A CRITICAL STUDY ON THE TRENDS AND PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN INDIA FROM STRATEGIC HRM VIEW POINT

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ABSTRACT

Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play a crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socioeconomic development of the country.

Performance of Micro, Small & Medium Enterprises (MSME) sector is assessed by conduct of periodic All India Census of the Sector. The latest census conducted was fourth All India Census of MSME. MSMEs has shown constant growth rate of more than 10% every year till 2010-11, whereas in year 2011-12 growth rate was 19% which is approximately twice of the growth rate recorded for previous years.

The present study contributes to our understanding of the value-added of strategic HRM-performance link in a completely different environment. In general, the results provide a moderate support in terms of the number of the specified relationships for the positive effect of strategic HRM practices on employee turnover, and financial performance of the companies. These results indicate that if an extensive formal training is given to the employees in the companies, a lower percentage of the employees leave the company every year. Likewise, the organization that promotes from-within and set policies to recruit internally rather than externally and the implementation of more careful recruitment and selection plans leads to a lower employee turnover.

Key words: Small and Medium Enterprises, Strategic Human Resource Management, Trends and Performance etc.

Theoretical Background

MSME’s Scenario: World over, the Micro, Small and Medium Enterprises or MSMEs have been recognized as engines of economic growth. In India, MSMEs are the second largest source of employment after agriculture. They account for almost 40 per cent of industrial
production, 95 per cent of the industrial units, 34 per cent of the exports and manufacture over 6000 products. It is estimated that to create one job in the MSME sector; only Rs.72,000 is required as against Rs.5.5 lakh required in the large organized sector.

Indian Scenario:

With the advent of planned economy from 1951 and the subsequent industrial policy followed by Government of India, both planners and Government earmarked a special role for small scale industries and medium scale industries in the Indian economy. Due protection was accorded to both sectors and particularly for small scale industries from 1951 to 1991, till the nation adopted a policy of liberalization and globalization. Certain products were reserved for small scale units (Rodriguez et al. 2007). 45%-50% of the Indian exports are contributed by SSI Sector. SMEs always represented the model of socio-economic policies of Government of India which emphasized judicious use of foreign exchange for input of capital goods and inputs; labour intensive mode of production; employment generation; no concentration of economic power in the hands of few; discouraging monopolistic practices of production and marketing; and finally effective contribution to foreign exchange earning of the nation with the low import-intensive operations. SMEs developed in manner, which made it possible for them to achieve the following objectives (Rodriguez et al. 2007).

- Significant export earnings; Import substitution
- Low investment requirements; Contribution towards defence production
- Operational flexibility; Technology oriented industries
- Location wise mobility; Competitiveness in domestic and export markets
- Low intensive imports; High contribution to domestic production
- Capacities to develop appropriate indigenous technology

The SMEs have made significant contribution towards technological development, exports and have been established in almost all-major sectors in the Indian industry such as processing, agricultural inputs, chemicals & pharmaceuticals, engineering, electro-medical equipment, textiles and garments, leather and leather goods, software Agro & Food Processing; Automobiles; Building Materials; Electrical & Electronics; Engineering; Furniture & Furnishings; Gems & Jewellery; Handicrafts; IT & ITES; Leather goods etc.,Machinery, Equipment & Tools; Paper, Plastics & Packaging; Pharmaceuticals & Chemicals; Textiles & Garments etc.,

The scope and coverage of the MSME sector was broadened significantly under the MSMEDAct, 2006, which recognized the concept of “enterprise” and to include both manufacturing and services sector, besides defining the medium enterprises under MSME sector. Thus the entire non-agricultural sector of economy was brought under the coverage of MSME sector subject to the revised criteria prescribed for defining Micro, Small and Medium Enterprises separately for manufacturing and services sectors.

As per the results of Fourth All India Census of Micro, Small & Medium Enterprises (MSME), the sector contributes significantly to the number of enterprises, employment and output of the country. Based on the data sets of Third and Fourth All India Census of SSI/MSME, augmented with data sets of EC, 2005 and growth rate observed during Fourth (1998) and Fifth (2005) Economic Census, the performance of SSI/MSME Sector is summarized as below:
TABLE 1: PERFORMANCE OF SSI/MSME UNITS, EMPLOYMENT, INVESTMENTS AND GROSS OUTPUT

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<td>I</td>
<td>II</td>
<td>III</td>
<td>IV</td>
<td>V</td>
<td>VI</td>
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<tr>
<td>1</td>
<td>2001-02</td>
<td>105.21</td>
<td>249.33</td>
<td>154349.00</td>
<td>282270.00</td>
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<td>2</td>
<td>2002-03</td>
<td>109.49</td>
<td>260.21</td>
<td>162317.00</td>
<td>314850.00</td>
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<tr>
<td>3</td>
<td>2003-04</td>
<td>113.95</td>
<td>271.42</td>
<td>170219.00</td>
<td>364547.00</td>
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<tr>
<td>4</td>
<td>2004-05</td>
<td>118.59</td>
<td>282.57</td>
<td>178699.00</td>
<td>429796.00</td>
</tr>
<tr>
<td>5</td>
<td>2005-06</td>
<td>123.42</td>
<td>294.91</td>
<td>188113.00</td>
<td>497842.00</td>
</tr>
<tr>
<td>6</td>
<td>2006-07</td>
<td>361.76*</td>
<td>805.23*</td>
<td>868543.79*</td>
<td>1351383.45*</td>
</tr>
<tr>
<td>7</td>
<td>200708#</td>
<td>377.37</td>
<td>842.23</td>
<td>917437.46</td>
<td>1435179.26</td>
</tr>
<tr>
<td>8</td>
<td>2008-09#</td>
<td>393.70</td>
<td>881.14</td>
<td>971407.49</td>
<td>1524234.83</td>
</tr>
<tr>
<td>9</td>
<td>2009-10#</td>
<td>410.82</td>
<td>922.19</td>
<td>1029331.46</td>
<td>1619355.53</td>
</tr>
<tr>
<td>10</td>
<td>2010-11#</td>
<td>428.77</td>
<td>965.69</td>
<td>1094893.42</td>
<td>1721553.42</td>
</tr>
<tr>
<td>11</td>
<td>2011-12#</td>
<td>447.73</td>
<td>1012.59</td>
<td>1176939.36</td>
<td>1834332.05</td>
</tr>
</tbody>
</table>

- Including activities of wholesale/retail trade, legal, education & social services, hotel & restaurants, transports and storage & warehousing (except cold storage) for which data were extracted Economic Census 2005, Central Statistics Office, M/o SPI
- *Estimated on the basis of per enterprises value obtained from sample survey of unregistered sector for activities wholesale/retail trade, legal, education & social services, hotel & restaurants, transports and storage & warehousing (except cold storage) which were excluded from Fourth All India Census of MSME, unregistered sector
- #Projected

Source: [www.msme.gov.in](http://www.msme.gov.in), Annual Report 2011-12

There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSME sector in addition to provide wide range of services. The leading industries with their respective shares are as depicted below
CHART 1- LEADING INDUSTRIES IN MSME SECTOR

Source: www.msme.gov.in, Annual Report 2011-12

MSMEs has shown constant growth rate of more than 10% every year till 2010-11, whereas in year 2011-12 growth rate was 19% which is approximately twice of the growth rate recorded for previous years.

CHART 2 – MSME’s ALL INDIA GROWTH RATE

Source: www.msme.gov.in, Annual Report 2011-12

**Type of organisation:** Results show that 94.41% of the enterprises in the MSME sector were proprietary enterprises. About 1.18% of the enterprises were run by partnerships and 0.14% of the enterprises were run by private companies. The rest were owned by co-operatives/trusts or others
Type of organisation: 90.08% of the enterprises in the Registered MSME sector were proprietary enterprises. About 4.01% of the enterprises were run by partnerships and 2.78% of the enterprises were run by private companies.

Source: [www.msme.gov.in](http://www.msme.gov.in), Annual Report 2011-12

Type of organisation: 94.61% of the enterprises in the Unregistered MSME sector was proprietary enterprises. About 1.06% of the enterprises were run by partnerships and 0.02% of the enterprises were run by private companies.

Source: [www.msme.gov.in](http://www.msme.gov.in), Annual Report 2011-12
MSMEs has shown constant growth rate of more than 10% every year till 2010-11, whereas in year 2011-12 growth rate was 19% which is approximately twice of the growth rate recorded for previous years.

Human Resource Management in Small and Medium Enterprises (SMEs)

Human Resource Management (HRM) is defined as the ‘process of attracting, developing and maintaining a talented and energetic workforce to support organizational mission, objectives and strategies’ (Schermernhorn 2001; 240). Strategic HR acts a business partner to overall business management by providing employee retention strategies, talent management and other services that add value to the company’ business strategy (Davidson 2003). According to Porter (1990), the human resource function is the backbone of organizational strategy and competitive advantage.

MSMEs (Micro, Small and Medium Enterprises) are the backbone of Indian Economy and this sector plays a vital role in the growth of the country, contributing significantly to GDP.
and export. In addition, this sector mobilizes local capital and skills, provides jobs to millions of people, and thereby, provides the impetus for growth and development, particularly in rural areas and small towns. Most previous studies have identified or examined different types of problems based on the size, age and/or growth rate of the firm. In which “people” or “human resource” (HR) problems facing firms in various stages that we intend to examine. The human resource department for a small business is usually not more than one person and often only one person who wear many hats. While general people/HRM problems have been identified few studies have focused on specific HRM areas must be examined: job analysis/job description, recruiting/selection, compensation/benefits, training, and performance appraisal. It is, therefore, important that not only the customers and suppliers, MSMEs today also need to collaborate closely with their own employees, in order to increase the organizational efficiencies.

Emerging Trends in the SME Sector

1. More and more women taking up entrepreneurial career, contrary to the scenario in earlier years
2. The economic crisis has not impacted the SMEs in India very badly. Therefore they are willing to make investments in the IT infrastructure by purchasing and implementing ERP solutions. SMEs are seriously looking at ERP solutions to provide that extra edge in the competitive business environment.
3. With large players adopting different models of business that include involvement of their traditional partners, suppliers or distributors at a different level, SMEs now are experiencing a new model of functioning in the value chain. The past few years has been the role of the SME segment evolve from a traditional manufacturer in the domestic market to that of an international partner
4. SMEs are actively investing in building energy-efficient IT infrastructure and are ahead of their foreign counterparts. Even in difficult economic times, Indian SMEs are eager to invest in technologies for reducing environmental impact.

Strategic Trends and Opportunities for SMEs in India

The importance of SME sector is well recognized world over owing to its significant contribution in achieving various socio-economic objectives, such as employment generation, contribution to national output and exports, fostering new entrepreneurship and to provide depth to the industrial base of the economy. India has a vibrant SME sector that plays an important role in sustaining economic growth, increasing trade, generating employment and creating new entrepreneurship in India. Further, the importance can be highlighted in the following points:

- Backbone of all developing economies including India
- Most efficient tools for balanced regional development
- Most potential employment generator. Second largest employer after agriculture
- Distribute wealth widely
- Account for a major share of industrial production and exports
- Low capital cost
- Silent drivers of a nation’s economy
- Upholding the entrepreneurial spirit and innovation
- Contribution to national output and exports
- Depth to the industrial base
During this situation of slowdown and slump in demand for products, renewed business strategies for SMEs become relevant like never before. SMEs will now have to find ways and means to address the global market challenges and without doubt innovation, aligning products to new business standards, skill development, finding sufficient credit and promoting products and services are the tools to do so. SMEs now need to recognize their strengths and also develop strategies to reinforce their capabilities in their identified sectors.

1. IT Strategy; It is important for the SMEs to have an IT strategy as part of its long term business plan.
2. Leverage Collective Strength; This called for new strategies, wherein SMEs could possibly leverage collective strengths and jointly bid for projects and execute them based on their expertise.
3. Up gradation of Skills: Competition is going to get together and the SME sector has to look at ways to increase production through up gradation of technology and labour skills and product cum process EDPs and Turnkey.
4. Optimization of Operations: SMEs also have to undertake substantial efforts to optimize its operations in areas like consumption of raw materials, energy, and safety at workplace and so on.
5. Entrepreneurship Education: This forms the part of the academic curriculum ultimately for creating an environment for entrepreneurship to grow from the grass root level for growth and development of the SME sector.
6. Identify the Right Market: SMEs do not readily understand their markets. So SMEs need to carry out extensive research to identify the right market for their products.
7. Business Development Services: These services include educating about and training on new international trade and investment regime and other related aspects, use of IT and Intellectual Property Rights, product oriented supports (e.g., identification, prototype development, modification, etc.) technical services, comprising also skill and technology up gradation and incubators for start-ups; marketing support, including fostering linkages with large enterprises; information; guarantees; networking; consultancy; counselling; and advocacy.
8. Update and Develop Skills: SMEs will not only have to update skills of employees but also have to develop new skills to suit the requirements of the emerging sectors in SMEs. So, they need to be well informed on policy changes and should take extra care to confirm to the global standards meticulously.
9. Become Strong in Every Respect: SMEs need understanding complications and implications of WTO Agreements and other developments, technology up gradation; product development/innovations; marketing; modern enterprise management skills etc.,
10. Counter the Slump: SMEs should also look at introduction of new products, product designs, energy efficient and cost effective manufacturing techniques, minimization of waste, optimum use of improved raw materials and packaging, up grading quality parameters and specifications to counter the slump in demand for older product lines.

Conclusion

It is necessary to point out that the strategic human resource management of any small business (SME) is of workforce alignment. A company with an aligned workforce has (a) the right types of people, (b) in the right places at the right times, (c) doing the right things right. The three components of workforce alignment are highly interrelated.
The emergence of SHRM, concerned with the relationship between HRM and strategic management of the organization, was a paradigm shift. To perform successfully, the roles of business partner and change agent under SHRM, the HR practitioner must be highly knowledgeable, multi-skilled and acquire core competencies like business knowledge, strategic visioning and global operating skills, credibility and integrity, internal consulting skills, among others.

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