CHAPTER 2
LITERATURE REVIEW

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CHAPTER 2

Literature Review

Literature review has been done in two parts: one essentially about the concept of competencies and theoretical overview, and the other connected to MSMEs.

2.1 Concept of Competencies

David Norton in his foreword to the book ‘The HR Scorecard’ (Becker et al., 2001)\(^{42}\) wrote that “a typical executive has a high degree of awareness and consensus around financial strategy, as well as priorities for operational process improvement. He / she also has limited consensus around customer strategies, but the worst grades are reserved for the typical executive’s understanding of strategies for developing human capital”. Notwithstanding this lack of executive awareness about HR issues, there are a number of research studies which clearly establish that good HR practices result in enhanced financial performance (Thompson & Richardson 1999)\(^{43}\). In the USA, a study by Huselid (1995)\(^{44}\) suggested that “market value per employee was strongly correlated with the sophistication of the HR practices adopted”. In the United Kingdom also, research has shown that adoption of certain HR practices in a group of 67 small and medium enterprises are significantly correlated to changes in profitability (Patterson et al., 1997)\(^{45}\). (Singh, 2000)\(^{46}\) has shown from his study of 84 Indian companies that the HR function has become quite successful in placing itself as an active partner in organisational strategy formulation, and investments in HR do contribute to business results. The credit for this to some extent is attributable to the advent of competency based HR management as a norm in almost all professionally managed establishments. There are three types of HR theories: first is ‘strategic’ which deals with quality, second is ‘descriptive’ dealing with commitment and the


third is ‘normative’ which deals with performance related issues including competencies (Guest 1997). The stream of research that emphasizes strategy and performance and ignores workers concerns has been described as ‘hard’ HRM (Storey 1987). It has evolved in the USA into ‘high performance work systems’ which focus more directly on workers, but with the core purpose of improved HR practices resulting in improved performance. This approach advocates use of HR practices to ensure that employees who possess the necessary competencies are motivated and, through the design of jobs and teams, are able to contribute fully (Guest 2007). In the last decade many HRM studies have been done exploring the notion of ‘competency’ at work as a means of improving competitiveness (Boxall and Purcell 2003). The genesis of this perception can be credited to Prahalad and Hamel (1990), who recognized the role of ‘core competencies’ in driving the competitiveness of business establishments. They proclaimed human capital as one of the select group of factors that enable business enterprises to be competitive. They also listed out organisational level core competencies that enable a firm to out-compete its rivals (Hamel and Prahalad 1994). Here the focus is on financial advantage alone rather than the concept of meaningful capability-building as a fundamental right of a worker (Sen 1992).

(Rao 2009 p.2) has outlined the history and concept of competency movement in a very comprehensive manner as follows: “David McClelland the famous Harvard psychologist pioneered ‘competency movement’ across the world. He was asked by the US Foreign Service to find new research methods that could predict human performance and reduce the bias of traditional intelligence and aptitude testing.

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He presented data in American Psychologist in 1973 that traditional achievement and intelligence scores may not be able to predict job success and what is required is to profile the exact competencies required to perform a given job effectively and measure them using a variety of tests. Simultaneously, Douglas Brey at AT&T in the USA presented evidence that competencies could be assessed through ‘Assessment Centres’. Later McBer, a consulting firm founded by David McClelland and his associate Berlew specialized in mapping the competencies of entrepreneurs and managers across the world. They even developed a new and yet simple methodology called ‘Behaviour Event Interviewing (BEI)’ to map the competencies. With increased recognition of the limitations of performance appraisal in predicting future performance potential, appraisal got focused and ‘Assessment Centres’ became popular in the seventies.”

Since the time David McClelland initially propounded the idea of competency-based people-management as a decisive differentiator of performance, it has evolved from a new technique to a universal practice. Presently, nearly every large enterprise practices some type of competency-based HRM (Boyatzis 2009).56

Available literature offers many definitions of the concept of ‘competency’. Spencer and Spencer (1993) and Guion (1991)57 have defined competencies as “underlying characteristics of people and indicate ways of behaving or thinking, generalising across situations, and enduring for a reasonably long period of time. They have included five types of competency characteristics: motives, traits, self-concept, knowledge and skill.” (McClelland 1971)58 has elaborately given the technical definition of each of these terms as follows: “‘motive’ is a recurrent concern for a goal state, or condition, appearing in fantasy, which drives, directs and selects behaviour of the individual”. He has further described ‘traits’ as “physical characteristics and consistent responses to situations or information”. “Self-concept’

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consists of a person’s attitudes, values, or self-image. ‘Knowledge’ is the information a person has in specific content areas. ‘Skill’ is the ability to perform a certain physical or mental task.” The Iceberg Model in Figure 2.1 below visually explains that ‘knowledge’ and ‘skill’ competencies are likely to be observable features of people, which are comparatively easy to train in a very cost-effective manner. However, ‘self-concept’, ‘trait’ and ‘motive’ competencies are not so visible, but are “deeper” and part of the core personality. Since core ‘motive’ and ‘trait’ competencies at the bottom of the iceberg are not easy to evaluate and train for, it is most cost-effective to recruit people with these hidden competencies during the selection process.

Figure 2.1 Central and Surface Competencies


Hoffmann (1999)⁵⁹ has proposed that the basic aim of defining competencies “is to improve human performance at work”. He further propounded that competencies could be defined in three possible ways: firstly based on visible performance (Boam

and Sparrow, 1992); secondly, based on the outcome of the individual’s performance (Rutherford 1995); and thirdly, based on the individual’s basic attributes (Boyatzis, 1982). Rowe (1995) defined “‘competence’ as a skill or standard of performance reached while ‘competency’ refers to a behaviour by which it is achieved ….. one describes what people do while the other focuses on how they do it”. Rowe (1995) explains further as illustrated in Figure 2.2 below, the interface between the two.

Figure 2.2: Interface between Competence and Competency

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<td>Skill-based (hard competences)</td>
<td>Behaviour based (soft behaviours)</td>
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<tr>
<td>Standard Attained (What is measured)</td>
<td>Manner of behaviour (How the standard is achieved)</td>
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Heffernan and Flood (2000) have specified that there are the US and UK schools of approaching the concept of competencies. The widely accepted US approach adopted by Ulrich, Boyatzis and others basically defines competency as the intrinsic personal traits (inputs) required to generate proficient performance (output). (Boyatzis 2009 p.6) described competency as a capability, which is composed of a group of behavioral attributes built around a basic construct, which is referred to in popular parlance as the “intent”. The behaviours are interchangeable representations of the intent, as suited to the situation. On the other hand, the UK approach advocated by Boam and Sparrow (1992) among other English authors, defines competency as a

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group of practices and criteria which are ideally utilised as an evaluation of learning outcomes. It is primarily focused on training and performance appraisal systems. Ryan et al. (2012)\textsuperscript{64} found a cluster of leadership competencies which would result in profit / growth in both the European Union and North America. Regression analysis indicated that four competencies: ‘developing others’, ‘achievement orientation’, ‘team leadership’, and ‘impact and influence’ accounted for 17\% cent of the variance in business unit profitability.

(Bersin, 2007 p.3) defined ‘Competency’ as a quantifiable personal attribute that would result in success at the workplace. It could be “knowledge, a behavioural skill, a technical skill, an attribute (such as intelligence) or an attitude (such as optimism)”. Competencies are charted to prepare the competency framework, competency profile and competency map which are used for scientific design and implementation of HR processes aligned with the business of the organisation (Gupta 2011 p.7 and p.45). ‘Competency framework’ for an enterprise is a set of competencies derived from the vision, mission, goals, strategies, values, policies, norms, ethics, strengths, weaknesses, opportunities, resources, achievements, customers and all stakeholders’ expectations. ‘Competency profile’ is a grouping of all kinds of competencies needed to execute a particular role effectively and efficiently in present and near future which contributes significantly in achievement of objectives related to core business of the enterprise (Gupta 2011 p.190). Shermon (2004)\textsuperscript{65} stated that ‘competency mapping’ is a method of specifying critical competencies for an establishment and/or a job and including them in all processes of the establishment. He further deliberated that organisations present competencies in many ways, and in some situations they reflect the form of what is called a ‘competency cluster’. ‘Competency assessment’ is the evaluation of the degree to which an employee or group of employees have the competencies needed to perform effectively in the given role. ‘Assessment Centres’ ensure objectivity by employing a number of techniques and more than one trained assessor to evaluate the competencies. Depending on the type of competencies to be assessed, their techniques


\textsuperscript{65} Shermon, G. (2004, 8\textsuperscript{th} reprint, 2010). \textit{Competency based HRM}. Tata McGraw-Hill. 44.
vary: group discussions, role-plays, interviews, presentations, psychometric tests, simulation exercises, exercises etc.

‘Skills Management’ is another relevant topic related to ‘competency management’, which has resulted in considerable debate about two types of issues (Ley and Albert 2003, p.1502). Firstly, the nature of competencies and how they could be formalised so that they could be optimally utilised within business establishments has been a major concern. The second important issue is as to how the defined competencies could be assigned to the people. (Wöls et al. 2003)\(^6\) have described a top-down approach for this purpose, starting off with ‘core competencies’ applicable at the organisational level, and these are distinguished from ‘functional competencies’ applicable for individual employees. The ‘Skills Management’ initiative starts by predicting future needs of the market and customer requirements which are used to decide upon the ‘core competencies’ of the business establishment. Green (1999) elaborated upon how to relate employee skills with core competencies and business objectives.

2.1.1 Types of Competencies

Experts have differed in defining the term ‘competency’ as explained earlier. They have been classified in various categories dependent on the type of business of the organisation as well as the role of the employee.

**Essential or Core Competencies:** One of the foremost difficulties of achieving competitive advantage from the enhanced organisational capability of employees is the organisation’s inability to formalise internal structures and processes to build organisation-specific competencies catering for varying customer needs and strategic requirements (Ulrich and Lake, 1990, p.40).\(^6\) ‘Essential competencies’ are used for selection, recruitment, deployment, career progression, identification of training needs, and for rewarding individuals or teams. Bersin (2007) has elaborated on these further as a selected cluster of ‘core competencies’ which are expounded by top

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management of many organisations. These competencies consist of values or behaviours, which signify the firm’s enduring “inner core”. However, these could undergo changes when the business is faced by a major challenge or upheaval. They delineate the brand of the company, and reflect the kind of its people and their valued behaviours. This definition varies from Hamel and Prahalad’s exacting classification of ‘core competence’ as a strategic planning measure of large enterprises. This will be discussed a little more elaborately later.

**Managerial or Leadership Competencies:** These competencies are required for individuals to fulfil their managerial and leadership roles, and assume added importance as the employee progresses to higher positions in the organisation’s hierarchy. For this purpose, most establishments define a select group of competencies applicable only to those employees who have attained a certain level or potential. Most businesses have identified ‘leadership competencies’ like ‘strategic decision-making’ and ‘communication’ (Bersin, 2007). They indicate the company’s distinctive value system regarding the type of leaders the company desires and grooms, and which fit-in with its organisational culture.

**Functional Competencies:** Bersin (2007) argued for another category of competencies called ‘functional competencies’, which are meant for specific job functions that are meant to be applied to individual persons and small workgroups employed with similar job content. These competencies are frequently defined as precise technical skills (e.g., ‘lathe machine operation’).

(Shermon, 2004 p.23) stated that in the current global competitive environment, the efficacy of designing organisations around mere job structures is being challenged, as jobs are becoming more knowledge and service focused. Hence organisations need to be more adaptable and compete on the basis of their core competencies and skills. He advocated a competency model using key elements approach illustrated in Figure 2.3 below.
Value Based Organisational Competencies

Managerial Competencies – Applicable to building institutions.

Organisational Vision, Values, Strategy

What are the organizational values we stand for?

What are the organizational core competencies reflected in the strategy?

What are the organizational core competencies we want to build/develop as part of our strategy?

What are the defined core competencies?

Technical competencies

Specific to Role

- Education, certification, and technical certification can be used as baseline markers of knowledge and technical skills.
- Specific technical skill requirements particular to individual jobs must be detailed in job profiles.
- Technical skills are typically more important differentiators at lower levels in the organization.


**Threshold Competencies:** These are essential characteristics such as knowledge and skills that one needs to meet the minimum required levels in a job. These are used for recruitment to various positions at entry level and are the essential characteristics required to do the job effectively. They are developed in educational and training institutions. However, they do not distinguish the average from superior performer (Boulter et al. 2004).

**Differentiating Competencies:** These refer to factors such as motives, traits, self-concept, and values that distinguish superior from average performers. These characteristics are developed by professionals through experience and refinement. (Hamel and Prahalad, 1994, pp.221 – 227) have advocated the single-minded pursuit of ‘core competence’ of an organisation to maintain its competitive advantage over its competitors. According to them, a skill must satisfy three considerations of ‘customer value’, ‘competitor differentiation’ and ‘extendability’, to satisfy the criteria of being considered as a ‘core competence’. Firstly, the skill should significantly contribute towards the value perceived by the customer. Regarding the second ‘competitor differentiation’ consideration, a skill should have competitive uniqueness and not be ubiquitous across an industry, nor should it be easily imitated by competitors to graduate as a competence. Extendability implies that the core competence should be extendable across an array of novel products and services. Hamel and Prahalad’s restricted parameters of core competence identification have been recognised as extremely relevant for strategic planning of large enterprises all over the world. However this study being of the MSME sector, whose scale of operations are at a lower level, competencies have been identified with flexible and generalised considerations as suggested by Bersin (2007). Accordingly, employee competency factors have been considered under the three heads of ‘Functional or technical

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competencies’, ‘Value-based organisational core competencies’ and ‘Leadership or managerial competencies’ as explained in Introductory chapter above.

2.2 Selection of Competency Factors

Major competency factors that could impact financial performance of MSMEs in India have been selected on the basis of following inputs:

i. Exhaustive literature review including research reports on relationship in competency factors and financial performance of firms.

ii. Discussion with research guide and other MSME experts.

Bersin (2007) has observed that “best practice” competencies differ based on the type of industry and their organisational maturity. Many organisations have arrived at competency models to enable their systematic identification of the essential knowledge, skills and attributes required for successful performance in a job (Sanghi 2007 p.21). In 1986, the first version of the Job Competences Survey (JCS) was produced in the fields of ‘assessment centres’ and ‘management competencies’ (Dulewicz and Fletcher 1982). As a result of this, and subsequent research in Hevley Management College helped in formulating the Personal Competence Framework (PCF), which consists of 45 competencies grouped under the six heads of Intellectual, Personal, Communication, Interpersonal, Leadership and Result Oriented.

Review of literature amply brings out the overwhelming importance of organisational level “value-based core competencies” for high performance companies (Hamel and Prahalad 1994 p.222). ‘Quality consciousness’ is a value based core competency which is frequently used to indicate excellence of a product or service. Quality focus is one of the high priority organisational competencies that can be presumed to be a driver of higher profitability, as it ensures customer satisfaction and hence larger turnover of sales. Oakland (2004) has argued for the predominant significance of Quality in all organisations in spite of a number of other management concepts which have captured the management professional’s attention in recent

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years, stating that the fundamentals of quality and its management are key to competing successfully. According to (Oakland, 2004) quality could be simply defined as “meeting the customer requirement”. It provides a common vision for development to all employees in all functions and activities, and with diverse abilities and priorities to communicate freely with one-another towards a common goal of improved efficiencies, reputation and customer loyalty but at lower cost.

   Amongst leadership traits, ‘planning and organising’ competency is in great demand, although ‘interpersonal and communication’ skills also merit as a serious contender while recruiting managers in this era of globalisation. After review of the complete list of 553 competency headings and consultation with the guide Dr JK Dattagupta, MSME expert Mr M.K. Nag MD K.K. Nag Ltd (MSME advisor to CII Pune Chapter) and five prominent SME owners, 15 employee competencies were short-listed under three competency factors as follows:-

   i. **Value-based Organisational Core competencies**: Six competencies which are Quality consciousness, Customer focus, Cost consciousness, Healthy work environment/safety norms, Team spirit, and Creativity/Innovativeness.

   ii. **Leadership competencies**: Five competencies under this head are Strategic thinking, Interpersonal skills, Planning and Organising capability, Decision-making and Problem-solving ability.

   iii. **Functional competencies**: Four attributes which are Technical skills, Approach towards learning and self-development, Adaptability to new technology and change, and Specialised skills.

2.2.1 **Definitions of Identified Competency Factors**

   All 15 competencies have been amply elaborated in various HR text-books. For the purpose of this study, most of the definitions given in ‘A Handbook of Human Resource Management Practice’ (Armstrong, 2006) and some internet sources have been adopted.

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‘Technical skills’ have been defined by Dessler (2008)\textsuperscript{74} as “those competencies which focus on the specific technical skills required for specific types of jobs and/or occupations”. Narrowly defined, it is a skill that is required for the accomplishment of a specific task.

‘Approach towards learning and self-development’ is self-explanatory, and has been defined by (Armstrong 2006, p.163) as “managing one’s own learning and development”. (Spencer & Spencer 1993, p.344) have amplified it as an underlying curiosity and an unadulterated passion for availing opportunities to gain knowledge of latest developments, which generates the impetus for life-long learning of fresh knowledge and skills necessitated by the shifting expectations of the future workplace.

‘Adaptability to new technology and change’ is the individual ability to recognize and implement new technical know-how with ease.

‘Specialised skills’ are those specific and focused capabilities which have to be acquired through special training or niche experience. Persons with specialised skills are those who have focused their occupational concentration on specific areas of expertise, which normally cannot be performed effectively by those who do not possess these skills.

‘Quality consciousness’ is the ability to focus on delivering quality and continuous improvement. Businessdictionary.com\textsuperscript{75} defines quality in manufacturing “as a measure of excellence or a state of being free from defects, deficiencies and significant variations. It is brought about by strict and consistent commitment to certain standards that achieve uniformity of a product in order to satisfy specific customer or user requirements”. ISO 8402-1986 standard describes ‘quality’ as the “totality of features and characteristics of a product or service that bears its ability to satisfy stated or implied needs”.

‘Customer focus’ is the ability to implement continuous care in catering for the requirements of both external and in-house customers to make sure that their wants and needs are satisfied up to expectations. It implies a genuine desire to hear


customers’ needs and taking personal responsibility for correcting customer service problems.

‘Cost consciousness’ is the ability to look at the monetary expense associated with every activity.

‘Healthy work environment / safety norms’ represent the concern for health and hygiene factors in work related areas.

‘Team spirit’ is the capacity to work in a group and agreeably with other members of the group with a full acceptance of the responsibility as a team member. It signifies the ability to work in multi-disciplinary groups with diverse co-workers.

‘Creativity/Innovativeness’ is the capacity to initiate novel practices, notions and ideas. Burgoyne and Stuart (1976)\textsuperscript{76} have placed it at the highest ‘level three’ of their Lancaster (Burgoyne) Model of Managerial Competencies under the sub-group ‘meta-qualities’. (Sanghi 2007, p.34) defines ‘creativity’ as the “ability to come up with unique ideas or solutions, and to have the insight to take up useful ideas – either your own ideas or ideas from another source”. ‘Innovativeness’ is defined as a “cultural orientation of openness to new ideas” (Hurley and Hult, 1998)\textsuperscript{77}. Drucker (1993)\textsuperscript{78} has defined ‘innovation’ as the specific tool of entrepreneurship, that bestows resources with a fresh ability to generate wealth. He’s further amplified that innovation is the focused and systematic exploration for transformation, and in the methodical investigation of the possibilities such opportunities could present for financial or societal innovation.

‘Strategic thinking’ is the ability to adopt an enduring and far-sighted view of the course to be followed in the future\textsuperscript{79}. It is an “executive ability to comprehend fast-changing environmental trends, market opportunities, competitive threats, and


strengths and weaknesses of their own organisations, to identify the optimum strategic response”.80

‘**Interpersonal skills**’ are the ability to create and maintain open and constructive relationships with others, to respond helpfully to their requests and to be sensitive to their needs. These necessarily include the ability to effectively communicate with all stakeholders of the organisation. These encompass “empathy, listening ability, sensitivity to others, awareness of others’ feelings and diagnostic understanding,”81 and enables effectively working with co-workers and customers who may represent very different cultural and behavioural norms (Spencer & Spencer 1993, pp.38 and 347).

‘**Planning and Organising skills**’ encompass the “ability to decide on courses of action, ensuring that the resources required to implement the action will be available, and scheduling the programme of work required to achieve a defined end-result”82.

‘**Decision making**’ is the capacity to make sound and practical decisions which deal effectively with the issues and are based on thorough analysis and diagnosis.

‘**Problem solving ability**’ is the “capacity to analyse situations, diagnose problems, identify the key issues, establish and evaluate alternative courses of action and produce a logical, practical and acceptable solution”83.

2.3 **Literature on MSMEs**

India Micro, Small & Medium Enterprises Report (MSMER 2012) 84 argues that there is an on-going debate on the relevance of SMEs in the context of the present global economic crisis. The argument of the Journal is that “small firms are a big problem” in Europe today. Large enterprises can exploit economies of scale. It makes a comparison between the SME – dominant countries of Greece, Italy and Portugal on

the one side, and Germany having a smaller share of SMEs. The argument continues that, the popular perception of “small and beautiful” is more politically motivated, rather than being proved by hard data. It says that large companies usually have more productivity, give larger salaries, and disburse higher taxes than smaller ones. Because of this, economies dependent on the performance of small businesses are often lethargic, and in Europe, small business dominated economies like Greece, Italy and Portugal have not grown due to too many regulations.

Euro-zone businesses employing 250 or more workers have 30-40% higher productivity than “Micro” enterprises employing less than 10 workers. The lesson as suggested is that, instead of considering the ‘size’ of business, policy-formulators should focus on ‘growth’. The Report suggests that small businesses are generally loved by policy-makers because of their employment generation potential as compared to large enterprises. The Report argues that these small firms engender job-growth primarily due to new start-ups which are generally small, and which create new job opportunities as compared to none previously. However, many SMEs remain small indefinitely by design. The ISED Report maintains that policy makers should concentrate on promoting expansion of these small firms, rather than providing more subsidies and regulatory favours. In a vigorous economy, entrepreneurs with ideas should be able to start businesses easily, the fittest of which would grow fast while the non-performers would soon become extinct. It stated that growth mattered, and size of business did not matter. Ideally, an economy would prosper depending on the easy availability of physical capital and skilled workers, and how well they could be synchronised. However, a diametrically opposite view has been espoused by (Tuteja, 2002, p.118)\textsuperscript{85}.

2.3.1 Characteristics of MSMEs (Tuteja 2002 p.118) enumerated following seven common characteristics of MSMEs:

i. Superior working adaptability because of personal association of the owners, together with level hierarchical structures and less bureaucracy. This results in

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faster decision-making often required in real-time due to fluctuating market conditions.

ii. Low overheads lead to lower production costs.

iii. Greater inclination to adopt changing technology.

iv. High capacity to innovate, improvise and do reverse engineering thus being able to meet niche requirements and cater to export business with low volumes.

v. Greater employment generation capability since they are more labour intensive. As compared to large enterprises, they can create more jobs for every unit of investment.

vi. Use of locally accessible assets like local manpower and local resources as they have to improvise to avoid high transportation costs.

vii. Reduction of regional imbalance as they enjoy the flexibility of location.

2.3.2 MSMEs and their Evolution in India   Small enterprises have played a strategic role in the economy of many countries because of their sizeable contribution to the nation’s income including export earnings, employment generation, innovative activities, endorsement of entrepreneurship and dispersed growth. They significantly support national objectives like reducing regional imbalance, more even circulation of income, employment generation, poverty alleviation and rural development. Even before the onset of industrial revolution, small businesses had been prevalent in the manufacturing sector (Lall 1998)86.

India has been following a policy of rapid industrialisation since industrialisation, with the small scale industries as a major supplier of consumer goods. In tune with the philosophy of Mahatma Gandhi, small enterprises were visualised as an effective link between the government and masses on the one hand and between the rural and urban areas on the other (Pooja 2009)87. Formal evolution of the governmental policy framework and supporting measures of the small

enterprises segment in India as specified in the ‘Government of India MSME Overview (2009)’\textsuperscript{88} can be broadly categorised in three periods as follows:

**1948-1991:** Micro and small enterprises were recognized as an effective instrument for employment generation, fairly even national income distribution and for mobilization of private sector capital and skills. In 1954, an apex body known as Small Industries Development Organisation (SIDO) was created to foster and monitor sustained growth of Micro and Small Enterprises (MSEs). The National Small Industries Corporation (NSIC), Khadi and Village Industries Commission (KVIC) and the Coir Board were also established within the next two years. Small enterprises were provided supportive measures in the way of reservation of items for their exclusive manufacture, prioritized access to bank credit, exemption of excise duties, “reservation under the Government Purchase Programme and 15\% price preference in purchases, infrastructure development and establishment of institutes for entrepreneurial and skill development”. All over India, development institutes for small industries were established for training and development of youth in skills/entrepreneurship. Tool Rooms were created with the help of foreign experts for providing assistance to small scale industries in the field of technical services and skill-training. District Industries Centres (DICs) were also established at state level all over the country.

**1991-1999:** With the advent of economic liberalization of the nineties, a new policy for small, tiny and village enterprises was formulated in August, 1991 to provide the framework for governmental assistance to promote competitiveness in place of protectionism, and to inject more growth and vitality in MSEs so as to be able to face foreign competition and open market conditions of the liberalized environment. Governmental supportive initiatives focused on provision of better infrastructure, technology and quality. Testing Centres (TCs) were established to provide quality certification. The Small Industries Development Bank of India (SIDBI) was created to facilitate financial and technical services to the MSE sector.

1999 onwards: The Ministry of MSME was formed in 1999 to enable focused assistance to the MSE sector. A new Policy Package was started in August, 2000 to deal with the prevailing issues connected to credit, infrastructure, technology and marketing more efficiently. The much anticipated Micro, Small and Medium Enterprises (MSMED) Act was enacted in 2006. Finally in March, 2007, in view of the fast changing economic environment, a third Package for the Promotion of Micro and Small Enterprises was initiated for implementing proposals/schemes with direct impact on competitiveness development of MSEs.

Presently, MSMEs are available in various types of industries as factories, workshops, trading and service establishments varying in sophistication from simple and traditional units to the most modern. They have various forms like proprietorships, partnerships, companies and co-operatives. Prior to the enactment of the MSMED Act 2006, small scale industries were controlled by a number of Ministries and Departments of the Government of India. From a traditional artisan managing the manufacture of shoes and leather goods, the modern MSME owner has turned into a management oriented enterprise effectively managing time, resources, knowledge and latest technology. The MSMED Act for the first time provided a legal framework recognising the concept of enterprise encompassing both manufacturing and service industries, as well as defining all three tiers, namely Micro, Small and Medium scale industries. MSMEs often act as ancillary industries for their large scale counterparts providing them with raw materials, vital components and backward linkages.

The arguments for promotion of MSMEs primarily reiterate their labour intensity and related positive distribution effect, along with their inherent advantages of flexibility and innovativeness, smaller inventory levels, role in development of entrepreneurship and positive contribution towards dispersed development. Their primary disadvantage is a common belief that under normal market conditions, either too few or the wrong combination of resources will be deployed by MSMEs as they do not have economies of scale necessary for sustainability in the long run. However, the advantage of flexibility available with small enterprises has been found to more than compensate for non-availability of economies of scale according to the theory of economics-cum-organisation developed by scholars like Douglas North in the 1990s.
The argument is that flexible technologies, management strategies, labour relations, institutions and event culture can lead to much better results than those achieved in a rigid set-up (Pooja 2009, p. 25). It is said that labour used in large enterprises is priced well above the levels of small enterprises while the capital is generally much cheaper for larger firms. The organised industrialised sector requires an investment of Rs 6.7 lakh to generate employment of one person, whereas the MSME sector generated employment of 1.27 persons with the same investment (Azad, 2013)\textsuperscript{89}. No doubt per unit of labour cost is higher in large enterprises, but when compared in relation to output, the real cost of labour is lower in large units. The advantage of small units lies in per unit employment which becomes a critical factor in a labour-surplus economy like India.

However, overall, it can be realistically stated that MSMEs in comparison to large enterprises are beset with more constraints. Frequently, MSMEs are being used as component manufacturers for larger enterprises operating on the “make to order” approach that lays down inflexible constraints on meeting changes in requirements at short notice (Little and Lee, 1999)\textsuperscript{90}. The principal obstacles in the path of competitiveness for MSMEs are deficient technologies, unsatisfactory in-house human expertise and inadequate financial resources (Armstrong and Coyle, 1999)\textsuperscript{91}. This brings out a strong case for adopting support policies which would encourage the development of MSMEs beyond the point which the sector might attain left to free market forces.

2.4 Institutional Support for MSMEs

Indian Government’s strategy for development of MSMEs has revolved around the following three areas (Tuteja, 2002 p.122):-

i. Discriminatory protectionism like priority-sector lending, reservation of manufactured items etc.

ii. Integration between small and large enterprises, e.g., ancillarisation, sub-contracting and vendor development, and

iii. Governmental support by means of a network of institutions like tool rooms, testing centres, entrepreneurship development institutes, etc.

Majority of Indian MSMEs have been established by first-generation entrepreneurs, with some capital, a good business idea, and a zeal for hard work. However, they generally suffer from inadequate knowledge about markets, government or bank procedures, cash flows, or ways to manage labour. Hence, it is essential that governmental institutions assist them by mentoring and hand-holding when required.

Gulati (1997)\textsuperscript{92} has argued that “small businesses are their own most effective service-providers”. They primarily rely on themselves or other private firms for marketing, raw material, and equipment supply, training and skill-acquisition, finance, premises, and even for specialised production, design, and testing services. This is not generally or explicitly recognised, sometimes not even by the small businesses themselves. Only when services are provided by public or other non-commercial sources, are they categorised as ‘support’ services. Despite the above, public institutions like the government, rather than focussing on the service-gaps sometimes left by the private sector, keep directly providing a very wide range of services in parallel with the private commercial sources. A more appropriate role for public intervention would be a catalytic one: that is, providing a regulatory environment and incentives encouraging the private sector to fill the service-gaps not filled by the latter. Only when this does not induce effective private service provision, should public institutions directly provide services themselves.

Peter (1996)\textsuperscript{93} appraised the performance of small-scale industries by drawing a sample of 543 SSIs established under 14 DICs located in different districts and 10 supporting agencies / institutions. The study attributed prevalence of sickness among SSI units to lack of coordination between DIC and other supporting agencies/institutions. The other factors identified were inadequate technical support


to the entrepreneurs, delay in payment of bills, low recovery of bank funds, innumerable laws etc.

Manickavel (1997)\textsuperscript{94} identified 849 listed problems over the life-cycle i.e. marketing, managerial and financial in a sample of 364 small business cases from Kamarajar district of Tamil Nadu. Chi-square results indicated significant dominance by marketing and financial problems in the formation stage and relative prevalence of managerial problems throughout the life cycle. Weak customer linkage was cited to be the main marketing problem followed by inventory and cost control and absence of financial planning. The study is limited to problem identification and did not suggest strategic measures for seeking sequential and progressive resolution to the various problems.

Madasamy and Xavier (2002)\textsuperscript{95} conducted a pilot study on 275 respondents for analysing the performance of 36 production and 39 sales centres named in the form of Khadi Gramodyog Bhavan, Khadi Vastralaya and Gram Shilpa in Sarvodya Sangh district located at Srivilliputtur town of Tamil Nadu. The problems identified by the Sangh are non-availability of skilled labour; delay in sanctioning of loans from district institutions and in settlement of rebates by State Board; absence of training centre; separate R & D cell for quality improvement and the adoption of uniform cost oriented pricing policy. The study besides being area-specific did not touch various aspects of entrepreneurial development.

Mallick and Rath (2002)\textsuperscript{96} analysed the impact of institutional support to 150 small business women entrepreneurs from Balasore, Cuttack, Bhubaneswar, Ganjam, Sambalpur and Rourkela districts of Orissa. The study found that special entrepreneurship development programmes for women such as Reliance scheme, Mahila Udyam Nidhi scheme, Mahila Vikas Nidhi scheme, Assistance to Association scheme and Interest subsidy IFCI scheme are insufficient unless financial support from Orissa State Financial Corporation (OSFC) and Small Industries Development Bank of India (SIDBI) is provided.

Rhodd et al. (2005)\textsuperscript{97} studied the correlation between particular macro-economic and firm specific factors and financial distress in the functioning of 36 publicly listed non-banking small enterprises in Jamaica using parametric statistics. The findings indicated that for small businesses working with a non-tradable currency in a small open economy, a combination of firm specific and macro-economic factors was responsible for financial distress. The research recommended financing through exploitation of operating efficiency instead of debt. This was possible through optimisation of output and waste reduction, avoiding the unfavourable effects of currency devaluation and interest rate volatility and by adoption of profitability criterion for selection of strategic industries.

Razouk (2011)\textsuperscript{98} examined the association between high performance work systems (HPWSs) and performance of 275 French SMEs. Firm performance examined by considering profitability, level of innovation and social environment was found to have simultaneous and longitudinal correlations with HPWSs.

2.4.1 Government Support System For MSMEs in India Government of India (GOI) MSME Ministry Report (2013)\textsuperscript{99} states that State Governments are mainly responsible for development of MSMEs, supplemented by various initiatives of the Central Government. The Ministry of MSME and its subsidiary organizations are meant to supplement State Government efforts in providing encouragement for entrepreneurship development, employment opportunities and improving the competitiveness of MSMEs in the changed economic environment. (Gulati 1997, p.11) has given out that the GOI has instituted a three tier structure for promotion of the MSME sector: Central Government agencies at the National level like Small Industries Development Organisation (SIDO) and National Skill Development Corporation (NSDC); State Government institutions like Small Industry Development Corporations (SIDCs); and District level agencies like the District Industries Centres (DICs). Besides the above, there is a non-governmental promotional structure namely the three trade bodies : ‘Association of Chambers of Commerce and Industries

(ASSOCHAM’), ‘Federation of Indian Chambers of Commerce and Industries (FICCI)’, and ‘Confederation of Indian Industries (CII)’. Unfortunately, these three agencies are mostly involved in looking after the interests of large enterprises. There are state level associations also like ‘Maharashtra Chamber of Commerce & Industries Association (MCCIA)’ looking after the policy related interests of MSMEs in Maharashtra state.

2.4.1.1 National Skill Development Corporation (NSDC)\textsuperscript{100} The All India Council for Technical Education (AICTE) is implementing the ‘National Vocational Education Qualification Framework (NVEQF)’ to equip students with skills and general education through short term, structured and job-oriented courses in engineering colleges and polytechnics. AICTE has identified 15 vocational education sectors, with more than 50 specialisations for implementing the project. The identified sectors include automobile, IT, ITES, telecom, communication, tourism, hospitality, construction, agriculture and paramedical, apparel & textiles, culture, adventure sports, media etc.

Azad (2013)\textsuperscript{101} has argued that in a globalised economy, Indian MSMEs should be capable of overcoming ever-increasing competition from the developed and emerging economies. They should also be able to exploit the emerging market opportunities arising due to Global Value Chains (GVCs). Currently, skill upgradation at the managerial level, is one of the most important requirements for the successful integration of MSMEs in GVCs. Government needs to undertake managerial development for this purpose, as well as institute policies to support training and capacity building through skill development programmes, for promotion of technological upgradation to capture more value addition from participation in GVCs.


Prahalathan and Vijay (2013)\textsuperscript{102} have authored an Exim Bank report in which governmental support measures for the Indian MSME sector has been listed out elaborately. Relevant extracts are given below.

In India, technological up-gradation needs of MSMEs are being supported by a host of institutions and policies. Office of the Development Commissioner – Micro, Small and Medium Enterprises (DC-MSME), Ministry of Micro, Small and Medium Enterprises, Government of India, serves as an umbrella organization for a plethora of support provided to MSME sector in India.

2.4.1.2 Micro, Small and Medium Enterprises – Development Office (MSME-DO) The Development Commissioner (DC)-(MSME) was set-up as Micro, Small and Medium Enterprises – Development Office (MSME-DO) in 1954 based on Ford Foundation recommendations. It is the apex organization providing linkage of the Ministry/Department and field organizations. It consists of over 60 offices with 18 autonomous bodies including Tool Rooms, Training Institutions and Technology Development Centres under its administrative control.

2.4.1.3 National Manufacturing Competitiveness Programme (NMCP) NMCP is the principal GOI initiative to build up global competitiveness amongst Indian MSMEs. NMCP has 10 programmes aimed at improving the entire MSME sector value chain. Among these, the major measures taken for technological support are given in following paragraphs.

In the year 2009, Lean Manufacturing Competitiveness Scheme (LMCS) was launched under Public Private Partnership (PPP) mode with the primary purpose of reduction of manufacturing waste in the MSME sector, thus improving their productivity and competitiveness. The Scheme activities include Standard Operation Procedures (SOPs), Just-in-Time (JIT), Kanban System, Total Productive Maintenance (TPM), 5S (Sigma), Visual Control, Cellular Layout, Poka Yoke, etc.

The other important programme under NMCP is the Scheme for providing support for “Entrepreneurial and Managerial Development of SMEs through

Incubators”. It is meant for development of innovative business ideas which could be commercialized in a year. The Scheme is aimed to enable institutions like research labs and engineering colleges obtain Government funding up to Rs 6.25 lakh for handholding each new MSME idea/entrepreneur.

Another significant programme launched in the year 2009 is the Scheme for improving quality in productivity and developing competitiveness in the MSME manufacturing sector through Quality Management Standards (QMS) and Quality Technology Tools (QTT).

2.4.1.4 National Small Industries Corporation Limited (NSIC)  NSIC provides MSMEs with support services through its Technical Services Centres and Extension Centres. It also offers facilities like material testing through accredited laboratories; product design, and training for skill up-gradation.

2.4.1.5 Khadi and Village Industries Commission (KVIC)  KVIC under the Ministry of MSME, is a statutory organization engaged in developing khadi and village industries thus enhancing rural employment opportunities.

2.4.1.6 Marketing Support  Vendor Development Programmes (VDPs) for promoting ancillaries, are being organized by MSME-DIs in all industrial districts of India to present a familiar platform for both MSMEs and large public sector enterprises to cooperate with each other. This would help the MSMEs in identification of emerging demands of the customer establishments, while at the same time, the latter would be able to understand the potential capabilities of MSMEs.

2.4.1.7 Entrepreneurship Development Support  MSME-DIs have been entrusted with the responsibility of providing entrepreneurship training to existing managers, industrial workers and first generation potential entrepreneurs in the MSME sector. Their basic aim is to create an entrepreneurial culture and improve productivity in the MSME sector through training programmes like Entrepreneurship Development Programmes (EDPs), Entrepreneurship Skill Development Programmes (ESDPs), and Management Development Programmes (MDPs).

2.4.1.8 Micro & Small Enterprises Cluster Development Programme (MSE-CDP)  Since the year 1998, GOI MSME Ministry have also started top quality interventions in MSME clusters like marketing development, capacity building,
export promotion, skill development, technology up-gradation etc. as well as to create common facilities for the whole cluster of MSMEs.

2.5 HRM Processes in MSMEs

The importance of HRM is being increasingly acknowledged by small business owners as effective tools to achieve survival and success of their firms (Chandler et al. 2000). Reid et al. (2002) observed that not much knowledge is available about HRM’s impact on small business, and that SMEs need support from Government regarding generic training. Cascio (1995) suggests that larger successful SMEs are now approaching succession planning by defining more generic organisational competencies rather than specific knowledge and skills traditionally adopted earlier. Hassan (2010) in his study on Malaysian MSMEs found that HRM practices vary significantly in these enterprises, with each establishment having a unique HR competency. A study by Muzenda (2014) reveals that HRM practices significantly affected Malaysian SMEs’ bottom line performance. The study confirmed that most of the primary functions of HRM such as recruitment, training and performance appraisal have significant positive effects on performance of SMEs. The capacity to carry out effective HRM allows small enterprises to attract highly competent employees who can then reward the firm in creating value, sustain competitive advantage and ensure long-term superior performance (Zheng et al. 2007). Smaller firms are managed primarily by their owners with highly centralised decision making in resource allocation. Within small firms the strategy remains often implicit, top-down, informal and intuitive because of the important role of the

business owner managers who are reputed for their highly innovative and responsive capabilities (Pooja 2009 p.1).

A number of scholars have highlighted that although a number of activities could be used to promote a strategy for entrepreneurship, the crucial ones entail the firm’s capacity to engender entrepreneurial attitudes among employees and institute HR practices to support them (Castrogiovanni et al. 2011). Authors such as Hayton (2003) assert that entrepreneurship driven by HRM is equally crucial for small and large firms. Castrogiovanni (2011) argues that since organisationally, smaller firms are intrinsically more flexible than larger firms, entrepreneurial attitude is predominantly significant in the context of the former. However, Carrier (1994) maintains that since small business owner-managers generally officiate as HR managers and resort to central decision-making also, they play a pivotal role either as inhibitors or conversely as catalysts in the entrepreneurial process. Therefore it is doubly important to encourage employees in small businesses to develop entrepreneurial spirit by HR measures such as reward and compensation systems that emphasize entrepreneurial actions of individuals and teams.

Small businesses do suffer from an inherent disadvantage of a lack of resources, because of which their HRM activities are likely to be more informal and flexible in their scope and explanation (Cardon & Stevens, 2004). They are more time and cost conscious and hence are very deliberate in choosing only those HRM practices that could best use their limited resources (Zheng et al. 2009). However there are a number of researchers who have evidence to the contrary also (Kok & Uhlaner 2001). A number of studies on Chinese SMEs have reported that collective decision-making and shared responsibility are encouraged in China (Wang, 1990).

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Kotey and Sheridan (2004) explored the correlation between MSME firm size and the changing pattern of their HR practices based on surveyed data from MSMEs in Queensland, Australia. They reviewed their selection practices, training and development methods, performance evaluation and their system of maintaining HR records and policies. The study shows that as the number of employees increases, the firms display more hierarchical structures, greater documentation and added administrative processes. The rate of increase is initially very fast and become gradual later. Expanding MSMEs are required to build up their HRM practices, as growing size inescapably results in greater complexity, demanding a greater professionalism in management of their personnel (Gilbert and Jones, 2000). Emerging globalisation has brought a challenging situation especially for small business, in that while individual SMEs within the nation would have to compete fiercely amongst themselves, on the other hand, they would be forced to cooperate and safeguard their mutual interests to survive abroad (Anil, 2003). Even modern small business firms in most countries are faced with competitive challenges in this age of globalisation and technological change. “Traditional modes of competition based on low costs and prices are being replaced by the ‘new competition’ driven by quality, flexibility, design, reliability and networking” (Routray & Bag 2010).

In their study on significance of competencies in Indian SMEs and large enterprises Singh et al. (2008) have found that economic reforms in India have brought about radical changes in the way Indian MSMEs and large enterprises are developing different competencies to derive competitive advantage for their businesses. Fresh competition has emerged in the domain of lowering cost level, improving quality, wider range of products with higher performance and better

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service, and all delivered concurrently (Dangayach and Deshmukh, 2001)\textsuperscript{120}. In this type of demanding, unpredictable and over-competitive state of affairs a manufacturing company would be considered as competitive only if it can perform on all parameters of promptness in delivery, superior quality, low cost, volume, and product flexibility. Even though MSMEs still enjoy the advantages of flexibility and fast response, the conventional demerits because of limitations of size are likely to have deteriorated owing to the necessity of catering for manifold technical competencies and higher levels of competition (Narula, 2004)\textsuperscript{121}. Hamel and Prahalad (1994) have described ‘core competence’ as a cluster of technologies and skills which empower a firm to offer a specific customer benefit. All businesses wishing to become tomorrow’s market leaders must develop the competencies capable of contributing disproportionately to customer value in the future. For long-lasting competitive advantage it is essential to build organization-level value based core competencies as the traditional advantages arising from the “product-price-performance-tradeoffs” are nearly short-term (Kak and Sushil, 2002)\textsuperscript{122}. Errin (2004)\textsuperscript{123} has argued that firms need to build-up competitive competencies to be able to compete with their rivals. Indian MSMEs are facing pressures in the fields of cost, quality, and delivery lead-time. Singh et al. (2004) too have brought out in their study that continuous cost reduction and increasing rejection rate of products are the major problem-areas for Indian MSMEs. Abroad, Corbett and Campbell-Hunt (2002)\textsuperscript{124} have also brought out in their study that the two main pain-points of SMEs are competitive pricing and quality. Singh et al. (2010)\textsuperscript{125} have argued that small scale industries need to effectively strategize after analysis of the prevailing business environment, and develop competencies for continuous cost reduction, improvement of product quality, and ability to reduce delivery lead time. They should also devote their resources for IT applications, training of employees, and research and development.


development to improve their competitiveness at global level. At the same time, they should take help from consultants while investing in the areas such as automation of processes, market research and advertisement.

Lawless et al. (2000)\textsuperscript{126} while studying MSMEs in the UK have observed that SMEs could be categorized in to six types which are relevant in the Indian scenario as well:

i. **Traditional**: Most SMEs belong to this category which is not growth-oriented and remain more-or-less constant in size, locally well established and self-sufficient, mostly indulging in direct selling to their end-customers. These are mostly micro-enterprises consisting of self-employed individuals or with a couple of employees.

ii. **Growth**: These are mostly established using venture capital, aiming for fast growth resulting in a listing on the stock market or a sale in less than 10 years, primarily as a means of growing an investment.

iii. **Entrepreneurial**: These are established with finance from a large proportion of loans by one to two entrepreneurs. Quite often they swiftly achieve market leadership in a niche market.

iv. **Dependent**: These are normally dependent on large organizations as their subcontractors or suppliers and their organizational structure as well as product output remain under their customers’ control.

v. **Devolved**: These are established either by senior executives of a large organization, or could be a management buy-out of part of a large organization. They frequently continue to supply their products and services to the parent organization and hence could become “dependent”.

vi. **Franchise**: Though self-contained, these small businesses are functioning under a large enterprise umbrella, and hence retain their constraints.

Kazmi and Farooquie (2000)\textsuperscript{127} investigated the relationship between financial incentives and productivity by administering structured questionnaire to 150 SSIs

\textsuperscript{126} Lawless, N. Allan, J. & O’Dwyer, M. (2000). Face to face or distance training: two different approaches to motivate SMEs to learn. *Education + Training*, 42(4), 308-17.
located in the industrial cities of Uttar Pradesh. The study enumerated that profit sharing, bonus, financial support on festivals, increased wage piece rate basis, overtime, extra duty allowance, advances and loans, prizes and incentives for low absenteeism have been found to be effective in improving productivity. The study revealed that of the total SSIs, 60% preferred time rate system as against piece rate system, where-as non-financial incentives seemed to be relatively ineffective and were mostly used as a short-term measure.

Chen (2003)\(^{128}\) administered a semi-structured questionnaire among 7 Taiwanese small enterprises facing on-going deterioration, decreasing profit margins and reduced turnover and market share for identifying the strategies chosen in response to the global environmental problems. The results revealed adoption of tail-cutting survival strategy, vertical integration and temporary employment cutbacks such as short-term workforce layoffs, overtime work, or fixed asset reduction including disposal of fixed assets, sale of plant or equipment in order to survive. The paper also heightened the need of adaptability between external pressures arising from trade liberalization and globalization of environmental problems with small enterprises’ core capabilities for effective formulation of survival strategies.

Nkya (2003)\(^{129}\) observed in his study in Tanzania that improperly managed transition from state-controlled to marked-led economic development would particularly adversely affect small-scale entrepreneurs. The study helped in identification of a number of prohibitive taxes and regulations based on in-depth interviews with fifteen entrepreneurs. He recommended establishment of a ‘one-stop’ registration system, stream-lining of the taxing system, and facilitation of networking and pooling of resources.

Jones et al. (2004)\(^{130}\) investigated the effect of product-related factors such as business risk, demand, and market acceptance on failure of 1700 American small

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businesses. The results of regression and discriminant analysis authenticating t-test findings identified ‘selling price’, ‘technology transfer’, and ‘commercialisation stage’ as the significant predictors providing on-shelf status to the products of SSI units. The paper observed that failed SSIs were more likely to face problems of ‘price strategy’, ‘easy imitation of technology’ and ‘non-existence of characteristics attracting market readiness’.

Wood et al. (2004)\textsuperscript{131} empirically examined the association between the nature and extent of cluster embedded-ness and growth-orientation among small firms in a ‘metal working cluster’ in Sheffield, England. Chi-square results demonstrated positive and significant relationship of formal business plan with local social embedded-ness, use of new technology with levels of local supply and firms’ possible engagements with local social and economic institutions. Extremely weak relationship was found between other growth-orientation measures such as increase in turnover, search for new customers and owners’ participation in trade fairs and the four cluster networks namely: level of local supply, dependence on local markets, engagements with local social, economic institutions and local social embedded-ness.

Sanchez and Marin (2005)\textsuperscript{132} worked on a human resource based study of the impact of managerial characteristics on the performance and business efficiency of 1351 Spanish small enterprises, in which they inferred that the ‘prospectors’ execute a greater number of strategic-orientations and bring about higher organizational development than ‘analysers’ and ‘defenders’. The results of correlation and multiple regression further supplemented by analysis of variance and Scheffe’s means comparison test on two performance measures – ‘ROI’ and ‘perception’ revealed positive and significant relationship between small enterprises performance and prospector strategic orientation in manufacturing industry.


(Varadachary 2002, pp.133-34) has argued that Indian SMEs face the following problems in their HRM practices:

i. Lack of management skills due to want of training has resulted in the MSME owners being deficient in their understanding of basic finance and marketing skills, with team building, leadership and motivation also being in short supply;

ii. Lack of worker training as neither resources nor time allow for this important activity except for on-the-job training which has its own problems;

iii. Inability to recruit the right people as small firms cannot afford them;

iv. The usual problems of funds and training affect the ability of MSMEs to innovate, plan, and develop the market;

v. Limited access to new technology due to lack of funds and expertise;

vi. Reduced promotional opportunities and smaller pay packages lead to high worker turnover and discontinuity in improvement measures;

vii. Employee conflict as the pre-occupation of MSME management with survival measures leaves very little time for guiding workers;

viii. Inadequate attention to working conditions and insufficient motivation are other problems due to the constant struggle for survival.

Varadachary also highlighted salient positive points in favour of SMEs which arise from their small size:

i. Flexibility to change fast and respond quickly to market fluctuations much faster than the sluggish large firms;

ii. Ease of putting together a mission-oriented team where everyone knows everyone else;

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iii. Each person has multiple responsibilities and appreciates his or her role in the organisation much more than someone who is a small cog in a big firm; substitution of workers is also much easier;

iv. Interpersonal relations are much closer and leadership can interact on a continuous basis with everyone;

v. Job security is so closely associated with the firm’s success that there is greater commitment of employees towards the success of the MSME.

2.6 Functional Competencies and Training in MSMEs

Bassi et al. (2002)\textsuperscript{134} found that there was a positive correlation between training and gross profit margin, ratio of price to book value, and return on assets income per employee. Chang and Chen (2002)\textsuperscript{135} argued that training and development, teamwork and performance evaluation have positive correlation with the productivity of employees. (Gulati 1997, p.219) argued that SMEs need to find mechanisms to assist and upgrade in-house and on-the-job training by the SMEs themselves, rather than continuing to fund formal vocational / technical training institutions, the great bulk of which provide little or no perceptible benefits to the SMEs. Lahiri and Shah (2012)\textsuperscript{136} have shown that introduction of organised training and skill development practices for SME employees have resulted in improved performance.

Routray and Bag (2010) stated that training is an important activity in all SMEs for having a competent skilled workforce that adds value to the organisation. However, following shortcomings are seen in this activity:

i. There is a lack of commitment as only the managers are nominated for training programmes and non-executive staff members are largely ignored;

ii. The aggregate organisational expenditure on training is inadequate;


iii. Training provided by the university and business schools does not exactly match business requirements;

iv. Training needs are identified based on a single factor;

v. Trainees are selected based on the preference of the trainees / influence of the trade unions;

vi. HR managers sometimes select the trainees based on favouritism and nepotism;

vii. Training programmes are taken as refreshment / picnic programmes.

(Dagar 1993, pp. 207-8) has summarised the state of training in the small scale industry in India as follows:-

i. Many of the employers as well as the employees have a casual approach towards the need for training in the small scale industry – only 8% of the employers and 20% of the employees felt that training was necessary for all the employees;

ii. Majority (70.7%) of the employees had received on-the-job unorganised training for a period ranging from 15 days to two years;

iii. Hardly any employees received apprenticeship training, which was considered to be of limited use by the owners;

iv. Institutional training by government agencies were hardly used for development of technical skills of employees (only 6.7%);

v. Most of the owners and employees considered training to be a one-time activity without any need for continuity;

vi. Most of the owner-managers had to learn by trial and error method alone.

(Bersin 2007) has observed that small businesses unlike large enterprises are prone to ignore HR practices like selection and training although these are vital for sustaining business growth. The former’s ability to implement HR practices are dependent on the accessibility of resources like time, money and management
expertise (Westhead and Storey, 1997). “High-performance organizations value competencies that build organizational capabilities – while lower-performing organizations focus on competencies that build individual capabilities. In the wide range of management processes, competencies are the ‘focal point’ which helps organizations understand precisely where to focus resources such as incentives, coaching and development” (Bersin, 2007).

Temtime and Pansiri (2006) in their study on SMEs in Botswana have stated that there is a requirement of developing low-cost training facilities of both operational and managerial skills, if governmental policies for small business promotion are to yield better results. Programs for vocational training should be customised for the small business sector, and external consultants from the local area should be used for this purpose.

Abdelsemed and Kindling (1978) have argued that even though training and development of employees is expensive for SMEs, the long-term benefits more than outweigh the expenses. Kaizen, a Japanese training philosophy of continuous improvement, is ideally suited for small businesses attempting to make accumulated enrichment at low cost (Kinni, 1995), in place of adopting the re-engineering path which is likely to need heavy financial investment (Radharamanan et al., 1996). Exploitation of kaizen techniques could result in greater efficiencies and profitability of SMEs (Kumar and Harms, 2004).

Greenidge et al. (2012) in their research on comparison of training and recruitment practices between SMEs and large enterprises in Barbados, quantitatively surveyed 49 enterprises from the manufacturing, retail and tourism industries to

determine whether small business establishments follow the prescribed training and selection methods specified in the well-defined training literature followed by large organizations. It was observed that selection and training methods and procedures adopted by small businesses vary considerably from that of large enterprises. It discovered that small firms as compared to large enterprises in Barbados are likely to adopt more informal training methodologies.

Jones (2006)\textsuperscript{144} in her study on Vocational Education and Training (VET) as compared to other types of training in Australian MSMEs discovered that less than half of the businesses make available apprenticeship training, and on-the-job training is the most popular. According to Smith et al. (2003, p. 71)\textsuperscript{145} “the VET sector in Australia is generally taken to mean post-compulsory employment-focused, non-university education”. Smith et al. (2003) also discovered that most of the training imparted in SMEs, is done internally, utilizing ad-hoc workplace trainers, and professional dedicated trainers and consultants are utilized for a few specialized types of training only. The study also suggested that large establishments invest much more in training and development activities than the smaller counterparts. The results showed that irrespective of the nomenclature of VET, a negligible number of micro-enterprises provide training.

Hashim (2008)\textsuperscript{146} in his study on Malaysian MSME managers found that communication and job knowledge competencies are primary job requirements, mostly acquired through on-the-job training, self-education and by working as part of a team.

Morrison and Seers (2002)\textsuperscript{147} in their study on organization of learning in pro-growth SMEs in Australia found that the owner-manager’s personality mattered most in this learning process. Natural workplace learning guided by appropriately qualified mentors, supplemented by informal networking with customers, employees and other stakeholders offer maximum returns.

\textsuperscript{144} Jones, J. (2006). An inter-industry comparison of VET in Australian SMEs: Inter-industry comparison. \textit{Education + Training}, 48(8), 584 - 596
It has been frequently claimed by small business-owners that they are too occupied with other meaningful activities to be able to devote adequate time to vocational educational and other training activities which are of little value to their business. Using qualitative research methods, Walker et al. (2007) studied the relationship between these factors by data collection of the knowledge, attitudes and needs of small enterprise owner-managers, both prior to and post participation in a training package. Their study showed that small enterprise owner-managers are attracted to training and skills development programs only if the knowledge gained can be directly applied to the prevailing business situation, and provided that the training program has been properly structured in terms of timing and location.

Wong et al. (1997) used a number of both quantitative and qualitative research techniques consisting of both cross-sectional and longitudinal methods to study the influence of management training and development on the performance and organization of SMEs. Their study established the value of managerial training in small enterprises and demonstrated a succession of enduring effects on their organization and performance. They also highlighted the conditions under which management development projects are likely to be more successful.

Freel (1999) studied a sample size of 245 SME manufacturers in West Midlands UK to study the perceptions of small businesses about their perspectives on the skills and their sources necessary to promote innovation. Freel found that there was very little variation in perceptions amongst firms with more and less innovativeness. Most of the firms, irrespective of their innovative level, recognized advanced technical skills followed closely by marketing competencies as the foremost means to improve their innovative output level. Interestingly, small firms did not appreciate enhanced management skills, including finance and exporting skills in particular. Additionally, the surveyed respondents significantly preferred development of in-house skills, rather than having more specialists or obtaining expertise from outside.

Salvekar (2013)\textsuperscript{151} has suggested that all MSMEs in India should be brought under the Apprentices Act, which is currently facilitating training in large and medium enterprises only. Currently, Micro- and Small Enterprises (MSEs) are recruiting raw hands on low wages and training them for a variety of jobs, but the latter after gaining the skills, leave their jobs for a better future in the medium and large enterprises. This move recommended by the 45th Session of the Indian Labour Conference held on 17th and 18th May 2013, would allow MSEs to recruit trainees under the Apprentices Act as well as provide them with an opportunity for tie-up with training institutes, thus in the process creating an employable labour market.

2.7 Managerial / Leadership Competencies in MSMEs

Research studies in the past have suggested that leadership and managerial practices are directly associated with business performance of all SMEs (Castanias and Helfat, 1991\textsuperscript{152}; Church, 1995\textsuperscript{153}; Coughlan and Harbison, 1998\textsuperscript{154}). Technology innovation, the SME owner-managers’ business skills and their entrepreneurial and managerial philosophy are customarily accepted as important factors for the success of small business (Datta, Guthrie and Wright, 2005)\textsuperscript{155}. Argenti (1976)\textsuperscript{156} has found that “poor management” is the most commonly cited cause for failure of business establishments. Pansiri and Temtime (2008)\textsuperscript{157} have gone so far as to argue that deficiency of managerial competencies in owner-managers is solely responsible for most of the problems affecting SMEs. Vos (2005)\textsuperscript{158} has pointed out that the poor quality of SME managers reflect badly on their business strategies, and result in their going out of control. Most of the SMEs place too much emphasis on day-to-day

operational issues and neglect their actual strategic planning (Temtime, 2002). Hitt et al. (1996) argued that most decisions and organisational structures in SMEs are taken solely by the owner-managers based on their preferences and interests. Although this has enabled the owner-managers to exercise strict control over the organisation, their chances of being successful are totally dependent on the owner-managers’ managerial competencies. A manager’s effectiveness can be increased by motivating him/her to accept and recognize the need for change in his knowledge, attitude and skills (Lewis and Kelly, 1989, p. 22). In their study of 106 managers in Palestinian SMEs, Al-Madhoun and Analoui (2003) discovered a significant correlation between business development and managerial skills. Asree et al. (2010) studied the operations strategy of 88 SME hotels in Malaysia through an empirical analysis of data using structural equation modelling collected via a questionnaire survey. Their study found that leadership competency and organizational culture are positively correlated with the revenue income of hotels. (Heskett et al., 1994) made comparable findings on the hotel industry: e.g. the success of service-profit chain is dependent on its leadership. (Prabhu et al., 2002) found that in the service management model, performance excellence is driven by leadership. All such investigations have repeatedly shown that leaders play a significant role in achievement of high performance. Resource-based views have also stressed upon the unambiguous role of leaders in accomplishing competitive advantage (Fahy, 2000). (Armistead and Kiely, 2003) have also shown that

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sustainable competitive advantage and effective service are driven by high quality top management.

Satyanarayan and Mishra (2001)\textsuperscript{168} identified chronic sickness among SSIs due to inadequate application of internal management techniques about marketing, financial control, decision-making changes and above all planning. They emphasized on strengthening marketing efforts in SSIs by building core product lines and avoiding excessive diversification in geographic and technical spheres, ensuring time management in decision-making for seeking reliable financial support from bankers or creditors, exercising control on purchase, inventory, and maintenance to avoid breakdowns. Further, their study stressed upon the effectiveness of works management, receivable management for seeking adequate control on cash flow pipeline and above all ensuring reliable scientific planning for the prevention of sickness. The paper suggested that besides the role of internal management, a combining effort is needed from external agencies for designing effective revival programmes for sick SSIs.

Kathuria and Porth (2003)\textsuperscript{169} investigated relationship of managerial strategic thinking characteristics to the performance level of the organization on a sample of 196 managers from 98 companies. Results of the study indicated that manufacturing managers with dissimilar attributes are leading manufacturing units pursuing dissimilar strategies, the results being more pronounced among managers of top performing units than the entire sample. The finding from upper echelon research have been found valid at the functional level, thereby providing practical implications for staffing organizations and reassigning functional managers when changing the strategic-orientation within a corporation is certain.

Swallehe (2011)\textsuperscript{170} discovered in his survey of Tanzanian SMEs that his hypothesis on performance of small business performance having direct positive correlation with the owners planning capability was not statistically significant as per

Chi-Square test. Nevertheless, he construed this as a local irregularity because of uncertain business environment prevalent in Tanzania which forced the small business owners to emphasise on very short term survival measures rather than long term strategic planning. He argued that strategic planning is beneficial for large business owners only.

Over the years, in an attempt to clarify the observed variation in strategic behaviour of owner-managers of very small enterprises (VSE), they have been profiled with considerable effort because of their central role in decision-making. In their theoretical study on VSE owner-managers behaviour, Cyr et al. (2011) argued that they tend to reject the traditional entrepreneurial model primarily because of pragmatic reasons rather than the popular misperception of personality or cultural reasons only, cited in existing typologies such as the “Traditional-vs-Opportunistic” entrepreneur theories. Although the study is not based on empirical methods, it is novel in offering a fresh understanding of owner-managers’ behaviour based on practical reasons. As several authors (Weick, 1979; Jennings and Beaver, 1997; Maclaran and McGowan, 1999; Carson and Gilmore, 2000) have also pointed out, the traditional misunderstanding of VSE management system is mainly because of the central role played by the owner-managers who generally do not set up formal, documented management systems, and tend to act on the basis of an informal – and often unconscious – reference framework, although when required, they do rationalise these actions as formal decisions. (O’Donnell et al., 2002) have made an additional interesting point by stating that “VSEs have a somewhat perverse tendency to succeed ‘the wrong way’, or ‘in spite of the rules’. Indeed, many VSEs not only survive, but


even prosper by systematically breaking the prescriptions of what management theory defines as ‘best business practices’”.

Three types of VSEs, namely: traditional VSEs, entrepreneurial VSEs and managerial VSEs have been identified by Bentabet et al. (1999). ‘Traditional VSEs’ are representative of artisans who assign more importance to independence, workmanship and personal accomplishment over financial objectives. These artisans believe that ‘profit’ is basically required to stay in business rather than being an objective by itself. On the other hand, ‘entrepreneurial VSEs’ are run by innovative owner-managers who are prepared to take considerable risks in order to achieve their personal objectives. These innovators view ‘profit’ more as a hallmark of personal success in their endeavours, rather than as an objective per se. For ‘managerial VSEs’ however, profitability is the ultimate objective, because it will deliver both financial security and prestige to the owner-manager, to attain which they are eager to become members of formal structured networks, thus sacrificing the artisan’s independence.

Marchesnay (1992) adopted a slightly different standpoint centered on three rudimentary management objectives: the level of autonomy or independence of the firm, its survivability or stability, and its objectives for growth. He suggested two types of model entrepreneurs, the “SIG,” who values survival, independence and growth, in that order; and the “GAS,” who values growth, autonomy and survival, in that order. Ideally, “GAS” type of entrepreneurs are prepared to take more risks to achieve their growth objectives, and are ready to sacrifice some of their independence and settle for autonomy for this purpose.

Ainin et al. (2010) study aimed to examine the determinants of business performance of professional service Malaysian SME businesses. They analysed the correlation between business performance and entrepreneur characteristics, which included the factors of gender, age, ethnicity, education, and working experience. They undertook a quantitative questionnaire survey of 353 SMEs. They discovered that most of the respondents felt that their firms were performing satisfactorily and

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generating profits. They also discovered that the entrepreneur’s age and gender considerably affect business performance, male and older owners performing better than younger or female owners.

According to Gilmore et al. (2001) SMDs are not adept at conventional marketing because of their inherent limitations of resources, and due to the different behavior and thinking style of their owner-managers which differs considerably from that of their counterparts in large enterprises. While searching for alternate marketing solutions for SMEs, the mode of use of the SME entrepreneur's inherent network in different forms like his personal, social and industry contacts was considered. Data collected from Northern Ireland and Australia as empirical evidence was considered. It was shown that SME owner-managers could gainfully use their inherent contacts for networking as a tool for meaningful marketing.

Yusuf and Saffu (2005) studied the correlation between planning and performance of SMEs in Ghana which was going through economic transition and a resulting period of uncertainty. Surprisingly, their research work showed that firms did not plan seriously to tackle their economic difficulties. Even those firms that planned did not have better performance except those in the manufacturing sector.

Man et al. (2009) linked two more constructs, competitive scope and organizational capabilities to entrepreneurial competencies and SME performance. Their study of 153 SME owner-managers for testing their hypothesis, substantiated the direct and incidental influences of the owner-manager’s opportunities, relationships, innovative, human and strategic competencies via competitive scope and organizational capabilities in affecting the SME’s longstanding performance.

Supriya and Srinath (2003) administered a list of 71 qualities aiding success and 52 qualities hampering success grouped under five heads to 100 small-scale entrepreneurs in Tamil Nadu for generalizing qualities entrepreneurs should possess

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for the successful running of their businesses. The finding identified managerial and personal causes for small business success or failure and urged for the need to restore leadership, trust, integrity, ethics, sense of self-worth, etc., at present being sandwiched between multiple layers of society.

Birkinshaw (1997)\textsuperscript{184} considered project initiative as a key manifestation of corporate entrepreneurship by analysing 39 units of six subsidiaries of multinational corporations. Further, the paper has dealt with entrepreneurship in small-scale enterprises specifically towards proactive and risk-taking behaviour and use of resources beyond the individual’s direct control.

Akhtaruddin (2000)\textsuperscript{185} collected primary information through a structured questionnaire from 70 industrial units funded by Development Finance Institutions of Bangladesh. The study found marginal impact of socio-economic factors on the success of entrepreneurship. The study suggested that an effective entrepreneurial strategy should improve cash flow, guarantee that raw materials, power and water are available, and on behalf of small-scale industries, monitor marketing activities.

Wunderer (2001)\textsuperscript{186} argued for a set of ‘co-intrapreunerial key competencies’ consisting of ‘conceptual competencies’, ‘social competencies’ and ‘implementation competencies’ which could be further explained with the help of Figure 2.4 below.


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Figure 2.4: Co-intrapreneurial Key Competencies

Conceptual Competencies
(strategy-oriented capacity of creative problem-solving for restructuring and continuous improvement)

Social Competencies
(autonomy and co-operation)

Implementation Competencies
(effective persuasiveness and enforcement)


Regarding training of MSMEs in the UK, Lawless et al. (2000) have observed that although MSME owner-managers are not very keen to take assistance for organizational issues, they do look for financial and marketing support. MSME owner-managers display great unwillingness to take advice from external sources, choosing to do things their own way' (Lightfoot, 1998)\textsuperscript{187}. Additionally, MSMEs strongly prefer activity-based learning, as against knowledge-based (Choueke and Armstrong, 1998)\textsuperscript{188}. Although the majority of MSMEs seem to resist education and training, a small section pursuing growth enthusiastically adopt training practices. They need it for two main purposes: a fast technical solution for existing difficulties, and strategically for marketing and finance as long term requirements. They ideally...


prefer face-to-face dedicated training, which is not financially viable under institutionalised training.

Lawless’s study discovered that very few of the micro-enterprises (mostly falling under the ‘traditional’ category) are interested in government organized training, and they constitute approximately 90% of the MSME population in the UK. (Westhead and Storey, 1999)\textsuperscript{189} highlighted four primary reasons as to why small enterprises do not ask for or offer training to their employees:

i. Small business owners are primarily apprehensive about immediate survival issues, whereas most training and development benefits take a long time to fructify;

ii. Small firm trainees are very likely to be poached by large enterprises who are looking for experienced but trained workers and can pay better;

iii. The lack of upward mobility opportunities for both labour and managers in spite of being trained;

iv. A unique self-belief and commitment to independence peculiar to SME owner-managers which enable them to overcome the pressures of starting a business, but which leads to an unreasonable unwillingness to any guidance from external sources (Goffe and Scase, 1995)\textsuperscript{190}.

Lawless study also found that it is an inevitable MSME trait that 70% desired just-in-time training on demand instead of training planned and organized in advance. Although flexibility and business responsiveness is one of their strong points, this has resulted in the critical weakness of consistent lack of planning in MSMEs. (Hughes and Gray, 1998)\textsuperscript{191} have argued that one of the primary reasons for the failure of many SMEs is their predisposition and short term attitude to be intensely involved with routine operational issues of running their business, allowing them very little time or resources to implement training and development. Accordingly, MSMEs


do not foresee or plan for training needs and activities, but implement them on an urgent basis for business survival as and when they arise.

Giroux (2009)\(^{192}\) in her study on the managerial implications of problem-solving in SMEs in Canada revealed that problematic issues in a small business are essentially resolved in an intuitive, improvised and non-linear manner, which is essentially different from the well-defined processes practiced in large enterprises. She argued that SME employers should respect the significance of continually developing their problem solving skills to ensure the survival of their business. The development of these skills can occur internally through ongoing learning and reflection as they address particular problems through the development phases of their business. It can also involve the ability to identify the various influences on their perceptions of problems, in order to ensure that they are adequately dealing with problems as they arise.

2.8 Value-based Organisational Core Competencies in MSMEs

Lal (2002)\(^{193}\) states that since most of the Indian MSMEs were established during the era of sheltered economy, they did not pay much attention to quality. However, with the economic liberalisation of the 1990s and gradual introduction of the World Trade Organisation (WTO) regime, increased competition generated by market forces and imported products, MSMEs have realised that quality consciousness is essential to survive in this scenario.

Mitra (1999)\(^{194}\) contends that innovative activity in SMEs is the consequence of the learning derived from interaction of different disciplines, technologies, people and organisations. He further maintains that SMEs which are part of clusters are more likely to innovate because to operate in this environment, they have to develop their networking processes and the management of externalities, which enable them to grow original products, new processes and services. Open attitudes of MSME owner


managers, inherent close human relations of small business and good communications lead to teamwork, high productivity, innovation and efficiency (Khader 2002).\(^{195}\)

Espallardo and Ballester (2009)\(^{196}\) found that small businesses need to endorse innovativeness in their products according to their competitive position. They maintained that SMEs should concentrate their effort on innovative products when exposed to tough and competitive market environment, whereas under low competitive pressure situations, SMEs should exercise caution in increasing their investments on product innovation, but rather apply themselves more towards innovations in other types of market oriented behaviours for bringing about greater productivity. (Varadachary, 2002 p.132) has argued that in the new economy, like the small businesses in Northern Italy, Germany, Japan, Sweden and later in certain regions in Southeast Asia and parts of USA, SMEs of developing economies like India should also have a new type of strategic orientation that does not take the market or a price as a given, but innovates in product, process and organization to gain a competitive advantage. In the traditional industries, once a product and process had been decided upon, all working and production practices as well as designs were frozen and changes were considered disruptive. However, in the new industries, innovation is an ongoing process, somewhat social in nature, in which problems are continuously solved and new problems identified with the help of all employees.

Sandee and Rietveld (2001)\(^{197}\) analysed innovation adoption practices among traditional cluster enterprises specialized in roof tile using hand press technology. Regression analysis using both census and panel monitoring data obtained from 103 and 29 enterprises respectively, indicated education, gender and social networks as important variables affecting the ability of small producers to access information on innovative manufacturing products, processes and new markets. Gender-wise, compared to males, female producers lagged behind in information network and thus they were unable to procure formal credit from money lenders to finance adoption.


To overcome this constraint, the study suggested improving accessibility of formal
credit to female producers and exposing producers to exhibitions, production centres,
clusters and markets.

Kristiansen (2003)\textsuperscript{198} evaluated information sharing practices and learning
dynamics among rural and urban Javanese small business entrepreneurs in Indonesia
that are mainly constrained by their anxiety about possible leak of knowledge and
other possible side effects from business innovation and competitiveness. He further
suggested efficacy in entrepreneurial information sharing strategy by achieving
‘proximity economies’ through ‘clustering’, creating balanced industrial atmosphere
and ‘synergy’ by intimate collaboration with producers, agents, public-private
partnerships and enterprise-related cooperation with academia and research bodies.

Briscoe et al. (2005)\textsuperscript{199} assessed implementation methodologies, degree of
internalization, performance impact and behaviour barriers encountered during and
after implementation of ISO 9000 on 275 small manufacturing organizations. Analysis of variance & t-statistics revealed no significant differences in the early and
late responses thereby enhancing the likelihood of internalizing ISO practices by the
management by endorsing an organisational culture of high quality, discouraging
activities that hinder ISO implementation, implementing measures that assist in
customising the ISO programme to enterprise requirements, and exploiting the
situation to enhance quality consciousness.

Mohanty and Acharya (2003)\textsuperscript{200} outlined strategic measures for the revival
of sick Sambalpuri Bastralaya Handloom Cooperative Society Ltd located at Bargarh
in Orissa. To pull the society from consistent losses, weavers were rewarded for
creating innovative designs; exercising rigorous quality check in respect of the seed
and pick, length and width; disposing substandard stocks in clearance sales;
participation in trade shows, fairs, exhibitions; disciplinary action against corrupt

employees; superannuation and practicing profit sharing and rewarding for the best and highest quality production as a part of welfare amenities.

Sum et al. (2004)\textsuperscript{201} developed classification of operational strategies based on cost, quality, delivery and flexibility among high performing small enterprises organized in three planned clusters of ‘effective innovators’, ‘differentiators’ and ‘all-rounders’ in Singapore. Investigation brought out substantial dissimilarities in the operating position, financial performance and the types of development packages adopted by all three types of clusters. ‘Effective innovators’ shone in innovative activities and in pricing of products. ‘Differentiators’ contested on ‘quality’, non-rigidity of ‘operations’ and ‘delivery’ but suffered from the disadvantage of high cost. ‘All-rounders’ relied on ‘marketing’ instead of ‘operations’ for competitive advantage. Efficient innovators proved that in financial performance they were the most efficient.

Various researchers have identified different parameters and different factors that lead to the creation of a high performance organization (HPO). These include factors like, quality of management, transparency of operations and achievement orientation, strategic priorities in the long term, constant development, quality of manpower. These aspects are openly or circuitously connected to the prevailing organizational culture. Aryasri and Aijaz (2013)\textsuperscript{202} have argued in their study on how the performance of high performance IT companies in Hyderabad are impacted by organization culture, that imparting freedom of time and resources to employees, stress reduction, adoption of new technologies, autonomy at the work place and unity of command help in creation of an organization culture which shapes organizational performance and is likely to transform it into a HPO.

2.9 Performance Measurement in MSMEs

Although profit and growth are the two primary performance measurement indicators in most of the reviewed literature, non-financial measures also have been


used in some cases especially in the case of SMEs. Tan and Smyrnios (2011)\textsuperscript{203} employing a case study approach, examined how fast growth Australian SMEs carry out measurement of the performance of their firms. They discovered that these small businesses appeared to embrace a multi-level methodology for performance measurement comprising different sources and frameworks. Besides the use of typical measures of financial performance like growth and profits, they also apply non-monetary measures of customer satisfaction, realization of awards from the industry, consumer feedbacks, website reputation, quantity and quality of effective innovations implemented, independent employee performance metrics, and retention of staff. They maintained that the Balanced Score Card (BSC) system adopted in larger firms was not followed by these SMEs due to the multiple indicators involved, but none-the-less their non-financial measures generally agreed with the same principles.

Perera and Baker (2007)\textsuperscript{204} examined the utilization of both financial and non-financial measures of performance measures in Australian SMEs. They suggested that SMEs generally use financial measures of performance more than non-financial ones, and that SMEs not managed by owners use prescribed systems of measurement much more often than those managed by owners. They collected data by conducting a survey of 86 manufacturing SMEs and semi-structured interviews with managers of eight SMEs. The data was analysed using chi-square test, regression analysis, and two sample t-tests. They showed that majority of SMEs rely most often on financial performance measures, but as the SME size increases they do tend to use non-financial measures also. Moreover, non-owner managed SMEs use multiple performance measures more often than owner-managed ones. The study also discovered that SMEs normally utilise statistics obtained from performance measurement systems (PMSs) for differing degrees of planning, control, and decision making processes. According to the respondents, main inhibitors against effective use of PMSs were time and resource constraints.

Simpson et al. (2012) proposed the linking of critical success factors (CSFs), i.e. definitions of achievement and performance, to the characteristics of the owner-manager, business and business environment. They argued that there is no agreement on the methodology of measuring business performance or regarding the performance enhancing critical success factors. This is a complicated research area, as the popular laid down characteristics of success are either too simple-minded or else ambiguous, and there are a very large number of factors which could potentially contribute to an SME’s survival and performance. This research area is so difficult because of the differing business goals and ambitions of the owner-managers, varying perceptions of success, unique characteristics of the businesses, and their business environments. A complicated knowledge elicitation exercise was carried out in response to this situation, and a conceptual framework was developed presented in Figure 2.5 below.

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Figure 2.5 Defining Success – Theoretical Relationships in MSMEs

Chalhoub (2010)\textsuperscript{206} proposed a hypothetical structure to associate the “six factors of organizational culture, succession planning and implementation, formal systems and processes, participative management, equity and fairness in compensation, and holistic entrepreneurial marketing across the value chain, with firm performance”. This theoretical framework was verified using primary data collected from a sample of 173 SMEs in the Middle East. Data analysis revealed that an SME organizational culture nurturing acceptance of managerial talent resources external to the founding circle or family is positively associated with performance, since otherwise it could cause inbreeding and stifling of the firm’s development. The study also discovered that performance is significantly better in firms that adopt formal systems and processes, as they provide an organized work environment promoting benefits of quality and effectiveness. Firms which use a participative management style, that allows employees to grow, share ideas and contribute meaningfully, inspires creativity due to its positive effect on company mood, resulting in significantly better performance. The holistic application of entrepreneurial marketing across the entire value chain also engenders significantly positive performance. The study also found that the factors of ‘succession planning and implementation’, and ‘equity and fair treatment’ have insignificant effect on SME performance.

Kujansivu and Lonnqvist (2005) concluded from their empirical study on Finnish companies that intellectual capital (IC) investments are transformed through several phases into increased productivity and profitability. They argued that the process is indirect e.g. investments in employee competencies may not always directly affect the firm’s profitability. It would initially develop customer satisfaction and loyalty, which would thereafter result in greater profits.

### 2.10 Summary of Literature Review

These are shown in Tables 2.1 to 2.5 below.

**Table 2.1: Employee Competencies and impact on Business Performance**

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Author (Year)</th>
<th>Finding</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Gupta, B.L. 2011</td>
<td>Due to higher degrees of uncertainty of business environment, organizations are increasingly relying upon HR competency building.</td>
</tr>
<tr>
<td>2.</td>
<td>Kujan P. and Lonnquist. A. 2005</td>
<td>Increasing employees’ competencies should lead to improved productivity.</td>
</tr>
<tr>
<td>3.</td>
<td>Abernetby et al. 2003</td>
<td>Investment in employee competencies are two times more beneficial to a firm in comparison to a comparable outlay in a physical asset.</td>
</tr>
<tr>
<td>4.</td>
<td>Becker, G.S. 1993</td>
<td>Focus on specialist skills would raise workers’ productivity.</td>
</tr>
<tr>
<td>5.</td>
<td>Carroll et al. 1999</td>
<td>HR management research literature generally focuses on large firms.</td>
</tr>
<tr>
<td>6.</td>
<td>Tanora, C. and Nadiri, H. 2005</td>
<td>Findings of HR issues for large firms are unlikely to be applicable to small firms.</td>
</tr>
<tr>
<td>7.</td>
<td>Thakur, A.K. 2012</td>
<td>Indian MSME sector is primarily grappling with two main challenges – financial and HR related. For sustained growth and global competitiveness, they need to especially harness their skilled manpower.</td>
</tr>
<tr>
<td>8.</td>
<td>Varghese, S. 2010</td>
<td>Indian MSMEs continue to be unprofessional because they are ignorant about important issues like competency-based management.</td>
</tr>
<tr>
<td>9.</td>
<td>CII-Deloitte Report 2008</td>
<td>Most of the key challenges of fast-growing SME clusters in Gujarat could be addressed by a knowledge and performance based organization culture, by building up the competencies of their employees, and by adopting ‘Quality improvement’ measures.</td>
</tr>
<tr>
<td>10.</td>
<td>Government of India Report of PM’s TF on MSMEs 2010</td>
<td>Indian MSMEs are beset by the lack of skilled manpower, and DICs have not been successful in tiding over this deficiency.</td>
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<tr>
<td>S. No.</td>
<td>Author (Year)</td>
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<tr>
<td>11.</td>
<td>Armstrong, M. 2006</td>
<td>Established that there were 553 competency headings and 66% of respondents used technical/functional competencies. Also, a large number of organizations considered a single set or framework of value-based organizational core competencies for the entire work-force.</td>
</tr>
<tr>
<td>12.</td>
<td>Bersin, J. 2007</td>
<td>Competencies that build organisational capabilities are valued by high performance companies, while competencies that build individual competencies are the focus of low performing companies. There are three types of competencies: value-based organizational core competencies, leadership competencies and functional competencies.</td>
</tr>
<tr>
<td>15.</td>
<td>Boyatzis, R.E. 2009</td>
<td>Competency-based HRM is today used by almost every organization with more than 300 employees.</td>
</tr>
</tbody>
</table>
| 17.   | Guion, R.M. 1991: Spencer, L.M and Spencer, S.M. 1993 | Defined competencies as underlying characteristics of people and gave out their constituents; also defined ‘Interpersonal skills’.
<p>| 18.   | Rowe, C. 1995                | Defined “competence” as a standard of performance or skill level, while “competency” denotes a behaviour by which it is achieved.     |</p>
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<tr>
<th>S. No.</th>
<th>Author (Year)</th>
<th>Finding</th>
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<tbody>
<tr>
<td>20.</td>
<td>Ryan et al. 2012</td>
<td>17% of variance in business unit profitability in North America and European Union could be accounted for by four competencies: team leadership, developing others, achievement orientation, and impact and influence.</td>
</tr>
<tr>
<td>21.</td>
<td>Wols et al. 2003</td>
<td>Distinguished core competencies of an organisation from individual competencies.</td>
</tr>
<tr>
<td>22.</td>
<td>Ulrich, D. and Lake, D. 1990</td>
<td>Organisation-specific competencies are the most difficult to achieve. These should be used for selection, recruitment, career progression, identification of training needs, and for rewarding individuals or teams.</td>
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</table>
Table 2.2: MSMEs and GOI Support Systems

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Author (Year)</th>
<th>Finding</th>
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<tbody>
<tr>
<td>1.</td>
<td>Institute of Small Enterprise and Development (ISED) Report, MSMER 2012</td>
<td>Argues that SME – dominant countries like Greece, Italy and Portugal have failed to grow in the present global economic crisis due to high regulations as compared to Germany having a smaller share of SMEs. European manufacturers with less than 10 employees (‘Micro’ enterprises) are 30-40% less productive than those with 250 or more workers. The crucial factors for promoting prosperity are the quantum of physical assets and skilled workers in an economy, and the methodology of combining them.</td>
</tr>
<tr>
<td>2.</td>
<td>Tuteja, S.K. 2002</td>
<td>Enumerated advantageous characteristics of MSMEs and details about GOI’s institutional support.</td>
</tr>
<tr>
<td>5.</td>
<td>Peter, A. 1996</td>
<td>Attributed prevalence of sickness among Indian SSI units to lack of coordination between DIC and other supporting institutions.</td>
</tr>
<tr>
<td>S. No.</td>
<td>Author (Year)</td>
<td>Finding</td>
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<tr>
<td>8.</td>
<td>Mallick, S. and Rath, N. 2002</td>
<td>The study on impact of institutional support to 150 women entrepreneurs in SMEs in Orissa found that special entrepreneurship development programmes are insufficient, unless accompanied by financial support.</td>
</tr>
<tr>
<td>9.</td>
<td>Rhodd et al. 2005</td>
<td>The study on SMEs in Jamaica argued for exploiting functional efficiency instead of debt as the principal means of obtaining finance through waste reduction and optimal output.</td>
</tr>
<tr>
<td>11</td>
<td>GOI, Min of MSME Report 2013; Gulati, M. 1997</td>
<td>GOI has established a detailed three-tier structure for promoting small scale enterprises; Central Government agencies at the National level like SIDO and NSDC; State Govt institutions like SIDCs; and District level agencies like DICs. Besides, there are non-governmental promotional structures like FICCI, CII and ASSOCHAM, besides MCCIA in Maharashtra.</td>
</tr>
<tr>
<td>12</td>
<td>NSDC Publication Skill Matters, 2013</td>
<td>AICTE implementing NVEQF to equip students with skills through short-term, structured and job-oriented courses in engineering colleges and polytechnics in 15 vocational education sectors.</td>
</tr>
<tr>
<td>13</td>
<td>Azad, R. R. 2013</td>
<td>In a globalised economy, Indian MSMEs need skill up-gradation at managerial level for successful integration in Global Value Chains (GVCs).</td>
</tr>
</tbody>
</table>
Table 2.3: Organisational Core Competencies in MSMEs

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Author (Year)</th>
<th>Finding</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Lal, H. 2002</td>
<td>With increased competition due to 1990s liberalisation and globalization, quality consciousness essential for Indian MSMEs to survive.</td>
</tr>
<tr>
<td>2.</td>
<td>Mitra, J. 1999</td>
<td>Innovation in MSMEs better when they are part of MSME clusters due to networking.</td>
</tr>
<tr>
<td>3.</td>
<td>Khader, S. A. 2002</td>
<td>Open attitude of MSME owner-managers, inherent close human relations and good communications lead to teamwork, high productivity, innovation and efficiency.</td>
</tr>
<tr>
<td>4.</td>
<td>Espallardo M.H and Ballestar E.D. 2009</td>
<td>Small businesses must utilise innovation in products based on their competitive situation.</td>
</tr>
<tr>
<td>5.</td>
<td>Varadachary, 2002</td>
<td>In new economies like India, SMEs should constantly use innovation to gain a competitive advantage.</td>
</tr>
<tr>
<td>6.</td>
<td>Sandee, H and Rietveld, P. 2001</td>
<td>Indicated education, gender and social networks as important variables affecting how small manufacturers can access information on innovative products, production processes, and new markets.</td>
</tr>
<tr>
<td>10.</td>
<td>Sum et al. 2004</td>
<td>Effective innovators in Singapore were found to have the best overall financial performance.</td>
</tr>
<tr>
<td>S. No.</td>
<td>Author (Year)</td>
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<tr>
<td>11.</td>
<td>Aryasri, A. R. and Aijaz, S.S. 2013</td>
<td>Imparting freedom of time and resources to employees, adoption of new technologies, autonomy at the workplace and unity of command help in creation of an organisation culture which shapes organization performance in start-up IT companies in Hyderabad.</td>
</tr>
<tr>
<td>12.</td>
<td>Tari, C.S.L. and Smyrnios, K.X. 2011</td>
<td>Although profit and growth are the two primary performance measurement indicators in most SMEs in Australia, they also use non-financial measures of customer satisfaction and successful innovations adopted.</td>
</tr>
<tr>
<td>13.</td>
<td>Chalhoub, M.S. 2010</td>
<td>Participative management style which encourages creativity significantly related to firm performance.</td>
</tr>
<tr>
<td>S. No.</td>
<td>Author (Year)</td>
<td>Finding</td>
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<tr>
<td>2.</td>
<td>Church, A.H. 1995</td>
<td>Leadership practices are significantly related to business performance.</td>
</tr>
<tr>
<td>4.</td>
<td>Datta, D.K. Guthru, J.P. and Wright, P.M. 2005</td>
<td>Technological innovativeness and SME owner-managers’ business skills are important factors for success of small business.</td>
</tr>
<tr>
<td>5.</td>
<td>Argenti, J. 1976</td>
<td>Most common cause of business failure is poor managerial competencies.</td>
</tr>
<tr>
<td>7.</td>
<td>Temtime, Z.T. 2002</td>
<td>Most SMEs do not carry out authentic strategic planning due to their pre-occupation with operational bits and pieces.</td>
</tr>
<tr>
<td>10.</td>
<td>Asree et al. 2010</td>
<td>Showed that in SME firms in Malaysian service sector, organizational structure and leadership competencies are positively associated with hotel revenue.</td>
</tr>
<tr>
<td>11.</td>
<td>Prabhu et al. 2002</td>
<td>Leadership competencies are the crucial drivers for performance excellence in the service sector SMEs.</td>
</tr>
<tr>
<td>S. No.</td>
<td>Author (Year)</td>
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<tr>
<td>13.</td>
<td>Satyanarayan, A. and Mishra, C.M. 2001</td>
<td>Poor marketing, financial control, decision-making and planning primary causes of chronic sickness for SSIs.</td>
</tr>
<tr>
<td>15.</td>
<td>SWATLEHE, O. 2011</td>
<td>Strong relationship between planning and size of the SMEs in Tanzania.</td>
</tr>
<tr>
<td>16.</td>
<td>Cyr et al. 2011; Weick, K. 1979; Jennings, P. and Bearer, G. 1997; Carson, D. and Gilmove, A. 2000</td>
<td>SME owner-managers’ behaviour often do not follow traditional business practices as they are inclined to perform on the basis of their natural reference network and often succeed “the wrong way” or “in spite of the rules”.</td>
</tr>
<tr>
<td>17.</td>
<td>Bentabet, et al. 1999</td>
<td>Three types of VSEs: “Traditional, Entrepreneurial and Managerial” with differing organizational goals of personal achievement and independence, innovation and profitability respectively.</td>
</tr>
<tr>
<td>18.</td>
<td>Marchesnay, M. 1992</td>
<td>Two perfect types of SME entrepreneurs: ‘GAS’ who values growth, autonomy and survival in that order, and ‘SIG’ who values survival, independence and growth in that order.</td>
</tr>
<tr>
<td>20.</td>
<td>Gilmore et al. 2001</td>
<td>SMEs in Northern Ireland and Australia not good at conventional marketing – networking is an option.</td>
</tr>
<tr>
<td>21.</td>
<td>Yusuf, A and Soffu, K. 2005</td>
<td>In both large and small firms in their study in Ghana, planning affected performance equally.</td>
</tr>
<tr>
<td>22.</td>
<td>Man et al. 2009</td>
<td>Entrepreneurial competencies and organizational capabilities are positively linked to SME performance.</td>
</tr>
<tr>
<td>S. No.</td>
<td>Author (Year)</td>
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<tr>
<td>25.</td>
<td>Giroux, I. 2009</td>
<td>Problem – solving in Canadian SMEs in an intuitive, improvised and non-linear manner in contrast to well-defined steps in large firms.</td>
</tr>
</tbody>
</table>

**Table 2.5: Functional Competencies and Training Aspects in MSMEs**

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Author (Year)</th>
<th>Finding</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Bassi et al. 2002</td>
<td>Positive correlation between profitability of firms and their training effort.</td>
</tr>
<tr>
<td>5.</td>
<td>Routray, and Bag, 2010</td>
<td>Training adds value to SMEs but found number of drawbacks in the existing system: lack of commitment and lack of funds are the main ones.</td>
</tr>
<tr>
<td>6.</td>
<td>Dagar, 1993</td>
<td>Summarised state of training in SSI in India: casual approach, unorganized on-the-job training, negligible training through apprenticeship and by government institutions.</td>
</tr>
<tr>
<td>S. No.</td>
<td>Author (Year)</td>
<td>Finding</td>
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</tr>
<tr>
<td>7.</td>
<td>Bersin, 2007</td>
<td>Small businesses ignore training as compared to large organizations who focus on competencies.</td>
</tr>
<tr>
<td>9.</td>
<td>Kinni, T.B. 1995</td>
<td>Japanese training philosophy of continuous improvement by kaizen is ideally suited for small enterprises trying for incremental enhancements at low cost.</td>
</tr>
<tr>
<td>10.</td>
<td>Abdelsemem, M.H. and Kindling, A. 1978</td>
<td>High cost of development of SME employees is more than compensated by the pay-offs in the long term.</td>
</tr>
<tr>
<td>11.</td>
<td>Greenidge et al. 2012</td>
<td>Small enterprises in Barbados are quite willing to rely on unplanned training practices.</td>
</tr>
<tr>
<td>12.</td>
<td>Jones, J. 2006</td>
<td>Less than half of the MSMEs in Australia provide apprenticeship training, and on-the-job training is the most prevalent.</td>
</tr>
<tr>
<td>13.</td>
<td>Smith et al. 2003</td>
<td>Maximum training in MSMEs are conducted in-house employing part-time and ad-hoc trainers, with professional external agencies being used for specialized training only.</td>
</tr>
<tr>
<td>14.</td>
<td>Hashim, J. 2008</td>
<td>Malaysian SME managers have recognized managerial, communication, and technical knowhow as the major employee competencies, acquired mostly by means of on-the-job training, self-learning, and by functioning as a team member.</td>
</tr>
<tr>
<td>15.</td>
<td>Morrison, A. and Seers, S. B. 2002</td>
<td>Natural work-place learning guided by appropriately qualified mentors, supplemented by informal networking with customers, employees and other stakeholders offered maximum return in organization of learning in SMEs in Australia.</td>
</tr>
<tr>
<td>S. No.</td>
<td>Author (Year)</td>
<td>Finding</td>
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</tr>
<tr>
<td>16.</td>
<td>Walker et al. 2007</td>
<td>SME owners are interested in development of their employees’ functional skills if they can be directly applied to their prevailing business situation.</td>
</tr>
<tr>
<td>17.</td>
<td>Wong et al. 1997</td>
<td>Demonstrated the long-lasting value of management training in SMEs, and highlighted the ideal conditions for success.</td>
</tr>
<tr>
<td>18.</td>
<td>Freel, F.S. 1999</td>
<td>All SME manufacturing firms in West Midlands, UK identified improved functional competencies as the principal means to bring about enhancements in innovative productivity.</td>
</tr>
<tr>
<td>19.</td>
<td>Salvekar, D. 2013</td>
<td>All MSMEs in India should be brought under the Apprentices Act, thus facilitating Micro and Small enterprises in recruiting trainees as well as allow them to tie up with training institutes.</td>
</tr>
</tbody>
</table>

### 2.11 Research Gap

Review of existing literature on the topic of study has highlighted a few relevant deductions. Numerous research studies have investigated the influence of employee competencies on large firms (McCleland 1973; Boyatzis 1982; Palan 2003; Sherman 2004; Prahalad and Hamel 1990; Hefferman and Flood 2000; Ley & Albert 2003; Bersin 2007; Gupta 2011). There is also a large body of research on MSMEs and their problems related to financial, marketing and entrepreneurial issues mostly (Storey 1994; Tuteja 2002; Gulati 1997; Lall 1998; Pooja 2009; CII-Deloitte Report 2008, MSMER 2012). Although there are a few studies on the impact of training and some specific employee competencies like quality consciousness, innovativeness and leadership traits in driving business performance in MSMEs (Mitra 1999, Varadachary 2002, Briscoe et al. 2005, Prabhu et al. 2002, and Asree et al. 2010, Kujansiru and Lonnqrist 2005), there are none which comprehensively analyse the effect of employee competency factors as a whole on the profitability of MSMEs. Kujansiru and Lonnqrist (2005) in their study on impact of intellectual capital including competencies in driving financial performance of Finnish SMEs had observed that though there was no direct relationship, improved employee
competencies did improve productivity and customer satisfaction and loyalty, which resulted in higher sales and returns on investment resulting in profitability of the enterprises.

One of the very few studies that has been conducted on the holistic impact of competencies in enhancing financial performance of organisations, has been done by Bersin 2007. His work has considered employee competencies under the three broad groupings of ‘value based organisational core competencies’, ‘leadership competencies’, and ‘functional competencies’, and their individual relationship with large enterprise performance. Although Tanova and Nadiri (2005) have argued that findings of HR issues for large firms are unlikely to be applicable to small firms, this study felt the need of conducting research on covering this gap in the body of research on MSMEs. Moreover, there are no research studies on the impact of employee competencies in MSMEs in Maharashtra.

On the premise of the gap that has emerged from the literature reviewed on MSMEs and employee competencies, it becomes imperative that validation of the study needs to be researched in detail. Accordingly, MSMEs in MIDC Bhosari, PCMC Pune offered an interesting location for conducting this study.