

# A Study on Influence of HR Competencies on Business Performance

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## ABSTRACT

Entrepreneurship culture has been prominent in recent days but Coimbatore is always considered to be a hub for Entrepreneurs pertaining to their rapid specialisation in the manufacturing sector. Coimbatore has a large and a diversified manufacturing sector, auto components and engineering products. Coimbatore is a major contributor to these sectors and it comes from small and medium scale industries. The micro, small and medium enterprises (MSME) sector of India contributes significantly to the manufacturing output, employment and exports of the country and thus it occupies a strategic position in the Indian economic structure. It is estimated that in terms of value, the sector accounts for about 45 per cent of the manufacturing output and 40 per cent of the total exports of the country. The sector is estimated to employ about 42 million persons in over 13 million units throughout the country which makes it the second largest manpower employer after agriculture. The MSMEs sector has long faced extreme obstacles in accessing finance and markets, in addition to it these enterprises face issues related to human resources in terms of talent retention, attrition, low skilled labours, etc. It is believed that effective HR management by the entrepreneurs can eliminate the human resource problems and improve their current state in terms of productivity and quality. In this study, the current state of management of human resources in Small and Medium Enterprises (SMEs) in Coimbatore is explored. We relate the effectiveness of the HR practices implemented at their enterprise to that of the competency of the entrepreneur and identify for existing gap. The study provides suggestions on the aspects to be improved based on the gap identified using research methods.

## 1. Introduction

**Entrepreneurship** is the process of building a new business which already exists in the market or venture into something innovative and commercialising their product/service. This starts off initially as a small business and people who engage themselves in these activities are called entrepreneurs. The term "entrepreneur" has been derived from French word "Entreprende". The undertakings of entrepreneur are synonymous to that of a small business person and hence it is often used interchangeably with this term. For a long time in India, this term meant as a venture into **The Micro, Small and Medium Enterprises (MSMEs)** sector. This sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs play a very crucial role in providing large employment opportunities. Though it is a highly unorganised sector, fast-changing global economic scenario has thrown up various opportunities and challenges to the MSMEs in India. Entrepreneurs start their venture either as sole proprietor operations consisting solely of the owner, or they have a small number of employees. In this scenario, many entrepreneurs fail to implement structured

practices in their company even though they are well aware of their necessity due to several reasons. The study aims to find whether HR practices have an impact on the business performances. For this purpose the implementation of core HR functions like recruitment, selection, training and development, performance appraisal and grievance handling with and without structured HR department has been studied.

### 1.2 Micro Small and Medium Enterprises Sector

Micro Small and Medium Enterprise in India is defined based on the investment in plant, machinery and equipment for enterprise rendering services as per the MSMED Act,2006. The classification of MSMEs in India is explained in Table 1. The estimated contribution of MSME manufacturing sector to GDP, during 2012-13, is 7.04%. However, taking into account the contribution of MSME services sector, which is estimated at 30.50% during 2012-13, the share of MSME sector in GDP of the country, during 2012-13, is 37.54% , while the total employment in the sector is 805.24 lakh; and the share of MSMEs in India's total export for the year 2014-15 was 44.70 per cent.

Table 1 - MSME classification in India

CLASS/CATEGORY	MANUFACTURING	SERVICE
Micro Enterprises	Investment up to Rs.25 lakhs	Investment up to Rs.10 lakhs
Small Enterprises	Investment above Rs.25 lakh and up to Rs.5 Crore	Investment above Rs.10 lakh and up to Rs.2 Crore
Medium Enterprises	Investment above Rs.5 Crore and up to Rs.10 Crore	Investment above Rs.2 Crore and up to Rs. 5 crore

## 2. Significance of the study

The study deals with five core factors of HR practices namely Recruitment, Selection, Training and Development, Performance appraisal and Grievance handling. The rising growth of MSME sector has opened doors for huge employment opportunities but there seems to be an unstructured /informal way of recruitment happening in MSMEs. On the other hand Training and Development which is the key area for improvement for any employee performance is implemented in a majority of the companies. For any range of industry, it is highly important that we measure employee performance. Though monitoring the performance of companies with fewer workforces seem to sound easy the method of Implementation of performance appraisal is rather important. If any organisations need to maintain its workforce and have a harmonious relationship, grievance handling plays a major role. So by studying these core HR functions will leads to better business performance.

## 3. Literature review & research framework

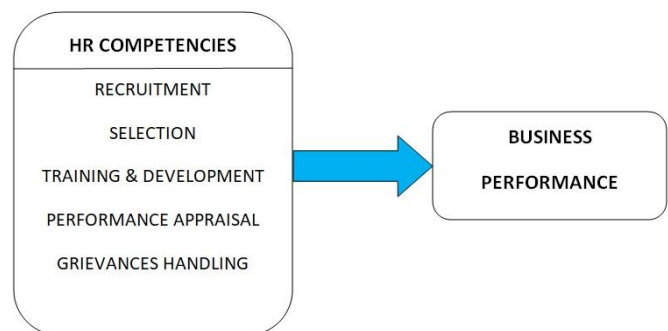
Organisational effectiveness was a concept of successful Human Resources competencies which are followed in the company (Wang, 2010). Caldwell et.al (2011) Organisational success depends on the strategic role of HR competencies, especially in new ventures. Uysal (2008) stated that staffing, training, compensation, and promotions are human resource management practice that significantly and positively relates to organizational and market performance. Honeycutt and Kurtzman (1996) found that the recruitment process one of the key elements in HR competencies which could lead to business success or failure. Ashu and Xaviour (2015) have identified that recruitment is one of the most important Human Resources competencies, especially in family business ventures. McCarthy (2009) suggested a superior global recruitment strategy can reduce costs, increase the quality of employees, improve the ability to meet global talent requirements and promote business agility and flexibility. The ability to recruit exceptionally talented and capable management leaders is possibly the purest form of exceptional HR practices which leads to better business performance (Sill, 2009). The human resource practices in the study included specific selection processes and practices (Wright et al., 1988 & Wright & Domagalski, 2010). Recruiters are analyzing the selection of suitable candidates who are likely to be successful within the organization (Talukder, 2011). It was apparent that successful selections is a pivotal part of HR practices for any start-up company, which leads to better individual performance but focus on business performance may be the future scope of research (Saks et al., 2010).

However, it is ironic that despite this volume of research attention, consensus concerning these determinants of small business failure, researches targeted at investigating the extent to which the small business owner's expertise impact on the employees training which is core component of HR competencies and how the business performance remain scant (Frese et.al,2007; Davidsson & Honig, 2003). Employee performance appraisal is still the most important HR competency tool within most human resources systems to make individual and organizational personnel decisions and

performance (Kellaway, 2010). It would be interesting if the researcher focus more on impact of performance appraisal on business performance (Erdogan, 2002; Sabeen & Mehboob, 2008).

Grievances Handling is identified one of the core functions of HR competencies which made effective human resource management (HRM) and strategic activities of organizations today (O'Reilly & Pfeffer, 2000; Pfeffer, 2007; Uen, Ahlstrom, Chen, & Tseng, 2012). Wright et.al (2003) proved that very few studies only consider the HR competencies of business success especially in the context of budding entrepreneurs.

## 4. Research Framework



The model is framed to find out the relationship between Human Resources Competencies and business performance of the MSME's in Coimbatore. The human resources competencies are measured through various variables like recruitment, selection, training & development, performance appraisal and grievances handling.

## 5. Objectives of the study

The objective of this project is

- **Objective 1:** To analysis the profile of respondents.
- **Objective 2:** To study the influence of HR Competencies on Business Performances.

## 6. Research Methodology

Since the research is to test the formulated hypothesis, the research design for the study is descriptive (Malhotra, Chauhan, 2008). The period of the study is from July 2017 to December 2017. After the extensive literature, the instrument is developed and discussed in the focus group technique. Based on the advice the instrument is finalized and the pilot study was conducted. After the pilot study, the instrument is finalized for final data collections. Stratified random sampling, which is the probability sampling technique, is used in the present study. The list of MSME's received from the association and divided based on the regions, from the list the respondents are selected randomly. To ensure randomness, after data collection, Wald-Wolfowitz RUN test is conducted since the maximum number of variables has shown randomness. Hence, in the study, the sample size has been justified by using the G power analysis. G power3 software was used to justify the minimum sample size while using SEM.

Since the tests and number of predictors vary across different objectives, the calculations are done in four parts; the chosen predictor, effect size, alpha and beta value and the collected sample size. G Power analysis is done to calculate the necessary sample size for a specified power. The total sample size of the survey is 121 out of which 115 are error free and reliable. This samples size is justified by G Power 3 analysis.

**7. result and analysis**

This chapter has been arranged into two major areas: the first part is to understand the demographic profile of the respondents and the second part is an analysis of the influence of HR competencies and business performances.

**1. Profile of respondents**

The profiles of the samples are obtained from the questionnaire. Total of 115 respondents is covered from the available SME's in Coimbatore. The profile of the respondents is given below based on the age of the respondent, Educational background and years of experience.

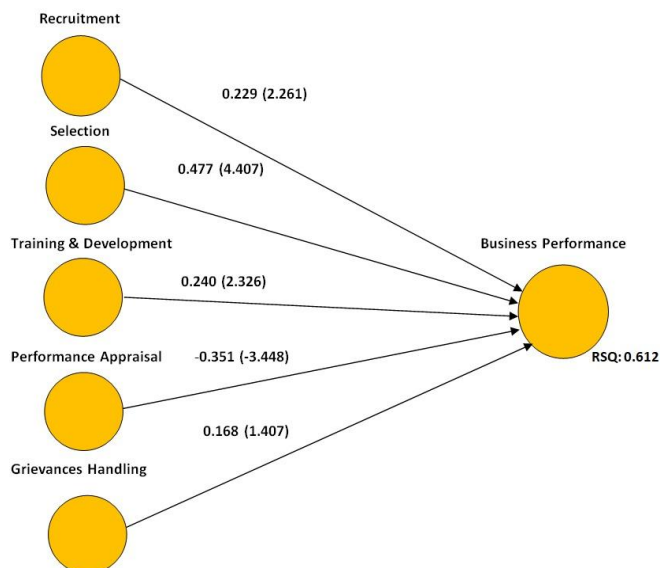
Total	115	100
<b>Years of Experience</b>		
< 2 Years	21	18
2-5 years	24	21
6-9 Years	18	16
10-13 Years	11	10
> 13 years	41	35
Total	115	100

Demographic Characteristics	SME's	
	Frequency	Percentage
<b>Age</b>		
20-30	45	39
31-40	26	23
41-50	30	26
51-60	12	10
Above 60	2	2
Total	115	100
<b>Educational Background</b>		
Diploma	24	21
Engineering	33	29
Arts and Science	22	19
Post Graduate	27	23
Others	9	8

The respondents were from various manufacturing companies including engineering solutions companies located in Coimbatore. No restrictions were placed except for the fact that they should be the entrepreneur in MSME manufacturing sector or involved in the manufacturing industry. From the above table it is inferred that 39% respondents were from 20-30 years category, 23% from 31-40 years category, 26% from 41-50 years, 10% from 51-60years category and 2% from greater than 60 years category. The very interesting observation in the educational qualification of the respondents, besides it, is inferred that only 29% of the respondents had the engineering background. 21% of the respondents had the educational background of Diploma. Educational background plays a pivotal role in product based decision making which leads to a better understanding of the clients (Switzer, 2008). 35% of respondents had more than 13 years experience and only 10% of the respondents had 10-13 years experiences. The years of experience in the field had a significant impact on the effective decision making which leads to a better decision making (McCall, 1998).

**2. To study the influence of HR Competencies on Business Performances.**

The Human Resources competencies are key factors in scaling up the business to the next level. The part of the analysis will focus on factors like recruitment, selection, training and development, Performance Appraisal and Grievances handling are influencing the business performance or not.



**Structural Model – Bootstrap**  
**Structural model - bootstrap (HR Competency influence on Business Performance)**

Construct	Entire sample estimate	T-Statistic	Result
Recruitment	0.229	2.261	Significant
Selection	0.477	4.407	Significant
Training & Development	0.240	2.236	Significant
Performance Appraisal	-0.351	-3.448	Insignificant
Grievances Handling	0.168	1.407	Insignificant

Based on R square value ( $R^2=0.61$ ), that variable which is considered in the study measures 61% of relationship with respect to business performance. So, factors like recruitment, selection and Training & Development have an impact on business performance. Studies identify that if the T statistics value is more than 2 for a factor, that factor is significant. In the above analysis, for factors like Recruitment (2.261), Selection (4.407) and Training & Development (2.236) T statistics value is well over 2. It indicates that these factors are highly significant towards the business performance of MSME's in Coimbatore.

#### **H1: There is a positive relationship between recruitment and business performance**

The model proves that the relationship between recruitment and business performance is found to be significant and positive (beta= 0.229 and t statistic = 2.261). It indicates that the firm focus more on recruitment which leads to better business performance. Recruitment is the basic function of human resources competency (Kotter, 1999). Recruitment policies and regulations of any start-up companies reported a positive influence of quick decision making which may lead to better performance (Barrett & Mayson, 2007).

#### **H2: There is a positive relationship between selection and business performance**

The model proves that the relationship between selection and business performance is found to be significant and positive (beta= 0.477 and t statistic = 4.407). It indicates that the firm focus more on selection which leads to better business performance. The rigour of selection will lead to quality input of human resources effectiveness which is considered as the base for business performance.

#### **H3: There is a positive relationship between Training & Development and business performance**

The model proves that the relationship between Training & Development and business performance is found to be significant and positive (beta= 0.240 and t statistic = 2.236) It indicates that the firm focusing more on training & development leads to better business performance. Improving the organization performance depends on how employees are updated with industry trends which is the outcome of well-defined training and development programs (Conger & Benjamin, 1999).

#### **H4: There is a positive relationship between performance appraisal and business performance**

The model proves that the relationship between performance appraisal and business performance is found to be Insignificant and negative (beta= -0.351 and t statistic = -3.448) It indicates that the non-detail performance appraisal will lead to lower business performance. But the universal approach is, the appraisal should lead to better satisfaction of

the employees (Laura et.al, 2017). But medium scale enterprises may not have the scope of following the rigid performance appraisal system. In a place like Coimbatore, the workers may be outsourced could be the reason for the negative impact of performance appraisal on business performance.

#### **H5: There is a positive relationship between Grievances handling and business performance**

The model proves that the relationship between grievances handling and business performance is found to be Insignificant and positive (beta= 0.168 and t statistic = 1.407) It indicates that the grievances handling will have less impact on business performance. So grievances may not contribute heavily to the business performance of the MSME's. But if they made the grievances as the standardized process it may lead to better business performance especially place like Coimbatore.

The result of the study supports the model presented and the hypothesis regarding the relationship between constructs. The degree of relationship of all the five constructs is more important towards the better business performance of the MSME's. However, only 61% of business performance happens through various HR competencies like recruitment, selection, training & development, performance appraisal and grievances handling. But factors like recruitment, selection, training & development had a significant and positive relationship with business performances. But performance appraisal had the negative impact on business performance. Grievances handling had a low impact on business performances.

### **8. Future Research Directions**

The present research is one of the comprehensive models to test the influence of HR Competencies on business performances. However, the model has managed to include the primary factors of HR Competencies which influences the business performances. The study is focused on MSME's which are listed in the association. Further study can be extended to non- listed firms, which will provide a clear picture on the importance of HR competencies for better performances. Since Coimbatore is called as "South Indian Manchester" the same model can be extended to similar places.

### **9. Conclusion**

MSME sector is a fast -growing sector and the major contributor to India's GDP, yet the sector faces a lot of constraints in talent attraction, talent retention, and low productivity of labourers, lack of skilled workers and competency & skill development. Indian MSMEs employ 40%

of the country's workforce. The HR practices implemented in MSMEs of Manufacturing sector for the region Coimbatore reveals that the major HR practices are implemented in the majority of the organisations although significant improvements are required in terms of recruitment practices, selection process and grievances handling since there is considerable gap prevailing in these practices. The level of formalisation of HR functions is an important strategic decision to be taken by the entrepreneurs. Even if they consider that establishing a separate department and employing specialists is too expensive for MSMEs, spending the time to formulate a proper policy for HR Management should be treated as inevitable. An

experienced HR advisor having an experience of synchronizing the overall organizational goals and HR goals can be of great help in formulating and documenting strong as well as effective human resources strategies. A higher level of formalisation in terms of HR practices enforcement will incur costs in terms of design, development and implementation. But such a formalisation will lead to remarkable efficiency and productivity. It will lead to professional and systematic management of human resources. This can save owner-managers' time by removing the need to repeatedly resolve similar/routine issues on a regular basis. However, the cost of implementing regular HR practices will need to be evaluated.

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