

# A Study on MSMEs'- Role in Propelling Economic Development of India & a Discussion on current HR issues in MSMEs' in India

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**Abstract-** MSME (Micro, Small and Medium Enterprises) are the heart of Indian Industry. Their contribution especially to a developing country like India is very valuable. They not only contribute in generating employment but also encourage low skilled level workers to start as entrepreneur level in rural areas. As data given by Economic Times in June 2013, they employ close to 40% of India's workforce. Their main boost is given to Indian Manufacturing industry which is around 45% and export oriented units which are close to 40%. The MSME sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products and services, and levels of technology. It helps in industrialization of rural and backward areas, reducing regional imbalances and assuring more equitable distribution of national income and wealth. MSME complement large industries as ancillary units and contribute enormously to the socioeconomic development of the country. MSME manufacture more than 6,000 products ranging from traditional to high tech items. Even though contributing so much in industrial growth, MSME internal operation is still far behind from the other developed industries. So focus of my paper is the HR operations and systems an MSME should have, a minimalist approach mandates that any business, no matter the scale of operations but should have a clear talent philosophy guiding vital talent management processes like talent acquisition, assessment, development, retention and leadership. Apart from that there are so many other challenges like credit to MSME, access to markets, lack of technological knowledge, lack of proper infrastructure etc. To overcome these challenges govt. Of India also taken some steps like MSME Development Act, 2006 has been enacted to facilitate these units first time and towards fulfilling the Credit needs of MSME various schemes have been introduced like "Credit Linked Capital Subsidy Scheme" (CLCSS). Looking forward for future growth MSME should grab opportunities through Globalization and be a messenger for Indian industrial growth as well as cultural heritage.

**Index Terms-** MSMEs, Economic Development, GDP, Employment, talent management, credit schemes, MSME Act.

## I. INTRODUCTION

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. Micro, Small and Medium Enterprises (MSME) contribute nearly 8 percent of the

country's GDP, 45 percent of the manufacturing output and 40 percent of the exports. They provide the largest share of employment after agriculture. MSME not only play 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. MSME are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country.

They are the nurseries for entrepreneurship and innovation. They are widely dispersed across the country and produce a diverse range of products and services to meet the needs of the local markets, the global market and the national and international value chains. Entrepreneurship is indispensable to accelerate the industrial growth. Small and Medium enterprises are an effective means for the development of entrepreneurship. This sector is a only solution to the problems of poverty, insecurity, unemployment, over population he modern world. This article attempted at highlighting the significance MSME in economic development of India.

At present firms are acknowledging the efficient management of human resources as a critical factor in their success or failure (e.g., Huselid, Jackson, & Schuler,1997; Paauwe, 2004; Schuler & Jackson, 1999). Does this equally apply to MSME?

As MSME focus more on running the business on a day-to-day basis, they find less time to manage the HR processes which is perceived as non-priority. MSME do not feel like revamping existing organizational structure, especially when they know that the status quo is delivering the output. Competitiveness of MSME can be enhanced through better human resource (HR) practices of recruitment, selection, training and compensation. Indian MSME need to reduce overall cost of products to remain competitive with Chinese manufacturers and exporters. Apart from other functional areas such as production, finance, marketing, inventory and logistics, MSME also need to focus on implementing best HR practices.

## II. DEFINITIONS OF MICRO, SMALL & MEDIUM ENTERPRISES

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**TABLE 1: MICRO, SMALL AND MEDIUM ENTERPRISE**

Nature of the Enterprise	Micro Enterprise	Small Enterprise	Medium Enterprise
Manufacturing Sector	Investment in initial Fixed assets (plant and Machinery, which Excludes land & Building) does not Exceed Rs. 2.5 million	Investment in initial Fixed assets (plant And machinery, Which excludes land & building) more Than Rs. 2.5 million But does not exceed Rs. 50 million	Investment in initial Fixed assets (plant And machinery, Which excludes land & building) more Than Rs.50 million But does not exceed Rs. 100 million
Service sector	Investment in Equipment does not Exceed Rs. 1.0 Million	Investment in Equipment is more Than Rs. 1.0 million But does not exceed Rs. 20 million	Investment in Equipment more than Rs. 20 million but Does not exceed Rs. 50 million

(Source: Tabulated by Author)

**MSME AS GROWTH DRIVER OF INDIAN ECONOMY**

In India, 95 percent of industrial units (3.4 million) are in small-scale sector with a 40 percent value addition in the manufacturing sector. Enterprises of this type provide the second highest employment level after agriculture and account for the 40 percent of industrial production. These units contribute 35

percent to India’s exports. In this setting, Indian msmeare fundamentally important to the Indian economic system. Their potential to generate employment, bolster exports and bring flexibility into India’s business environment deserves close attention from India’s policy makers and research scholars.

**TABLE 2: GROWTH AND PERFORMANCE OF MSMEs IN INDIA : MSME UNITS, INVESTMENT, PRODUCTION, EMPLOYMENT AND EXPORTS**

YEAR Year	Total msmes (Lakh)	Fixed Investmen t (in Rs Cr)	Production (Rs in Cr.)	Employment (Lakhs Persons)	Exports (Rs in Cr.)
2005- 2006	123.42	188113	497842	294.91	150242
2006- 2007	261.12 (111.57)	500758 (166.20)	709398 (42.49)	595.66 (101.98)	182538 (21.50)
2007- 2008	272.79 (4.47)	558190 (11.47)	790759 (11.47)	626.34 (5.15)	202017 (10.67.)
2008- 2009	285.1 (4.53)	621753 (11.39)	880805 (11.39)	659.35 (5.27)	NA
2009- 2010 *	298.0 (4.53)	693835 (11.59)	982919 (11.59)	695.38 (5.46)	NA
2010- 2011 #	311.5 (4.52)	773487 (11.48)	1095758 (11.48)	732.17 (5.29)	NA
2011- 2012 #	447.7 (43.7)	117699 (52.16)	1834372 (67.40)	1012.59 (38.24)	NA

The figures in brackets ( ) show the percentage growth over the previous year.

\* Provisional

# Projected

Source: Ministry of Micro, Small and Medium Enterprises, Annual Reports 2011-12 and 2012-13

### III. PRODUCT OFFERINGS IN MSME

SSI units produce an amazing variety and type of products. Over 7500 products are known to be manufactured in this sector. Even in a particular product, there would exist a wide range of qualities or specifications catering to different market segments, particularly in consumer/household products. Small Scale sector has emerged as a major supplier of mass consumption like:

#### FOOD PRODUCTS

- Chemical & Chemical Products
- Basic Metal Industries
- Metal Products
- Electrical Machinery & Parts
- Rubber & Plastic Products
- Machinery & Parts Except Elecetrical goods etc.

### IV. LITERATURE REVIEW

Managing HR presents significant challenges to any firm, but smes face unique challenges that stem largely from their size (Greening et al., 1996), with regard to the attraction and retention

of employees which is clearly linked with the ability to Offer a competitive benefits package (Williams and Dreher, 1992). While larger Organizations face the challenge of retaining and developing talent within their Organizations, smes face the more basic challenge of hiring the right kind of people For themselves. If smes can achieve the right mix of effective leadership, innovative Management, decision-making autonomy, growth opportunity and financial Attractiveness, they would be able to create the much sought after unique employer Brand, enabling them to attract the right talent to deliver on their promises. Leadership, management and performance orientation form the core of the HR Challenges faced by smes, and it is critical that organizations tackle this.4 Because Of smaller workforces, many specialized HR activities are infrequently performed in Smes (Cook, 1999).Sunder and Kumar (2012) have concluded that the absence of HR policy is the root cause of most of the anomalies in the HR spectrum. They found that the mechanism for fixation of compensation for employees is widely varied.

Research shows that managers of small firms lack training in formal personnel management practices and they do not consider the use of generally accepted HRM practices as essential for improving productivity (mcevoy, 1984; and Amba-

Rao and Pendse, 1985). A majority of the published research investigating HRM issues in small businesses is conceptual and has concentrated on diverse HRM topics. Flairfield-Sonn (1987) developed a strategic process model to guide the establishment of small business training and development programs. A study of 347 small midwestern firms identified selection and retention of quality workforce as the most important HRM issue for small firms (Hornsby and Kuratko, 1990). Deshpande and Golhar (1994) observed that many personnel practices of small and large firms are similar. According to Longenecker et al. (1994), HR activities often become the responsibility of general managers in smes.

The lack of 'in place and streamlined' HR functions in these organizations come as a weakness when all the efforts invested in building a team become fruitless because of high attrition rates. There can be several reasons to this such as dissatisfaction with pay, HR policies and practices, lack of hygiene factors, employee loyalty issues, and the like

A competent workforce is perhaps the most important asset for any organisation. Thus it is in the interest of any company irrespective of its size to positively focus on human resource (HR) development & management. However, it is rather sad that the HR activities are often neglected by many Indian MSME. As per a survey conducted by the Confederation of Indian Industries (CII), around 80% from the small enterprises and about 20% of the medium enterprises respondents indicated having no formal HR department. The Indian economy is now the second fastest growing economy of the world. As per the Ministry of Finance, the GDP of India stood at 8.8% in the first quarter of 2010-11 (the overall growth of GDP in 2009-10 was 7.2%); overall growth in the Index of Industrial Production (IIP) was recorded at 13.8% during July 2010 as opposed to 7.2% in July 2009.

Many forms of technological change are accompanied by changes in skill requirements. This is particularly true of the changes associated with the adoption of the new advanced technologies that are being implemented in the manufacturing sector (Doms, Dunne, and Troske, 1997). The contradiction of managing opposing forces, is caused by the attempt to apply a more flexible approach to human resources, and not just apply more flexibility to the individual within the company, and this flexibility seems to be based on both employee as well as employers interests. There is no consensus among researchers regarding the role of HRM in small-firm success (Deshpande and Golhar, 1994). HRM practices may be a leading cause of small business failures (mcevoy, 1984). Inadequate and inefficient HRM in MSME may result in low productivity and high

dissatisfaction and turnover among the staff (Mathis and Jackson, 1991).

## V. RESEARCH OBJECTIVES

1. Identifying the current status of HR operations in MSME.
2. Find out the contribution of msme in economic development of the country.
3. Challenges confronting by MSME.
4. Finding out ways to overcome the challenges in MSME and issues related to HRM.

## SCOPE AND METHODOLOGY OF THE STUDY

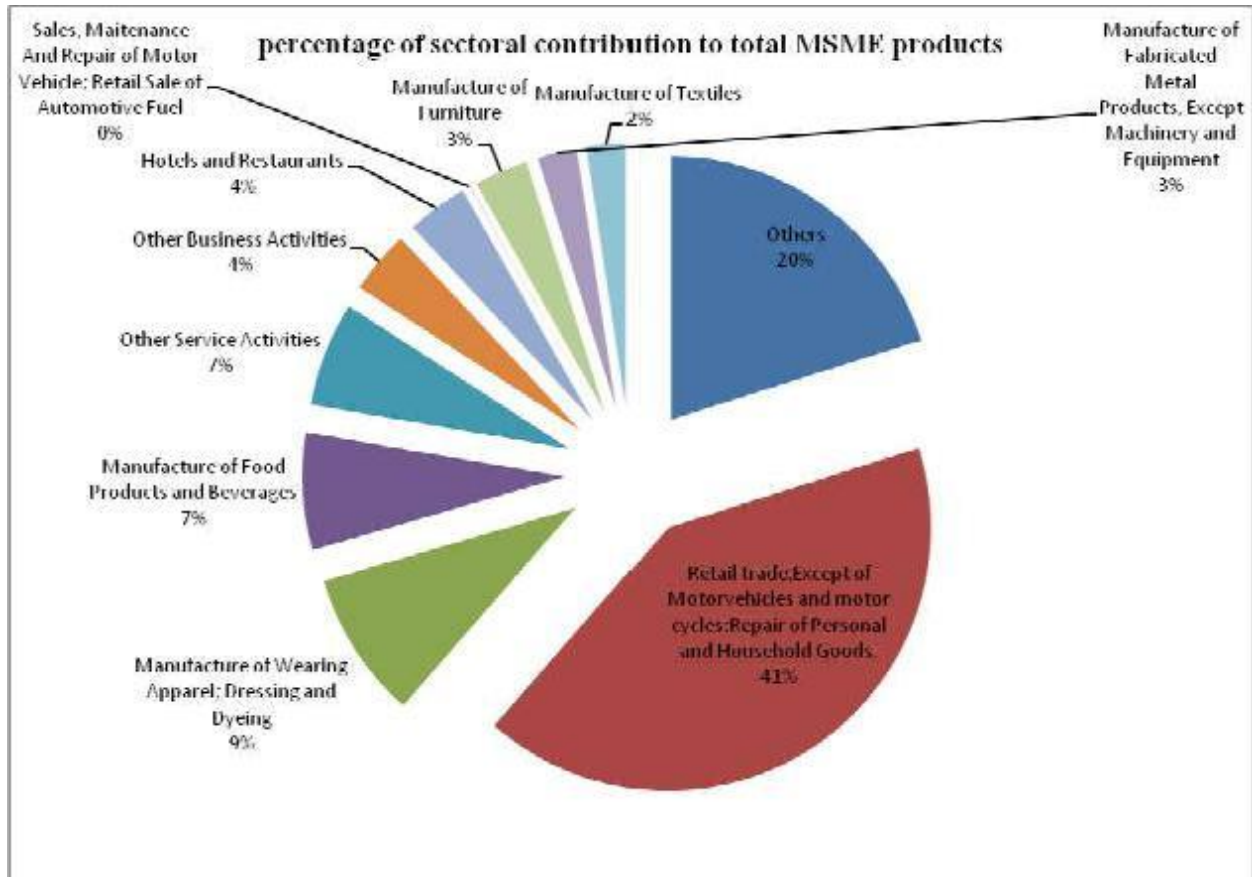
The scope of the present study has been confined to the contributions made by the MSME to the Indian economy and how HR department is making a contribution to the growth and sustainability of MSME. The data for the present study have been collected from various Secondary sources especially from the annual report published by Ministry of Micro, Small And Medium Enterprises for various years.

## ARE MSME THE BACKBONE OF INDIAN ECONOMY?

MSME have great role in the balanced development of the economy. MSME sector presently employs over 100 million people over 44 million units and MSME accounts for 9% of the country's GDP. Annual report of Ministry of MSME states that the sector accounts for about 45% of total export of the country. MSME sectors produce more than 6000 quality products. MSME sector, thus, shows greater opportunity for expansion and diversify its activities in various sectors. It is estimated that there are 1.6 million registered MSME in India and major portion of MSME working in India are not registered. MSME are dominated by micro enterprises with 94.9 percent share followed by small enterprises with 4.9 percent of share. These enterprises deployed throughout India by operating 55 percentages in rural India and rest operating in semi-urban and urban region of India. And hence the MSME contribute a commendable portion to the balanced growth of Indian economy. On the activity basis, if we are exploring, it can be seen that 67.1 percent of total registered units are manufacturing units, 16.8 percent of total registered units are service units and 16.1 percent units of total registered units are repair and maintenance units. From the diagram given below we can get some clearer picture about the distribution of 6000 units of MSME into their respective sectors.

## GRAPH 1

SOURCE: ANNUAL REPORT FY 12, MINISTRY OF MICRO SMALL AND MEDIUM ENTERPRISES.



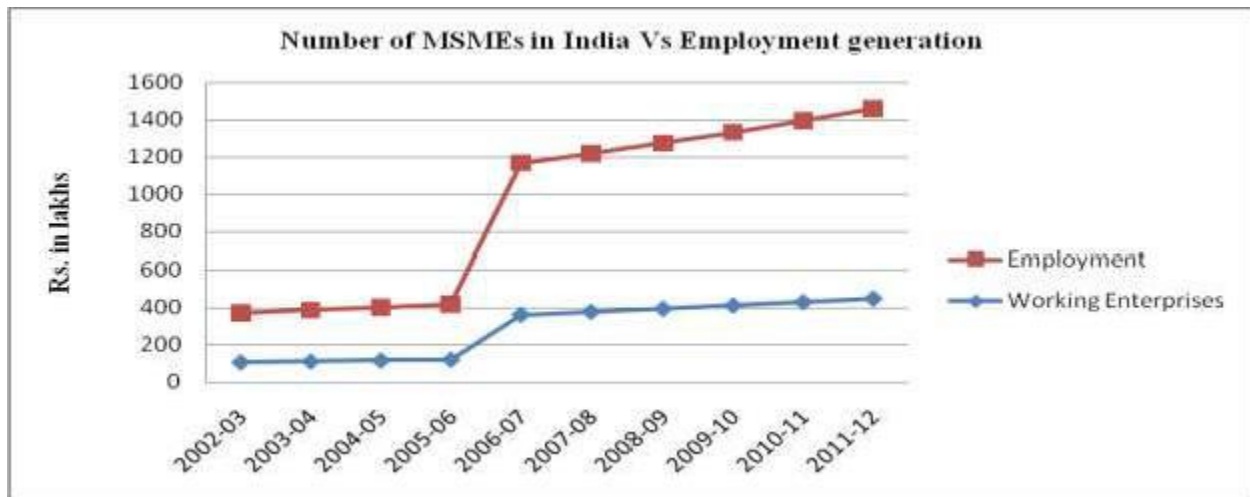
### GENERATING EMPLOYMENT OPPORTUNITIES

Employment opportunities are one among the important variables of economic growth of a country. Now a days, the Arab world is facing the problems created by its unemployed unrest people. No economy can economically sustain unless and until it provide lively hood to its local people. Traditionally the MSME are labour intensive and alleviating unemployment problems to a great extent. Indian MSME sector is the second largest employment generator next to agricultural sector. It employs about 101 million people and creates 4 million employment opportunities a year.

The number of MSME has been increasing steadily. In 1991 there were only 67.87 lakh units, but it increased multi folded by 2011- 2012. This change might be the result of conducive policy environment during the liberalization era. As MSME, generally are labour intensive, employment generation always follows the increase in the number of units. It seems to be a boon to rural people as MSME do not demand highly skilled employees and semi skilled and even unskilled people can be employed in such units.

GRAPH 2

**SOURCE: ANNUAL REPORT FY 2012-13 , MINISTRY OF MICRO, SMALL AND MEDIUM ENTERPRISES, GOVT. OF INDIA.**



*Note: data up to FY 06 is for small scale industries and subsequently to which data is for MSME.*

The above plotted graph clearly shows that increase in number of units of MSME always followed by an increase in the employment generation.

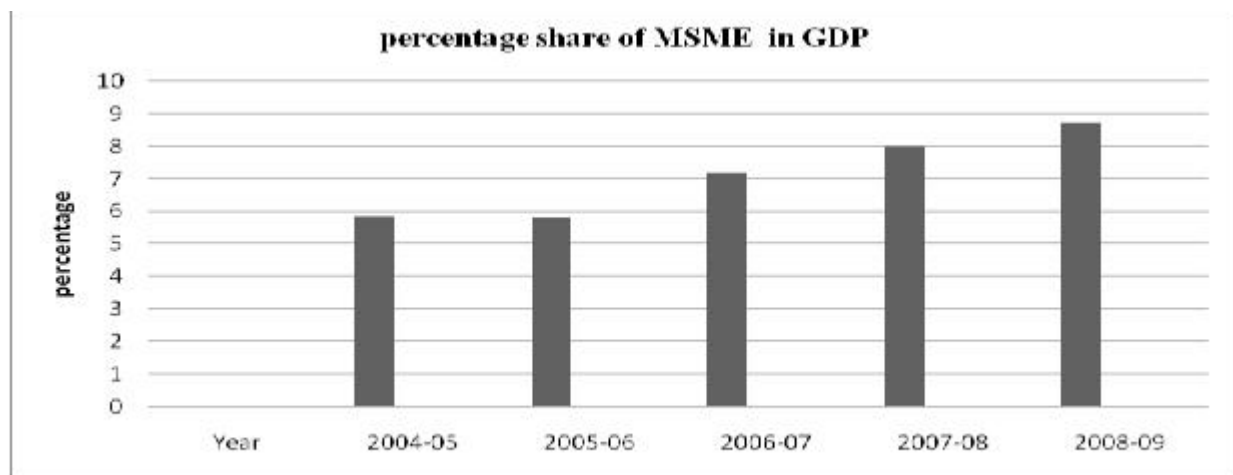
**MAJOR CONTRIBUTOR TO GDP**

MSME sector is a major contributor to nation’s GDP. News about GDP we listen to is alarming now a days. In the fourth quarter of 2012-2013 (January to March 2013) witnessed a slide of GDP to 4.8 percent. MSME sector constitutes an inevitable portion of GDP and hence it needs attention of the policy makers.

The statistics show that the contribution of MSME to GDP is ever increasing. The below given graph delineates the percentage share of MSME in the nation’s GDP over the years. It has managed to increase from 5.8 percent 2004-05 to 8.72 percent in 2008-09

**GRAPH 3**

**SOURCE: ANNUAL REPORT FY 12-13, MINISTRY OF MICRO, SMALL AND MEDIUM ENTERPRISES, GOVT. OF INDIA.**



*Note: Data for the period up to 2005-06 is for SSI and subsequent to 2005-06 is for MSME.*

**CONTRIBUTION TO INDUSTRIAL PRODUCTION AND EXPORT**

MSME are, at present, operating in wide variety of sectors such as manufacturing, trade and services and there by constitute a formidable component of country’s industrial production.

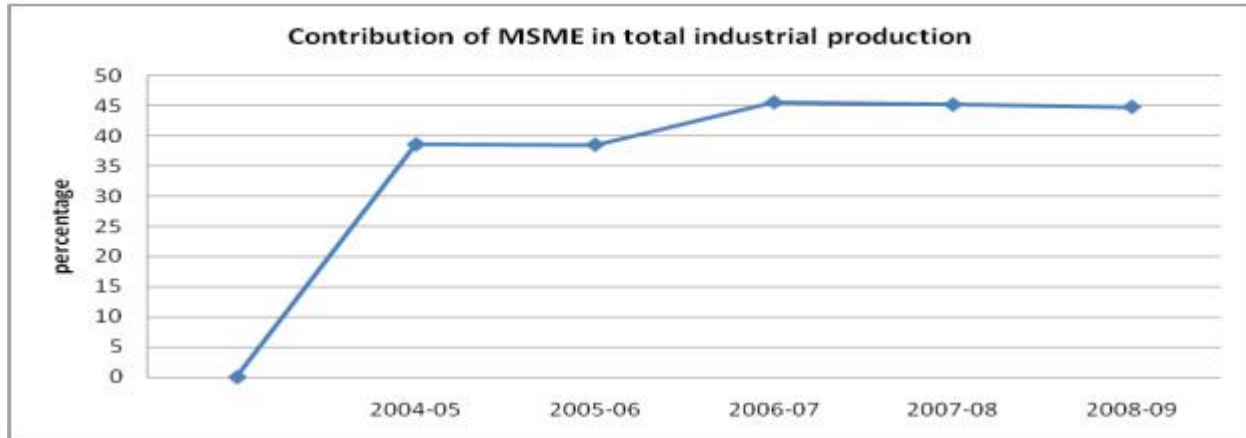
Over the year MSME reached at a level on the optimum utilization of available domestic resources and produces quality products and services. The sector contributes much to the industrial growth of the country. The sector account for more than 90 of the percent Industrial units in India and it has been increasing impressively for last many years. MSME had an

impact on various issues of the economy such as industrial progress, entrepreneurship, job creation, economic empowerment etc. MSME made possible an inclusive and balanced growth.

Around 50% MSME are owned by rural people and hence increases the standard of living of people.

**GRAPH 4**

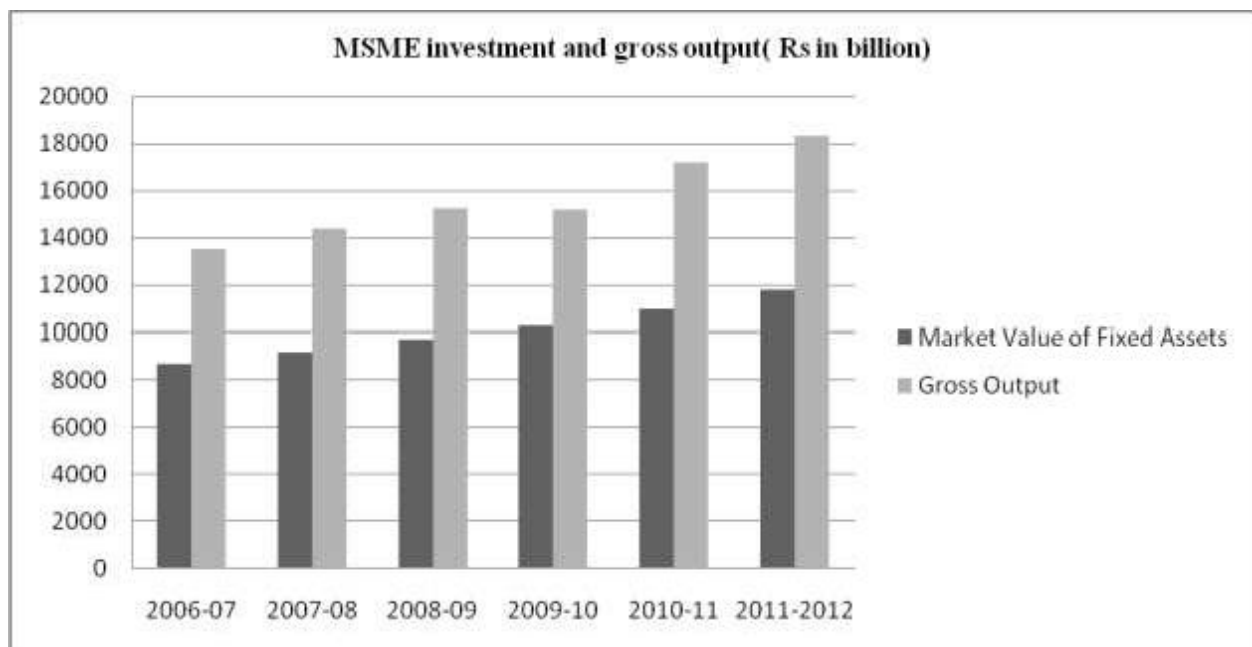
**SOURCE: ANNUAL REPORT FY 12, MINISTRY OF MICRO, SMALL AND MEDIUM ENTERPRISES, GOVT. OF INDIA.**



*Note: Data for the period up to 2005-06 is for SSI and subsequent to 2005-06 is for MSME.*

As per the MSME Annual Report of FY 12 published by Ministry of Micro, Small and Medium Enterprises MSME contribute 45% of the total manufacturing output. MSME experiencing a significant increase in investment flows. The fixed investment in MSME is ever increasing. Graph above shows the contribution of MSME to the total industrial production. It is very clear that around 50 percent of total

industrial production is constituted by MSME. The total production of MSME sector is showing increasing trend. We can read it from the graph given below. The graph depicts that investment in fixed asset has increased from Rs 8685.44 billion in 2006 - 07 to Rs 11769.39 billion in 2011- 12 and total production shows an increase from Rs 13513.83billion in 2006-07 to Rs 18343.32 million in 2011-12.



**Graph 5**

*Source: Annual report FY 2012-13, Ministry of Micro, Small and Medium Enterprises, Govt. Of India.*

When we talk about country's export, it is noticeable that MSME contribute 40 percent of the total export. The current account deficit (CAD) have been subjected to hot debate during the third and fourth quarter of 2012-13 financial year. The alarming decline in the CAD can be, to a great extent, arrested by promoting the MSME sector though CAD is influenced by many other variables like economic downturn. The data show that the MSME always showing an increasing trend in the contribution to the total export of the country. It has an increase from Rs. 71244 crores in 2001-02 to Rs. 202017 crores in 2007-08.

## HR ISSUES IN MSME

### MSME: MAJOR HR CHALLENGES

Main problems of small enterprises related to HR practices are attracting talent, motivating Employees and retaining key employees as small enterprises lack resources to advertise for Positions, pay salaries in the range of large organizations and train employees (Singh & Vohra, 2005). It seems to be the case that MSME have had the view, that HR practices is Unresponsive or not tailored to their needs, and it is considered too costly an activity to carry For a MSME. MSME are generally started by a single entrepreneur or a small group of people, And are often managed by owner– managers (Ritchie, 1993). Their organization structure is Mostly flat.

The survey was conducted on 524 MSME of NCR (National Capital Region) ranging from manufacturing, ancillaries, sales/services and hospitality industries with 10 to 100 employees strength, and the findings are not much surprising. Broadly, HR function stands nowhere in this sector. 70% of the organizations have no formal HR department or exclusive person for this function. Payroll/attendance/statutory compliance are either completely outsourced or part-timers perform record maintenance functions, or the owner himself controls this function.

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 wears many hats. While general people/HRM problems have been identified few studies have focused on specific MSME HRM problems or issues. Consequently, Firms of different sizes do apparently have different HRM problems and practices but five specific HRM areas must be examined: job analysis/job description, recruiting/selection compensation/benefits, retention, job security, training and performance appraisal. It also specifies some strategies to overcome these issues and coming up with Innovative HR strategies. It is therefore important that not only the customers and suppliers, MSME today also need to collaborate closely with their own employees, in order to increase the organizational efficiencies.

## INNOVATIVE HR STRATEGIES

### RECRUITMENT:

In the today's liberalized and globalised economy, the nourishing of any organization depends on the integral growth of employees. Talent crunch can impact any organization's

bottom line and growth. MSME are struggling to fill talent gap, find skilled workers especially at workmen level and middle level positions. Identifying right candidate for a right job with right skill, and aligning their business for getting the quality cost scale balance right, stands as a huge challenge to any MSME's. One more important challenge is to, how they can retain their key talent.

Research has shown that negative outcomes result from an overemphasis on the business Owner's personal values, attitudes and beliefs. Personal values can lead to costly recruitment Mistakes and to discrimination (whether you know it or not) and this can result in legal problems That could terminate the business.

### How to do it (Recruitment in MSME)

- Decide on the skills, knowledge and experience that the business needs to fill a specific job Role.
- Produce a 'job description' and a person specification that outlines the skills and experience needed for the role.
- Check that the job description does not exclude anyone from applying because of racial origin, religious belief, gender, sexual orientation, age or disability.
- Adapt your methods to allow (and encourage) disabled people to apply.
- Avoid 'word of mouth' recruitment processes. Consider a range of advertising methods e.g.: Jobcentre, national, local or 'community' newspapers; schools, colleges or universities.
- State that you welcome applications from all sections of the community.

### RETENTION:

As mentioned earlier, the major challenge for MSME is to retain their talent pool because of lack of competitive salary. The job of the HR personnel increases when the present employees are leaving the organization at the time of crisis. The HR personnel should try to retain the present employees by following some of the efficient strategies which include

- Offering a competitive benefits package that fits the employee needs and expectations
- Using contests and incentives to help keeping workers motivated and feeling rewarded.
- Creating open communication between employees and management develops trust in the employees.
- Fostering employee development and getting managers involved in this activity will give employees a visibility of their own career path.
- The managers need to spend time in coaching employees, helping good performers move to new positions and minimizing poor performance.
- Conduct „Retention interviews“, in addition to performing „exit interviews“ to learn why employees are leaving, consider asking longer-tenured employees as to what made them to stick to the organization.

As per the Wall Street Journal (2012). In today's competitive world, "MSME must recruit and select the best talent



where they have openings and upgrade talent in areas where it will advantage the business. It is necessary for the MSME to take a step back and evaluate workforce plans, as well as talent acquisition processes and enabling technology and determine a strategy that works for the organization in the retention process”.

#### **MOTIVATION:**

The motivation of employees is one of the key factors that affect the progress of an industry. In MSME the lack of employees’ motivation is a major management deficiency. Keeping employees satisfied on the job is another important human resource activity in the MSME’s. As financial benefits are not competitive as those of larger and more established firms, the human resource manager of the small firm needs to ensure that its employees remain satisfied on the job. For MSME the heart of the motivation process lies in ensuring and maintaining smooth and harmonious working and personal relationships among its employees. Respectful language at work place provides support and encouragement and enables employees to develop good working relationships. Mentoring adds up in the strengthening of harmony in the MSME.

#### **JOB SECURITY:**

Any employee prefers to do a job which is secure for him. The MSME’s should always try to provide the job security for the employees so as to reduce the retention rates. Employees always want to have a „secured job”. Here is how the HR department can add value and definitely make people love the job they do with a psychological satisfaction. The strategies in which HR can create the „Best Job” are as follows:

- HR Manager can create an environment which gives the employees an opportunity to give their 100 percent.
- Think of ways which makes the job more exciting.
- The HR Manager must recognize the employee’s true passions - concepts like knowledge or technology, job functions or skills.
- HR must make a record of tasks where an employee did something best at the workplace.
- HR Manager must make a note of the projects where the employee really enjoyed.
- List down all the accomplishments of the employee and create a mentoring program where employees can talk to people whose advice they value, people who have

worked with them, and who have watched them in action.

- Finally, if an employee is already doing something he/she loves, HR Manager should make it rewarding by aligning them to the goals of the organization, contributing more than what is expected, and giving them every opportunity to learn.

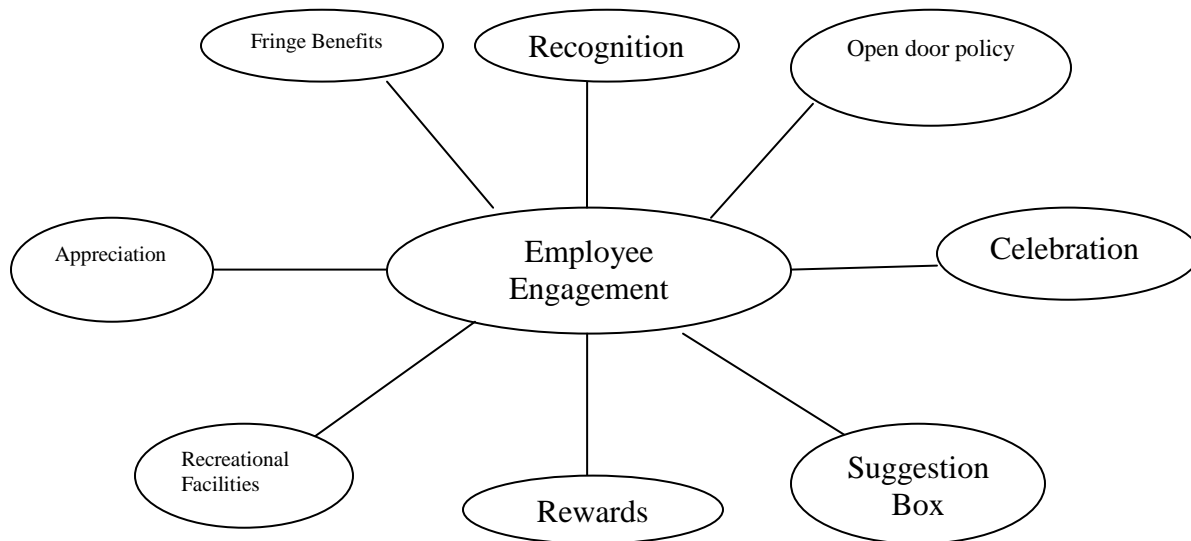
#### **EMPOWERMENT:**

Empowered employees feel they have the ability to make decisions and put them into action. Empowered personnel are expected to act, at least in some small way, like owners of the company rather than just employees. One of the major tasks faced by HR personnel is empowering the employees with certain decision making powers and authority. Every employee feels that he should have certain decision making powers with him to do a particular job. The empowerment of employees can happen when the clear definition of the values and mission of the company is explained and imbibed in them. Secondly, company must help employees in acquiring the relevant skills. Thirdly, employees must be supported in their decision-making, and not criticized or do the constructive criticism, when they try to do something extraordinary. And lastly workers need to be recognized for their efforts. Managers have to understand that empowerment is an important strategic tool. In order to reap the benefits, managers should implement the above practices. Otherwise, talk about empowerment will be perceived as “lip service” by employees, and have no positive effect.

#### **EMPLOYEE ENGAGEMENT:**

Small and medium enterprises (MSME) are worst affected during challenging economic era when resources are scarce, competition is intense and customers are more demanding than ever. Thus for MSME it is even important to have emotionally engaged and passionate employees. They play a critical role in driving innovation and propelling the organization forward. Emotionally engaged employees are generally more willing to recommend the organization to others and commit time and effort to help the organization succeed (Gupta, 2009) In MSME sector, to build a great workplace and increase employee engagement, there are a few innovative practices which can be adopted to leverage the advantage of the companies as explained in the figure below (Caccamese, 2012).

Figure 1



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 the highly globalized era, the more interaction among people from diverse cultures, beliefs, and backgrounds than ever before is required. People no longer live and work in an insular marketplace; they 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 behavioral training that can help augment the skill level of employees in various functions. As the data shows:

- Only 32 % companies offer both on the Job training & Off the job training which is very much required for technical jobs
- 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 company has a practice of appraising 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 & BENEFITS

The company has a practice of following timely payments and provides various employee benefits. However, the manner in which payroll is administered vis-à-vis 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. At this stage 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 in today's recession like situation.

#### VI. CONCLUSION

Human Resource is one of the most essential growth indicators for organizations today. There is a lack of formalization in the management of HR issues. This is in contrast to multinational companies operating in India who have adopted structured and formalized HR systems. As the studies showing very less msme have formal HR dept and in new small business units owners only handling the HR practices. So with skill training there should be 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 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 msme to outsource their HR functions to some outside authority, which can happen after establishing it a profitable unit. So The business owners or HR managers should ensure good HR practices in their organizations to remain competitive.

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