

## Human Resource Management Issues in MSMEs: An Insight

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### Abstract

In Maharashtra, the industrial sector stands as a towering pillar amidst the state's economic landscape, eclipsing other sectors in its magnitude and impact. This concentration highlights the pivotal role of Micro, Small, and Medium Enterprises (MSMEs), often described as the lifeblood of a vibrant economy, silently propelling India's industrial growth and employment. However, the efficacy of these enterprises hinges significantly on human resource management practices. Considering that individuals devote a substantial portion of their lives to their workplaces, effective human resource management becomes indispensable. Thus, the present study has aimed to explore human resources challenges faced by employees in MSMEs. Employing a convenience sampling method, the present study has assessed 375 lower-level employees from five different districts of Maharashtra covering micro, small and medium enterprises. Accordingly, the study has found glaring deficiencies in various formal human resource practices including recruitment, selection, training, industrial relations and performance appraisal, within the MSME sector. Such problems are found to be more prevalent in case of micro enterprises than small and medium enterprises. Based on the findings of the study, various suggestions have been made for improving human resource practices.

**Keywords:** challenges, human resource management, MSME, textile

### Introduction

In recent decades, the landscape of Micro, Small, and Medium Enterprises (MSMEs) has witnessed remarkable growth (Das, 2021). Entrepreneurs are increasingly drawn to the advantages inherent in smaller-scale operations, such as enhanced flexibility, sustainability, informality, and adaptability (Singh, 2021; Zanjurne, 2018). This trend is particularly pronounced in developing nations, where MSMEs form the backbone of industrial activity, significantly contributing to both exports and the national gross domestic product or gross net product (Uma and Anbuselvi, 2023).

At the heart of MSMEs lies Human Resource Management (HRM), the discipline concerned with optimizing the performance of individuals within an organization. As articulated by Anwar and Abdullah (2021), HRM functions as a dynamic system wherein participants strive to fulfill both individual and collective objectives. Indeed, the success of any organization hinges on how effectively its human capital is recruited, nurtured, and leveraged by management to realize overarching goals.

Without a doubt, human effort stands as the linchpin of organizational success. HRM, therefore, emerges as a pivotal process, encompassing the acquisition, development, and retention of competent employees to propel the organization toward its objectives with efficacy and efficiency (Vettriselvan et al., 2014). Consequently, the orchestration of human endeavor and the cultivation of employee motivation emerges as a paramount concern within MSMEs (Anwar and Abdullah, 2021). Effective HRM practices serve as the cornerstone for achieving

sustained success and competitive advantage in this dynamic business environment.

Given that a significant portion of individuals dedicate a substantial part of their lives to their workplaces, particularly within the realm of MSMEs, the importance of HRM practices cannot be overstated. Research into HRM practices within MSMEs reveals a prevalence of informal approaches, particularly in aspects such as the selection process and industrial relations (Chandan, 2023; Singh, 2021). Consequently, this study endeavors to find out the nuances of HRM practices within the MSMEs dealing in textile sector in the state of Maharashtra, India since the said state has reported to have relatively maximum number of MSMEs in Textile industry (Ministry of Micro, Small and Medium Enterprises, 2021).

### **MSMEs in Maharashtra**

Definitions of Micro, Small, and Medium Enterprises vary globally, contingent upon criteria like investment, employment, turnover, among others. Despite these differences, MSMEs universally serve as catalysts for industrial expansion. Approximately 90 percent of manufacturing units worldwide fall within this sector, supporting more than 80 percent of employment in industries (Vettriselvan et al., 2014). Notably, the MSME Act emphasizes 'Enterprises' over 'Industry,' thereby acknowledging the pivotal role of the service sector.

Across different nations, the classification of MSMEs is fluid, adapting to specific economic contexts and developmental priorities. These enterprises are pivotal in fostering economic resilience and inclusivity, often driving innovation and employment generation. Their flexibility and adaptability make them crucial in both developing and developed economies, contributing significantly to GDP and ensuring socio-economic stability (Das, 2021; Zanjurne, 2018).

In Maharashtra, India's dynamic industrial hub, MSMEs are pivotal in defining the state's economic contours (Ministry of Micro, Small and Medium Enterprises, 2021). They serve as incubators for entrepreneurship, particularly in sectors like manufacturing, services, and technology. By fostering a diverse array of enterprises, Maharashtra's MSMEs contribute not only to economic output but also to employment generation and regional development.

The global perspective on MSMEs underscores their role beyond mere economic metrics. They are agents of social mobility, empowering individuals and communities by providing avenues for economic participation and upward mobility. Governments worldwide recognize the importance of nurturing these enterprises through supportive policies and infrastructure, aiming to harness their full potential for sustainable growth and prosperity. In essence, while definitions and thresholds may vary, the overarching contribution of MSMEs to global industrial growth and employment remains indisputable. Their resilience and innovation continue to shape economies and societies worldwide, making them indispensable components of the contemporary economic landscape.

Manufacturing enterprises have been classified into three groups based on the level of investment in plant and apparatus (excluding buildings and land). The groups include small manufacturing enterprises (with investment more than INR 25 Lakhs but not more than INR 5 crore); micro manufacturing enterprises (with investment not more than INR 25 lakhs); and medium manufacturing enterprises (with investment of more than INR 5 crore but not more than INT 10 crore). Likewise, the service enterprises are also classified as small service enterprises (with investment of more than INR 10 Lakhs but not more than 2 crore); micro service enterprises (with investment of not more than INR 10 Laksh); and medium service enterprises (with investment of more than INR 10 Lakhs but not more than INR 2 crore).

Based on value addition, industrial output, workforce size and factor numbers, Maharashtra has been ranked among the top three states with diverse industrial base (Ministry of Micro, Small and Medium Enterprises, 2021). The state holds leading share in cement, sugar, textiles, leather, chemicals, fertilizers, auto, and light engineering production nationwide. Infrastructure such as communication, transportation, banking, human resources, financial services, and industrial estates, holds crucial role in nurturing this industrial capacity.

The growth and maturity of Maharashtra's industrialization have been significantly aided by MSMEs, which are integral to the state's economy. These enterprises not only contribute substantially to production but also play a vital role in employment generation, supported symbiotically by large-scale industries (Vettriselvan et al., 2014).

## Human Resources in Maharashtra

Indian labourers do not persist in the same occupation for a significant duration. There is a significant level of absenteeism, labour turnover and indiscipline which could be attributed to the rural origins of the workforce, where they had relatively more freedom, or it could be due to their lack of education and preference for leisure activities. The variables to examine in order to analyse association of parental practices with the local ones, and to identify unique patterns within the industrial sector, include training, benefits, time offs, gender composition, involvement and executive bonds.

MSMEs holds crucial part in the economic development of Maharashtra. The consecutive five-year planning provided boost for the development of the MSMEs in Maharashtra, acknowledging their crucial role in facilitating the transition from a traditional to a contemporary industrial society. These labour marketplaces serve as intermediaries for traditional artisan and agricultural labour markets. The utilization of effective human resource management strategies is essential for raising the proficiency of individuals and ensuring the acquisition, development, and retention of competent personnel within the organization (Ulrich & Lake, 1990).

## Human Resource Management in MSMEs

Human Resource Management (HRM) plays leading role in fostering employee growth and maintaining positive relationships within the industry. This has led to the establishment of industrial estates in MSMEs (Singh, 2021). HRM is often regarded as a fundamental pillar in every economic enterprise. Industrial sectors have been actively promoted in India since gaining independence as a deliberate policy. As economies progress and advance, Micro, Small, and Medium Enterprises (MSMEs) are emerging as the predominant form of large-scale enterprises. The expansion of MSME sector has further raises employment opportunities and the emergence of a new job market. The advent of the new employment market in India has led to the adoption and implementation of several new HRM practices (Vettriselvan & Balakrishnan, 2014).

But Chandan (2023) discovered that smaller enterprises are ranked poorly in terms of retaining and acquiring talent, but they prioritize the identification of HRM functions as more significant. On the other hand, larger industries prioritize the identification and development of their employees as one of the most crucial activities. MSMEs comprises of more than 95 percent of all industrial units with the contribution of approximately 40 percent to the manufacturing sector's output as well as 35 percent to India's exports. Indeed, MSMEs are a significant source of employment after agricultural and allied sectors. They play crucial role in realizing the aim of rapid industrial development and generating supplementary employment opportunities in rural and underdeveloped regions (Vettriselvan and Balakrishnan, 2014).

## Problem Statement

Industrial relations and trade unions are pivotal in public enterprise reforms, yet employees and unions are often perceived as liabilities rather than assets. To overcome this, fostering a culture of teamwork and cooperation between labour and management is essential, especially in training and development programs. Establishing a genuine and trusting relationship between labour and management is crucial for effective labour management.

Effective implementation of human resource management (HRM) policies significantly enhances organizational performance (Singh et al., 2008). Therefore, organizations should adopt innovative HRM practices to improve overall performance. Despite implementing basic procedures like recruitment, selection, training, and performance reviews, small company units often lack formal HRM policies.

Issues such as inadequate compensation, lack of social security, absence of incentives and bonuses, welfare measures, and the absence of trade unions lead towards labour market exploitation, particularly in small and medium-sized enterprises. Currently, there is no dedicated study on HRM practices in MSMEs in Maharashtra. Thus, the present study aims to investigate the current state of HRM practices in MSMEs in the state of Maharashtra.

## Research Methodology

The objectives of the present study are

- a) To study current human resource challenges faced by the employees
- b) To suggest ways to address the human resource challenges

## Sampling Framework

The ongoing study is descriptive in nature. Being a primary study, the present endeavour has focused on MSMEs in textile in the state of Maharashtra. The state of Maharashtra has five regions, Konkan, Western, Khandesh, Marathawada and Vidarbha (). From each of the five regions, one district has been chosen randomly. Accordingly, Thane, Pune, Nasik, Aurangabad and Amravati have been selected. From each of the selected districts, responses have been collected from 3 units each from micro, small and medium enterprises. Further from each of the selected units, deliberate efforts have been made to ensure that at least 5 responses from micro enterprises; at least 10 from small and 50 from medium enterprises should be gathered. Accordingly, 25 responses have been gathered from micro enterprises: 100 from small enterprises and 250 from medium scale enterprises with the total of 375 responses (refer Table 1). The selection of the enterprises and the employees is based on convenience sampling approach. For collecting the responses, self-administered pre-tested interview schedule has been utilized. The development of the interview schedule was based on the studies done by (Chandan, 2023; Das, 2021; Singh, 2021).

**Table 1. Sampling Units from Each Enterprise**

Type of Enterprise	Number of Selected Employees
Micro	25
Small	100
Medium	250

Source: Author's Calculation

## Data Analysis

Majority of the sampled employees are males (75%) with working in the respective enterprises from the past three years. The number of employees with work experience equals to 5 years or more are found to be more in case of medium enterprises, that is, 53 per cent of the employees working in medium enterprises are found to be working in the respective enterprises from the past 5 years or more. While in case of micro enterprises, none of the employees is found to work in the respective enterprises for 5 or more than 5 years. In case of small enterprises, relatively more of the employees (48 per cent) are found to be working in the respective enterprises for a period not more than 3 years. Moreover, all the sampled employees are working on lower-level management with the supervisor role as the relatively highest role in the sample.

**Table 2. Intention to Leave the Enterprise for Better Opportunity**

Type of Enterprise	Yes	No	Do not Want to Disclose
Micro	75%	15%	10%
Small	80%	5%	15%
Medium	78%	6%	16%

Source: Author’s Calculation

The sampled respondents have been asked regarding their intention to leave and as shown in the Table 2, majority of the sampled employees in all the three types of enterprises wanted to leave the respective enterprise for better opportunity, that is, 75 % and 80 % and 78 % in case of micro, small and medium enterprises, respectively. The results of the Table 2 have also shown that 10 %, 15 % and 16% of the sampled employees do not want to disclose regarding their intention to leave. In this regard, it has been observed that such employees have supervise around them and thus, they do not want to disclose their intention to leave or switch.

**Tables 3. Human Resource Management Challenges**

Issues	Micro	Small	Medium
Inadequate Compensation	93%	78%	75%
Salary not in Convergence with the Industry	89%	88%	80%
Inappropriate Working Conditions	94%	58%	49%
No Welfare Measures	69%	71%	89%
Inappropriate Medical Facilities	84%	90%	48%
No Job Security	99%	97%	91%
Non-Transparency in Assessing Performance	98%	95%	95%
Non-Consistency in Performance Appraisal	100%	98%	75%
No Idea about Recruitment and Selection Process	98%	85%	74%
No Proper Training	95%	90%	64%
Safety Measures not Followed	85%	80%	80%
Non-Uniformity in Rules and Regulations	100%	85%	78%
No/ Minimal Celebrations	89%	75%	45%
Less Recognition	90%	80%	78%
Lack of Formalisation	100%	95%	90%
Deficient Incentive System	100%	89%	91%
Less Work Life Balance	100%	98%	74%

Source: Author’s Calculation

Table 3 presents various HRM issues reported by the employees employed in MSMEs. For all the issues, the percentage is found to be highest in case of micro enterprises. This indicates that the issues mentioned in the Table 3 are relatively more prevalent in case of micro enterprises than medium and small-scale enterprises as more percentage of employees have considered such issues prevalent at their workplace. Accordingly, 93 per cent of the employees in micro enterprises; 78 per cent in small and 75 per cent in medium scale enterprises considered that the compensation offered to them is not adequate based on the work assigned to them. Likewise, the other challenges include non-compliance of salary with the industry norms, inappropriate working conditions, lack of welfare measures, no job security, non-transparency in assessing performance, no consistency in performance appraisal, no information regarding recruitment and selection process, no proper formal training, lack of safety measures, non-uniformity in rules and regulations, lack of festive celebrations, less or no recognition of the work, no formalisation, deficient incentive system and lack of work life balance. However, a look at the percentage has unveiled that all the sampled employees working in micro enterprises consider that there is no standard

performance appraisal, no formalisation, no incentive system and no work life balance offered to them in their respective place of work. They also consider that the rules and regulations are not being uniformly applied to all the employees at their workplace.

Further, relatively less percentage in case of employees in medium enterprises on account of working conditions (49 %) indicates that the working conditions are relatively better in such enterprises. Likewise, 45 per cent in medium scale enterprises also consider that there are less celebrations. This indicates that medium scale enterprises do have celebrations at their respective place of work.

### Suggestions

Based on the findings of the study, the present study suggested to focus on the aforesaid areas for enhancing contentment level of the employees. One of the suggestions is to have standard recruitment, selection, compensation and performance appraisal norms and the same should be clearly communicated to the employees especially in the micro scale enterprises. Although the micro enterprises have relatively smallest scale of operations and least number of employees in comparison with small and medium scale enterprises, but transparency in recruitment, selection, compensation and performance appraisal will keep the confidence and commitment level of employees relatively higher.

Further, training should be given to all employees. It has been found that employees, specially in micro and small-scale enterprises, were trained on the job at the commencement of their employment. But it is being suggested that training programs should be organized on continuous basis rather than expecting from the employees to get acquainted with the changes in their work or workplace on their own. Employees should also ensure that they will not get fired for no reason. Instead, explicit efforts should be made to communicate that the employment is safe for the performing employees and in the cases of non-performance, requisite action should be taken instead of firing the employees from the job. Further, attempts should be made to ensure that all the rules and regulations should be adopted uniformly throughout the enterprise even in case of micro enterprises.

Adding more to the point, employees should be appreciated, that is, their work should be recognised in the enterprises through monetary as well as non-monetary facets. Even smaller number of monetary benefits to employees in micro enterprises can raise their contentment level at the workplace. Also, attempts should be made to facilitate employees in maintaining work-life balance even in case of micro enterprises.

Moreover, the present study advocates the development of an effective HRM model covering all the aforesaid facets into consideration, Doing so will enable the MSMEs to fetch maximum possible benefits from the employees by keeping their contentment levels higher.

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