

PROMOTING EMPLOYEE EMPOWERMENT PRACTICES IN SMALL FIRMS IN DEVELOPING NATIONS.- Indian Context

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Abstract

This paper critically examines the perceived importance and actual implementation of Employee Empowerment (hereafter EE) practices in Small and Medium-sized Enterprises (hereafter SMEs) . Our findings show that the level of actual implementation of EE practices is significantly lower than the degree of importance attached to them.

Moreover, our study identified implementation differences between SMEs and large firms. Smaller firms seem to be less involved in formal EE activities than do their larger counter parts due to their informal nature, short term and unsystematic in their operational practices. We recommended that SMEs should be encouraged to develop strategic awareness about the potential advantages of practicing EE initiatives. Paper is purely based on secondary sources of data collection. Since our findings are based on intuitional and subjective perceptions of owner/managers of SMEs, the conclusions must be considered tentative and interpreted with care. We propose that future research should focus on the HOWs and WHYs of actual processes through which SMEs motivate and encourage employees to improve quality, productivity and performance.

Keywords: Employee Empowerment, Small firms, Human Resource Management

Introduction

The creation of wealth and innovativeness of a country depend on the development of entrepreneurship and competitiveness of its firms. Entrepreneurship and innovation are the foundational push factors for enhancing sustainable economic development of nations. The quest for sustained survival and growth of SMEs has long attracted the attention of researchers and policy makers. SMEs' survival and growth have critical impact on sustainable economic development (Capelleras and Rabetino, 2008). The global socio-economic environment is affected by a plethora of cutting edge information technology coupled with a rapid expansion of killer applications and ground breaking innovations (Schindehutt, 2009). The literature in strategic management shows variety of perspectives and views on the sources of competitive advantage for firms. Considerable research has focused primarily on

the positive link between resources, competences, knowledge, and capabilities on the one hand, and performance-related outcomes, on the other hand. This affects firms of all sizes.

The Resource-Based View (RBV) of the firm (Penrose, 1959), the Dynamic Resource-Based View (DRBV) of the firm (Helfat and Peteraf, 2003; Eisenhardt and Martin, 2000), and Knowledge Theories (Grant, 1996), for example, are based on the premise that the firm is a bundle of resources and its growth depends on what kinds and how much of the diverse resources a firm possess, and how effectively it can utilize them for its growth. We need to enhance our awareness that all possessed resources are not contributors towards achieving firm's sustainable success and competitiveness. Firms need to avoid harbouring resources particularly comprising of debilitated or non-contributory assets and technology and unproductive and inappropriate

employees. According to the RBV, internal firm resources that are Rare, Valuable, Inimitable, and Non-substitutable (VRIN) can provide sources of sustainable competitive advantages (Barney, 1991). The human asset is one of the most important internal firm resources that can be used as a major source of competitiveness.

The RBV has been instrumental in the exploration of the critical importance of human resources for the survival and competitiveness of firms in an increasingly competitive socio-economic scene particularly in this 21st century (Wright et al, 2005). The dynamic capabilities perspective, an extension of the RBV, holds that since the mere existence of resources will not lead to competitiveness, firms must develop dynamic and productive capabilities (Teece et al., 1997) to integrate, build, and reconfigure internal and external resources and competencies to address rapidly-changing market environments and business developmental continuum. Since the mere existence of employees would not always lead to competitiveness, firms must empower their employees to develop dynamic capabilities (Teece et al., 1997) that can integrate, build, and reconfigure other resources to achieve sustainable competitive advantage in the market place.

According to knowledge management theory, knowledge is a critical resource, and its development and application can lead to improved firm performance, which often depends more on the ability to turn created knowledge into economically viable application and effective actions. Possessing underutilized knowledge is useless if not complemented by application and utilization (Grant, 1996). It is developmental requirement that knowledge creation should be complimented by knowledge application and commercialization. Firms should therefore engage in the development and application of new knowledge and skills to remain competitive in today's' turbulent markets and intricate economic interactions with their global implications.

Both small and large firms recognize that the most important asset in any type of organization is its human resources as the engine of organizational development. Indeed, the human ingenuity is the main driving force in the continuous process of creating and discovering the new the better and the untested. The people who do the work are the core and the central nervous system in any venture operational and strategic activities. Without expanding and updating human knowledge, skills, and behavioral attributes, change in adoption of technology, processes, and structures is unlikely to yield long-term benefits (Farcas, and Reininger, 2010). To build long term competitiveness, firms must not only determine what to do and how to do it, they also need to be concerned with how employees can be empowered and developed. Since people management does indeed impact on company performance, even at the financial level (Bowen and Ostroff, 2004; Guest et al., 2003; Pfeffer, 2005; Way 2002), the role of EE is moving from the traditional command and control approach to a more strategic and innovative mode, where employees are considered as critical sources of competitiveness that should be managed prudently and efficiently.

This study is motivated by the lack of prior studies on EE practices in the context of SMEs particularly in developing Asian economies. Most EE approaches are developed primarily for large firms and are not directly applicable particularly to the unique situations of those SMEs operating in the developing economies. Thus, there is strong need for customized models appropriate for SMEs which can give a better means of achieving the means of their strategic objectives. Although EE involves several activities ranging from simple and informal to complex and formal practices, many studies attempt to prescribe the so called "best HRM practices" without examining the diverse implementation challenges faced by SMEs. Our study attempted to investigate the perceived importance, performance and challenges in EE practices in SMEs in india, and to forward some suggestions and

implications for future research, policy making and practitioners in the SMEs sector.

Need for study

The small-scale firms are characterized as entrepreneurial in nature and play a crucial role in the economic development of a country (Teo and Poon, 1994). Researchers (Brindley and Ritchie, 2000; Roffe, 1999) envisage SMEs as the major employer both within manufacturing and services sectors and argue that the expansion of higher education has produced and will continue to create a large body of potential employees. Being less capital intensive and high labour absorbing in nature, the small-scale sector has made significant contribution to employment generation and also to rural industrialization. Consequently, SMEs could be seen as a preferred option of employment. In practice though, it is seen that small firms run a risk of the valued and trained employees often leaving them in search of greener pastures. Fraza (1998) argues that managing human resource has not been simple for organisations especially the smaller ones. He adds that the main problem for many fast growing small to medium enterprises is finding and retaining high quality employees. Stewart and Knowles (2000) cited in Tanova, 2003 have shown a positive relationship between the size of an organisation and the likelihood of recruiting graduates. As a result, the need for effective HRM practices is increasing as small organisations face the double challenge of the need of trained employees and qualified professionals. This is where smaller organisations lag, suggest Hornsby and Kuratko (1990).

The employee empowerment issues in such firms assume significance from the perspective that small firms are perceived to be less equipped to recruit or be able to train their workforce as against their larger counter-parts. Being aware of the fact that the success or failure of any economy is marked by the entrepreneurs who enable job creation (Mc Milan and Woodruff, 2002), the policy makers

as well as economies in general need to focus on portrayal of the SSI sector as the source for generating quality employment and more significantly, creating sustainable employment opportunities. The above dilemmas and contradictions relating to the small-scale sector being a potential employment generator for the unemployed yet at the same time being perceived as less favourable by job seekers merits further study.

The present study is aimed at examining empowerment practices and retention issues of Indian small manufacturing firms.

OBJECTIVES

1. To examines the perceived importance and actual implementation of Employee Empowerment practices in SME's.
2. To identify implementation differences between SMEs and large firm.
3. To determine how can employees of a small firm can be empowered.

EMPLOYEE EMPOWERMENT IN SMALL FIRMS

Although SMEs are long recognized as engine of economic growth, generators of income and job opportunities for national economies, they have not benefited much directly from strategic management research. The result of previous studies linking EE practices and SMEs performance are ambiguous and inconclusive (Storey, 2004). There is an acute shortage of research identifying and validating EE practices in SMEs and even less research focusing on the implementation challenges and implications in EE practices. SMEs represent an ideal field for studying EE practices because of their more transparent nature, less bureaucratic, simple structure, and small size (Katz et al., 2000). The revolutionary role of entrepreneurs and entrepreneurialism, as agents of creative destruction of the equilibrium in the socioeconomic development process, is more visible in SMEs. However, SMEs are deprived

the desired support & motivation characterized by the lack of resources and expertise to effectively engage and enhance their share in the development of long term sources of competitiveness. Although owners/managers in SMEs recognize the need for EE practices, the translation of this awareness into action is indeed a formidable task.

As mentioned earlier, SMEs are creators of the most needed employment opportunities for the bulk of the working and economically active population in virtually all countries around the globe. One place to begin searching for sources of competitiveness would be in the area of Human Resources Management (HRM), which provides an interface between an owner and the firm's current employees. It is a basic fact that firms need productive and committed employees to achieve growth and viability.

Moreover, they need to know and understand that it is only empowered employees who can effectively contribute towards the efforts of business ventures' to achieve success in their operational and strategic activities. The ability to find and keep good employees, to interact with employees, and to create a conducive climate for enhancing their performance can undoubtedly have a positive impact on the sustainable survival and further growth of SMEs in a complex environment characterized by stiff competition for talent, tight labour laws, and high employee turnover (Chang and Huang, 2005; Guest et al., 2003).

RESEARCH METHODOLOGY

This Research paper is purely based on secondary data taken from some books, online journals, journals, periodicals and certain other sources. We are taking India as a whole while making a general study about employee conditions in small firms in India with certain instances from different small scale firms from different regions of India.

PERCEIVED IMPORTANCE OF EE PRACTICES IN SMALL FIRMS

Employee empowerment has known to be an important managerial trend in an organization because it offers the potential to positively influence outcomes that benefit both individuals and organizations. Most studies have, therefore, begun to develop comprehensive models for better understand the functional role of empowerment using demographic, job design, personal factors, relational and social structural variables (e.g. Koberg, Boss, Senjem & Goodman, 1999; Spreitzer, 1996; Thorlakson & Murray, 1996).

The outcomes of perceived empowerment have shown to be positively related to work satisfaction, job performance, organizational commitment (Liden, Wayne & Sparrowe, 2000), intrinsic motivation (Gagne, Senecal & Koestner, 1997), managerial effectiveness (Spreitzer, Kizilos & Nason, 1997) and organizational innovation (Spreitzer, 1995).

It is noted while research that The owner/managers of SMEs have clear understanding of EE practices. However, it is interesting to note that they rated the importance of involving staff in decision making relatively low. This could be attributed to the fact that many owner/managers in SMEs prefer to take over a complete control in decision making, perhaps due to the fear of loss of power and control over the business. Implementation of all EE practices is also rated low. Despite the fact that SMEs recognize the importance of EE practices, they believe that they have not effectively implemented them, showing importance-implementation gaps that are also apparent not only in many survey rather in many SMEs of other developing nations. This generally shows that although EE practices are considered as important sources of survival and competitiveness. However, they are not implemented accordingly for various reasons.

Implementation Challenges:

What are the major causes hindering SMEs from effective Implementation of EE practices that are perceived to be critical for their survival and competitiveness? What are the possible explanations for EE implementation differences among SMEs? The respondents have identified several implementation challenges that can be grouped as: lack of financial/material resources, inadequate managerial expertise, increasing employee turnover, lack of cost-effective models, lack of time on the part of owner/managers, and economic and competitive pressures.

Many respondents believe that the implantation of EE practices require a great deal of financial and material resources, which is not available in smaller firms. Firm initiated promotional schemes such as provision of formal training and empowering programs, recruitment of qualified personnel and provision of incentives have serious cost implication for small firms. The problems are further exacerbated by the current recession which has reduced demand for goods and purchasing power of customers. Moreover, lack of cost effective training facilities in the local community has made formal and regular training of employees difficult if not impossible. Some EE practices such as conducting periodic job reviews, changing established work procedures and methods, and organizing self managed teams are considered by many owner/managers as disruptive to the businesses *modus operandi*. Many owner/managers complained that the growing employee turnover in the SMEs sector has significantly contributed to the low investment and commitment of SMEs in formal training and educational endeavours of employees. When trained employees leave their employer firm with their improved skills, the firm loses the return from investment in training. Many respondents related the problems to the impact of economic and competitive pressures, which seem to force SMEs to primarily focus on short term operational and administrative or supervisory

activities rather than building long term competitiveness through EE.

The study also found that that lack or absence of EE models conceptualized; developed and shaped to suit the unique characteristics of SMEs has forced SMEs to imitate formal HRM practices of large firms. Existing HRM and EE models, which are designed and developed for large firms, are difficult to directly apply to SMEs without significant changes and modifications to fit in with the systemic organizational and structural set-up of SMEs. Given the lack of managerial adequacy and competency in SMEs, many attempts to imitate existing models such as strategic HRM and TQM practices proved to be difficult, often with frustrating results.

IMPLEMENTATION DIFFERENCES BETWEEN SME & LARGE FIRMS

Small firms created more than six million new jobs in the United States in the 1980s. During the same period *Fortune 500* firms reduced employment by more than a million (Holt 1993). In recent years, small firms have accounted for nearly 90 percent of the net new jobs added in the U.S. (Mathis and Jackson 1991). Since small firms employ nearly half of the American workforce (HoUey and Wolters 1987), their success is critical for the economy. To be successful in a global market, a small firm needs a highly motivated, skilled and satisfied workforce that can produce quality goods at low costs (Holt 1993). However, to develop such a workforce, a firm has to implement an appropriate human resource management (HRM) strategy. Unlike large businesses, published research further indicates that recruiting, motivating, and retaining employees is one of the biggest problems for small firms (Hornsby and Kuratko 1990, Mathis and Jackson 1991, Gatewood and Field 1987, Verser 1987). These findings are substantiated by a recent study (Hess 1987) which reports that small firms ranked personnel management as the second most important management activity (next to general management).

However, in practice, other functional areas such as finance, production, and marketing usually get preference over personnel management (McEvoy 1984). This lack of understanding of HRM issues and their importance in the operation of a successful business has impacted many small firms. Inadequate and inefficient management of human resources of firms have often resulted in low productivity, and high dissatisfaction and turnover among the employees (Mathis and Jackson 1991). At least one study has found HRM practices to be the leading cause of small firms' failures (McEvoy 1984). However, there is no consensus among researchers regarding the role of HRM in the success of small firms. A study suggesting that training in personnel management is not as critical as training in finance or marketing for small business owners has added to the confusion regarding the importance of HRM practices in small firms (Curran 1988). To resolve this issue, a comparative study of small and large firms is undertaken. Comparative study will betaking following empowerment activities as base:

- Open communication
- Pay based on performance
- Competitive wages
- Training for new employees
- Job security for employees
- Employee participation initiatives
- Training to enhance group orientation
- Collective responsibility
- Training to enhance quantitative skills
- Pay based on acquired skills
- Job rotation
- Group incentive programs
- Specialized career paths
- Pay based on seniority
- Profit sharing schemes
- Rapid promotions
- Individual Incentive programs

We will compare and contrast the importance of certain HRM practices in large and small firms. open communication, pay based on performance, competitive wages, training new

employees, job security, employee participation, and open communication are the top five important HRM practices for both types of firms. No significant difference was observed in the HRM practices of large and small firms while going through many research papers about them. It is observed that many personnel practices of small and large firms are similar. These findings support the Hornsby and Kuratko (1990) study which suggests that personnel practices of small firms are more sophisticated than indicated previously (Amba-Rao and Pendse 1985, McEvoy 1984). It is possible that small firms have realized the effectiveness of sound personnel policies and are now making a concerted effort to address personnel problems.

Our research says that there is not much difference in the empowerment activities introduced by both kind of firms. Difference is in their implementation time and style...however going through various research papers we can also conclude that small firms are only little bit behind in implementation of these activities.

3 WAYS SMALL BUSINESSES CAN EMPOWER THEIR EMPLOYEES

- **Be the Example** – Whenever you're at your business, set the example in all the little things. When I was just starting my career at a small financial services company in Milwaukee, WI, the owner said something that has stuck with me to this day: "Think like an owner. If you see a piece of paper on the ground, pick it up and throw it away. The next person who walks past might be a customer." And he did it too. On numerous occasions, I saw him pick up a piece of garbage and throw it away, even if he was dressed up in a three piece suit and even if he was with customers. I figured it out: If the owner does it, why don't I? I couldn't answer that, so I just did it. This is one example of being the example that I learned at a very early age.
- **Complain about customers to your significant other, not your employees** –

One of the worst things you can do as an owner is to complain about customers to employees. It goes along with being the example; if employees see you do it, they're likely to do it too.

- **Publicly recognize and reward ownership behavior** – When people do things right, recognize them in front of the entire team and say specifically what they did right, and how others can do this too. If someone behaves like an owner frequently, reward them with something small but meaningful, again praising the specific behavior in front of the rest of the team. This is THE example you want to have set by folks on your team, and if you mention it often enough, and don't praise or reward the behavior in public, your team will get the hint and work to be more recognized. Make sure you don't reward or recognize bad behavior in public, as some act out just to get more public attention.

Conclusion:

One purpose of this study was to investigate the importance of various HRM practices. But what is perceived as important by managers may not actually be practiced by them. Future research needs to investigate this issue. It should also be noted that the conclusions of this study are limited by the sample size and the geographical representation of the study. Further, a follow-up study should be undertaken to examine the role of unions on HRM practices of small manufacturing firms.

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