

# INTERNATIONAL JOURNAL OF RESEARCH IN COMPUTER APPLICATION & MANAGEMENT

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

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**TALENT ACQUISITION AND RETENTION: A STUDY IN INDIAN SMALL AND MEDIUM ENTERPRISES**

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**ABSTRACT**

*This paper attempts to study the challenges of HR practices in Small and Medium Scale Enterprises (SME). It was found that SME's have to still go a long way to recognize the importance of human resource practices, which may help the organizations to attract better talent and make strategies to retain those talents. This study conducted showed that SME focus on talent acquisition through internal referrals which also proved to be an inexpensive method for talent hunt. Talent acquisition is the process of attracting, finding, selecting and retaining skilled individuals. Talent acquisition and retention are the major challenges faced by SME's. The importance of acquiring talent is well recognized within SME's in today's economic environment. Hiring retired personnel and associating closely with Colleges offering Master's in Business Administration (MBA), so that the management professionals can be hired for a short-term internship program by SME's will help in cost cutting and SME's will be the ultimate gainers.*

**KEYWORDS**

Small and Medium Scale Enterprises, Talent acquisition, Talent Retention, HR Practices, Recruitment.

**INTRODUCTION**

The change in the world economy has given a chance to Small and Medium Scale Enterprises to grow. There is an enormous growth in the Indian Economy. The Government of India has also shown interest in the growth of small and medium enterprises (SME). Small and medium sized enterprises (SMEs) sector in India has been the pivot of sustenance of all major Industries. Many policies have been formulated to achieve various objectives such as:

1. Contribution in Defence production
2. Export Income
3. Increase in Manufacturing Products in India
4. Less investments
5. Competition in the export and domestic markets

All India censuses for the SME sector show that there are 26100797 SME's as per their survey conducted in the year 2006-2007 (<http://www.smeworld.org/story/top-stories/number-of-smes-in-india.php>).

Sr. No.	State/UT	No. of Enterprises (2006-07)		
		Registered Sector	Unregistered Sector	Total
01	Jammu and Kashmir	14534	246803	261337
02	Himachal Pradesh	11937	172914	184851
03	Punjab	50113	753872	803985
04	Chandigarh	1001	30746	31747
05	Uttarakhand	23767	202746	226513
06	Haryana	33783	570312	604095
07	Delhi	728	616749	612207
08	Rajasthan	55108	1216355	1271463
09	Uttar Pradesh	187522	2925794	3113316
10	Bihar	52188	950071	1002259
11	Sikkim	123	11716	11839
12	Arunachal Pradesh	452	19971	20423
13	Nagaland	1331	25807	27138
14	Manipur	4507	60295	64802
15	Mizoram	3714	18665	22379
16	Tripura	1253	108412	109665
17	Meghalaya	3063	45627	48690
18	Assam	18671	584870	603541
19	West Bengal	42635	2470668	2513303
20	Jharkhand	18200	357433	375633
21	Orissa	19587	1042099	1061686
22	Chhattisgarh	26235	338316	364551
23	Madhya Pradesh	108804	1181732	1290536
24	Gujarat	229830	867271	1097101
25	Daman & Diu	595	6612	7207
26	Dadra & Nagar Haveli	1715	4412	6127
27	Maharashtra	86635	2496235	2582870
28	Andhra Pradesh	24892	1980152	2005044
29	Karnataka	139640	1472015	1611655
30	Goa	3137	48354	51491
31	Lakshadweep	89	1097	1186
32	Kerala	149847	1318257	1468104
33	Tamil Nadu	233996	2361131	2595127
34	Puducherry	2109	32300	34409
35	Andaman & Nicobar Island	750	8767	9517
	<b>ALL INDIA</b>	<b>1552491</b>	<b>24548306</b>	<b>26100797</b>

Source: <http://www.smeworld.org/story/top-stories/number-of-smes-in-india.php>

A not so talked about, but "to be accepted" fact - SME's account for almost 90% of industrial units in India and 40% of value addition in the manufacturing sector (Raju, 2008). There is a body of SME's named as SME Chamber of India which states that "45% of industrial output, 40% of exports, employing 60 million people, create 1.3 million jobs every year and produce more than 8000 quality products for the Indian and international markets. SME's Contribution towards GDP in 2011 was 17%, which is expected to increase to 22% by 2012. There are approximately 30 million MSME Units in India and 12 million persons are expected to join the workforce in the next 3 years" ([http://www.smechamberofindia.com/PDF/SME\\_brochure.pdf](http://www.smechamberofindia.com/PDF/SME_brochure.pdf)). The major sectors in SME's are food processing, electrical supplies, agricultural equipment manufacturing, automotive parts manufacturing, handicrafts, sports goods, textiles etc. It's a big challenge for the government and for the leaders of the industry to develop the small and medium enterprises by putting in place an independent and self-sustainable eco-system that encourages the growth of the economy. A study by a researcher showed that small and medium scale enterprises also face the challenge of the non-availability of technically trained human resource professional (Kharbanda, 2001). World Bank has approved US\$120 million loan to the Small Industries Development Bank of India (SIDBI), backed by a Government of India guarantee. This loan is aimed at improving SME access to finance and business development services, thereby fostering SME growth, competitiveness and employment creation. (Press release by World Bank in the year 2005 entitled "India: World Bank to Support Small and Medium Enterprises", Press Release No: 2005/188/SAR).

From the macro-economic point of view, SME's can be a major growth factor for the Indian economy. SME's can be a center for providing employment and SME's can be a route to entrepreneurship. It also creates an environment where in the SME's can grow into larger companies.

## DEFINITION OF SME

Definition of SME's varies differently in different countries. Some definitions of various countries are described in Table 1.

TABLE 1: DEFINITIONS OF SME IN VARIOUS COUNTRIES

Category	Country	Category of Industry	Criteria
Developed economies	Australia	Manufacturing services	100 employees <20 employees
	Germany	SME	<500 employees
	France	SME	10-499 employees
	Japan	Manufacturing	< 200 employees
	Canada	Manufacturing	< 200 employees
	USA	Very small	<20 employees
		Small	20-99 employees
	Medium	100-499 employees	
Developing economies	China	SME	Depends on product group Usually 100 employees Investment ceiling US\$8 million
	Indonesia	SME	<100 employees
	Malaysia	SME's	<175 full time workers Investment US\$1 million
	Thailand	Labor intensive	<200 employees
		Capital Intensive	<100 employees
	India	SME	Upto Rs. 10 million in plant and machinery

Source: Dangayach and Deshmukh, 2005

## HR IN SME SECTOR

As Charles Darwin (1859) once said it's not necessarily the strongest and largest species that survive but the ones that are most responsive to change. This applies to corporate sector organizations as well. In order to meet the steps with the bigger organizations, SME's need to change their outlook, creative ideas and their practices by achieving management expertise and adopting new management practices. It is essential that small business obtains and maintains the best possible staff to sustain their competitiveness. This has been confirmed by Crompton, Morrissey and Nankervis (2002) when they suggest that the enhancement of work performance and positive contribution to business success can be made through the identification and successful recruitment, selection and retention of staff (Crompton, Morrissey and Nankervis 2002). Recruitment, Relationship and Retention are intuitive as a means of creating sustainable entrepreneurship in SME's (Cameron and Miller, 2008).

To achieve the desired goals, the SME's will have to build strategies as the first significant step. These strategies have to be implemented and then only the desired goals can be achieved. SME's have to collaborate with bigger organizations by providing them the whole information of their strategies which will help them to understand how their role can have an impact on the performance of the organization. Therefore it is necessary that SME's also collaborate with their employees, customers and suppliers to increase their efficiencies. The management in SME's is keenly interested to keep the employee matters with themselves rather than creating an HR department to handle the issues related to employees. This survey also showed that most of the SME's do not have HR department and are not willing to spend their resources on HR. Be it SME or some bigger corporate organization most of these organizations are employee centered and it revolves around them. Hence it is important for the management to be in constant touch with their employees for smooth functioning of the organization. The emotional bonding between the management and the employees will help the SME to achieve the maximum benefits. Today, proper well-defined human resource management team can help an organization in finding solutions to a wide range of issues in Human Resource Management. This will help the organization to find new talents and put them in the right jobs, develop their skills, reward them with incentives on their good performance, provide good support system and retain them and increase their efficiency. This will eventually lead to low cost and increase the profits of the organization. As the size of an SME organization has its limitations they cannot justify full-time HR professionals in their organizations. Thus, the complex and time-consuming nature of many HR activities can result in a significant drain on existing managerial resources (Klaas, McClendon and Gaaney, 2000).

## HR CHALLENGES IN SME SECTOR

When bigger organizations go on a rampage, smaller ones have to think smart. This is the wisdom for India's small and medium enterprises (SME's) that fail to keep pace with the growth juggernaut (Bhatt and Reddy, 2011). Lot of internal competition is prevailing within the SME's and it is very important for them to benchmark various processes to remain competitive and ensure they can gain some advantage from their competitors by staying a step ahead. One of the growth indicators of utmost importance to the SME's is Human Resource. The larger organizations which desire for speedy growth have understood the importance of Human Resources (HR) and pay the HR professionals with a big pay packet further making it difficult for the SME's to cope up with the same salaries. The employees working in the SME's work in an informal environment and also communicate informally. Hence, the management in an SME organization faces difficulty in maintaining the organizational climate. As the organization grows it becomes more difficult to involve the employees in the decision making process. Day-by-day it becomes more difficult in a growing SME to keep a close partnership with each and every employee. There is lack of clarity on training and rewards amongst the employees. There should be transparent policies on training and compensation and induction procedure for new employees. There should be uniformity in the strategy and the functional organizational structure. HR functions are not well-defined in the SME's and hence the efforts in building a team are wasted due to high attrition rate. The main reasons for attrition in SME's are Salary, Unsuitable HR Policies and Practices, Lack of Employee Loyalty, career advancement etc.



## TALENT MANAGEMENT ISSUES IN SME SECTOR

Michael Armstrong characterizes talent management as the “war for talent”. However, he argues that this definition downplays the role of the talent, which is already within the company.

### TALENT ATTRACTION

There are several issues faced by SME’s to attract talent. It is difficult for the SME’s to attract and retain talent as highly qualified people are reluctant to work in SME’s. The expectations of getting higher perks also refrains them to work in SME. Uncertainty in job also restricts the good talent from joining SME’s and also results in low commitment and low motivation levels. People those who survive in the “cut-throat competition” face higher workload and stress with same or even smaller benefits. Out of these “survivors” it is safe to assume that most would be considered as talent. This raises a problem, during downturn economy. These people are the ones who get a chance to switch over to a job with a better deal (Baublyte (2010)). The SME’s do not maintain the database of job seekers and hence the vacancies are passed on to known person only. SME’s also do not hire through recruitment agencies, college placements, etc. Lack of hiring policies is one of the issues faced by SME’s. The detailed job analysis is not performed and this leads to ineffective hiring of personnel. The criteria for recruitment and key success factors for that particular job are not studied and hence lacks in proper recruitment. Employer branding is not done and hence the candidates do not get enough information about the organization and then they show lack of interest in joining the organization. The rewards and recognition policies are not implemented in a proper manner and hence the employee attrition rate is very high.

### TALENT ACQUISITION

Hiring good talent is a challenge in the SME sector. Following factors contribute towards that challenge:

- *Job opportunities:* If you do not pay the candidate the desired salary then maybe the candidate will join some other organization that meets his expectations. In this case, the company will be at loss for losing good talent. There is a war of talent in the current market and good talent is hard to find at low cost. Bigger organizations are hunting for good talents and as soon as they get them they are ready to meet the desired salary expectations. Since they are capable to spend more they may increase the salary and would cross the desired expectations of the candidates also. The IT companies are the booming sectors and pay well to the talented candidates as they would like to retain them. They not only pay them high salary but also offer them challenging job profile and exposure at various management levels, corporate culture, good work ambience, career advancement opportunities and higher job responsibilities due to which the employee is willing to give his full efforts and energy and at the same time he feels proud to be a member of that organization.
- *Salary expectations:* After conducting several rounds of interviews when a suitable candidate is being found out, it is being noticed that his salary expectations are much higher than the budgeted salary. This is happening in most of the small and medium enterprise organizations. After all good talent cannot be hired on a nominal salary. Talent comes at a heavy price. A talented person has high salary expectations. If you are willing to meet his expectations by giving him the desired salary the candidate will join the organization or else, you are prone to lose the chosen candidate.
- *Talent shortage:* Talent shortage is the key area. This is an area of fundamental importance to the SME sector, and is a key area for human resource management (Vinten, 1996). Talent shortage exists in SME’s in most of the countries. There are many jobs available but the candidates are not willing to apply in SME’s. This scenario is prevailing in different industry sectors. This can be attributed to unemployability.  
*Employer Branding and Work Culture:* **Employer brand** was first used in the early 1990s to denote an organization’s reputation as an employer (Barrow and Mosley, 2005). Since then, it has become widely adopted by the global management community. Minchington (2005) defines employer brand as “the image of your organization as a ‘great place to work’”. **Employer branding** is creating this image. It is very important for an organization to create its branding as this is an important aspect for a job seeker. In the current market candidates would like to work for an organization where they get better pay and flexible work culture. Candidates look for joining an organization with a long-term prospect and hence they are choosy about joining an organization. The work culture should be attractive for the candidate. SME’s have limited resources and hence it is difficult for them to provide attractive work culture as compared to larger corporate.
- *Ineffective Recruitments:* The suitable talents have to be sought after and they will come at a price. Now a days the candidates do not hang around for jobs and they take time in choosing their employers and will only join the jobs where there are opportunities for career advancement and they have enough job security. SME’s will have to look into their recruiting policies and strategies to attract good talent. Hiring graduates in SME’s is a difficult task, as they tend to do job-hopping and change their jobs frequently either for better salary or for better career prospects.

## TALENT ENGAGEMENT – RETENTION AND ATTRITION TRENDS IN SME SECTOR

### TALENT RETENTION

The talent retention strategies lacking in the SME’s are given below:

- Career Advancement opportunities are not highlighted by the organisation.
- The vision and mission of the organization is not communicated to the employees.
- A proper training is not given to the employee in an SME however a special induction training is given to a new employee in larger corporate. An employee is often tired doing the same job in an SME since there is no concept of job rotation and hence the employee loses his interest in working in the same organisation.
- SME’s need to invest more in training and development of the staff.

### TALENT MANAGEMENT ISSUES

There is a vast similarity between the issues faced in talent management by SME’s and the larger corporates. The SME’s need to attract talent, deploy them, develop and then retain them. SME’s have some constraint in hiring talents:

- *Low Turnover:* Low turnover has a direct impact on all the departments in SME’s. If a SME has a very low turnover and for example the marketing person leaves the organization then it has direct impact on all the relationships handled by that person such as relationship with the ad agency or relationship with clients etc. Low turnover means low quality employees.
- *Lack of skilled employees:* Larger corporates hire skilled employees and pay well deserved remunerations however; in SME’s they do not have subject specific employees.
- *Lesser Economies of Scale:* Bigger corporates do a lot of research in hiring talent. They outsource to professionals and get the psychometric testing done to assure that the best talent is being hired. However, in SME’s companies cannot afford for outsourcing and neither for getting the in-depth assessment of talent as they cannot afford the expensive tools that are used for such kind of testing.
- *Effect of each employee that is hired:* An SME with 1,000 or less than 1000 representatives will not affect much by good recruitment or bad recruitment. However, if they have only five representatives then each individual is touching 20 per cent of the client base.

### ROAD AHEAD

*Outsourcing:* Outsourcing by SME’s has started taking shape in the recent scenario. SME’s have become popular in outsourcing non-core activities. Following are the benefits that can be gained by the SME’s by outsourcing:

- Creating Employer Branding
- Reduce Operating Cost
- Improve Focus on various strategic functions
- World-class recruitment/retention strategies
- Improvement in Hiring Quality talent

**Employer Branding:** **Employer branding** represents a firm's efforts to promote, both within and outside the firm, a clear view of what makes it different and desirable as an **employer** (Backhaus and Tikoo, 2004). Creating employer branding is one of the strategies in hiring talents. The company needs to create its brand and portray as a company of choice to new talents to attract them. There are many advantages of joining an SME and this has to be propagated amongst the job seekers. Since the employee strength is low the organization is more flexible as compared to larger corporate where implementing changes in the HR Policies and practices takes time.

## RESEARCH DESIGN

The study was exploratory in nature with survey being used as a method to complete the study.

## DATA ANALYSIS AND INTERPRETATION

A survey was conducted among professionals of different hierarchical levels working in different small-scale industry sectors and different types of organization. Convenience sampling was followed for the selection of sample.

The first part of the questionnaire consisted of demographic details such as type of organization, Industry Sector, Hierarchical level of the employee, Current functional area of the employee, Educational Qualification and Salary of the employee.

The second part of the questionnaire was based on talent acquisition.

The data collected was analyzed using statistical software SPSS. Various statistical tools were also used for analysis.

The demographical details showed the following:

The target population consisted of 62% employees from the manufacturing industry and 38% from Service industry. There were 21% employees from Engineering sector, 16% from IT sector, 11% each from Auto and Auto ancillary sector and 5 % each were from various other sectors such as power, finance, logistics, medicine, pharmaceutical and banking.

The survey consisted of 45% of male respondents and 55% female respondents. The hierarchical levels of the respondents were 43% from junior management level, 38% from middle management and 19% from top management. The respondents were from organizations consisting of 23% organizations having employee strength of >500, 36% organizations having employee strength of <100 and 41% organizations having employee strength of <100 and >500.

The importance of an HR Department is not been recognized by the SME sector and hence 95% of the respondents confirmed the non-existence of an HR Department in their organizations.

We also studied the various ways that the organizations follow to acquire new talents.

The various ways for recruiting employees are as mentioned below:

- Campus recruiting
- Advertisements in newspapers
- Through Head hunting agencies
- Internal Referrals
- External Referrals
- Organization's Web portal

In today's scenario it was found that 59% of the organizations hire through internal referrals. Since the employee working in the organization is aware of the skills required for a particular profile the candidate referred by him will belong to the best-fit category for the profile and thus the chances of selection is high. This helps the organization cutting their cost for talent hunting. The costs associated with hiring highly trained HR professionals on a full-time basis are likely to be prohibitive for many smaller organizations.

The process of conducting the selection of a candidate comprises of methods such as:

- Single Personal Interview
- Multiple Personal Interview
- Panel Interview
- Written test
- Personality tests
- Assessment Center

The above process is followed to reduce the rate of attrition.

In this study we found that multiple personal interviews are conducted by 81% of the organizations to acquire new talents. Followed on by written test conducted by 38% organization and 19% organizations conducted single personal interviews. The strategy adapted for negotiating compensation and benefits for employees were strictly adhering to the ongoing market rate rather than the educational qualification, work experience or criticality of role offered to the candidate. It was also seen that SME's could attract new talent even though the perks were not so good but still since the candidates thought that they could gain faster career growth as compared to larger organizations they prefer joining SME's.

Even though high performance organizations are emphasizing more value on their 'recruitment and selection' processes, majority of the small and medium enterprises (SME) attach low criticality in developing a strategic knowledge based talent acquisition process (Haas, 2008; Hubbard, 2007; and HR Practices Survey Bangladesh 2007).

## STEPS TO BE UNDERTAKEN FOR

### ATTRACTING TALENT

The main focus should be on strengths such as regional strength, growth in career and innovativeness.

- We need to calculate the effectiveness for hiring such as the cost involved, time taken to recruit, mode of hiring and the work experience of the candidate to improve the recruiting process in SME's.
- Personalized and flexible reward structure and benefits have to be designed to cater the needs of an individual while attracting new talent in SME's.
- Provide good opportunity for career advancement in SME's.
- Give a regional working environment so that it attracts young generation to join SME.

### RETAINING TALENT

- Motivating staff and engaging them in their work, which leads to better work quality and helps in retention.
- HR can give flexible and personalized attention to the employees and bring in HR policies that will be beneficial to the employee in terms of career growth and opportunities for better rewards.

- The SME's need to invest in Training and Development for their staff to retain them, which will lead to their personal growth and also improve their performance.
- HR should communicate the vision and mission to the employees so that the employees work towards achieving the goals.
- Once the HR policies, retention strategies and career advancement opportunities are implemented by the HR in smaller and medium enterprise word of mouth spreads and the company is promoted as a choice employer attracting new talents and retaining them thereafter. This will leave the employees with high satisfaction levels and enhances employer branding.

### LIMITATIONS

This study has been conducted with a smaller sample and if conducted with a larger sample the results may vary. This study can be also conducted taking into consideration different countries.

### RECOMMENDATION AND CONCLUSION

- Most of these SME's are run by technocrats and operate from lip tight financial budgets. Hence they really do not have the luxury to afford full time HR professionals. And it is here the consulting fraternity can certainly add value.
- Some of the SME's can tap into innovative ways of hiring
  - Retired professionals who want to have a more relaxed number of hours. Imagine the wealth of experience-even at say 20hrs a week.
  - Temporary or small term projects to design and implement special initiatives-utilizing some flextime employees.
  - Working closely with MBA/Engineering colleges and get interns to handle short-term projects.

From the literature survey we found that there's a lot for our Indian SME's to learn from SME's in US. When the whole world is reeling in the economic downturn, SME's can be said to be one of the biggest gainers. It is because some of SME's, who have tapped the opportunity of engaging 'interim' managers'. i.e. a manager downsized' from ironically large corporate. Even as they were looking for new employment opportunities, which aren't easy to come by considering the current economic trend, SME's can continue to utilize their experience for value addition for their own firm.

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