Human resource practices & their observed significance for Indian SMEs

Prácticas de recursos humanos y su importancia observada para las PYME indias

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1. Introduction

Implementation of Human resource management practices are one of the best method of utilizing internal resources and achieving profits by improving the performance of its employees (Rahman et.al. 2018). It becomes obvious that human resource management systems have a significant impact on the performance of individuals as well as on the organizations (Jiang et.al. 2012). Human resource (HR) measures to improve job satisfaction can prolong working lives, yet there is little evidence about the size of such effect Barslund et al., 2019).

Piszczech & Berg (2019), the person-environment fit framework has been increasingly used as a theoretical foundation for work-family research. It also ensures hiring of right employees and meeting demands of the business along with ensuring work productivity through availability of sufficient support structures. Cantele (2018) opines that employees are one of the stakeholders of the organizations and stressed that ethical HR practice means fulfilling social responsibility of the
business. Oduro-Nyarko, C. (2013) argue that the success of any organization depends upon the kind of human resource practices implemented by the organization.

1.1. Significance of Small Medium Enterprise (SME) & Indian Prospective

Long, C.S., Ajagbe, M.A. and Kowang, T.O. (2014), mentioned in their work that the small and medium enterprises play an important role in the development of economy. They are considered as backbone of industrial development. Zakaria, N., Zainal, S.R.M. and Nasurdin, A.M. (2011), mentioned in their work that SME’s share to all enterprise is more than 90 percent in the entire world thus they must be considered as growth engines of economy of the world. Hung et.al. (2019), argue that SMEs play a crucial role in developing countries, whereas Pandya, V. (2012) found substantial role of SMEs in the progress of developing and developed economies.

Pandya (2012) mentioned in their work that similar to other developing nations, the contribution of small and medium enterprises in India is witnessed in manufacturing sector through better employment and export opportunities. Omolo, J.W., Oginda, M.N. and Otengah, W.A. (2013), mentioned in their work that SME’s are substantiating out to be a constant source of improving poverty and employment opportunities. These organizations are considered as source of employment generation also Ardic, O.P., Mylenko, N. and Saltane, V., (2012).

In India SME’s employ approximately 42 million people in different units (Ghatak, 2010). As per the report of the leading SME’s of India, 2017, the SME sector in India has expressed significant flexibility in the changing and challenging economic environment in recent years. It has emerged as the backbone of nations’ economy due to their meaningful contribution in economic growth and job creation.

Despite various initiatives taken by the government, there are few critical challenges these organizations face like: inadequate marketing support, poor availability and delayed low-cost credit, lack of skilled manpower, digitization and infrastructure. These challenges are the major obstacle in the growth of SME sector in India.

Delhi NCR is one of the special industrial zones which contribute to secondary sector of economy immensely. As per the annual report of MSME Development Institute 2016-17, the places of Delhi NCR like Noida & Gurgaon are rapidly progressing with all new developments of transportation and new investments from foreign companies. Though there are different challenges faced by these industries, however the human resource management practices related challenges such as unavailability of adequate manpower, lack of skilled workforce with low productivity forces to study about the HR practices implemented in SME’s based at Delhi-NCR as these practices are responsible for better productivity and efficiency among the people at any organization. In the light of above discussion a requirement of qualitative study in terms of research based case study emerged to further explore various HR practices at SME’s in Delhi-NCR.

1.2. Objectives of study

On the basis of review the objectives of the study are as follows:

- To explore different HR practices in SME’s and
- To find out the HR practices implemented in the sampled SME organizations.
- To find out perceived significance of HR practices among the people responsible for implementing HR practices.

1.3. Literature Review

Human Resource Management in SME sector has gained research interest of many researchers over last decade and the same is evident with the special issues of many journals (Rahman et.al. 2018). It has been seen that small and medium enterprises experience difficulty in identifying and adopt innovative technologies and working methods due to poor internal resources (Roper & Hart, 2013).

In SMEs the HRM has been identified as key success factor (Hung et.al. 2019). Wognum & Bartlett (2002) strongly put emphasis on creating new policies for SMEs to acquire knowledge.

It has been observed that almost all the organizations have some or other sort of HR activities in place (Hung et. al. 2019). Zakaria, N., Zainal, S.R.M. and Nasurdin, A.M. (2011) also mentioned that the use of HR practices is considered quite lesser in SMEs with comparison to large
organizations. Khan, N.R., Awang, M. and Zulkifli, C.M. (2013) mentioned that the SME’s do not make the best use of their human resources and they ignore their people, the researchers further mentioned that it is because of scarcity of efficient human resource professionals with them. So far the researches have been conducted on the theme of HRM and role of the HR professionals have been ancillary to this area of research and thus better focus should now be on the managers who are responsible for design, adoption, enactment and then implementation of relevant HR strategies and practices (Steffensen et.al. 2019). Long et. al. (2014), argue that business owners and HR managers of SME play a crucial role to deal with the challenges of employee’s turnover intentions. Apart from it the managers looking for business survival need to motivate their employees to innovate and for the same also they need to be good in implementing HR practices. (Curado, 2018 & Honyenuga, 2011) also found that the SMEs experience lots of challenges namely, attitude of its employees towards work and increased demands for benefits, with a mismatch in their level of performance. In SMEs, the appropriate administration of HR function seems difficult as the line managers and Human resource professionals need to work closely with each other to execute different functions such as hiring and preparing the workforce, developing and executing compensation policy and very importantly managing relations (Long, C.S., Ajagbe, M.A. and Kowang, T.O., 2014). There is a link between the social responsibility of the firm and its practices towards employees has nurtured another stream of research known as human resources management (HRM) in responsible firms, introducing a new as socially responsible human resources management (SRHRM) (Shen and Zhu, 2011).

Various HR functions studied in the past by different researchers have been compiled and it is evident that in last two decades the functions such as recruitment, selection, training, development, performance appraisal & compensation practices are some of the commonly studied. On the basis of presented literature, it is evident that worldwide the human resource practices play a significant role in growth of small and medium enterprises leading to better economy of the country.

2. Methodology
The presented study is qualitative study. The case study is descriptive in nature where the description about different HR practices followed by SME’s in Delhi-NCR have been compiled and presented along with the perception about the significance of HR practices from the people responsible for implementing HR functions. or the purpose of study the primary data was collected from 18 organizations of Delhi-NCR and the findings provide an insight about the diversity in the HR practices among the sampled SMEs.

2.1. Sample size, Population & data collection
For the purpose of the data collection, the details about the MSME were collected from the local professional bodies Delhi-NCR Small Industries Association. On the basis of inputs about the list of MSME’s the authors tried to collect the data in random manner, however the same was not possible due to no availability of respondents during fixing appointments with the respondents in the organizations. Later on the inputs were taken from 26 organizations using convenience sampling technique. As all of them were not small scale organizations, so the data from 18 SME’s was compiled and analysed. The summary of profile of sampled organizations is given below and the identities of the firms are being concealed upon the request of respondents.

<table>
<thead>
<tr>
<th>Intermediate Goods Industries</th>
<th>Capital Goods Industries</th>
<th>Consumer Goods Industries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name of the Specific Industry</td>
<td>No. of companies</td>
<td>Name of the Specific Industry</td>
</tr>
<tr>
<td>Auto parts Components Manufacturer</td>
<td>4</td>
<td>Paper felt</td>
</tr>
<tr>
<td>Rubber based</td>
<td>2</td>
<td>Pumping System &amp; Pipe fitting</td>
</tr>
</tbody>
</table>
The inputs for the case study were taken from the person concerned for handling human resource management related operations such as HR Manager, senior manager – Production, General Manager or administrative officer in the absence of Manager HR in the organization.

In the presented study the primary and secondary data has been used. The primary data has been collected from structured interview of the respondents, whereas secondary data collection was done from published researches and reports. The questions for interview of the respondents were structured and for the said purpose the work done by Saini (2008) in their study about Indian SME’s was referred. After collecting the primary data from the respondents, it was compiled in the text form and then manual content analysis was performed to summarize about the particular human resource management practice in SME’s.

### 3. Results

One of the objectives of the study was to explore different HR practices in SME’s and the same was done during literature review, whereas for the second objective the primary data analysis was done. During data collection from 18 organizations, it was found that most of the organizations do not have established HR department and then in the absence of such professionals the interviews were taken from the most active concerned person for HR operations. In some organizations it was Director - Commercial, Sr. Manager – Operations, General Manager or Managing Director themselves. For the third objective, the opinion about the implementation of the different HR functions asked form the people responsible for HR activities, initially they were not very open however during 90 minutes to 150 minutes interaction they openly spoke about the importance of HR practices in SMEs.

#### 3.1. HR practices

Different HR practices followed in the sampled organizations vary and the summary of the same is presented below in the table 2.

<table>
<thead>
<tr>
<th>S.No.</th>
<th>HR Functions</th>
<th>Methods of Implementation</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Recruitment &amp; Selection</td>
<td>Advertisement in the newspaper</td>
<td>Generally</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Information on Website</td>
<td>Sometimes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Leads generation through Social Media</td>
<td>Sometimes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Personal references</td>
<td>Most of the times</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Technical &amp; HR round of interviews</td>
<td>Generally</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Skills based merit is preferred over qualification</td>
<td>Most of the times</td>
</tr>
<tr>
<td>2</td>
<td>Training &amp; Development</td>
<td>Trade based training programmes</td>
<td>generally</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Technical skills</td>
<td>Most of the times</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Other professional skills</td>
<td>sometimes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Training of atleast one trade based skills every year</td>
<td>Sometimes</td>
</tr>
<tr>
<td></td>
<td>Performance Management System</td>
<td>Existence of performance management system</td>
<td>Rarely</td>
</tr>
<tr>
<td>---</td>
<td>-------------------------------</td>
<td>-------------------------------------------</td>
<td>--------</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Some measure of performance measurement</td>
<td>Generally</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Own mechanism of performance measurement</td>
<td>Most of the times</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Importance of Technical performance measurement</td>
<td>Sometimes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Importance of other behavioural performance measurement</td>
<td>Most of the times</td>
</tr>
<tr>
<td></td>
<td>Compensation &amp; Reward Management</td>
<td>Based on Time wage rate</td>
<td>Most of the times</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Payment on weekly basis to workers</td>
<td>Most of the times</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Payment on monthly basis to other employees</td>
<td>Most of the times</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Daily wage earners get cash payment</td>
<td>Generally</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Employees get salary in their bank account</td>
<td>Most of the times</td>
</tr>
<tr>
<td></td>
<td>Employee Discipline</td>
<td>Availability of prescribed rules and regulation</td>
<td>Generally</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Implementation of the rules in practice</td>
<td>Sometimes</td>
</tr>
<tr>
<td></td>
<td>Communication and Motivation</td>
<td>Through informal channels</td>
<td>Most of the times</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Through formal channels</td>
<td>Sometimes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>External communication through formal channels</td>
<td>Most of the times</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Internal communication through informal channels</td>
<td>Most of the times</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Financial rewards</td>
<td>Sometimes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Appreciating performance of employees in public</td>
<td>Most of the times</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Celebrating the performance of the employees by putting up the information on the notice board</td>
<td>Sometimes</td>
</tr>
<tr>
<td></td>
<td>Employee Retention</td>
<td>Superannuation age varied from 58 years to 65 years</td>
<td>Generally</td>
</tr>
<tr>
<td></td>
<td></td>
<td>No age of superannuation</td>
<td>Most of the times</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Senior designations were offered to employees for retaining them</td>
<td>Sometimes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>more responsibilities were assigned to employees for better retention</td>
<td>Most of the times</td>
</tr>
<tr>
<td></td>
<td>Employee Relations</td>
<td>Normal relations</td>
<td>Generally</td>
</tr>
<tr>
<td></td>
<td></td>
<td>stress with workers</td>
<td>Sometimes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Presence of trade unions</td>
<td>Never</td>
</tr>
</tbody>
</table>
3.2. Perceived significance of HRM

The summary of opinion about significance of human resource functions at SME’s from responsible people is compiled and presented as below:

3.2.1. Recruitment & Selection

While answering about significance of recruitment and selection at SMEs, the respondents mentioned that it is quite significant. They further mentioned that hiring at SMEs is mix of formal and informal practices. At present scenario it can’t be through formal channel only. For hiring nonexecutive level employees, referral works and it does not cost as well. Through informal method of hiring they get local people, who work for extended hours if required and useful in multitasking. Whereas outstation people will always look for opportunity to leave. Formal methods of hiring involve cost and time, which is an important constraint.

During interview it became evident that recruitment and selection is sometimes very tough task for them, especially when they do not get skilled people for the job. Some of the jobs for which they faced difficulty in getting skilled employees were weavers, fitters, stitchers, rubber technologist, people with fundamental knowledge on chemistry, hands on experienced employees, logistics and supply chain experts, people with expertise in press shop, radio technology experts etc. They mentioned that they need mechanical engineers and experts in electronics and communications. As they do not get prospective candidates easily among diploma holders, they hire engineering degree holders and sometimes find that these engineers with lack of basic knowledge about their domains.

3.2.2. Training & Development

The respondents mentioned that Training and development has its importance in every organization but in SMEs the management may not afford it every time. The cost of the training is not directly visible in terms of returns on immediate basis. Thus despite of understanding the requirement and significance of training and developmental activities, the employee’s involvement in these activities is insufficient. Apart from it the attitude of employees is also not very encouraging towards training and developmental activities.

For upgrading the skills of the employees, it was found that the organizations are familiar with the need to upgrade their employees to deal with the current dynamic market. The respondents mentioned that there is an urgent training need of general managerial skills among the employees along with other behavioural training needs such as day to day activities, positive attitude, proactive attitude, time management and stress training etc. They also seek to train their employees on leadership skills, communication skills specially on written skills, managing relations and motivating workforce skills etc., however the cost of, off the job training and other formal training is high thus they have their own ways to train people at work.

3.2.3. Performance Management System

Almost all the respondents mentioned that they lack transparent performance appraisal system in their organizations. Though it was understood as an important HR function responsible for maintaining justice at workplace, however only job related aspects are not considered while evaluating performance. It is not always related to reward and recognition. For Performance
management, there is lack of formality in system. The organizations are flat in nature, all can approach heads of respective organizations and sit with them, and thus the relations become more informal. It seems family like environment at workplace.

3.2.4. Compensation & Reward Management
It is well known that the transparent system of compensation and reward management increases the trust of employees on management. It is utmost important function of HR and again mix of formal and informal practices are found. The employees ask for short term loan in terms of advance and the management is habitual of it in some cases too. Some of these organizations practice nonfinancial motivators such as declaration of ‘Employee of the month’ among its employees. It was also found that in SMEs the pay packages are not like large organizations. It is quite lesser than large organizations and require betterment, however any such act will be a cost to the organization which the management would not prefer.

3.2.5. Employee Discipline
Employee discipline in sampled organization is being taken care with the help of prescribed rules and regulations. They believe that discipline in any organization ensures high productivity and efficiency by creating harmony among the employees. So they share proper knowledge about the rules and guidelines with their employees, take timely and fair action accordingly. The most common issues of indiscipline they face are about the attendance, in and out time and lunch duration among the employees. They follow code of conduct and in case of serious indiscipline they practice major or minor penalties and in most of such cases, they ask the employee to leave the organization.

3.2.6. Communication & Motivation
The respondents mentioned that communication and motivation related practices are important for any sort of organization, irrespective of their size. More number of employees are comfortable in their local language while they must be well conversant with global language to discuss the matter with clients. The communication between employees is found good due to flat organization and family like work culture. In these organizations the communication happens more through informal channels, however they also follow formal channels.

3.2.7. Employee retention
The respondents mentioned that they do not face trouble in retaining old employees. It is one of the function where job security matters. There is some sort of ‘unwritten contract’ found between old employees and the management, whereas young employees take time in settling down with organization. To retain performers, listening to the employees is a key thus employee’s voices are given importance be it personal or professional matter at the workplace.

3.2.8. Employee relations
While discussing about significance of employee relations at workplace the respondents mention that, for nonexecutive level they get contractual workers or daily wage earners. The management of the organizations do not prefer any sort of unionism at workplace, thus for trade unions in the organizations the attitude of the respondents was not quite favourable. They do not encourage trade unions in their organizations. The respondents mentioned that trade unions are required by the workers, if their grievances get unheard, however the work culture is such that they listen to employees and avoid unionization at their workplace. While asking about the ways to handle any difficult situations created by unions or workers, the respondents denied the occurrence of any such situation.
The respondents from these organizations did not talk much about the labour laws implemented in their organization and responded that they follow all the statutory legislation. Surprisingly they could not name the labour laws implemented at their organization other than casually sharing about the acts related to child labour, minimum wages, payment of bonus and provident fund etc. They also mentioned that they avoid retaining any such worker with them who have aggressive nature and the one who can motivate people for union activities. Thus it can be said that again an informal set up is more evident at SMEs in terms of employee relation practices.

3.2.9. People Management Practices
These companies have few indigenous practices which they consider as unique people management practices. The work culture is very open and the employees are free to meet top
level management directly, and by this way the management develops a personal relationship with the employees.

The respondents mentioned that there are few practices which are quite informal in nature and they are also necessary to have cohesive group in the organizations. These unique practices of good interpersonal relations are good for the growth the organizations. Few respondents mentioned that employees feel themselves as partner in the organization and thus contribute beyond the call for duty. They involve the employees in decision making and allow them to have a balance between personal and professional life. It seems that there is individual HR practice trend rather than HR systems for entire organizations.

### 3.3. Findings

The findings of the study confirms the implementation of indigenous practices and also confirms the findings of Saini & Budhwar (2008) about the lack of formalization of HR practices in Indian SME’s. The study findings also confirm that the SMEs are not very likely to use formal HR practices (Bryson & Forth, 2018). It may be due to poor knowledge about the benefits of implementing formal management practices among smaller organizations. The professionals practicing HR at SME may experience difficulties in adapting advanced methods (Bloom et. al. 2011).

In this study more of individual HR practices are visible in dealing with people. A common set of HR practices are there, however when required individual HR practices take over the scenario. Boon et. al. (2019) mentioned in their work that the need of the hour for an organization is to focus on formal systems along with HR practices because the effects of HR systems depend on other practices within the organization. Hung et.al. (2019) mentioned about the concern of managers/ owners towards the cost and time of implementing formal HR practices. They consider these practices as costly, bureaucratic and time consuming.

The study reveals lack of availability of right talent and it may be because of indigenous practices of acquisition from formal channels and due to cost and time involved in it. Nyarko (2013) discussed in their work that the SME’s do not recruit from formal channels of recruitment because they are costly and time consuming.

Omolo, J.W., Oginda, M.N. and Otengah, W.A. (2013), found in their work that recruitment, selection, training and development related HR practices are the predictors of organizational performance of SME's whereas voices of employees and compensation practices are not. In the presented study the need for training of employees is felt by the respondents but again due to financial expenses the training need fulfilment stall face gaps. Better employment and saving of time and energy. Mustafa et. al. (2018), mentioned in their work that generally senior and longer-tenured employee’s favour informal HR practices with respect to their learning and development while junior employees prefer formalized approaches. In this study also the same mind-sets were felt. The young employees try to learn from these SMEs and then plan their career in large organizations, so their willingness is more for training and development. However due to less opportunity they do not feel very satisfied with the work culture. Rahman et. al. (2018), suggested in their work that SMEs should offer equitable compensation scheme to encourage their employees for better proficiency in work related activities and be more productive. The same is evident in sampled organizations of the presented study as well. Apart from it SME owners and managers were found largely ignorant of the details of labour legislations and resistant to increasing employment regulation. Elia & Margherita (2015) mentioned in their work that organizations have started paying attention towards human resources as a strategic source of competitive benefit in the last two decades. Steffensen et.al. (2019), mentioned in their work that role of HRM in future will be across all the hierarchical levels thus further increase the adoption of HR management and practices among small businesses would ensure the success (Hung et. al. 2019). There is a link between the social responsibility of the firm and its practices towards employees has nurtured another stream of research known as human resources management (HRM) in responsible firms, introducing a new as socially responsible human resources management (SRHRM) (Shen and Zhu, 2011). As the internal employees are also considered as one of the stakeholder, there must be a genuine responsibility towards these employees. After the study author also feels that socially responsible HR practices along with an ethical approach to business (Cantele, 2018) can improve the management of human resources in SMEs.

The findings of the study would be useful to fill the gaps in the literature related to HR practices in small and medium enterprises of emerging economies. Apart from it the findings of the study might be of use to investors, entrepreneurs, managers and leaders in business organizations who are operating in developing economies. It may also be useful to understand the cross cultural
issues of developing Asian country and its SME’s HR Functions. The presented study also helps to understand that why sometimes there is no proper HR professional and lack of HR functions at SMEs.

3.4. Future research scope
On the basis of study the future research may be conducted on nature and types of informal HR practices along with antecedents and consequences of the same. Apart from it the future research can also be done to find out socially responsible or ethical HR practices at SMEs and their impact, which create a family like environment at workplace.

4. Conclusions
The study confirms the indigenous practices in SME’s at Delhi-NCR and also about the scope for better formalization of HR practices. The SME’s are important for the growth of the country and HR practices are predictor of business performance of SME’s thus the formal human resource practices must be followed to increase the effectiveness of employees. Formal HR practices would be beneficial for innovation and creativity. As transition from one to other form of approach would take time, the SME’s may adopt the mix of approaches i.e. indigenous and formalization of HR practices in future.

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