

# Competitive Advantage Through HRM Practices in MSMEs

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*Abstract - Micro, small and medium enterprises (MSME) are considered as backbone of economic growth in majority countries as it contributes 80 percent of global economic growth. 90 percent of enterprises in most economies constitute of MSMEs which are highest employment generator even at low capital cost. Despite the importance MSME keeps, HR practices are still considered to be emergent rather than fully developed because relatively little focus has actually been placed on HR practices in MSME context. Some amount of positive result has been found between formal or sophisticated HR practices and improved organisational performance even in MSMEs. It signifies of having human resource management practices as a potential for competitive advantage. This literature review tries to connect MSME and human resource practice and eventually the competitive advantage gained by the connection. The effort is to bring out new research areas for exploration in this domain to eventually benefit the MSMEs.*

**Keywords:** MSME, competitive advantage, human resource practice, resource-based view

## I. INTRODUCTION

The highest employment generator and substantial contributor towards Gross Domestic Product for any country is the micro, small and medium enterprises (MSME). Though, these enterprises are at several disadvantages in comparison to large firms, literature states that human resource is one of their major competitive advantages (Noteboom, 1993). Competitive advantage has a direct positive effect on financial benefit. Macmillan (1983) described the concept of strategic initiative as the ability of an organisation or a strategic business unit to capture control of strategic behaviour in the industries in which it competes. In such circumstance, if any organisation can be proactive to catch the initiative, competitors will be obliged to react. Based on the proactive approach, if the organisation can gain strategic advantage, it can control its own destiny, stay ahead of competitors for long and can create a niche for itself. A firm's competitive edge is usually derived from characteristics of the products or services, as well as how they are marketed and delivered. These "advantages" are dependent, in one way or another, on certain human resource capabilities. If it expects to achieve and maintain superiority in the marketplace, the firm should seek to attain comparative superiority in these particular capabilities (Gould, 1984). Management may be pursuing well defined objectives and appropriate strategies, but may lose ground to the competitor who devotes more attention to gaining a competitive edge with its human resources. Human Resource Management (HRM) is best considered as range of policies which have strategic significance for any organisation. HRM is typically used to facilitate integration,

Employee commitment, flexibility, and quality of work life as well as meeting broader business goals like changing organisation values, productivity and delivery mechanism. Nowadays, irrespective of small or large organisation, as technology and capital has become commodity in the market, the only thing left really to distinguish firms are skills in managing human resource. And that is on which an organisation can gain competitive advantage (Reich, 1990). This conceptual paper tries to derive from existing literature the broad HRM practices present in MSMEs. It will elucidate the various aspects of those practices and whether those acts towards competitive advantage or not. This is done with intent to indicate the competitive advantage HRM practices can provide to an MSME that will be difficult to replace (Guthrie, 2001). A literature review of separate fields of MSME, HRM and competitive advantage is done with the intent of indicating towards the link amongst them. This is done to give a more holistic view about the hidden potential and benefits this amalgamation can bring out for future research and practice purpose.

The objective of this paper is to connect MSME and human resource practice and eventually the competitive advantage gained by the connection. The effort is to bring out new research areas for exploration in this domain to eventually benefit the MSMEs.

## II. Defining Micro, Small and Medium Enterprises (MSME)

Definitions used for MSMEs vary widely. Some are used for statistical purpose which can vary from program or policy purpose or it can vary industry to industry. The most common criteria is the number employed, but capitalisation, assets, sales or turnover and production capacity are also used by various economies. When MSME need to have a standard definition across all economies, then number employed are taken care. Thereby, macro, small and medium enterprise are demarcated, wherein MSME is defined as employing less than 100 people. Here firms employing 20 to 99 people are medium, five to 19 are small and less than five people employed are macro firms<sup>1</sup>. In India, definition of MSME is stated in Micro, Small and Medium Enterprise Act (2006). It is considered as the official definition. The MSME's are broadly divided into manufacturing and service sector. According to the definition, the maximum limit of investment for manufacturing sector is on plant and machineries. For micro, small and medium it is 25 lakh, five crore and 10 crore respectively in Indian currency. For service sector, the cap lies on investment in equipments. It is 10 lakh, two crore and five crore for micro, small and medium enterprise respectively in Indian currency.

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<sup>1</sup> Report on APEC Profile of SMEs (September 2003) from Journal of Enterprising Culture, Vol. 11, No. 3, pp. 173-337.

According to the Ministry of Micro, Small and Medium Industry’s official website in India, it has been noted that they constitute over 90% of total enterprise in most economies. They also generate the highest rate of economic growth. In India, this sector employs 5.97 crore persons spread over 2.61 crore enterprises<sup>2</sup>. This gives an impetus to explore the wide opportunities available with the human resource practices prevalent in this sector.

**III. Competitive Advantage**

The concept of gaining competitive advantage to firms is about wishing to engage in strategic activities that would be difficult for competitors to copy or imitate quickly (Porter, 1980). A competitive advantage also exists when a firm offers a product or service that is perceived by customers to be superior to those of competitors, thereby promoting firm profitability. Though the importance of competitive advantage is undeniable, entrepreneurs are often convinced that they cannot achieve this edge in marketplace because they are MSMEs. This is erroneous since both big and small firms face competition. Any MSME must evolve over time to maintain its competitive advantage and survive. No competitive advantage is going to last forever and for that it is important to have sustained competitive advantage. Sustainable competitive advantage is an established, value creating industry position which is likely to endure over time. Sustainable competitive advantage can only be achieved when an entrepreneur continuously assesses the firm’s external environment and upgrade organisational capabilities.

**Resource Based View**

Author	Definition
<b>Wernerfelt, 1984</b>	‘Anything which could be thought of as a strength or weakness of a given firm ...whose tangible assets are tied semi permanently to the firm’
<b>Barney, 1991</b>	all assets, capabilities, organisational processes, firm attributes, information, knowledge, etc., controlled by a firm to conceive of and implement strategies that improve its efficiency and effectiveness’

Resources of a firm can be categorised in three parts, viz. physical capital, human capital and organisational capital. Firm’s geographic location, technology, plants and equipments etc., are considered as physical capital. While firm’s structure, planning, controlling, coordinating systems etc., are organisational capital. Human capitals are the experience, judgment, intelligence, knowledge etc., of individual employees (Wright, et al., 1994). For MSME, competitive advantage is based on three basic capabilities like *innovation capabilities, production capabilities and market management capabilities*. The extent to which a company possesses each of these capabilities depends on its specific strategic focus, which moulds its deliberate or emergent strategies. These basic capabilities are founded, in turn, on a firm’s endowment of critical resources amongst which human resource is one.

**3. 1 Human Resource Management and Competitive Advantage**

Discussion of HRM as a source of sustained competitive advantage in MSME’s, though is practically useful, theoretically deficient. And for that it becomes essential to examine the conditions under which HRM becomes *valuable, rare, inimitable and non-substitutable* (Wright, et al., 1994). Human resources become valuable when both the demand and supply of labour is heterogeneous. Demand for labour is heterogeneous when firms have different jobs and which require different skills. Supply of labour is heterogeneous when individuals differ in both the types and level of their skills. In this respect, the utility values provided by human resource can be calculated by the formula provided by Schmidt, et.at, (1979). This formula provides a means of estimating the financial value that human resources contribute to the firm.

$$Utility = [(N) (t) (r) (Z) (SDy)] - C$$

Where, **N** refers to the number of hires, **t** denotes the average tenure of the hires, **r** is the correlation between a selection test and job performance, **Z** is the average standardised score of those hired on the predictor, **SDy** is the standard deviation of job performance in dollar values and **C** is the cost of the job selection system.

The extent when jobs are prepared in such a way, which require skills which allow for variation in individual contributions, these skills should be normally distributed in the population. At this point job relevant skills are no longer a commodity, and should be normally distributed in the population (Campion, 1988). When such condition arises, quality human resources become rare. Human resource become inimitable if there is unique historical conditions, causal ambiguity and social complexity. If the firm is having a unique historical condition of time and space then it becomes inimitable for others (Barney, 1991). When the link between a firm’s resource and competitive advantage is not properly understood by competitors it gives rise to causal ambiguity. Then the resources become inimitable. Finally social complexity refers to the fact that many social phenomena are so complex as to make it impossible to manage them systematically. A competitive advantage that arises from the social complexity of a firm’s interactions cannot be imitated. Human resources are one of the few resources of a firm which has the potential to not become obsolete or transferable across a variety of technologies, products and markets.

Therefore, resources which get leverage with respect to human resource is ‘in’ for a short time and cannot be rare, inimitable, valuable or non-substitutable for gaining competitive advantage. Finally, it is human resource which brings in competitive advantage in long term (Pfeffer, 1994).

As depicted in figure 1, every firm has a pool of human capital. This human capital is discovered and utilized by managers. But when the behaviour of this human capital is brought in line with the firm’s goal then it brings in sustained competitive advantage (Wright, et, al, 1994).

According to Noteboom (1993), small firms have more behavioural advantage. They lead in entrepreneurial drive and risk taking, motivation and perseverance, motivated labour due to lack of bureaucracy and specialization, liveness, proximity of management to customers and propinquity of management to the shop floor.

<sup>2</sup> Source: <http://msme.gov.in/msme.aboutus.htm>. Retrieved on 30 June, 2012.

Human resource in MSME is determined by the type of firm or entrepreneur. The competitive advantage of the MSME, in turn, is determined by the HRM of the firm. Figure 2 suggests some kind of connection between firm's competitive advantage and HRM. Competitive advantage of the company can be enhanced through the work force of the firm. Higher the level of staffing and benefits to workers higher the competitive advantage. Good relations between employees, skills of employees and innovativeness contribute to the competitive advantage of a firm (Ferligoj, *et al*, 1997).

A firm's competitive edge is usually derived from characteristics of the products or services, as well as how they are marketed and delivered. These "advantages" are dependent, in one way or another, on certain human resource capabilities. If it expects to achieve and maintain superiority in the marketplace, the firm should seek to attain comparative superiority in these particular capabilities (Gould, 1984). Management may be pursuing well defined objectives and appropriate strategies, but may lose ground to the competitor who devotes more attention to gaining a competitive edge with its human resources. Therefore, knowing HRM practices in detail becomes a necessity to get an upper hand while actually practicing them. The succeeding segment gives detail about the HRM practices with respect to MSMEs.

#### IV. Human Resource Management

In layman's point of view, the most common human resource (HR) practices are recruitment and selection, training and development, performance management, compensation and employee relations. But to elucidate, there is lot more embedded in these broader practices. Nutshell views of the common practices are discussed below. Selecting a right candidate is no easy job. Heterogeneous workforce has emerged due to changes in labour market and demographic trends. It creates hindrance in making fair decisions. And linking selection decision with organisational strategy is also to be taken care of (Storey & Wright, 2001). The meaning of training, generally, remains esoteric to trainees. On a greater aspect, it is central to new thrusts for ensuring high employment and high organisational performance (Lynton & Pareek, 2000). Individuals, irrespective of levels should be able to think out of the box. This amounts to the need for training and development of existing and new workforce and creating a learning culture amongst the organisation. Management of performance of individual's as well as organisation as a whole yields better results. In other words, it is about managing the context of work system as well as individual performance (Armstrong, 2010). For an organisation, to get and retain skilled, competent, well motivated and committed employee, they have to be rewarded both financially and non- financially. And, finally, performing all these practices by remaining within the boundary of rules and regulations set to maintain healthy employee relations.

##### 4.1 HRM and MSMEs

Research suggests that smaller entrepreneurial firms generally have key challenges with HRM because the small size of the firm often does not warrant hiring professionals exclusively dedicated to HRM activities (Kuratko, *et al*, 2001; Hornsby and Kuratko 1990; Wager 1998; Bacon *et al*. 1996). MSME sector face many challenges in business

administration, particularly efficient and effective utilisation of resources to achieve organisational objectives. HR practice, hence, become a key challenge as it is one of the key resource. Majority of research shows concerns for owner-managers' managerial practices and their impact on firm operations. But, few studies in this sector draw attention to traditional management practices including HRM and stress for a solid framework to manage firm resources especially human resource which is considered as key resource. According to Brand and Bax (2002) many small firms encounter serious human resource problems, while at the same time; human resources play a vital role in developing and sustaining their competitive advantages. They have also concluded that the available knowledge on HRM in small firms is highly descriptive and fragmented. The question here is why small firms encounter such kind of serious problem. Larsen (2000) explained this phenomenon from Danish company perspective as 'we still lack the conceptual framework and methods applicable for the majority type of companies – small and medium-sized companies'. These factors badly impact performance of small business and make it very difficult to add reasonable and required value from this vast sector in economic development of any country. It seems unfeasible to manage small business and especially its key resource with old traditional management practices at a time when gaining competitive advantage is not the foremost for owner-managers but real struggle is to sustain it over a long time.

##### 4.2 Human Resource Management Practices in MSMEs

MSMEs nowadays face the double challenge of resource constraint<sup>3</sup> on one hand and the requirement of highly trained employees on the other. External uncertainty, the typical characteristic of MSMEs, adds up to the woes (Hill and Stewart, 1999). This cumulates the need for effective HR practices in small firms (de Kok and Uhlener, 2001). Small firms are also considered as less specialised than large firms ( Bacon, *et al*, 1996) and HR practices are still considered to be emergent rather than fully developed because relatively little focus has actually been placed on HR practices in MSME context.

In contrary, another study found MSMEs having sophistication as similar as their larger counterparts (Deshpande and Golhar, 1994). An important point to note here is that some amount of positive result has been found between formal or sophisticated HR practices and improved organisational performance even in small firms. It signifies of having developed human resource as a potential for competitive advantage (de Kok and Uhlener, 2001). Unfortunately, the same study also pointed out that absence of formal HR practices is not for size per se but for higher cost factor. As small firms are heterogeneous and vary widely in the types of HR practices used, higher cost would incur as customised programs would be necessary. Ferligoj, *et.al*. (1997) reported that MSME can improve their innovativeness and export orientation through deliberate implementation of HR efforts. Figure 3 indicates the same with the final outcome. The following sub-sections deals in detail about the practices of HRM in MSME.

##### 4.2.1 Recruitment and Selection

<sup>3</sup> Constraints are for various factors including labour. Here , emphasis is laid on labour supply as a resource constraint.

Selecting a candidate for MSME can be done in a two stage process wherein two set of competencies would be looked into. One set would ensure that employee fit with the current situation. Another set would check the adaptability of the candidate for future requirements. Labour market of MSMEs can be demarcated into two parts. First, the demarcation is between external and internal labour market. Secondly, it is between local and national labour market. The supply of manpower will hugely be influenced by the local market. Like presence of personal forms of relationship while recruitment becomes perilous for enriched employee relation (Mahoney and Decktop, 1986). The various working patterns found in MSMEs are contracting out, part-time workers, job sharing and full time, which is still the most overriding form. The various methods used for recruitment are local advertisements, personal recommendations, recruitment agencies, application form, psychometric tests, personality assessment (Vinten, 1998) (refer Table 1). But, personnel reference service of professional associations like recruitment consultants and educational institutes are underused as a mode of candidate source. These could be inexpensive also. Another study indicates that recruitment primarily involves use of sources that were directly controllable, convenient and inexpensive like direct and past applications, referrals and newspaper advertisements. Candidates were selected according to the training received, experience and educational qualification. Reference check was also emphasised. It was seen that job offers were mostly verbal. This results in fewer applications and decreased likelihood of accepting the job offers. But it was seen that retention rate was higher when written documentation was done, HR managers got involved in evaluating job applicants. Also when hiring bonus, sick pay, paid holidays and promotion possibilities were present (Heneman, *et.al*, 1999).

MSMEs, especially those in specialist areas, face a critical problem of skill shortage. Surveys indicate the same that 25 percent of small businesses view the lack of qualified workers as a threat to not only to their expansion plans but also for their survival (Mazzrol, 2003). A more recent view gives another side of this dimension. It is said that smaller companies refrain from systematised approach for recruitment. They rarely use any long term planning of manpower requirements, job profiles etc. (Behrends, 2007). With increase in size of an organisation, complexity in an organisation structure and processes increase. In line with this assumption it can be said that lower degree of complexity will also be reflected in the way MSME handle their functional HR task like recruitment, which may have lesser degree of institutionalised and regulated policies. An organisation's potential to guide and coordinate employee behaviours in line with its goals and strategies through the management of other HR-related functions is already essentially bordered by its approach towards recruiting (Behrends, 2007). Again, according to the 'Equivalence Model' wherein it is considered that some HR functions are indispensable for both large and small organisations to survive in the long term, an adequate exploration of the recruiting practices in MSMEs should take its starting point to identifying size-dependent action- requirements that will generally exert influence on the way organisations cope with their elementary HR –functions (Behrends, 2007).

The smaller the company, the more strongly it is conceived that it's organisational recruitment as the outcome of a 'social process' which is in large parts supported or undertaken by the employees. Recruitment practices in MSMEs usually follow a rather 'informal' and 'particularistic' pattern. It is often characterised by an intensive utilisation of employee's social networks and a stronger personality and relationship oriented selection process (Behrends, 2007). As a consequence, in a lot of smaller companies the hiring of new employees could be regarded as a comparatively 'social process'.

Another aspect of recruitment is the attraction and retention and their clear link to the ability to offer a competitive benefits package (Agarwal, 2009). MSMEs are at a disadvantage in their ability to offer competitive packages and, in turn, attract and retain employees. MSMEs have more difficulty in retaining employees also because they are more likely to have lower levels of employer legitimacy than larger firms (Agarwal, 2009). In other words, MSMEs are less likely to be perceived as desirable, proper, or appropriate employers. Apart from financial crunch there is limited scope for career development and advancement in MSMEs (Agarwal, 2009; Kumar *et. al.*, 2009).

### 4.2.2 Training and Development

A study done by Koch and McGrath (1996) finds out that company size is directly related to HR sophistication and formal training (de Kok and Uhlaner, 2001). Storey (1994) also reiterates the same in a different tone by saying that managers and employees are less likely to get formal training in small firm (de Kok and Uhlaner, 2001). Small companies consider any training more than the immediate job requirement is a luxury and can only be provided when there is large profit making for the firm. Many MSMEs does not have provision for training. Even if it occurs, it is only reactive, informal and short term, exclusively directed at the solution of immediate work-related problems rather than the development of people (Hill and Stewart, 1999). Potential will be more effectively achieved if skills and competencies are developed by MSMEs (Johnston *et.al*, 2003) and this requires participation by MSMEs in appropriate training. Evidence suggests that employees of MSMEs are less likely to take part in training than those working in large organisations (Johnston *et.al*, 2003). There is an increasing provision of training, as business get bigger in size, and this is true for the off-the-job and on-the-job training. The challenge for training providers is to design an offering, which encourages MSME participation within a context of various relevant influencing factors. The actual problem, however, is that many entrepreneurs are reluctant to acknowledge the need for such training and can often be preoccupied with the more day-to-day concerns of running their business. The different barriers identified are day-to-day needs taking priority, a risk the employees may move on taking the value of any training investment, cost, lack of awareness of training available and training organisation (Johnston *et.al.*, 2003) alongwith other points like the level of bureaucracy involved, the lack of available employee time and lack of management experience (Johnston *et.al.*, 2003). It is found that managing directors more frequently had responsibility for training in smaller firms although smaller firms were significantly less likely to have training budget. The perceived impact of training on organisational performance has never been analyzed. When training will be

equated with business performance, it would automatically gain importance (Hill and Stewart, 1999). But the first and foremost steps of training need identification were more prevalent in smallest organisation in response to marketing requirements within the firm (Johnston et.al. 2003). It is also apparent that MSMEs prefer informal training, which dominates MSME learning through feedback, experience and social interaction between individuals and organisations (Johnston et.al. 2003).

Training need is to be focused, addressing needs identified as important by local MSMEs, flexible using delivery mechanism to offer access to training to suit individual circumstances, and MSME- friendly with staff training patterns to meet business needs.

The rationale for training intervention is twofold. On the one hand it is based on the premise that improving the skills, attitudes and aspirations of those in work will alleviate their propensity to become excluded from the labour market if they should be subject to redundancy or job loss. On the other hand it also has the potential to contribute to economic growth through the development of a more skilled workforce able to compete more effectively in a global environment.

In seeking to design interventions to increase accredited training, interventions need to go beyond the targeting of managers alone and engage members of the wider workforce. Another way in which value might be added is through employees that had received training passing on the skills that they had learned to other workers. Those organisations that involve both managers and workers are less likely to have increased the level of training than others. This might be explained by the need for organisations that have undertaken relatively widespread training activity to consolidate their activity before undertaking further training or it may be that they undertake a significant amount of training activity anyway. Research investigating the links between managerial practices and skills formation indicates a clear connection between the use of HR practices such as planning and appraisal systems and increases in the formation of skills (Devins and Johnson, 2002).

There has been a recognition over a number of years that there is a need for more targeted, flexible solutions in terms of local delivery, duration and timelines to encourage both businesses and their employees to undertake training activity (Devins and Johnson, 2002). Training interventions are reported to have met the needs of MSMEs to at least some extent in the majority of instances.

The utilitarian aspect of training and development of employees improve customer services of MSMEs. Training provides a mix of on-the-job and formal training, building team relationship and new ways of working (Ongori et. al., 2008). Training to employees, in addition, leads to high-performance in MSMEs. This means that employees should be equipped with necessary skills to enable the organisation to achieve its goal. Knowledge and intellectual capital are becoming increasingly important in MSMEs in this era of competitive global markets (Ongori et. al., 2008). A tendency to buy in skills when required rather than training is also recently seen (Duberly and Walley, 1995).

#### 4.2.3 Compensation

The approach towards compensation practice is comparable to that in larger organisations. It is certainly not unsophisticated, and displays diverse responses to trends in the labour market. Most popularly organisations are seen to

establish the pay levels according to the value of the job to the organisation, and abilities or skills of the new person. In contrast to larger organisation, previous pay levels or previous incumbents are considered unimportant in MSMEs. But, this pay levels act as an important factor in attracting candidates (Heneman, *et al.*, 1999). Several instances show grade and band pay within jobs in place. The bonus system is team based and linked to specific targets (Vinten, 1998). The benefits paid to the employees are relatively lower (Agarwal, 2009; Hornsby and Kuratko, 1990). MSMEs tend to view compensation from the total reward perspective. That is, compensation should encompass monetary rewards accompanied by psychological rewards, learning opportunities and recognition also (Heneman, *et. al.* 2000). The starting pay previously was kept equivalent with the current employees and others newly recruited. The special system then, was merit pay, and the dominant benefits offered were paid time off like vacation holidays, illness and health care insurance (Heneman, *et al.*, 1999). Another study reveals that MSMEs in their start up and growth phase tend to emphasise more on incentive schemes, but they do not consider group or individual incentives as important (Desphande and Golhar, 1994). An increase in the use of pay for performance has also been a marked study done by Duberly and Walley (1995).

#### 4.2.4 Performance Management

The need for companies to align their performance measurement systems with their strategic goals is well documented in the literature (Kaplan, 1983; Eccles, 1991; Gregory, 1993). Small- and medium-sized enterprises (MSMEs) exhibit distinct characteristics that differentiate them from the majority of their larger counterparts. Therefore, there is a need to establish the relevance of existing Performance Management (PM) approaches for MSMEs, which can be strategically oriented, and to identify an appropriate process for the design and implementation of strategic PM systems (Manville, 2007; Hudson et. al., 2001). Current literature suggests that MSMEs may be differentiated from larger companies by a number of key characteristics. These are generally described (Addy et al., 1994) as:

- Personalised management, with little devolution of authority;
- Severe resource limitations in terms of management and manpower, as well as finance;
- Reliance on a small number of customers, and operating in limited markets;
- Flat, flexible structures;
- High innovatory potential;
- Reactive, fire-fighting mentality;
- Informal, dynamic strategies.

The significant differences in the structure and philosophy of MSMEs indicate a need to assess the relevance of the PM development process. The general characteristics of MSMEs suggest that an effective process for PM development is imperative for the competitiveness of the smaller firm. However, little empirical evidence currently exists which describes current PM practice in MSMEs or which evaluates the appropriateness of current processes.

Although there was widespread acceptance of the value of PM evident among the managers of the MSMEs studied by Hudson *et al.*, (2001), none had taken steps to redesign or update their current PM systems. This suggests that there are

substantial barriers to PM system development in MSMEs. This concurs with the limited resources and the more dynamic, emergent, strategy styles found in MSMEs. These issues are acutely problematic because developing a PM system is necessarily long term and it explicitly requires the resulting measures to be strategically focused. If these barriers are endemic in MSMEs, then the requirements for a PM development process for MSMEs are clear: it must be very resource effective and produce notable short term, as well as long term benefits, to help maintain the momentum and enthusiasm of the development team. In addition, it must be dynamic and flexible enough to accommodate the strategic changes which are a feature of emergent strategies. In practical terms, this means that the process should be iterative, as an important feature would be the regular surfacing of current strategy, in order to maintain the strategic relevance of the performance measures (Hudson *et al.*, 2001).

The process of performance appraisal is more prevalent in MSMEs than PM, which involves identifying the strengths and weaknesses of employees. In MSMEs, the type of appraisal instrument used to measure performance is also important. The appraisal form should be easy to understand for those who appraise as also for those who are being appraised and should provide an adequate level of behavioural richness to encourage meaningful discussion. A study by Wiersma and Berg (1999) shows that managers prefer behaviourally anchored rating scales (BARS) because it yield more information to provide feedback and set subsequent goals (Ongori *et al.*, 2008).

## V. Discussion

Research gap lies in the availability of manpower and recruiting the right people. Skilled manpower is rarely available for MSMEs in market, so they generally recruit the unskilled or semiskilled who grow in the organisation. In this situation, one need to deviate from what literature says and find out what the actual practice is. Skills and knowledge are passed on in MSMEs as there is dearth of formal training. Initial study on training is required to understand if the employees are able to upgrade their skills and able to meet the market requirement. Competence can be increased by training which needs to be highlighted by more research to help MSMEs to succeed. It would be interesting to study the compensation system of MSMEs. Contractual job, daily wages and piece based system are extensively used. Specific study of how these system works, whether it motivates people or not, how it is beneficial for MSMEs is required. MSMEs work with the 'today' concept. So, it would be worth finding out the relevance of goal for them and the strategic fit of goal with performance. Serious job lies in linking HR practices in totality or individually with the competitive advantage it brings and how to sustain those advantages. In dynamic environment, firms which are rich with high levels of human capital resources possess greater capability to respond to environmental changes through sensing the need for change, developing strategies to meet the change and quickly and efficiently implementing these strategies. But, majority MSME, especially manufacturing sector, do not have these rich source of human capital. Also, this dynamic environment will start to prevail in the internal environment of the firm. Employees will have to face different changes or moves from the management side where serious contemplation of competitive advantage has been taken.

This may result into disturbed employee relations if not taken care from the initial stages. Most MSME's do not have any strategic planning to gain a sustained competitive advantage. They only work for 'today'. Also, visibility of the success achieved through people is not clear. This view point can become a serious drawback for their future existence itself.

## VI. Conclusion

It is likely that there will be a growing recognition that people do make a difference. Thus, this relatively under-utilised resource called 'people' is likely to receive greater attention from MSMEs, at least for firms seeking to be effective in highly competitive environments. Managers should take active part in developing human resource as a source of competitive advantage. The method of employing these practices is dependent upon the MSMEs competitive strategy. Investments in any other capital resources are often considered as means of generating sustained competitive advantage. Investment in human capital will have the same potential, and thus should be treated as capital investment. Firms, which purchase human assets, generate revenue flows over future accounting period. Sustainable competitive advantage emanates from the present workforce and way they are managed. This helps in the progress of the existing human resource practices. In future practices, these developed practices will add up to the sustenance of ever changing competitive strategy. There is huge requirement of theoretical addition in this subject with respect to MSME which seems to be most neglected. Extensive research is essential in this period of time, which in turn can extend the knowledge for formalisation and implementation.

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**Tables and Figures**

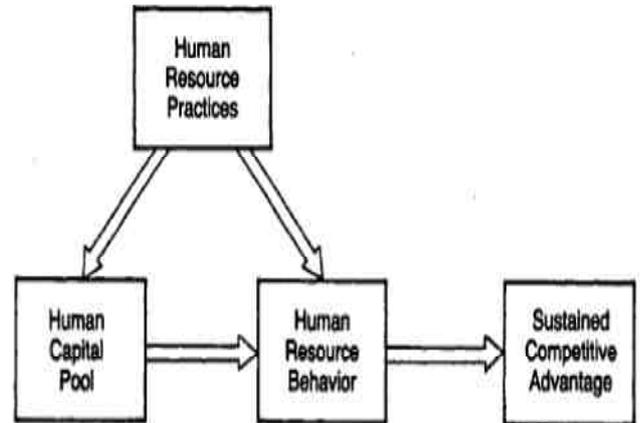


Fig 1: A model of human resources as a source of sustained competitive advantage. Adapted from Wright, M. P, MacMahan, G. C and McWilliams, A (1994). Human Resources and Sustained Competitive Advantage: A Resource based Perspective, *International Journal of Human Resource Management*, Vol.5, pp 301-326.

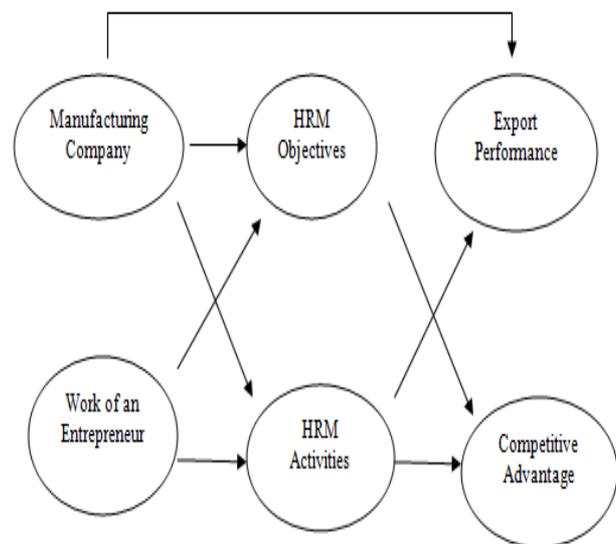


Fig 2: Theoretical Model of competitive advantage and human resource management. Adapted from Ferligoj, A., Prasnikaar, J and Jordan, Vesna (1997). Competitive Advantage and Human Resource Management in SMEs in Transitional Economy, Small Business Economics, 9: 503-514.

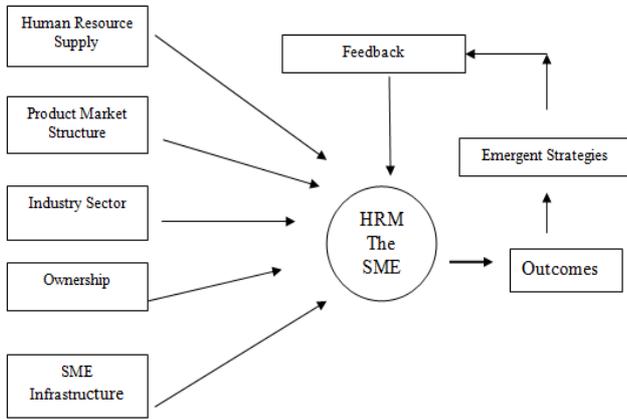


Fig 3: Factors affecting HRM and final outcomes in an SME. Adapted from Arthur, M.B. and Hendry, C. (1990). Human resource management and the emergent strategy of small to medium sized business units, *International Journal of Human Resource Management*, 1(3): 233-250.

Recruitment methods	Percentage of usage
Application form	89%
Psychometric tests	17%
Personality assessment	29%
Job samples/Aptitude tests	35%

Table 1. Showing percentage usage of recruitment methods developed from the survey of Institute of Personnel Development (Vinten, 1998).