

# EXPLORING HUMAN RESOURCE MANAGEMENT PRACTICES IN SRI LANKAN SMALL AND MEDIUM ENTERPRISES

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## INTRODUCTION

Small and Medium Scale Enterprises (SMEs) make up a large part of Sri Lanka's economy, accounting for 80 per cent of all businesses. These are found in all sectors of the economy, primary, secondary and tertiary and provide employment for persons of different skills, skilled, semi-skilled and unskilled. There are SMEs in the agri-business sector engaged in growing spices, fruits and vegetables and in the manufacturing sector engaged in numerous industrial activities accounting for about 20 percent of industrial establishments. In the service sector SMEs accounts for more than 90 percent of business establishments. SMEs are an essential source of employment opportunities and are estimated to contribute about 35 percent of employment. The SMEs play an important role in promoting inclusive growth. The focus on SMEs in policy discussions emanates also from their role in developing entrepreneurial skills, innovation and promoting economic growth.

Increasingly, Small and Medium Enterprises (SMEs) are seen to have an important role in the Sri Lankan economy. Indeed, it would seem that both national and local economies are largely constituted of smaller enterprises, with the addition of a minority of larger enterprises. A number of problems emerge when assuming that small firms are the same as large firms. Welsh and White (1981) suggest that a traditional assumption amongst managers has been that small businesses should be managed along essentially the same principles as large businesses but on a smaller scale. They highlight the assumption that underlies this particular brand of thinking: those small companies are much like large companies, except they have smaller sales, less employees and smaller assets.

There is the need for HRM research on SMEs which are viewed as bedrock of economic development in many countries of which Sri Lanka is of no exception. Chandler and McEvoy (2000) suggest that although published research indicates that effective management of HR is one of the most important problems faced by SMEs, there is an acute shortage of research identifying the practices in use in small firms. This study examines the use and effectiveness of HRM practices within SMEs in Sri Lanka.

### **Human Resource Management practices and SMEs**

Storey (1992) defines human resource management as a distinctive approach to employment management, which seeks to achieve competitive advantage through the strategic deployment of a highly committed and capable workforce, using an integrated array of cultural, structural and personnel techniques. Store's definition assumes that it is employees that give a competitive edge and that they should not aim at mere compliance with rules but that employees should be carefully selected and developed to ensure commitment. In order to ensure that employees are committed and capable there is a need to implement good HR practices to enhance goal

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attainment. Unfortunately, research on HRM practices has focused on large organizations which appear to suggest that HR issues are not important in small organizations. If we agree with scholars such as Armstrong (1999) that human resources are the most valuable assets or a key resource in any organization, then attention has to be paid to HR practices irrespective of the size of the organization and that organizations in trying to survive in a volatile environment must focus on the human resources that has the biggest potential to ensure organizational survival.

Audretsch and Thurik (2000, 2001) argue that effective HRMP are becoming increasingly important in the modern “knowledge-based” economy, as companies face the double challenge of the need for more highly trained employees coupled with the shortage of qualified labour. These challenges, coupled with the third trend toward smaller firms in general, reinforce the need for effective HRM practices in the small firm.

Empirical research confirms that in general, smaller firms make less use of professional HRM practices than larger firms (Barron, Black and Loewenstein 1987; Hornsby and Kuratko, 1990). For example, smaller firms make less use of formalized recruitment practices (Aldrich and Langton, 1997), provide less training to their employees (Koch and McGrath, 1996; Westhead and Storey, 1999) and are less likely to use formalized performance appraisals (Jackson, Schuler and Rivero, 1989). In spite of the size effect, a growing base of research evidence suggests that far from being homogeneous, small firms nevertheless vary widely in the professional HRM practices in use (De Kok and Uhlaner, 2001). Deshpande and Golhar (1994) found HRM practices within many small manufacturing firms to be as sophisticated as those in larger companies. Similarly, Hornsby and Kuratko (1990) find that while firms of all sizes use primarily informal recruitment and selection techniques (mainly employee referrals and the interview), even among small firms, HRM practices are often more sophisticated than they had expected.

### **Research Problem**

Given the review outlined above, the research aimed to address the following questions:

- What are the major HRM issues reported by managers in Sri Lanka SMEs?
- What HRM practices are used in Sri Lankan SMEs?
- How effective are these HRM practices seen to be?

### **Objectives of the research**

The purpose of this study is to explore the Human Resource Management Practices (HRMP) in SMEs in Sri Lanka. The result of this study would help the SMEs to understand the significance of the HRMP and consider effective HRMP in order to induce and maintain success and survival of the organizations.

### **METHODOLOGY**

Questionnaire was the tool to collect the data. The questionnaire survey was used to obtain primary data. The questionnaire was issued to the Admin officers or owners of the selected SMEs. A document review was carried out to obtain secondary data from the SMEs who participated in the study. The research originally planned to study SMEs in all districts (25) in Sri Lanka but the researcher could collect data only from 20 districts. Data could not be collected from 05 out of 25 districts because the researcher could not find a research assistant and because of the time factor. A total of 58 SMEs responded from the 20 districts. The study collected responses from 58 SMEs. They were mainly involved (53.4 %) in manufacturing (bakery, shoe, plastic, bag, frame, handloom, rubber, cushion work, milk, packet, poultry, water filter clay, sweet, tea estate) and 46.6% were service organizations (beauty parlour, printing, restaurant,

hotels, shipping, construction). SMEs from 20 districts responded except five districts (Batticalo, Hambantota, Mannar, Mullitivu and Polonnaruva). In each district three SMEs responded except

Anuradhapura and Kalutara. 82.8% of the businesses are small and remaining 17.2 % are medium. Quantitative and qualitative analysis were conducted.

## RESULTS AND DISCUSSION

### Profile of the SMEs

In most SMEs (43.1%) the owner's age is more than 50 years. Most of the owners (94.8%) are male. 22.4% of the owners have experience in SME between 5 to 10 years. About 50% of the businesses were established in the last 10 years time. 50% of the owners commenced their business with G.C.E A/L qualifications. On average, they have 23 employees. 50% of the enterprises capital is between Rs.100000 to Rs.1000000.

### HRM issues in Sri Lankan SMEs

73.6% of the SMEs responded that labour turnover is high. Poor employee (74.7%) attitude towards work has been hampering the performance of the SMEs. They (69%) are not committed to the work. They (60%) see the work as belonging to somebody. They (61.3%) do not regard the rules and regulations at the work place. The employees, the study revealed, are demanding more salary and other benefits than their output. Whether the SMEs are making it big or not the employees want their portion without delay. On the part of the employees they were of the view that the pay that they receive hardly takes them through to the next pay day due to the cost of living in the country. The current operations of most of the SMES were labour intensive. Some of the SMEs especially the medium sized ones complain of the inability of the applicant to handle basic tools and equipment. The use of ICT was also lacking in most of the employees. Most of the small enterprises complained of lack of trainees. Their trainees are usually school drop outs and people who could not gain access to higher education due to inability or lack of funds. The study established poor human resource practices (lack of HRP, motivation, training, knowledge) because issues of HR have not been placed at the core of the SMEs.

### HRMP in Sri Lankan SMEs

SMEs had a relatively low level of HRM sophistication and application. Most (96.6%) of the SMEs had no HR department, Most (94.7%) of the SMEs had no HR specialist expertise, they (84.5%) made use of these HRM practices for running business, and they rated the effectiveness of their use of the professional HRM practices as less than large organization. 81% of the respondents responded that they practice staffing, training, compensation, human resource planning and performance appraisal but not in a professional manner and not formally. The survey findings demonstrated that firm size does have a significant impact on adoption of HRM practices. Small-sized firms had a significantly lower adoption rate of HRM practices than medium-sized firms. The table 1.1 shows the result of the HRM practices in SME.

**Table 1.1 HRM Practices in SME**

Description	Responses in Percentage	
	Yes	No
Practice HRM	84.5	15.5
Practice (Human Resource Planning, Recruitment and Selection, Training & development, Compensation, Performance Appraisal)	81	19

HR Department	3.4	96.6
HR Specialist or Expert	5.3	94.7

Source: Survey data 2013

The following discussions elaborate on HRM practices individually based on the firm size.

### **Recruitment and Selection**

In small size enterprises the owner carries out the recruitment and selection. They prefer to recruit already trained employees rather than giving training after recruitment. Recruitment and selection in medium enterprises is more formalized than in small enterprises. Vacancies are declared through advertisements in the media and also in the operational area of the enterprises. Most of the respondents (84.5%) said that recruitment and selection is done by the owner. 24.1% respondents responded that interviews are used for selection of a candidate. Depending on the position to be filled qualifications (81% responded that basic qualification is required) and/or skilled training as well as previous experience are required. Retention strategies are based on performance of the employees. 91.4% respondents responded that they do not have staff for looking after recruitment and selection. 50% of the organizations practices promotion on the basis of performance and experience

### **Training and Development**

In small and medium size enterprises, training is usually on the job conducted mainly by seniors and monitored by the owner. This study also confirms the previous findings which is that 98.3% provides on the job training. 10.3% responded that they provide off the job training too. They (19%) conduct training need assessment before training. There are little opportunities for external training for employees. 29.3% of the organization send the employees to external training organizations. The owners attend external training organized by their respective associations. On the job training is carried out by supervisors on periodic basis and some employees are also sponsored to participate in training programmes outside the enterprises. There is less chance for career development in SMEs compared to large organization. Further, employees feel that they do not have career opportunities for their development. They (72.4%) provide orientation training programme to the staff who join the organization. They (85%) conduct the training for 1 to 7 days. There is little training and development opportunities in SMEs

**Table 1.2 Training and Development in SMEs**

Description	Responses in Percentages	
	Yes	No
On the Job training	98.3	1.7
Off the Job training	10.3	89.7
Training Need Assessment	19.0	81.0
External Training	29.3	70.7
Orientation (formal & informal)	72.4	27.6
Orientation days (1 to 7 )	85.0	15.0
Opportunities for T &D	14.5	85.5
Opportunities for new skills		

Source: Survey data 2013

### **Compensation**

The SMEs responded that compensation is paid based on performance (50%) and competitive (50%). They (60%) responded that they pay incentives to their employees. The incentives are financial and non financial. They (60%) felt that incentives motivated their employees. They (55%) provide additional financial benefits too. 51.7% of the SMEs responded that employees have a career path.

When we are comparing small size enterprises with medium size there are some deviation in practicing compensation. In small size enterprises, compensation is not standard or not equal to market rate but medium size enterprises pay compensation equal to the market rate. Organizations also face difficulties finding suitable staff with knowledge and skills because compensation is not matched with their qualifications and market rate. Some small enterprises do not pay EPF and ETF. They pay salary daily and weekly not monthly.

### **Performance Appraisal**

In SMEs (84.5%) responded that there is no formalized appraisal system. They use observation (44.8%), interview (32.8%) and questionnaire method (6.9%) to apprise the employees. In small and medium enterprises, performance appraisal is carried out on a monthly basis and is the responsibility (79.3%) of the owner and manager. It is discovered using the output of the employee/training and the deviations provides instant training to all the workers. It was discovered that there were no standardized appraisal forms. When the report is very bad the organization uses it as a basis to terminate the worker's appointment but in some cases the organization gives a second chance by providing extra coaching to the employees. 79.3% responded that there is an ineffective performance appraisal system.

### **Effectiveness of HRM practices**

Medium size enterprise respondents indicated relatively moderate use of all areas of HRM practice. HRM practices and effectiveness of were all positive and correlated. Most of the small business holders have not heard of or understood these practices so they could not express the effectiveness of HRM practices.

### **CONCLUSIONS/RECOMMENDATIONS**

The study provides insights into human resource practices and issues of SMEs in Sri Lanka. It was clear from the findings that SMEs face a lot of human resource challenges notable among them are poor attitude to work by employees, high demand for benefits, inability to attract and retain trainees and employees. The findings of the research would add to the literature on HRM in small and medium firms which appears to be non-existent in Sri Lanka. The managerial implication for the study is that owners/managers of SMEs should ensure good practices in HR in order to remain competitive. Performance of SMEs will therefore be enhanced if more attention is paid to the acquisition and management of human resources. SMEs owners and managers should broaden the scope of HR practices. It will increase the retention rate of employees, enhance the competencies and commitment of the work force and levitate the level of satisfaction among employees. This shift in turn enhances the organizational performance in terms of quality, productivity and market share. Successful HR system also helps to integrate the other organizational functions in lesser time.

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