

Training Needs Analysis for the SME Sector

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Abstract

The Small and Medium Enterprise (SME) sector is a vibrant sector in the Indian economy, producing a wide range of industrial products such as machinery, machines, apparatus, appliances, electrical machinery, food products, beverage, tobacco and tobacco products, cotton textiles, wool, silk, synthetic products, jute & jute products, wood & wood products, furniture and fixtures, paper & paper products, printing publishing and allied industries, and also a large number of service industries.

The SME sector of India plays a pivotal role in country's industrial economy. In fact, the SME sector can be considered as the backbone of Indian economy, contributing about 45% of the industrial output and about 40% of total exports. It gives employment opportunity to 60 million people, creates 1.3 million jobs every year and produces more than 6000 products for the domestic and international markets. The major advantage of the SME sector is its employment potential at a low capital cost. Labour intensity in the SME sector is estimated to be nearly four times that of large enterprises. SMEs are also responsible for driving innovation and competition in many economic sectors.

The present study focuses on establishing whether lack of skilled human resources, along with poor management skills more broadly (including financial management, production management, human resource management, and marketing management) contributes to the poor performance of SMEs in the manufacturing sector of Bangalore, India. So study concentrates on the training needs of SMEs too. The study also examines the economic factors which have a direct influence on the performance of SMEs.

Keywords: *Small and Medium Enterprises (SMEs), performance, management skills.*

Introduction

The SME sector in India is defined according to the Micro, Small and Medium Enterprises Development Act (2006), based on their investment in plant and machinery.

For manufacturing enterprises (i.e. enterprises engaged in manufacturing of goods), a micro-scale enterprise is one where the investment in plant and machinery does not exceed Rs.25 lakhs; a small-scale enterprise is one where the

investment in plant and machinery is more than Rs.25 lakhs, but does not exceed Rs.5 crores; and a medium-scale enterprise is one where the investment in plant and machinery is more than Rs.5 crores, but does not exceed Rs.10 crores.

For service enterprises (i.e. enterprises engaged in producing services), a micro-scale enterprise is one where the investment in plant and

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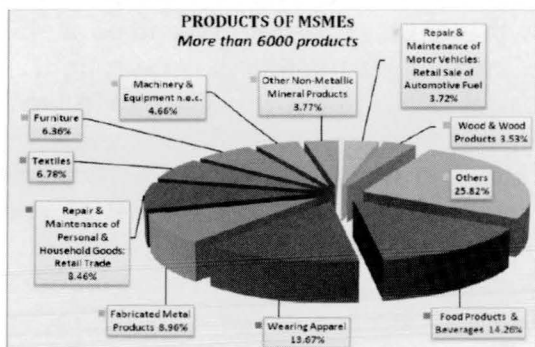
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machinery does not exceed Rs.10 lakhs; a small-scale enterprise is one where the investment in plant and machinery is more than Rs.10 lakhs, but does not exceed Rs.2 crores; and a medium-scale enterprise is one where the investment in plant and machinery is more than Rs. 2 crores, but does not exceed Rs. 5 crores.

SMEs, including the traditional cottage and village industries and modern small-scale enterprises, play a vital role in rural and urban development. Kulkarni (2001) suggested that the industrial development of backward areas can only be achieved by the rapid development and promotion of small-scale industries. Besides their economic role, SMEs also play a significant social role in achieving various social goals such as removal of poverty, attainment of self-reliance, women empowerment, and reduction in disparities in income, wealth, standard of living, and regional imbalances.

Traditional small-scale industries include cotton spinning industries, rice mills, wooden furniture, leather product industries, khadi handloom, and oil mills. Modern small-scale industries produce a variety of novel products including electronic items, miniature vacuum bulb, brassware, packaging materials, agricultural implements, ready-made garments, and real & artificial jewellery. Traditional small-scale industries are highly labour intensive, whereas modern small-scale industries are well equipped with sophisticated machinery. MSMEs manufacture over 6000 products, as shown in the chart below.



Source: - Final Report of the Fourth All India Census of Micro, Small & Medium Enterprises 2006-07 Registered Sector

SMEs face unique challenges in managing HR that stem largely from their size. While economies of scale permit larger organizations

to employ a team of specialists to address the complexities involved in managing HR programs, this is not a viable option for many SMEs. As a result, HR activities often become the responsibility of general managers. Small businesses have a greater likelihood of association of power between owners and managers. Small business owners usually have direct impact on operations and activities of businesses than owners of large businesses (Jenkins, 2004). The direct role of SME entrepreneurs implies multidimensional goals - a commercial orientation as well as personal preferences, objectives and ambitions such as desire for lifestyle, family and reputation in communities (Southwell, 2004). Within an ambiance of business diversity, small businesses exhibit a general characteristic of informality which is illustrated by a lack of written management procedures and practices, such as human resource management (Kotey and Slade, 2005).

More often than not, the values of the promoter or owner of small businesses are the expected values or culture of the organization. Consequently, the owners play a more critical role in the development of their business than owners of larger businesses (Storey, 1994). This perhaps is one of the most important aspects restricting the growth of SMEs, as there is a dire need for change in the organization culture to match the challenges of business. The process of decision-making in the small business organization acts as a grid lock in the high growth rate of SMEs. Another cultural impediment faced by SMEs is that the existing employees who are well adjusted to the conventional culture generally develop differences with the employees who are recruited from professionally driven big companies. Human resource is a vital factor that could affect the performance of organization (Pfeffer, 1998); therefore, it is important to understand how to manage human resources so as to maximize productivity and enhance creativity as well as control the costs. HR strategies give valuable foundations to the rising number of diversified SMEs.

The SME sector as a whole is basically promoter-driven. The problem of SMEs is that the promoter reflects values which are different from the values that the employee groups reflect and this difference becomes critical in the business growth process. This is where there is a need for the decision makers to understand the need for change. Thus the stake of HR becomes very high because of its two-fold role: to continuously influence the promoter/owner on the need for organization culture change, and to manage the agenda for organization culture change. HR also faces the challenge of attracting and retaining talent by providing a professionally-driven organization culture. SMEs are at a disadvantage in their ability to offer competitive packages, which directly acts as a hindrance to the attraction and retention of the talent pool.

Problems faced by SMEs

SMEs in India face a number of problems like sub-optimal scale of operation, technological obsolescence, supply chain inefficiencies, increasing domestic and global competition, fund shortages, change in manufacturing strategies and turbulent and uncertain market scenario.

Lack of Formal Procedure and Discipline: Most SMEs do not have formal procedure or often these are not documented. Furthermore, there is tendency for these procedures to change frequently. This makes it difficult for third party or a newcomer to understand the existing business practices.

Lack of Financial Resources: Hidden costs will start to emerge during implementation. This sometime causes the project to be abandoned or sometime sent the company into further financial crisis.

Lack of Human Resources: SMEs are often in the stage of frequent fire-fighting and shortage of manpower. This makes it very difficult for them to allocate time to carry out implementation.

Lack of Experience of Using Consultants: SMEs lack the experience in working with consultants. They often feel that the consultant costs are too

high and they can handle it with their own staff.

Lack of IT Literacy: Many of the employees in SMEs started from the ground up after working with the company for many years they may not be IT literate and often have high resistance to the changes in the working process that they are comfortable with after many years.

Scope for Training & Development in SMEs

Training & development is the key component to the survival and sustainability of SMEs, to upgrade the skills of all types of workers, including managers, and to motivate employees for better productivity and innovation of enterprises. The quality of management is particularly important for SMEs, which must be able to adapt quickly to evolving markets and changing circumstances, but which often have limited resources. Such constraints also put limits on their ability to engage in training, even though studies indicate that there is a positive correlation between the degree of management training and the bottom-line performance of an SME. There is preliminary evidence that formal management training can reduce the failure rates of small firms, which are far more likely to fail than larger firms, particularly in the early years.

Type of Training and development needs identified in Indian context

International trade has thrown open vast opportunities to SMEs throughout the world for growth in business, expansion and profitability. The vast opportunities have brought the threat of losing out in the world of increasing competitiveness. Thus, SMEs everywhere have to find ways to grow and become more competitive by reducing costs, penetrating new markets, upgrading product quality, introducing new innovative products, increasing production levels, deriving economies of scale, reducing employee turnover, upgrading the techno-managerial skills of self, managers/supervisors and workers, and so on.

The techno-managerial skills are upgraded

through training. The managerial competency can be enhanced through training of entrepreneurs and managers/supervisors of the SMEs. Some useful training themes have been identified as follows: Quality Circles, Effective Communication Skills, Performance Appraisal, Reward System, Self Management, Managerial Excellence, Managing Competition, Time Management, Decision Making, Conflict Management etc. Some of these themes are quite standardized whereas others are not. A thorough investigation may reveal many more useful training themes for the SMEs.

Quality Circles: The implementation of TQM in SMEs is not just a technological challenge, but a socio-technological endeavour. The main objective of quality management in SMEs is to integrate the organizations business process and manufacturing operations for improved business results by considering customer complaint regarding product quality. A good quality product or service will enable industry to add and retain customers. Poor quality will discontent customers and also future sales of SMEs also will be lost.

It should be a SME strategy to embed awareness of quality in all organizational process. It operates within quality circles and encourages the meeting of workforce in different departments. This reduces rework, cutting waste by reducing rejections and scrap on the shop floor. It is an effective model which is a set of management policies for improving production, supplier quality management, evaluation, process control and improvement, quality system improvement, customer focus, product quality and customer satisfaction.

Communication Skills: SME's must understand that the biggest strength should be an ability to proactively sway market opinion for their range of products. Business development across the spectrum requires a qualitative communication edge. Sales are a proactive exercise and involve creating a mindset of change in a defined target audience. This requires having seasoned individuals in companies who can sell the product, convey company ethos as also outline

value accretions of the company to people who will not only remain just buyers but also graduate to become company loyalists.

Performance Appraisal: The PMS is generally maintained as an annual process and the focus comes to performance only close to the project end or year end. Periodic reviews are not built in and this leads to the failure of project at the end. This is where a formal quarterly or half-yearly assessment session can help by giving a mandatory performance check. Such a system ensures that the performance stays on track and any discrepancies are caught early. Performance Management System is underdeveloped in SME sector. However, considering PMS strategy the entrepreneur can create their own.

Reward System: Rewards are an objective way to describe the positive value an individual ascribes to an object or behavioural act. This helps to motivate employees. SMEs rewards can be of Primary rewards including those that are necessary for the survival like food or shelter. This helps to motivate employees and also fulfil their basic needs of those working in SMEs.

Self Management: In the SME sector with low budget and high productivity system Managers or Owner needs to manage self and entire team. For that they have to be up to date with the modern world and technology.

An entrepreneur needs to be made aware of alternative training themes so as to give him a broad spectrum of training alternatives so that he/she can indicate the extent of usefulness of these training themes. The present study attempts to assess the extent of usefulness of training on various such themes.

The SMEs as their fundamental policy will like to reduce on the training and development expenses. So the role of HR professional increases as the company is not providing the training and development program, he/she needs to recruit the professionals with varied talents preferably persons who can do multitasking. The HR needs to focus mainly on the redundancy and the recruitment of employees for the SMEs. In this tough economic

environment of competition, it becomes vital for HR managers to set clear goals and expectations for their employees; and provide them with appropriate feedback.

Performance and effective human resource management enables the entrepreneurs to improve the quality of their production. Hence, the strong business strategies become inevitable for SME sector. The business function in SMEs is hindered by constraints such as limited access to resources, and a lack of expertise on the part of the owner/manager. This is where our efforts to bridge this gap comes into picture. Since the economy is characterized by high unemployment rates, the closure of big businesses, declining economic growth and declined standards of living, it becomes important to promote

Methodology

Scope of the Study

The study is an exploratory research, conducted to enhance the knowledge on practicing strategies by SMEs. The study covered SMEs in the manufacturing sector of Bangalore, India. Bangalore houses many small and medium scale industries in its Peenya industrial area that is one of the biggest in Asia. Many new industrial areas like Bommasandra and Jigni are developing too. Out of various sectors in these industrial areas, the study focused on the Machinery & Fabricated Metal (MFM) manufacturing industry. The sample size was 30 SMEs in this industry, 15 in each industrial area. The total number of employees from the selected SMEs was 627 (with an implied margin of error of 6.27%). Primary data was been collected from the managers of SMEs through personal interview and from respondents using a semi-structured questionnaire.

Findings

Demographic analysis of the employees in the sample SMEs yielded the following statistics:

83.73% (525/627) of the employees of the sample SMEs were male; 69.38% (435/627) of the employees of the sample SMEs were unskilled; and 77.19% (484/627) were of worker/operator cadre. Thus, it was found that more than 70% of employees were unskilled and required supervision to carry out day-to-day work. There is a clear potential need for training the segment of unskilled workers.

The specific HR practices for which the sample SME's showed interest for training are presented in Table 1 below.

Table 1:
Specific HR practices for training in SMEs

	somewhat interested	interested	not interested
Labour Laws	100.00%	-	-
Self-Management	96.67%	3.33%	-
Managerial Excellence	53.33%	46.67%	-
Performance Management & Reward System	50.00%	46.67%	3.33%
Effective Communication	46.67%	-	53.33%

There were five major HR practices identified for which the sample SMEs showed interest for training. All of the SMEs showed interest for training in labour laws, and 96.67% (29/30) of the SMEs showed interest in the self-management module. A mixed response was observed for managerial excellence, performance management & reward system, and effective communication modules. Thus, almost all of the SMEs want to train their skilled and unskilled employees, however they are very selective of the module which best suits their requirement, and they want to get immediate benefits from the training. This is why most prefer the self-management module, to get maximum benefit, at low cost.

The major training needs identified for workers/operators in the sample SMEs are presented in Table 2 below.

Table 2: Major training needs for workers/operators in SMEs

	Required	Somewhat Required	Not Required
Technical Skills	100.00%	-	-
Good Work Habits	60.00%	40.00%	-
Preventive Maintenance	46.67%	53.33%	-
Industrial Safety	46.67%	53.33%	-
Workers' Productivity	50.00%	3.33%	46.67%

It was found that all of the SMEs required technical skill improvement; also, most of the SMEs required to some extent training on good work habits, preventive maintenance, and industrial safety. However, only 53.33% of the SMEs required training on workers' productivity.

The production-related training needs identified in the sample SME for future expansion are presented in Table 3 below.

Table 3: Production-related training needs in SMEs

	required
Quality Circles	100.00%
Safety Management	96.67%
Materials Management	56.67%
Production Management	53.33%
Industrial Rights	40.00%

It was found that all of the SMEs wanted to focus on quality circles, and almost all of the SMEs wanted to focus on safety management. Further, there was a focus on materials management and production management in some of the SMEs, and industrial rights to a lesser extent. Thus, the SMEs seem to want to focus on developing skills to produce quality products meeting the customers' requirements, so that they can compete with large-scale enterprises. Safety management is also a priority, as the sample SMEs relate to the MFM industry. Materials

and production management are secondary priorities, after establishing a market presence.

Reflecting on the insights obtained from the study, we cannot indicate a single skills and training needs. Managers of SMEs make an effort to participate in different networks, but there are still opportunities for more. SMEs seem to attach as much importance to training activities as large enterprises do, but they differ in the extent to which they implement workforce development. Some of the SMEs have a clear strategy and philosophy concerning human resources, while others are only looking for training when there is need of skills. The main barriers to training for SMEs are practical feasibility and costs, even though different means of financial support by the government are already in place.

Finally, all respondents of the study agreed that informal learning is an important tool for learning, both for low skilled and high skilled workers. There are a lot of training possibilities, but it is difficult for companies to find the specific education they are looking for. The cause is the lack of clear structure and overview. In the MFM industry which was under study, there is nevertheless a good connection between training providers and SMEs through industry organisations and funds.

Discussion

The skills required for SME development are general and human resources management skills. A discussion of the required skills follows below.

General management skills

SMEs in the manufacturing sector must ensure that they have control mechanisms in their operational activities and also that they implement strategic planning in their operations. Strategic planning will provide the business with a clear direction in their operations as clearly outlines what has to be done in order to achieve the set objectives.

Organisational skills are important in that they result in the implementation of the strategic plans of the business. Sound organisational

skills are important for the growth of the SMEs as this will lead to the implementation of the set goals. Managers or owners of SMEs must take note of their managerial roles (interpersonal, informational and decisional) in the day to day operating of their enterprises. Decisional roles are important on the growth of the SME in that the ability of a manager to make decisions will result in the faster implementation of the decisions made. The speedy implementation of decisions is important in that it will lead to the attainment of the set objectives

Human resources management skills

The human resources skills required for SME development, as perceived by the manufacturing sector, are self-management, performance and reward system, managerial excellence, labour laws. It can therefore be concluded based on the results above self-mange and labour laws are the most important human resources management skills for the growth of SMEs.

Recommendations

SMEs must ensure that they are well acquainted with all the managerial functions that have an effect on the performance of their businesses. This can be done through training programmes, funded by the Indian government, and by sending their employees on refresher courses regularly. Since SMEs are affected by financial shortages they should form partnerships with the government so that they can get funds for the proposed training programmes.

Required skills for SME development in the manufacturing sector are: SMEs can also form quality circles so that they can test the quality of their manufactured products. Quality circles involve a group of people on the work place who regularly test products to ascertain if products conform to the required quality standards.

In addition, interpersonal and decisional or self managed roles are the two managerial roles which consume most of managers or owners time within SMEs in the manufacturing sector. In order for owners/managers of SMEs to lessen

time spent on these roles they can assign more responsibility to staff and empower their staff to make decisions which the owner/ manager would have taken in the past through delegation.

India must also establish an SME association which represents the sector in direct talks with the government. In aiding SMEs in the manufacturing sector, the Indian government should put measures in place that make these SMEs accountable when they get assistance from the government. India should also be better informed of the available supporting institutions and their roles in the development of SMEs.

To address the challenge of rising prices of inputs and raw materials, SMEs in the manufacturing sector of Bangalore need to form cooperatives for purchasing purposes. This will enable them to get discounts which might aid in reducing the costs of production which then can be passed on to customers in the form of lower prices. This will lead to an increase in the rate of stock turnover which is what is required in an inflation environment.

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