

# An Emperical Study on Human Resource Management practices of Small and Medium Enterprises (SMEs) in Bangladesh

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#### **Abstract**

Small and medium enterprises are playing a vital role for developing the economy of a nation as they play an essential role in poverty reduction through employment generation. So it is essential for SMEs to take human resources more seriously in this day and age as the good practice of HRM will maintain and attract highly qualified personnel therefore placing the organization at a competitive advantage. The aim of this study is to analyze the human resources practices of SMEs in Bangladesh. A sample of 160 respondents has been selected conveniently from Barisal City in Bangladesh to conduct this study. SPSS has been used to analyze collected data for descriptive statistics, t test, ANOVA, testing hypotheses and other general analysis. The result reveals that most of the enterprises are male oriented and educational level of 71.8% employees are up to SSC. In recruitment process, employers are relying on experienced but acquainted sources and 86.9% SMEs do not arrange any kinds of test for selection as well as 65.6% think that there is no necessity of training to perform their job. About 94.3% employees are working more than 8 hours in a day but among them only 15.60% get overtime facilities and 64.90% do not get overtime payment. But favorable colleagues' behavior, overall job satisfaction, supervisor's well behavior and convenient working environment are found as good human resource practices in SMEs. Study also found some drawbacks of the enterprises like lack of quality and expansion of product line, incapable of retaining skilled employees, to increase of investment, absence of modern technology, lack of convenient working environment and to increase of size and space of the organizations.

## Keywords: HRM, SME, Employees, SPSS

#### 1. Introduction

SME's are recognized as engine of economic growth and employment generation for sustainable industrialization in both developed and developing countries of the world. In context of Bangladesh, there is no alternative of Small & Medium enterprises for rapid industrialization and national economic growth through lower capital investment and employment generation. After Liberation of Bangladesh, intensive efforts were undertaken to accelerate the rate of industrialization in our country. At the beginning, import substitution and subsequently export-led economic growth strategy was pursued for industrialization. In order to attain this objective, large amount of industrial credit was funneled to the industrial sector. But the whole exercise of industrialization came to a halt with the massive diversion of resources to other non-priority sectors. Policy makers, of late, have come to recognize the contribution of SME sector towards economic development in the country. Small and medium enterprises have been recognized as one of the most important means for providing better economic opportunities for the people of least developing countries like Bangladesh.

SME as small industry means an industrial establishment or unit which is run mainly by hired labor and not using mechanical motive power but does not normally employ more than 50 workers and whose land, building and machinery does not exceed Tk.150, 00,000 in value in either case. So the development of small and medium enterprises (SMEs) in developing countries is generally believed to be a desirable end in view of their perceived contribution to decentralized job creation and generation of output. SMEs constitute the dominant source (80%) of industrial employment in Bangladesh, and about 90% of the industrial units fall into this category (Najmul, 1998). The actual performance of SMEs, however, varies depending on the relative economic efficiency, the macro-economic policy environment and the specific promotion policies pursued for their benefits.

Small Enterprise refers to the firm/business which is not a public limited company complies the following criteria:

Serial No.	Sector	Fixed Asset other than Land and Building	Employed Manpower (not
		(Tk.)	above)
1.	Service	50,000-50,00,000	25
2.	Business	50,000-50,00,000	25
3.	Industrial	50,000-1,50,00,000	50

(Source: Bangladesh Bank)

Medium Enterprise refers to the establishment/firm which is not a public limited company and complies the following criteria:



Serial No.	Sector	Fixed Asset other than Land and Building (Tk.)	Employed Manpower (not above)
1.	Service	50,00,000-10,00,00,000	50
2.	Business	50,00,000-10,00,00,000	50
3.	Industrial	1,50,00,000-20,00,00,000	150

(Source: Bangladesh Bank)

Any precise quantitative estimate of the importance of SMEs in Bangladesh economy is precluded by non-availability of comprehensive statistical information about these industries at the national level. The latest BSCIC estimates suggest that there are currently 55,916 small industries and 511,612 cottage industries excluding handlooms. Including handlooms, the number of cottage units shoots up to 600,000 units indicating numerical superabundance of the SCIs in Bangladesh. Quoting informal Planning Commission estimates, the SMDF puts the number of medium enterprises (undefined) to be around 20,000 and that of SCIs to be between 100,000 to 150,000. This wide variation in the BSCIC and Planning Commission estimates of the numerical, size of the SMEs might be due to at least two reasons: (a) different set of definitions of the SMEs and (b) different coverage of SME families. This strongly suggests the need for adopting and using a uniform set of definitions for SMEs by all Government agencies to help formulation of pro-active SME promotion policies. Whatever the correct magnitude, the SMEs are undoubtedly quite predominant in the industrial structure of Bangladesh comprising over 90% of all industrial units. This numerical predominance of the SMEs in Bangladesh's industrial sector becomes visible in all available sources of statistics on them (Ahmed, M.U 2001). Together, the various categories of SMEs are reported to contribute between 80 to 85 per cent of industrial employment and 23 per cent of total civilian employment (SEDF, 2003). However, serious controversies surround their relative contribution to Bangladesh's industrial output due to paucity of reliable information and different methods used to estimate the magnitude. The most commonly quoted figure by different sources (ADB, World Bank, Planning Commission and BIDS) relating to value added contributions of the SMEs is seen to vary between 45 to 50 per cent of the total manufacturing value added.

A significant proportion of SME activities may be in the informal sector, for which there is no dependable information. Besides, the survey estimates SME contribution based on an approach that requires the use of data on profits earned by enterprises. However, it is very difficult to gather and measure profits of establishments. Therefore, the aforementioned contribution of SMEs may be underestimated. The robustness of SME contributions to employment generation is a common phenomenon in most developing countries in that the magnitude varies between 70% to 95% in Africa and 40% to 70% in the countries of the Asia-Pacific region (Ahmed, M.U., 1999).

While SMEs are characteristically highly diverse and heterogeneous, their traditional dominance is in a few industrial sub-sectors such as food, textiles and light engineering and wood, cane and bamboo products. According to SEDF sources quoted from ADB (2003), food and textile units including garments account for over 60% of the registered SMEs. Various recent studies (Ahmed, M.U. 2001; ADB 2001, USAID 2001) show that SMEs have undergone significant structural changes in terms of product composition, degree of capitalization and market penetration in order to adjust to changes in technology, market demand and market access brought by globalization and market liberalization.

SMEs in Barisal City produce and trade a multitude of labor intensive goods including, consumer items, toys, garments, furniture, electronic products and restaurants for the domestic market. Further development of these industries needs various investment initiatives by local entrepreneurs as well as government which will accelerate the economic growth of this area. So as a part of our development strategy, we should intensify our efforts to develop this sector to grow industrial base and volume of foreign trade. As we know that in this age of globalization, it is impossible to stop the flow of foreign goods to any country. Only quality products can meet the challenges in global market. For meeting this situation, SMEs need to upgrade their technological capabilities and production facilities in order to produce quality products at a competitive price.

HRM practices include employee hiring, training, developing, retaining, motivating, rewarding etc. It is becoming increasingly important in the new "knowledge-based" economy, as organizations face the double challenge of the need for more highly trained employees coupled with a 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 (Audretsch and Thurik, 2000). It is therefore not surprising that research on HRM practices in small and medium-sized enterprises has captured increased attention in recent years.

HRM and human resource development (HRD) is equally central for both small and large firms, but manifest itself differently in them. As early as the beginning of the 1990's it was found that the size of a business does affect the formality of human resource practices. It also affects the sophistication of the HRM practices used. Small firms do not have the same kind of resources to implement official human resource practices, but they still need to keep employees satisfied and productive (Saru, 2007). Although the importance of small business is well-recognized, academic investigations have only recently started to focus on particular issues



within this sector. Human resource management in small businesses is an area that is quite neglected (Heneman etal., 2000; Matlay, 2004). Furthermore, it has been concluded that human resource practices vary highly between small business entities (Brand & Bax, 2002) and that there is some conflict in the existing literature regarding which human resource management practices are most beneficial to quality management (Chandler & McEvoy, 2000; Soltani, 2005)

## 2. Research Methodology

Research design specifies the ways in which data relating to a given problem should be collected and analyzed. The employee categories were considered are salesmen, owners, managers, accountant, waiter, and support staffs. The study utilized a specific survey research design of which purpose was to evaluate the human resource management practices of Small and Medium enterprises of Barisal City.

Based on the literature review regarding human resource management practices, fifty seven questionnaires had developed considering both intrinsic and extrinsic variables. But some of the questionnaires were used as a supporting so that the respondents could respond according to the real fact. A demographic information part was also added with the questionnaire such as name, name of the organization, gender, designation and working experience, education, number of family members etc. There was one type of question; explanatory variables of 'Human Resource Management' in interval scale as well as multiple choice options and also have open ended questions. The questionnaire was prepared according to 5-point Likert scale (1= Strongly Disagree, 5= Strongly Agree and 3= Neither Agree nor Disagree). Theoretically, '3' Neither Agree nor Disagree with the item. Thus, recording '4' & '5' represent agree, the higher the score, the greater the level of agree. Similarly, Yes=1, No=2 and No comment=3. On the other hand, some of the questions that have direct choice also sequentially arranged. In a specific survey, we have selected 160 as convenience sampling and collected primary data (May, 2014) from a population and administered a standardized questionnaire to them. The primary data has been collected from interviewing Employees, Managers and workers of the SMEs. The analytical approach used in analyzing data in a quantitative method by means of tables, graphs, percentages and based on other findings from the answers of questionnaire by employees of SMEs. The secondary sources of data have been taken from different journals, existing books, reports, magazines and from internet etc.

### 3. Literature Review

SMEs are generally regarded as important to world economies (Storey, 1994). In fact, it has been argued that SMEs make up the largest business sector in every world economy (Culkin and Smith, 2000). For many years now, governments in different parts of the world are increasingly promoting and supporting the growth of SMEs as a part of their overall national development strategy (Abdullah, 2000; and Lin Bakar, 2000). Apart from the fact that they dominate in terms of absolute members, SMEs are very important because they are the key drivers of employment and economic growth (Wang, Walker and Redmon, 2008). At a macroeconomics level, SMEs are considered by governments as a keystone to regional economic and community regeneration because such firms absorb back into the workforce the employees that are made redundant by the restructuring, rationalizing downsizing and outsourcing taking place in large firms (Storey, 1994; Frank and Landstorm, 1998). This provides income to region thereby stimulating local economic activity and driving wealth and further creation of employment (Walker and Webster, 2004). SMEs are also commonly noted for contributing to economic growth through their innovative activities despite their generally limited capacity for research and development (R & D) investments (Acs and Andretch, 1990).

Small businesses in general have been seen as only smaller examples of large firms. How-ever, according to Burns (2001) small business cannot be characterized as only scaled down versions of large firms since they show a number of fundamental differences. A number of these differences can be explained by lacking economies of scale and scope which amongst others is also caused by less provision for human resource management (Fitzsimmons & Fitzsimmons, 2003). Principle challenges facing SME's, whether family or non-family businesses, point to human resource aspects (Hoover & Hoover, 1999). A developing economy like that of ours suffer from many peculiar problems such as disproportionate pressure of population on agriculture due to lack of rural industrialization, unemployment and underemployment of human and materials resources, unbalanced regional development etc. The contributions of small and medium enterprises are the solution of these problems is beyond doubt, provided they are organized and run on scientific basis.

The faster the growth experienced by the small businesses, the greater the chance that HRM problems will be experienced. According to Mazzarol (2003) the owner-manager is usually burdened with the variety of HR functions for which he is generally poorly equipped. Already in 1986 Little (1986) stated that as the number of staff employed increases the need for a formal HRM manager or process also becomes pressing. Caudron (1993) views businesses with less than 100 employees as being able to operate without a full-time personnel or HR manager. However, once the employee base exceeds 150 a HR manager or department becomes a necessity. Human resource includes knowledge, skills, talents and emotions that are in human beings. It is therefore any



productive attribute that a worker possess in his head, hand and heart as well as in other parts of the. Traditionally, it focuses on matching the knowledge, skills and ability of a person to job requirements (Bruystegem, Woestyne, Dewetticnck, 2008). 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.

There also needs to be more research into the links between HRM competitiveness and business success in the SME sector. More attention should also be paid to HRM as a management theory. It seems that managers had little understanding of HRM as a management theory. However, SME owners-managers are familiar with many of its practices (Bacon, Ackers, Storey & Coates, 1996). In order to ensure that employees are committed and capable therefore, the need to implement good HR practices to enhance goal 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 the human resources are the most valuable assets or 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.

The research focuses on how the HR practices of recruitment and selection, performance appraisal, training and development as well as retention strategies are implemented in small and medium sized firms and also to identify the HR challenges faced by these firms. Managing such issues as recruitment and selection, staff promotion and retention, wages and salary negotiations, training and development, tax insurance regulations, and other HR aspects can place an extensive burden on the average small business owner (Caudron, 1993). Our current understanding of HRM practices with SMEs is as yet insufficient to provide an answer to this question. Especially quantitative studies, in which specific hypotheses on HRM with small firms are tested empirically, are lacking. The number of quantitative studies on HRM with SMEs is limited. Heneman et al. (2000) have performed a literature review on this topic amongst 28 different publications. This resulted in 403 articles on HRM, of which only 17 articles used quantitative methods to test specific hypotheses on HRM with small and medium-sized enterprises. They conclude that 'the lack of information about human resources in SMEs is problematic for theory, research and practice'. Even with regard to HRM research, the tendency is to focus on larger businesses and to ignore the very significant small and medium-sized segments of the economy. For smaller businesses, resource constraints may mean that HRM may often be less formal and also limited in their scope and sophistication, but this does not imply that effective HRM is any less significant to firm performance and success (Heinemann, Tansky & Camp, 2000., Chandler & McEvoy, 2000., Welbourne& Cyr, 1999).

# 4. Hypothesis

Hypothesis 1:

H<sub>0</sub>: Employees are not recruited from acquainted sources

H<sub>1</sub>: Employees are recruited from acquainted sources

Hypothesis 2:

 $H_0$ : Employee's training program is not related to selection criterion

H<sub>1</sub>: Employee's training program is related to selection criterion

Hypothesis 3:

H<sub>0</sub>: Employees are not paid overtime salary

H<sub>1</sub>: Employees are paid overtime salary

## 5. Data analysis of HRM Practices in SMEs

# **Table: 1 Gender description**

Gender	Frequency	Percent (%)
Male	149	93.1
Female	11	6.9
Total	160	100.0

(Source: Field Survey, May 2014)

In table 1, it is surprisingly found that 93.1% employees are male and 6.9% female workers who are involved in SME businesses.



Table: 2 Experiences and Educational Level of Employee's Cross Tabulation

Experience of	Educational	Educational Level of employees				Total
employees	Honor's	Degree	HSC	SSC	Below Class IX	Total
Less than 1 year	.0%	.6%	5.6%	6.9%	8.8%	21.9%
1-4 years	1.2%	2.5%	8.1%	15.6%	10.0%	37.5%
5-9 years	.0%	3.1%	3.8%	8.8%	9.4%	25.0%
10-15 years	.0%	.6%	1.2%	6.2%	2.5%	10.6%
More than 16 years	.0%	.6%	.6%	3.1%	.6%	5.0%
Total	1.2%	7.5%	19.4%	40.6%	31.2%	100.0%

(Source: Field Survey, May 2014)

The study characterized the experiences and educational level of respondents into five categories such as less than 1 year to more than 16 years and below Class IX to Honor's. Study shows that 37.5% employees are working within 1 to 4 years who have possessed the highest experiences whereas only 5% are working more than 16 years. On the other hand, 40.6% employees who are the highest in number have completed SSC whereas only 1.2% possesses higher education.

**Table: 3 Employees Recruitment Sources** 

Sources	Frequency	Percent (%)
Advertisement	13	8.1%
Relatives	38	23.8%
Agents	0	0%
Acquainted	98	61.2%
Others	11	6.9%
Total	160	100.0%

(Source: Field Survey, May 2014)

This table shows that the lion share (61.2%) of the employees is recruited from acquainted sources, 23.8% from relatives, 8.1% from advertisement and 6.9 % from other sources. So in recruitment process, most of the SME owners rely on acquainted and relatives to employ employees.

# **One-Sample Statistics**

	N	Mean	Std. Deviation	Std. Error Mean
Employees Recruitment Sources	160	4.0312	1.60746	.12708

One-Sample Test						
	t	df	Sig. (2-	Mean	95% Confidence	Interval of the
			tailed)	Difference	Difference	
					Lower	Upper
Employees Recruitment	31.722	159	.000	4.03125	3.7803	4.2822
Sources						

The sample mean is 4.0312. Standard deviation is 1.60746. The estimated standard error of the mean is .12708. The obtained standardized sample mean or "obtained t" is 31.722. *P* for *a two-tailed test* is approximately 0.000. We could reject  $H_0$  at the 0.01 significance level. So we accept  $H_1$  alternative hypothesis.

**Table: 4 Employee selection process** 

Tubic: 4 Employee selection process						
Exam Name	Exam status f	Exam status for selection				
	Yes	No	No comment	Total		
Viva	10.0%			10.0%		
Written	.6%			.6%		
Written & Viva	1.9%			1.9%		
No Exam		86.9%	.6%	87.5%		
Total	12.5%	86.9%	.6%	100.0%		

(Source: Field Survey, May 2014)

According to above findings, only 12.5% enterprises take examination and among them 10.0% take viva, 0.6% written examination whereas 86.9% SMEs do not arrange any kinds of examination for selection. That indicates employees are recruited from acquainted sources.



Table 5: The Necessity of Training program for employees based on selection criterion

Criteria of Selection	Training Necessity	Total		
Citteria di Selectioni	Yes	No	No Comment	Total
Education	3.1%	2.5%	.6%	6.2%
Experience	19.4%	40.6%	2.5%	62.5%
Good Behavior	3.1%	18.1%	.0%	21.2%
Physical Fitness	.0%	.6%	.0%	.6%
Others	1.2%	3.8%	4.4%	9.4%
Total	26.9%	65.6%	7.5%	100.0%

(Source: Field Survey, May 2014)

From the above findings, we get that 26.9% employees feel the necessity of training and 65.6% think that there is no necessity of training to perform their job and rest of them did not give any comment regarding training.

#### **ANOVA**

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	5.286	4	1.321	4.686	.001
Within Groups	43.708	155	.282		
Total	48.994	159			

According to the Analysis of Variance, there are significant differences between the criterion for selection in the mean number training program essential for employees F(4, 155) = 4.69 p < .05.

Table: 6 Duty and payment for overtime

Par day duty	Paid for the overtim	Total		
Per day duty	Yes	No	No Comment	Total
6 hours	.0%	.7%	.0%	.7%
8 hours	1.2%	3.8%	.0%	5.0%
10 hours	3.1%	11.2%	.6%	15.0%
12 hours	8.1%	45.6%	12.5%	66.2%
14 hours	4.4%	8.1%	.6%	13.1%
Total	16.9%	69.4%	13.8%	100.0%

(Source: Field Survey, May 2014)

Table 6 shows that overall 69.4% employees were not paid for their overtime duties whereas 16.9% were given payments for overtime duties. On the other hand, 66.2% employees work for 12 hours in a day but among them only 8.1% were paid for overtime duties.

## ANOVA

Paid for the overtime duty

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	3.187	4	.797	2.705	.032
Within Groups	45.657	155	.295		
Total	48.844	159			

According to the Analysis of Variance, there were significant differences between the payment for overtime in the mean number overtime duty F(4, 155) = 2.705 p < .05.

Table 7: One-Sample Test for General HR Practices

SL.	HR Practice variables	Mean	Std. Deviation	t	df
1.	Employees maintain their time strictly	3.8875	1.31746	37.325	159
2.	Fair salary is paid to employees	3.6000	1.41510	32.179	159
3.	Convenient working environment	4.1812	.89634	59.006	159
4.	Supervisor's well behavior	4.2562	.65634	82.028	159
5.	Competitive and disputing at work	2.3188	1.29037	22.730	159
6.	Favorable colleagues' behavior	4.5062	.59343	96.051	159
7.	Intense political pressure	1.6312	1.05581	19.543	159
8.	Highly Secured Job	3.2250	1.43167	31.722	159
9.	Overall job satisfaction	4.4250	.59927	93.401	159

The results of the above table depicts that favorable colleagues' behavior, overall job satisfaction, supervisor's well behavior and convenient working environment are very important for standard human resource practices. Last but not least we can say that overall human resource practices in SMEs are fairly good and favorable for



employees.

# 6. Findings of the Study

In this study we took 36.9% small and 63.1% medium enterprises. The study tried to analyze the human resource management practices that most of the SMEs followed in Barisal City. From the analysis, it has been found that 93.12% employees are male and 6.9% are female workers who are involved in SME business and among them, 37.5% employees are working within 1 to 4 years who have possessed the highest experiences whereas only 5% are working more than 16 years. On the other hand, 40.6% employees who are the highest in number have completed SSC whereas only 1.2% possesses higher education. In case of HR practices, SMEs are recruiting less educated employees and most of the employees are recruited from acquainted (61.2%) and relatives (23.8%) and most of them follow informal viva for selection. From one sample test of employee's recruitment sources, we reject Null Hypothesis 1 ( $H_0$ ) and accept Alternative Hypothesis 1 ( $H_1$ ).

We also found that 26.9% employees feel the necessity of training and 65.6% think that there is no necessity of training to perform their job. But from ANOVA test for necessity of training program for employees based on selection criterion (table 5), we reject Null Hypothesis 2 ( $H_0$ ) and accept Alternative Hypothesis 2 ( $H_1$ ). Another finding of this study is that 69.4% employees were not paid for their overtime duties whereas 16.9% were given payments for overtime duties. Most of the employees (94.3%) are working more than 8 hours in a day but among them only 15.60% get overtime facilities and 64.90% do not get overtime payment. ANOVA test for duty and payment for overtime (table 6) also reveals that there are significant differences between the payments for overtime in the mean number overtime duty. So we accept Alternative Hypothesis 3 ( $H_1$ ) and reject Null Hypothesis 3 ( $H_0$ ).

We also found some drawbacks of the enterprises like lack of quality and expansion of product line, incapable of retaining skilled employees, to increase of investment, absence of modern technology, lack of convenient working environment and to increase of size and space of the organizations. From the general human resource practices we found that favorable colleagues' behavior, overall job satisfaction, supervisor's well behavior and convenient working environment are very important for standard human resource practices but in our study shows the overall human resource practices in SMEs are fairly good and favorable for employees.

#### 7. Conclusion

SMEs are significant in underlying country's economic growth, poverty alleviation, employment generation and acceleration of industrialization of the developing countries like Bangladesh. That is why; The Government of Bangladesh has highlighted the importance of SME in the Industrial Policy 2010 and initiated a number of steps towards the growth of SMEs. But SMEs in Bangladesh are facing an intense competition from the international markets and a systematic analysis of its HRM practices. For these reason, SMEs should pay attention to HRM practices because global opportunities and competitive pressure have made the importance on skillful management of human resources than ever. In recent years, Human Resources issues have become central to business deliberations in this ever-changing business environment. Today's most successful organizations recognize the bottom line impact of the emerging HR practices to lead the way on several strategic fronts development of formal systems for creating a learning organization, effective deployment of human resources for maximum return to the company, and enhancing the competencies of the workforce. In these ways, effective human resources departments are upgrading them every now and then to attract, develop and retain talents. In this study, it has been tries to show the extent at which SMEs practices human resource management at their organization that covers their training, recruitment and selection process, duty and payment system etc. and found the overall HR practices are favorable for employees. The findings of this study will assist entrepreneurs to focus their efforts on the growth and success of SMEs business in Barisal. So after all the details, it is clear that to run an organization effectively and efficiently it must have to do some HR jobs because the resource of an organization helps it to grow. And the effective use of the resource makes the organization capable in delivering sustainable results.

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