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## Challenges in Human Resource Management at MSME Level: A Study

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## ABSTRACT

The primary objective of all modern economies is the development of small and medium enterprises (MSMEs). It is a complex challenge that involves a large number of parties in every sector of the state and economy who are directly concerned. Stimulate private ownership and entrepreneurship through MSME. Their feature is that they are flexible and can adapt easily to market changes in supply and demand. At the same time, they open up opportunities for job creation, promote the diversification of economic activities, promote sustainable growth, and make a major contribution to exports, trade and the competitiveness of the economy as a whole. MSME's importance to the economy is undisputable. All studies show that over 90 percent of all business activities are performed by MSME globally. The Human Resources Management problem in MSMEs is a very sensitive issue. In large companies, entire teams of agencies or consultants are hired for the selection and training of new employees, whereas the owner or manager does this job in MSMEs. Therefore, the present paper aims to observe major challenges prevailing in Human Resource Management at MSME level.



**Key Words: Human Resource management, MSME, Challenges**

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## Introduction

The entrepreneurs must address these aspects to understand the value of an employee in an organization. It is necessary to recognise the value of employees and to take steps to enhance these capabilities and skills. Human capital is similar to physical means of production, i.e., factories and machines, and through education, training and medical treatment, one can invest in human capital and one's output depends partly on the rate of return on one's own human capital. Human capital is therefore a means of production in which extra investment yields extra output. Unfortunately, the micro-small medium enterprises have not realised this. For small and medium sized businesses, India is the second largest home



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market. In reality, this sector faces human resources challenges such as the attrition rate and retention of the right workforce. Micro-small medium-sized enterprises need to address the issues related to employee management, procurement, training, retention and enhancement of value among workers, and the entrepreneurs of this sector need to focus on these areas.

### MSMEs in India

Indian SMEs are the model of government socio-economic policies that emphasised job creation at all levels of the income section and the spread of economic power in the hands of the few, discouraged monopoly production and marketing practises, and contributed to economic and foreign exchange growth through low import-intensive operations. Through the high contribution to domestic production, significant export earnings, low investment requirements, operational flexibility, location wise mobility, low intensive imports, capacity to develop appropriate indigenous technology, import substitution, contribution to defence production, technology-oriented industrial development, Indian SMEs also play an important role for nation development Innovative, inventive, international business outlook, competitive spirit and willingness to restructure MSMEs with a strong technological base as they can withstand the present challenges and successfully contribute 22 percent to GDP.

### Role of Human Resource Management in MSMEs

In order to implement a successful business strategy to address this challenge, organisations, large or small, need to ensure that they have the right people capable of delivering the strategy. Human resource management plays an important role in MESE. HR and its various facets also play an important role in tackling the growth issues faced by MSME. While the organisation plans to follow a successful trajectory, by changing the culture of the organisation, both HR and the promoters need to appreciate and agree on the agenda of change management. HR is responsible for understanding business dynamics in the environment



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of SMEs This sector is considered to be a growth driver, particularly in developing countries such as India owing to their contribution to revenue generation, employment, GDP and export earnings. The Indian economy has now become the world's second fastest growing economy.

According to the Ministry of Finance, India's GDP stood at 8.8 percent in the first quarter of 2010-11 (the overall GDP growth in 2009-10 was 7.2 percent); overall growth in the Industrial Production Index (IIP) was recorded at 13.8 percent in July 2010 compared to 7.2 percent in July 2009. There have been certain spaces in the last two decades where many SMEs have not grown either by choice or by challenges in the capacity to transform their business. Being very volatile in nature, small and medium-scale enterprises take a high risk. Therefore, it is imperative for them to address the uncertainty through a reliable and loyal workforce that holds cash in good and bad times.

### Challenges for Human Resource Management in MSME

MSMEs face unique challenges and HR management is becoming more heterogeneous in order to address them. SMEs certainly face universal HR problems, such as attracting the right people, selection processes, motivating on-board employees, developing and retaining potential talent, according to Agarwal. But there are certain constraints specific to SMEs that are challenging and need to be addressed. One of the major challenges facing SMEs today is to select the right type of individual for the right type of job. The challenges for HRM in SMEs are explained below:

- **Recruitment**

The nourishment of any organisation depends on the integral growth of employees in today's liberalised and globalised economy. The talent crunch can affect the bottom line and growth of any organisation. SMEs are struggling to fill the talent gap, in particular at the level of workers and middle-level



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positions, to find qualified workers. Identifying the right candidate for the right job with the right skills and aligning their company to correct the balance of the quality cost scale is a huge challenge for any SMEs. How they can retain their key talent is one more significant challenge.

SMEs are less inclined to adopt modern recruitment methods, which is why candidates have less information on the job opportunities available across the board. A major ingredient of successful hiring is role clarity. SMEs often do not invest money in doing a clear job analysis and do not provide the correct job description. Without understanding, most of the candidates tend to accept the roles and later ask for any clarity and crib. In their capacity to offer competitive pay packages, SMEs are at a disadvantage. SMEs require that the skills gap and the needs of employees be determined. SMEs rarely offer new participants a detailed orientation programme.

- **Retention**

The main challenge for SMEs, as mentioned earlier, is to maintain their talent pool due to a lack of competitive wages. When the current staff leave the organisation at the moment of crisis, the work of the HR staff increases. By following some of the effective strategies that include offering a competitive benefits package that fits the needs and expectations of employees, using contests and incentives to help keep employees motivated and rewarded, the HR staff should try to retain the current employees. The creation of open communication between staff and management creates trust in the staff. Promoting the growth of employees and involving managers in this activity will give employees an understanding of their own career path. Managers need to spend time coaching staff to help good performers move to fresh positions and minimise poor performance. In addition to conducting exit interviews to find out why employees are leaving, consider asking longer-tenured employees about what made them stick to the organisation, according to the Wall Street Journal (2012). SMEs must recruit and select the best talent in today's



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competitive world, where they have openings and upgrade talent in areas where the company will benefit. SMEs need to take a step back and evaluate workforce plans, as well as processes for talent acquisition and enabling technology, and determine a strategy that works in the retention process for the organisation.

- **Motivating Force**

One of the key factors that affect an industry's progress is the motivation of employees. In SMEs, a major management deficiency is the absence of employee motivation. Another important human resource activity in SMEs is keeping employees satisfied with the job. Since financial benefits are not competitive like those of larger and more established firms, the small company's human resource manager needs to ensure that its employees remain satisfied with the job. For SMEs, ensuring and maintaining smooth and harmonious working and personal relationships between their employees is the core of the motivation process. Respectful language provides support and encouragement in the workplace and allows staff to develop good working relationships. Mentoring contributes to the strengthening of harmony within the SME.



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Employees should be motivated by the HR by communicating with them about the benefits the SME offers. He should also highlight the different opportunities for personal growth, the organization's job growth that can motivate the employee to reach higher productivity levels within a limited period of time. The HR professional could enhance the efficiency and efficiency with which the staff work through motivation. Alongside the

- **Empowerment**

Empowered workers believe they have the ability to make choices and put them into action. It is expected that empowered staff will act, at least in some small way, as owners of the company rather than



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just employees. Empowering the staff with certain decision-making powers and authority is one of the major tasks faced by HR staff. Every employee feels he should have certain decision-making powers to do a specific job with him. Employee empowerment can occur when the company's clear definition of values and mission is explained and imbibed in them. Secondly, the company must assist staff in acquiring the appropriate skills. Thirdly, when they try to do something extraordinary, staff must be supported in their decision-making, and not criticised or do the constructive criticism. And finally, because of their efforts, workers need to be recognised. Managers have to know that empowerment is an important strategic instrument. Managers should implement the above practises in order to reap the benefits. Otherwise, employees will perceive talk of empowerment as "lip service" and have no positive effect.

- **Employment Engagement**

During a challenging economic era, small and medium enterprises (SMEs) are worst affected when resources are scarce, competition is intense and customers are more demanding than ever. It is therefore important for SMEs to have emotionally engaged and passionate employees. In driving innovation and propelling the organisation forward, they play a critical role. In general, emotionally engaged employees are more willing to recommend the organisation and commit time and effort to help the organisation succeed (Gupta, 2009). In the SME sector, there are a few innovative practises that can be adopted to leverage the advantage of businesses in order to build a great workplace and increase employee engagement, as explained in the figure below (Caccamese, 2012).

- **Workforce Diversity**

In a highly globalised era, people from diverse cultures, beliefs, and backgrounds need more interaction than ever before. Individuals no longer live and work in an island marketplace; they are now part of a global economy with competition from almost every continent (Byrne, 2011). Training programmes for



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cultural diversity must also be established for all staff and managers or supervisors concerned. This training will help them to be aware of the different cultures and beliefs existing in the company for a diverse workforce. In a similar way, for cohesion and unity in the diversity of the work, a seminar or workshop on team building should be frequently conducted and implemented. HR staff should teach their staff the advantages they will get by working with a variety of workers.

- **Conscientiousness**

Awareness is defined as "employee behaviours that go well beyond the organization's minimum role requirements, in the areas of attendance, compliance with rules and regulations and taking breaks" (Podsakoff et al, 1990). Diligent employees will increase their performance levels and are willing to work above their average results (Podsakoff et al., 2000). As one of HR's strategies, staff have to be brought into the culture of conscientiousness, which alone increases productivity. These workers do not need much supervision, which gives the supervisor extra time to handle his other duties (Podsakoff et al., 2000). In SMEs, the working environment is informal and less communication exists. Therefore, even when they are not monitored, SMEs need to recognise and value staff who are hard-working and trustworthy to follow organisational policies.

- **Sportsmanship**

Sportsmanship is described as the "willingness of employees without complaining to tolerate less than ideal conditions" (Podsakoff et al., 1990). This attitude among SME employees can make it possible to operate smoothly without many complaints about unimportant issues and to concentrate on what went well instead of what went wrong. For more productive purposes, this saves time. Employee sportsmanship behaviour provides an example for others to reduce complaints, increase satisfaction and improve employee retention (Podsakoff et al., 2000). Complaining and spreading complaints throughout the workforce





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decreases morale within a small organisation. Therefore, for maintaining the valued team spirit, Sportsmanship behaviour is very important.

- **Courtesy**

Courtesy is described as "discretionary behaviour on the part of an individual, involving helping others to occur by minimising work-related issues" (Podsakoff et al., 1990). Courteous behaviour will allow staff to gel well among themselves, preventing conflicts in turn. This will decrease the amount of time and energy the supervisor spends negotiating conflicts that would otherwise have occurred in red. Within SMEs, it is of particular importance that employees help their leaders to prevent problems from occurring in order to maintain productivity with a small workforce (Podsakoff, 2000). Courteous behaviour improves the ability of organisations to adapt quickly to changes in the environment, thus having a positive impact on organisational performance (Podsakoff, 2000).



### **The Importance of HRM in MSMEs**

The SME sector is the manufacturing and services sector and, in general, the performance assessment depends on the performance of the personnel employed in the sector. The main factor in the success of SMEs is a highly qualified, motivated and happy workforce. In order to distinguish between one SME and another SME and the competitiveness of each market, good customer service remains the main factor. There are several justifications for this:

- Good service is a key factor that explains why a potential customer chooses a specific SME or why a SME remains or leaves existing customers.
- Best impressions of a service, expressed by a friend or relative, have an impact on SME selection.



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- In addition, a bad service impression will send clients to other competing firms.
- High customer service provides sustainable and long-term competitive advantages for all SMEs.
- In the short term, this service will be hard to duplicate and be surpassed by competitors.
- Good service is not immediately achieved; it takes many months, if not years, to invest in training and dedication in order to achieve it.

### Conclusion

In order to prove the merit of its programmes and activities for the success of the organisation, MSME put additional pressure on human resources professionals. There are many opportunities to recreate the role and provide the employees with fresh value. The difference between the traditional and conventional approach of Talent Attraction must be understood by MSMEs in order to implement the much-needed change for effective recruitment. MSME's mainly require focusing on recruiting individuals with the appropriate skills, using appropriate assessment procedures that verify the expertise of the candidate. The difficult task of understanding the employees to lead and empower the employees is challenged by HR professionals. While some argue that MSME's financial conditions are difficult and ambiguous, it is an opportunity for HR transformation that will effectively lead, impact and enable employees to perform well and develop the organisation. When contributing to the growth plan of MSME, HR functions deal with various dynamics. As a result, if and when growth occurs, we would recommend that MSME owners/managers prepare themselves for these changes. On the other hand, the owner/manager should concentrate on improving his or her recruiting and selection skills if an MSME is consistently achieving very low levels of growth.



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