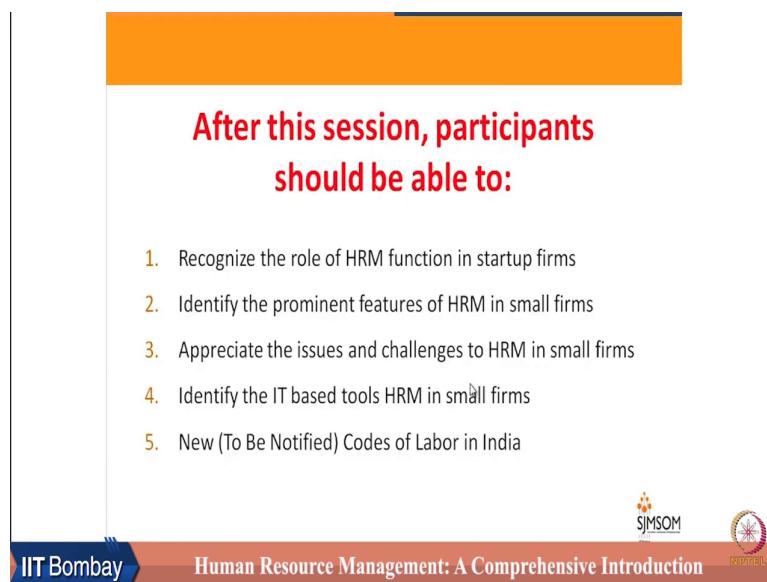


Advances in Strategic Human Resource Management
Prof. Ashish Pandey
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HRM in Start Ups and Family Owned Firms
Lecture - 07 A
Strategic Human Resource Management in MSMEs



[FL]. In this session we are going to discuss about Human Resource Management practices in small firms.

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After this session, participants should be able to:

1. Recognize the role of HRM function in startup firms
2. Identify the prominent features of HRM in small firms
3. Appreciate the issues and challenges to HRM in small firms
4. Identify the IT based tools HRM in small firms
5. New (To Be Notified) Codes of Labor in India

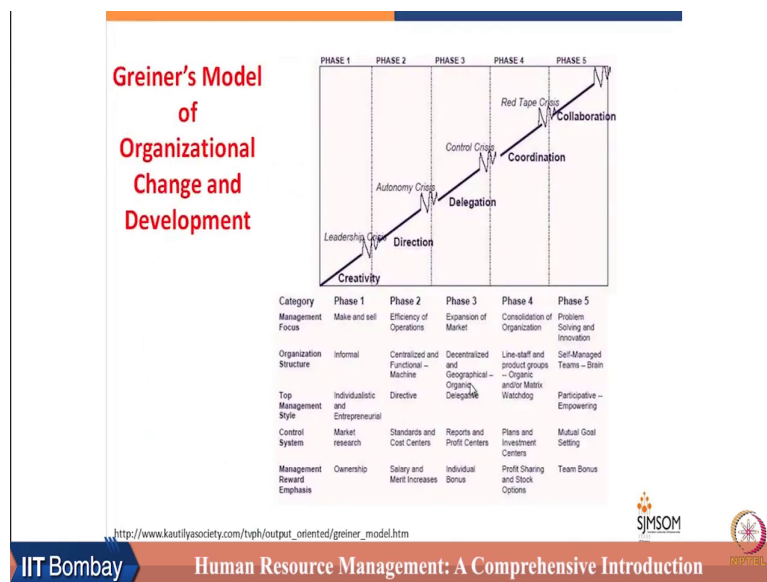
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After this session you should be able to recognize the role of HRM function in startup firms and small firms. Identify the prominent features of human resource management practices in small firms. Appreciate the issues and challenges of HRM in small firms. We will also

discuss and after that you will should be able to identify some IT based tools for HRM processes and practices particularly useful in the small firms. And we will also discuss new Codes of Labor in India.

So, we are going to discuss the new codes of the labor in India which are ready with government yet to be notified, but cleared by the parliamentary committee and those codes have implications on both small firms as well as large firms. So, in this session we are also going to discuss the new to be notified, but accepted codes of labor in India.

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Before we discuss about HRM practices in small firms we need to recognize that organizations particularly business organizations go through several stages of development.

These stages of development are captured in the Greiner's model. This model talks about different activities at different stage of growth of firm. It also talks about certain crisis which are generally linked to certain specific stage of firm. Any firm or organization starts with a small number of or few number of people. In the that is called in the Greiner's model phase 1.

In the phase 1 the management focus happens to be making and selling the stuff, making the selling the product or services. In this stage organization structure happens to be informal. Top management style is generally individualistic and entrepreneurial in nature. Their control system is their own market research.

So, they do not have any other department for control. They are directly interacting with market and based on their market research which can also be a semi formal or not very formal interactions in the market. That is their major control system and ownership decides about the management rewards.

In this stage, leadership crisis takes place. That means once the business is started and its start operating organizations have to decide about who will lead them. Generally, firms are started by group of people and in those cases who will lead firm to the next level which is about the growth phase that is the crisis and firms which are able to deal with the crisis are able to move smoothly to the next phase. This next phase is of the direction.

First phase was about creativity, ideation, identifying the best idea, refining that best idea and implementing that best idea in terms of launching the product, getting foothold in the market. In the second phase, the challenge is about direction, working on that great idea continuously and gaining efficiency in production and excellence in service. These are the two prominent concerns of any firm in this stage.

Once organization remain for sufficient time in the second stage, it reaches to the growth stage and that is where the next level of crisis happens which is about autonomic crisis. In the previous phase, till the time organization is small or group is very small. Entrepreneurial leader himself or herself can manage most of the activities.

Many a time decisions have happens to be centralized. Even if they are not centralized, everybody knows about what all is going on in the firm and they also have opportunity to put forth their thoughts, their opinion. But once organization grows beyond that initial number and enters the growth stage, there is a need of formality and enhancing the efficiency in operation becomes the major question.

Organization structure also becomes more complicated. It remains centralized, but the, but functional structure or mechanistic structure starts emerging in the organization. Standard and cost centers, standard operation operating procedures, not only about the production, but about various functions including HRM are recognized to be implemented in this stage.

Salary, merit increase, these things become more and more formal. If organization is able to meet the crisis of autonomy, wherein they are able to make the systems and processes to manage their functions well and people accept those systems and processes, they reach to the next level of growth. And After that, they reach to the next crisis, which is control crisis, which is about firm growing very big and creating some autonomous mechanism, autonomous decision making processes and structures within the firm.

So, we will not talk about that stage. What we are going to talk about is first two stages of the organizations. And in these two stages also, HR function plays a important role. If HR function plays effective role in these stages, naturally it helps organizations move to the next stage. If HRM function is not taken care of well in these two stages, firm feels the pressure, they recognize the limitations of the growth and they also recognize the certain days functionalities if the foundational process and system of HR are not up to the mark.

So, when we are talking about small firms, we are talking about those firms, where either creativity is a major driver of business or they are in the direction phase and those firms which have to lead and which have to deal with leadership crisis or autonomic crisis.

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What are the Micro, Small and Medium Enterprises (MSMEs)

India defines Micro, Small and Medium Enterprises based on dual criteria of Investment and Turnover. In June 2020, India has updated the definition as follows

Classification	Criteria (in ₹)
Micro Enterprises	Investment \leq 1 cr and Turnover \leq 5 cr
Small Enterprises	Investment \leq 10 cr and Turnover \leq 50 cr
Medium Enterprises	Investment \leq 50 cr and Turnover \leq 250 cr

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What is exactly we mean by small firms? These are known as Micro, Small and Medium Enterprises or MSMEs. MSMEs are classified into three categories and this is fairly recent category. This is done based on investment and turnover.

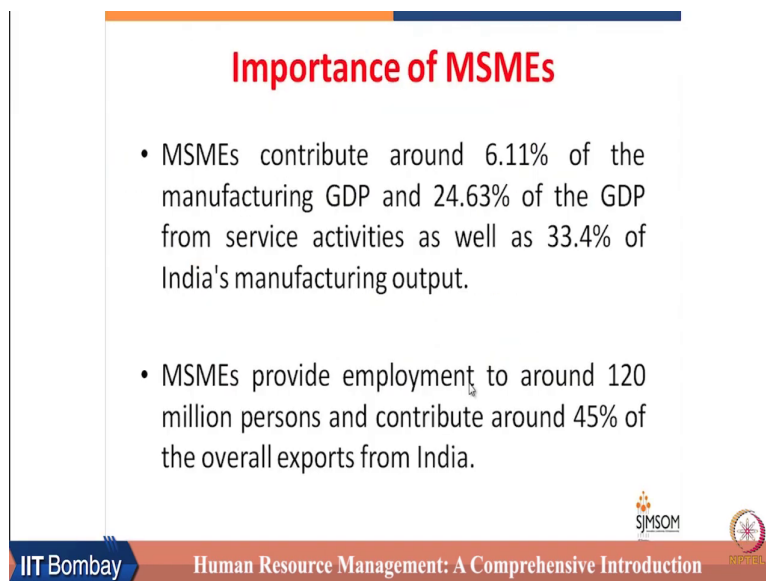
So, number of employees that criteria was defining criteria earlier that is changed and now criteria is based on investment and turnover. Criteria is important to define and this boundary is important to define because there are lots of government schemes which are linked to the micro, medium or small nature of MSME. So, this criteria is linked to certain facilities and that is why it is important to have clearer definition and good definition of these enterprises.

So, different countries define the size of their MSMEs differently. You can have a look at it, look at it, how different countries define MSME criteria differently. This data is very abundantly available. In India, it is defined in terms of the investment and turnover when it is

1 crore and 5 crore. When investment is 1 crore or turnover is 5 crore then it is called micro enterprise.

When investment is 10 crore or above and turnover is less than or equal to 50 crore, this is called small enterprise and medium enterprise is the one which has investment lesser than 50 crore and turnover is lesser than 250 crores.

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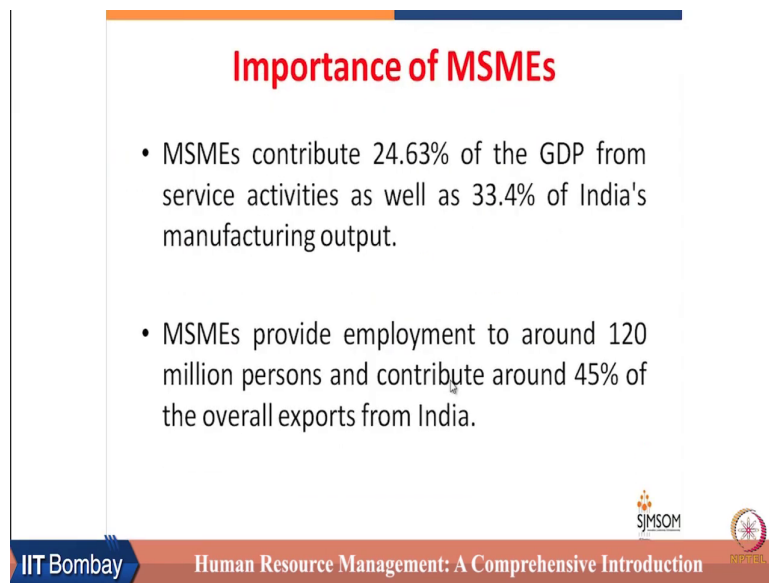
Importance of MSMEs

- MSMEs contribute around 6.11% of the manufacturing GDP and 24.63% of the GDP from service activities as well as 33.4% of India's manufacturing output.
- MSMEs provide employment to around 120 million persons and contribute around 45% of the overall exports from India.

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Importance of MSMEs can be understood in Indian context with these figures. It contributes this overall sector contributes above 1 quarter 24.63 to be precise of the GDP from services activities and more than 33 percent of the total manufacturing output which goes into the calculation on GDP. MSMEs also provide employment to around 120 million persons and it contributes around 45 percent of the total overall export from India.

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Importance of SHRM in MSMEs

Small firms, particularly those that are growing or growth oriented, make an important contribution to the performance of developed and developing economies around the globe.

A number of writers argue that a strategic approach to managing employees is vital for the success of all firms (Barney & Wright, 1998; Dyer, 1993; Huselid, 1995; Pfeffer, 1994, 2005), including small ones.

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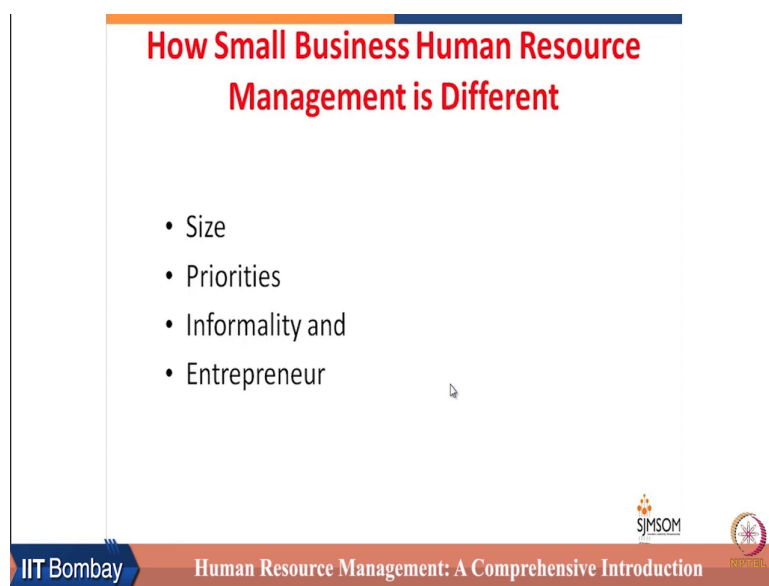
SRM

HRM and particularly strategic HRM is important for MSME because small firms they are contributing very significantly to the development of our economy and most of the economy is in the world and number of writers have argued that strategic approach to managing employee is very vital for the success of all the firms.

You might recall in first and second sessions of this course we discussed about strategic nature of HR. This whole course is based on the strategic perspective of HR. Strategic HRM is based on resource base view, resource base view suggest that firms get competitive advantage in the market place based on in imitable and valuable resources. Human resource is in imitable and valuable that is why HRM has a strategic imperative and HRM in this course is understood to be in the context of strategy of the firm.

So, many authors have recognized that strategic perspective of HRM is relevant for the small firms as well. They also should not look at HRM as bundle of different activities and they should not look at those activities separately or independently. They need to look at these activities whether it is recruitment, performance management, selection or salary and wage administration. All these activities or functions of HRM need to be looked at from the strategic perspective.

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How Small Business Human Resource Management is Different

- Size
- Priorities
- Informality and
- Entrepreneur

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There are some special features of MSMEs that makes a separate discussion about HRM function in the (Refer Time: 13:08) MSME context. These few slides this one and next one or two slides are taken from the textbook of written by Dessler and Biju Biju Varkkey on human resource management. MSMEs are special because of the size. So, many of the HRM

activities which we discussed earlier may not be conducted as it can be conducted in the large firm.

So, because of the size they need to customize those activities. So, priorities of MSME sectors or small firms are slightly different from the large firms. Small firms can grow fast. They can start quickly. They can be started quickly. They can suffer the losses also very quickly. So, because of this vulnerability they need to very closely balance the welfare of the employees better facilities to their HR and it is economic sense in terms of their business sustainability.

Small firms are anyway more informal in nature. Because of the informal nature of the interactions of the people there is a need to balance the professionalism in the HR practices as well as their employee friendliness of the practices. This by nature small firms by nature are entrepreneurial.

So, they are inbuilt characteristics of taking risk, agility, quick response, very hands on kind of leadership style, very collective, decision making process, shared leadership. All these are the natural characteristics of the small firms. And when we talk about HRM and when we try to understand the HRM in small firms we need to take into account these special features of any small firm.