

## Effects of HRM Practices on Small Scale industries

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### Abstract

*In the era of globalization, business environment becomes highly dynamic with high risk and uncertainty. This uncertainty decreases market share and increases organizational inefficiency. The increasing attention on human resource management (HRM) in small and medium enterprises (SMEs) is a comparatively recent phenomenon. Small and Medium-sized Enterprises (SME) are recognized as a significant part of both developed and developing economies. Numbers signify their importance as SMEs usually represent more than 99 percent of all enterprises in almost every country. For developing economies they are especially important as SMEs play a critical role in poverty reduction through employment generation. In the past, HRM scholars have focused mainly on large firms. Recently, research attention has increased as scholars seem to realize the importance of HRM in SMEs better. Researchers looking at smaller companies focus on issues like the determinants of HR in SMEs individual HR management practices and the level of HR formality.*

*Key Words: globalization, business environment, SMEs, HRM.*

### Introduction:

**D**evelopment of small and medium enterprises

(SME) represents primary goal of every modern economy. It is complex challenge which includes great number of directly concerned parties in every sector of the state and economy. SME stimulate private ownership and entrepreneurship. Their characteristic is that they are flexible and can easily adjust to changes in supply and demand on the market. At the same time they open possibilities for increase of employment, promote diversification of economical activities, support sustainable growth and give significant contribution to export, trade and increase the competitiveness of the entire economy. Importance of SME for economy is undisputable. All research show that globally, more than 90% of all business activities are realized by SME. SMEs employ two thirds of total labor of European Union. Approaching to European Union presumes harmonization of the systematic environment and improvement of the climate of entrepreneurship, private initiative, development of SME. This determination has strongpoint in current world processes that prefer the development of SME,

utilizing their profit efficiency and established advantages relating to the adaptability of small business to dynamic changes in economy. Problem of Human resources management is very sensitive issue in SMEs. Namely, in big companies there are entire teams of agencies or consultants are hired for selection and education of new employees, whereas in SMEs this work is done by owner or manager. Therefore, in this paper several facts were pointed out which need to be considered in selection of new employees, since every mistake in this activity can cause far-reaching consequences on functioning of SME.

Main goal of human resources management is improvement of work efficiency/output of employees in strategic, ethical and socially responsible way. It is necessary to harmonize individual, organizational and social goals and at the same time enable realization of the strategy of enterprise and cancel negative effects from the environment. Monitoring and evaluation of the success of function of human resources management must be continuous and directed to control of realization of set goals. Result of successful human resources management is increase of profit, productivity, market share, increase of the satisfaction of clients and employees and

improvement of the SME's reputation and influence. All of the stated parameters should be compared to previous situation, competition or common standards in certain activity/business in order to determine the efficiency/output of the human resources function. Monitoring of the fluctuation rate of employees, absence from work, salaries per employee, share of salaries in business costs, cost of hiring of new employee and cost of human resources management also contributes to determination of the influence of activities of human resources management on parameters of the successful SME operation.

#### Objectives of the study

1. To understand Philosophy of HRM Practices for Small Scale Industries.
2. To understand effect of good HRM Practices on overall business performance of Small Scale Industries.

#### Methodology of the Study:

The present study is of descriptive in a nature. The entire study is based on secondary sources of data. The secondary data has been collected from related books and websites.

#### Philosophies Regarding Managing Human Resource:

Based on previous research it is identified several dimensions of management philosophy on which small businesses seem to differ. Three basic models/philosophies regarding how small companies manage their employees. Below are the three models that used in small business:

**(1) Autocracy Model.** In this model, the owner or top manager retains tight, hands-on control of most activities and operates as the sole visionary of the firm. This model is characterized by hiring and keeping only those employees that have the skills and abilities to successfully perform a specific job, motivating and retaining employees based strictly on money, and closely monitoring and controlling even the day-to-day activities of all employees.

**(2) High-commitment Model:** In this model, the owner or top manager believes that employee and company performance is best when the company has created a family-like environment in which each employee feels highly valued and an important part of the company. This model is characterized by hiring employees based on their fit to the culture and

values of the company, creating a team-oriented environment in which peers are asked to help and provide feedback to one another, and a high degree of investment in employees.

**(3) Professional Model:** In this model, the owner or top manager believes that employees achieve their best performance when treated like professionals. This model is characterized by hiring and retaining employees that have the skills and abilities to successfully perform a specific job, providing the employees with interesting work opportunities and the chance to develop new skills and knowledge, and providing a specific set of projects or tasks to work on but allowing the employees a large degree of discretion in how to complete those responsibilities.

#### Effects of Good HRM Practices

The effects of employee outcomes on four different performance measures are considered. Small business leaders are faced with many different concerns related to business performance. Financial performance is important to small business leaders because strong financial performance will allow small business leaders to meet current obligations, invest for the future and provide a return to the owners and managers. Two measures of financial performance were can be considered : financial growth and financial performance compared to competitors. The first is a measure of the growth or increase in both revenues and profits, and the second is a measure of the financial performance of the company in relation to similar organizations.

#### A. Effect on Operational performance:

Operational performance is important to small business leaders because it is an indication of the effectiveness and efficiency with which the company is providing its particular products or services. Three measures of operational performance were used for this study: customer satisfaction, quality, and new product or service development.

Each is a measure of how the company performs in relation to similar organizations in those three particular areas. Customer satisfaction is a measure that indicates the extent to which the company is able to please its customers or clients. Quality is a measure of the level of quality of the products or services provided by the company, and new product

or service development measures the rate at which new products, services or solutions are deployed.

#### **i. Customer satisfaction:**

Customer satisfaction was highest in companies where employees had high levels of commitment to their supervisors, a high level of trust in management and exhibited high levels of cooperation. There was also some indication that low intentions for turnover among employees had somewhat of an impact on customer satisfaction. The conclusion that can be drawn from these findings is that companies that are able to foster high levels of commitment to supervisors, trust in management and cooperation among their employees and, to a lesser extent, low turnover intentions are more likely to experience higher levels of customer satisfaction. Likewise, companies wishing to improve customer satisfaction can focus on elevating commitment to supervisors, trust in management and cooperation among their employees.

#### **ii. Quality:**

Product and service quality was highest in companies where employees had high levels of trust in management. There was also some indication that low levels of turnover intentions and high levels of cooperation have somewhat of an impact on quality. The conclusion that can be drawn from these findings is that companies that are able to foster high trust in management and, to a lesser extent, low turnover intentions and high levels of cooperation among employees are more likely to produce high quality products and services. Likewise, companies wishing to improve the quality of their products or services should focus on increasing the level of trust that employees have in management.

#### **iii. New product development:**

New product or service development was highest in companies where employees had high levels of commitment to their supervisors, high levels of trust in management and high levels of cooperation among employees. There was also some indication that that low levels of turnover intentions have somewhat of an impact on new product or service development. The conclusion that can be drawn from these findings is that companies that are able to foster high commitment to supervisors, high trust in management and high levels of cooperation and, to a lesser extent, low turnover intentions among

employees are more likely to effectively develop new products or services. Likewise, companies wishing to improve their new product or service development should focus on increasing commitment to supervisors, trust in management and cooperation among employees.

#### **B. Effect on Employee Outcomes**

Five different employee outcomes and their impact on the measures of performance. They are commitment to the supervisor, trust in company management, cooperation, effort and involvement and inclination for employee turnover. Each outcome is explained briefly below.

- i. Commitment to supervisor** – Employees with high commitment to their supervisors are happy working with their current manager and feel that their manager is concerned about them and their problems.
- ii. Trust in management** – Employees with high levels of trust in company management feel that management has their best interests as employees at heart and are comfortable allowing management to make decisions that impact employees.
- iii. Cooperation** – Employees exhibiting high levels of cooperation are supportive of one another in their roles and expect to cooperate with others and to receive cooperation from others in performing their responsibilities.
- iv. Effort and involvement** – Employees with high levels of effort and involvement are committed to and fully apply themselves to their work. They are willing to spend extra time to get the job done and do extra work that is not part of their own job.
- v. Turnover intentions** – Employees with low turnover intentions are not actively seeking new employment, do not expect to leave the company in the future and do not often think about quitting their job.

First of all, the results indicate that a higher use of HR practices leads to higher levels of each of the employee outcomes discussed above. That means that employees of companies employing effective human resource practices are more likely to demonstrate: higher levels of commitment to the supervisor, higher levels of trust in management,

higher levels of effort and involvement in the company, higher levels of cooperation and a lower inclination to leave the company. The specifics of which HR practices are most effective in eliciting the different employee outcomes will be the topic of the next report. Second, indicate that these positive employee outcomes do indeed lead to higher levels of performance. We will discuss each performance outcome and the employee outcomes that lead to them separately.

### **C. Effects on Financial Performance**

The employee outcomes shown in light blue were the most significant in predicting better financial performance; those in white were still significant, but not at the same level as those in light blue.

#### **iv. Financial growth:**

Financial growth was highest in companies that had high levels of employee effort and involvement and low levels of turnover intentions among employees. The conclusion that can be drawn from these findings is that companies that are able to foster involvement and low turnover intentions among their employees are more likely the experience growth in revenues and profits. Likewise, companies wishing to improve profit or revenue growth should focus on increasing employee involvement and decreasing intentions for turnover among employees.

#### **v. Financial performance compared to competitors:**

Financial performance that was better than that of competitors was highest in companies where employees had low levels of turnover intentions. There was also some indication that high involvement and high levels of cooperation among employees contributed somewhat to higher performance compared to competitors. The conclusion that can be drawn from these findings is that companies that are able to foster low intentions of turnover among their employees and, to a lesser extent, high effort and involvement and high levels of cooperation are more likely to experience better financial performance than competitors. Likewise, companies wishing to improve their financial

performance compared to competitors should focus on lowering turnover intentions among their employees. The employee outcomes shown in light blue were the most significant in predicting better financial performance; those in white were still significant, but not at the same level as those in light blue.

As a result of employment system, firms have more autonomy in recruiting their own staff, introducing motivation and competition mechanism, reducing lifetime employment and wages. However, the focus on employment training is still rather weak in the firm's interviewed. There is also room for improvement in the areas of performance appraisal. Performance evaluation should be aimed at promoting staff based on skilling, training and education rather than on GM' personal opinions and relationship with subordinates as well as the length of services.

#### **Conclusion:**

It is the hard reality, with which scholars may agree that right efforts has not been devoted to understand the relevance of HRM formality for SMEs as majority of the scholars wisely tried to escape from this by advocating formality is required when SMEs grow, pressurize from larger counterparts and so on. As literature review suggests that an appropriate level of HR formality is required and these formal HR practices are believed to help owners/mangers in hiring the right candidates, developing employees, compensating and judging their performance which in return helps organizations achieve better results. But in reality things are different, as hardly any study able to clearly identify 'what HR formality means for SMEs'. It is important to note that most studies used simple survey technique and counted how many formal HR practices a firm use (comparing with large firms). We are changing our approach to qualitative conducted face-to-face semi structured interviews to investigate the level of HR formality and its relevance for SMEs, but our results could not bring much about HR formality similar to earlier findings. Therefore, our findings suggest that HR formality is irrelevant at least for these sample SMEs.

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