Industries (CII), around 80% from the small enterprises and about 20% of the medium enterprises respondents indicated having no formal HR department lacking of which results into various issues:

1. MSMEs try to convert their growth plans into reality but there have been certain spaces where many MSMEs have not grown to transform their business as compete with big players either as B2B or as B2C business models. Where on one hand big players enjoy economies of scale to control prices. Assuming that other factors such as strategy, funds and right personnel are comparable, we still find many MSMEs struggling to achieve expected growth.

2. The trade-offs, which every MSME faces day in and day out are worth exploring. It can be articulated as growth with centralization or decentralization, or with partnerships or without partnerships, decisions like whether to have more of owner’s family or more of professional employees on the Board. And this perhaps is one of the most important aspects restricting the growth of MSMEs as there is a direct need for change in the organization culture to match the challenges of business.

3. Another cultural impediment faced by MSMEs 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. This allows them to take advantage of rapid technological advances for their survival and competitiveness in the present context of global economy, and enables them to cope up with the higher levels of environmental uncertainty.

4. The explosion in technology-use has fostered a concern about its impact on workers. Small firms need effective personnel policies particularly as every employee comprises a large percentage of the workforce for a small. During periods of rapid technological change, shortages of particular types of skilled workers emerge.

5. Globalization has thrown many challenges to MSMEs. One of the greatest conceptual challenges is that on one hand, the individual MSMEs would be fiercely competing with each other within the nation and beyond and on the other hand at the same time they would be forced to collaborate and work together than ever before to safeguard their own mutual interests to survive.

6. **Challenges for HR Function**

Even after recording an impressive growth in recent years, the small and medium enterprises of India face many challenges. Those challenges are as follows:

- Infrastructure needs to be developed for setting up the SMEs in rural sector of the country.
- Technology need to be evolved so that quality products are manufactured by the sector.
- Lack of information about inputs, including raw material, machinery and skills, is one critical challenge in front of owners of these enterprises.
- High level of research and development is required.
- Retaining and recruiting high quality staff is also most challenging task for MSME.
- To create awareness amongst decision makers about the need for change, since the roles in MSMEs are extensive and more motivating these days.
- Another factor for HR to realize is that not all HR processes have equal importance in MSMEs and there are certain exceptions to be dealt with.
- Employing a team of specialists to address the complexities involved in managing HR programs, this is not a viable option for many MSMEs due to costs associated with hiring highly trained HR professionals on a full-time basis.

**Conclusion**

The world over have been undergoing crucial changes in response to the manifold imperatives of globalization. In India, the historical role of MSMEs is creating ample opportunities for employment for the teeming millions has come to occupy secondary status in the face of novel strategies to ensure external orientation, achieving manufacturing competitiveness and emerge notable global player. In fact, the Indian MSMEs are looking forward to a newer and larger market space, with its numerous advantages of skills, raw
materials and large domestic market as well, networking with various stakeholders both within and outside the country is also a worthwhile attempt.

In conclusion, the HRD activities are essential for MSMEs for long term survival & have led towards, higher creativity and innovation, retaining, staff, better service, equality and enrich human capital. To summarize, HR functions deal with different dynamics when contributing to MSME growth plan & has the responsibility to understand business dynamics in MSME environment before implementing the standard HR practices, policies and processes. This mutual appreciation will help HR to be an effective business partner. It is not because of legal requirement but also for the reason of preparing the organizations in the long run domestically and internationally. When a small firm grows, employment increases and that makes structure of company makes an entrepreneur think that company should develop HRM to use and practice for better management. Therefore, we conclude that MSMEs proceed gradually to change and transform HRM practices step by step during the firm growth.

References