

# Human Resource Management Practices in MSMEs- An Analysis of Hubli Region

**Suvarna. Hiremath**, Assistant Professor, KES IEMS B-School Hubballi, Karnataka.  
Email Id: sarangmathsuvarna@gmail.com

**Jayalaxmi. Mandali**, MBA Student, KES IEMS B-School, Hubballi, Karnataka.  
Email Id: jayasi.frnd@gmail.com

## Abstract

*Today, the functions, procedures and practices of the Human Resource management are very essential for the growth of Micro, Small and Medium Enterprises. Understanding and following human resource practices and policies is the best strategy for the growth of the MSME. MSME' hire 40% of the country's workforce(Economic Times June 2013) and they pay less attention towards human resource management. The important strategy of HR is to hire the best talents or resources to the company to achieve its goals. If the company invests money in HR then the company can get more profits when the resources are used efficiently and effectively as it increases the production process of goods and services. As the technology and skills are developing very fast, so the important job of HR is to fill the skill gap. Most of the skills today will be outdated tomorrow. It is the job of HR to improve the skill set of an employee through training and development programs. Choosing right and best kind of HR strategies is very important for the success and the growth of the MSMEs. The objective of this research paper is to study the role of the HR in recruitment, skill development and creating an atmosphere for everyone in the MSMEs to contribute for the development of MSME. The research methodology involves structured questionnaires administered to HR managers in these selected MSMEs in the Hubli region with an objective of ascertaining the recruitment process, Skill Development needs and role of empowered atmosphere for overall contribution of the organization. There are around 436 MSMEs in Hubli, and selected 30 samples would be considered for this study.*

**Key words:** MSMEs, HR practices, recruitment, skill development

## Introduction

Micro, Small and Medium Enterprises (MSMEs) plays an important role especially in developing countries like India. Over the last few decades MSMEs in India have emerged as developing sector in the Indian economy. MSMEs in India contribute to nearly 8% to the GDP, 45% of the manufacturing output and 40% of the exports (Economic Times June 2013) . They are the largest provider of employment in India after agriculture and also contribute tremendously to the industrialization in rural and backward regions there by ensuring the regional balance, assuring the proper wealth and income distribution. MSMEs have occupied an important place due to its contribution in national income, exports and innovation. MSMEs complement the large enterprises by acting as a ancillary units and helps in socio economic development of the nation. They produce a large variety of products that meet the demands from local and global markets. In countries like India where we have highest population, MSME creates employment opportunities. Because of more employment opportunities, HRM (Human Resource Management) plays an crucial role at MSME. The main and major Purpose of HRM is to make proper utilization of available human resources, and desire to have skilled workers which help the firm to compete with its competitors.

MSMEs in India consists of first generation entrepreneurs who have limited training and knowledge on resource planning, capital management as well as labour management.

MSMEs majorly focus on the day to day operations and running the business and HR practices are not given enough time as they are perceived to be not so important function for running the business until and

unless the business is making profits. Competitiveness of MSMEs can be enhanced through better HR practices of recruitment, selection, training and compensation along with other function of production, finance, logistics and marketing.

**Table 1 Definition of Micro, Small and Medium Enterprises**

| Nature of the Enterprise | Micro   | Small  | Medium  |
|--------------------------|---|--|---|
| Manufacturing            | Investment in fixed assets less than 25 Lakhs | Investment in fixed assets more than 25 Lakh and less than 5 Crore | Investment in fixed assets more than 5 Crore and less than 10 Crore |
| Service                  | Investment in fixed assets less than 10 Lakh  | Investment in fixed assets more than 10 Lakh and less than 2 Crore | Investment in fixed assets more than 2 Crore and less than 5 Crore. |

(Source: MSMEs Annual Report 2017-18)

**Products offered by MSMEs**

MSMEs produce a large variety and various types of goods ranging from chemicals to machinery parts. In every product a number of variants to cater to different customers are also produced. MSMEs consists of food products, chemicals, metal industries, plastic & Rubber products, electric and machinery parts.

State wise distribution of MSMEs shows that Karnataka has about 38.34 Lakhs of MSMEs which contributes to 6% of the overall MSMEs in the country. 70.84 people Lakh are employed in MSMEs in Karnataka.

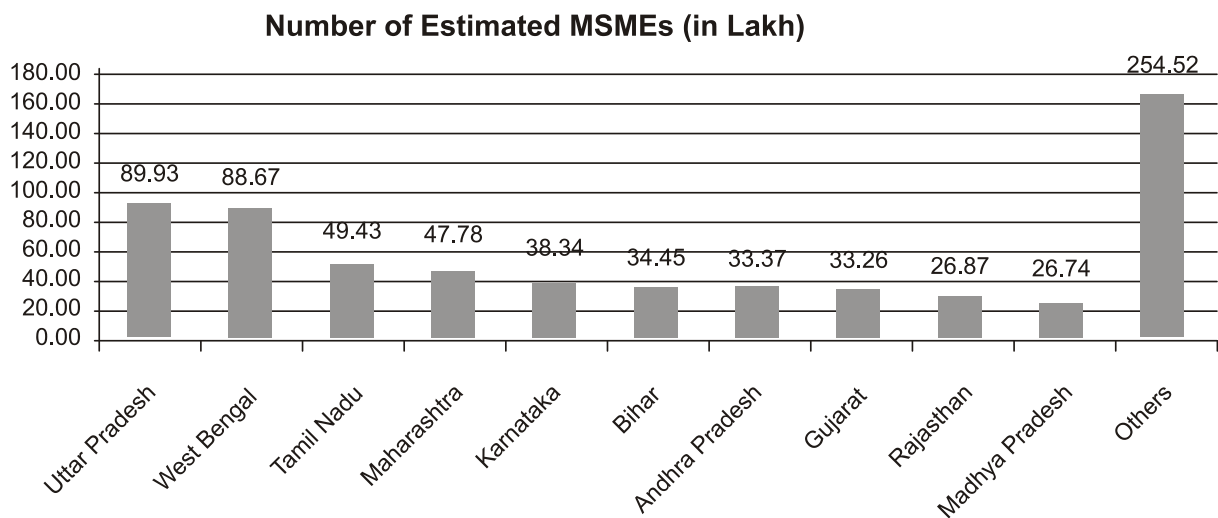


Figure 1 Number of Estimated MSMEs in India

### HR in MSME

Managing Human Resource in MSMEs poses a greater and unique challenge which is mainly in terms of attracting and retaining the employees. SME face the basic problem of getting the right person for the right job while the larger organization deal with the retaining and developing the right people. Since SMEs have smaller workforce more specialized HR activities are infrequently carried out (Cook, 1999) also there are no HR policies which are framed in these SMEs which leads to improper management of human resource.

### Literature Review

Majority of the research carried out in MSMEs regarding HRM issues is conceptual with focus on many and diverse HRM topics ranging from recruitment, selection, compensation, training and development, hygienic working conditions, loyalty & attrition.

1. **Madan (2012):** The recruitment challenges faced by the MSMEs can be overcome by implementing approaches like Leveraging multiple candidate resources, Recruitment through social media and Creating job portal and online advertising the recruitment. Creating healthy working environment is another challenge faced by the MSMEs and it can be overcome by motivating employees which can reduce the absenteeism. Highlighting the opportunities of personal growth, job growth by the organization. Introducing grievance handling procedures can reduce the organizational conflicts. Knowledge management is the major challenge facing by MSMEs. The main purpose of HRM is to fill skill gap is by positive entrepreneurial support and leadership form owners. Enforcement of labor training and development of leadership quality is essential.
2. **New Indian Express (2013):** Role of human resource management in MSME in India mentioned that "The role of human resources in enhancing firm efficiency and effectiveness is well established".
3. **K. Sucharitha (2018)** made a study of 520 workers of MSMEs in Tamil Nadu and found that there are

were little HRM practices which are followed. Many of these workers were willing to switch due to non-availability of medical facilities, poor working conditions, insufficient pay and absence of welfare measures.

4. **Upasana A Agarwal (2015)** attempted to explore the HR practices in Indian MSMEs and studied 8 MSME to examine the existing human resource practices across area of HR Value chain. The research methodology involved administering a self-structured and in depth qualitative research was carried out. The findings were the high attrition was the main reason for not investing in the training needs.
5. **Ashu Katyal (2015)** focused on the major problems related to HR practices and suggestion to overcome them. The paper address issues in recruitment, retention, empowerment, job security, motivation, employee engagement, training and development, compensation and work force diversity.
6. **Bohlander G .W (2009)** highlighted the role of institutions, government policy makers to focus on providing support to the SMEs on facilities like recruitment process outsourcing which can help SMEs to get the right candidate from right source at less cost. Getting the talented candidates and retaining them in the SMEs is a matter of great concern for many, government should consider making work experience in SMEs as an additional achievement for considering to offer jobs in private or public sector and preference should be given to such experienced candidates.

### Main Objectives of the Study

The main objectives of study are:

- i. To enumerate the role of the HR in recruitment process.
- ii. To investigate the skill development requirement in MSME.
- iii. To enumerate the role of HR practices that facilitate to the contribution of MSME development.

## Role of MSMEs in India's Development

### Research Methodology

The various components of HRM practices and organizations performance were identified through literature review and interaction with the HR experts in the industry. Based on the interactions and review of literature the research methodology was framed to involve a structured questionnaire which was administered to HR managers in the selected MSMEs in the Hubli region. The questionnaires were framed to ascertain the recruitment process followed in the MSMEs, identification of Skill Development needs along with planned process of skill development and role of HR to empower the organization internally for overall contribution of the organization. There are around 436 MSMEs in Hubli, and selected 30 samples were considered for this study.

### Findings and Interpretation

**Recruitment :** The major problem of MSMEs in HR practices are attracting the right talent, motivating employees and retaining important employees as these MSMEs lack resources to advertise the positions, pay salaries and train the employees as larger organizations do. Generally HR practices are considered to be costlier to carry out in MSMEs. 70% of the MSMEs have no formal HR department or an exclusive person to carry out HR activities.

In today economy, growth of any organization is dependent on the talented employees' organization. Talent crunch is most common in MSMEs which impacts its growth and existence. MSMEs are not only struggling to fill in the talent gap but also find it difficult to find skilled workers. Even if they find the quality and skilled workers the next challenge would be retaining them in the organization. Research shows that this impact is due to the owners' overemphasis on personal belief and attitudes.

### Recruitment in MSMEs

- i. HR should decide the skills, knowledge and experience that the business needs to fill a job role.
- ii. Make a job description and also a person specification that describes the skills and experience required for the role.

- iii. Job description should encourage every prospect without any discrimination whatsoever in terms of gender, origin, religion or belief.
- iv. Word of mouth recruitment process to be avoided, rather consider advertising for the requirement welcoming all the applications unbiased.

### Retention

The most important challenge for HR in MSME is to retain their talented and skilled employees due to lack of competent salary. At the time of crisis the retaining the skilled employees would be a major challenge for the HR.

HR can follow these strategies to retain their skilled employees:

- i. By offering a competitive salary to satisfy the expectations of the employees.
- ii. Motivating the employees by giving incentives and rewards.
- iii. Keeping the communication open between management and employees.
- iv. Developing employees in the organization and assigning them responsibilities.
- v. Retention and exit interviews to understand the gap between employees' expectation and MSMEs offers.

### Job Security

Job security is the important factor for employees in any organization. To reduce the attrition MSMEs should work towards providing job security for its employees. The role of HR to provide a sense of security towards their job for the employees in MSMEs could be as follows:

- i. Create an environment in which employees willing contribute to the growth of the organization.
- ii. Make work more exciting.
- iii. HR to record all the important achievements of its employees and work which they did willingly.
- iv. Provide opportunity to learn and succeed.

## Role of MSMEs in India's Development

### Empowerment

Providing an empowered environment to the employees in MSMEs make the employees contribute positively in the decisions made and execute the plans as desired to achieve the results. Empowered employees take ownership of the tasks assigned to them and try to more efficient and productive in their job. Empowering employees means to provide certain decision making authority to its employees to perform the job in the best possible way. Also empowered employees decisions should be supported and encouraged to perform better.

### Employee Engagement

MSMEs face crisis during intense competition, scares resources and demanding customers. The MSMEs need to have employees emotionally engaged and passionate for contributing to the organization. These employees play a vital role in bringing innovation and diversity to the organization by recommending the organization to other capable prospect employees.

Research shows that only 8% of the industries have a formal HR person taking care of HR administration and employee relations. In 91% of the industries, there is no empowerment to this function. All HR/Employee relations policies are owner-driven.

### Workforce Diversity

In this globalized era, the more interaction among people from diverse cultures, beliefs, and backgrounds is required. People 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 work force.

### Training and Development

Training appears to be largely limited to product sales and service training. There is no evidence of any technical or behavioural training that can help augment the skill level of employees in various functions. As the data shows:

- i. Only 32 % companies offer both on the Job training & Off the job training which is very much required for technical jobs
- ii. 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.

### Performance Management

The MSMEs generally have a practice of appraising its employees annually. However, the format appears to be different for various divisions. In the various interactions had so far, no evidence of such a concerted performance strategy has been found. Only 47% of companies are having formal performance management system.

### Compensation and Benefits

The company has a practice of following timely payments and provides various employee benefits. However, the manner in which payroll is administered for its permanent and temporary employees is not very clear. In most interactions, the policy of granting incentives across various divisions appears to be quite arbitrary leading to employee dissatisfaction. The linkage between performance and incentive appears to be clear for some divisions but the way in which the incentive scheme/program is administered is not transparent. Majority of Companies (66%) are not following manpower planning which is very much helpful in keeping company lean and thin.

### Conclusion

Human Resource is one of the most important growth indicators for any organizations today. There is a lack of formalization in the management of HR issues in MSMEs. This is in contrast to multinational companies

## Role of MSMEs in India's Development

operating in India who have adopted structured and formalized HR systems. As the studies shows that very few MSMEs have formal HR dept. and in new small business units owners only handle the HR practices. The skill training should consists of some procedure to provide basic HR functional training to owners so that initially they can handle HR Functions and understand the importance of HR in their organizations. Later on after small units become profit oriented units, they can have formal HR dept. to run each HR function systematically. Second option for MSMEs is to outsource their HR functions to some outside agency or authority, which can be taken over after the establishment has become a self-sustaining and a profitable unit. So the business owners or HR managers should ensure good HR practices in their organizations to remain competitive.

### References

1. Madhan, P. M. (2012). SMEs as Growth Driver of Indian Economy: Strategic HR Issues and Perspectives. Business Strategies and India's Economic Growth Conference (RBCON - 2012).
2. Contribution made by MSMEs at Heart of Indian economy. (2013, August 24). New Indian Express.
3. K.Sucharitha & H. Sankaran (2018). Human Resource Management Issues in Micro, Small and Medium Enterprises in Tamil Nadu. *International Journal of Pure and Applied Mathematics*, Vol.118, No.18 2018, ISSN: 1311-8080.
4. Upasana A Agarwal & Sumi Jha, (2015). Human Resources Practices in Indian SME's- An Exploratory Study, *The Indian Journal of Industrial Relations*, Vol.50, No4.
5. Ashu Katyal & Betsy Xaviour (2015). A Study on MSMEs- Role in Propelling Economic Development of India & a Discussion on current HR issues in MSMEs in India, *International Journal of Scientific and Research Publications*, Volume 5, Issue 2, ISSN 2250-3153.
6. Bohlander G .W & Snell S.A (2009). *Managing Human Resources*. South - Western Cengage Learning, USA.
7. Retrieved from [www.data.gov.in: http://www.data.gov.in/dataset-group-name/fourth-all-india-census-msmeregistered-sector-0](http://www.data.gov.in/dataset-group-name/fourth-all-india-census-msmeregistered-sector-0)
8. Retrieved from [www.dcmsme.gov.in](http://www.dcmsme.gov.in). Govt. Of India Development Commissioner (MSME) Ministry of Micro Small Medium Enterprises: [http://www.dcmsme.gov.in/ssiindia/defination\\_msme.htm](http://www.dcmsme.gov.in/ssiindia/defination_msme.htm)