

## Human Resource Management Practices in the MSME Sector in India: With Special Reference to the Industrial Area in Sonipat, Haryana

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### ABSTRACT

This research paper examines the human resource management (HRM) practices within micro, small, and medium enterprises (MSMEs) located in the industrial regions of Sonipat, Haryana. The study aims to identify prevalent HRM strategies, assess their effectiveness, and understand the challenges faced by MSMEs in implementing robust HRM systems. Through a combination of literature review and analysis of existing data, the paper provides insights into recruitment, training, performance management, compensation, and employee retention practices in the Sonipat industrial context. The findings highlight the need for formalized HRM structures and suggest pathways for enhancing HR practices to improve organizational performance and employee satisfaction.

**Keywords:** HR practices, MSME sector, Recruitment, Compensation, Employee retention, Organizational performance

### INTRODUCTION:

The Micro, Small, and Medium Enterprises (MSMEs) sector plays a pivotal role in the economic development of India, contributing nearly 30% to the GDP and providing employment to over 110 million people across rural and urban areas (Ministry of MSME, 2022). Despite its economic significance, the sector continues to face structural and operational challenges, particularly in the domain of Human Resource Management (HRM).

HRM practices in MSMEs in India are often characterized by informality, limited strategic planning, and minimal professionalization (Saini & Budhwar, 2008). These issues are more pronounced in industrial areas like Sonipat in Haryana, where MSMEs form the backbone of local industrial development. The Sonipat industrial zone, part of the Haryana State Industrial and Infrastructure Development Corporation (HSIIDC) network, houses a wide range of small and medium manufacturing units engaged in textiles, food processing, engineering goods, and pharmaceuticals.

Unlike large corporations, MSMEs in regions such as Sonipat operate with constrained resources, family-owned structures, and limited access to skilled HR professionals (Revista Espacios, 2020). As a result, HRM practices often lack formal recruitment policies, structured training programs, performance appraisal systems, and employee retention strategies. Most human resource activities are either outsourced, informally managed, or left undocumented, leading to inefficiencies and high employee turnover (Nimbagal, 2022).

The present study seeks to explore the nature, patterns, and challenges of HRM practices in the MSME sector, with a specific focus on the Sonipat industrial area. By synthesizing existing literature and secondary data, this research aims to shed light on how HRM is implemented in small industrial clusters, the extent of formalization, and the areas that require policy or managerial intervention.

### 2. LITERATURE REVIEWS

Saini and Budhwar (2008) conducted a comprehensive study on HRM practices within Indian SMEs, particularly in Northern India. Their findings revealed a heavy reliance on informal recruitment networks and the near absence of formal HR systems in these enterprises. Similarly, Nimbagal (2022), examining industrial clusters in Karnataka comparable to the Sonipat industrial area, emphasized the prevalence of limited training opportunities, high employee attrition, and informal approaches to performance management.

The *Revista Espacios* (2020) journal provided insights into HR strategies used by SMEs in developing countries, including India, noting the predominance of low-cost methods like referrals and the widespread challenges of digital illiteracy. Agarwal and Jha (2015) added to this discourse by identifying persistent HR issues in SMEs, such as informal training mechanisms, inadequate performance appraisal systems, and inefficient recruitment practices.

Katyal and Xaviour (2015) offered a macro-level overview of India's MSME sector, highlighting systemic

HRM deficiencies such as the absence of formal structures, growing job dissatisfaction, and high employee turnover. In a study of MSMEs in Punjab—comparable in structure to Sonipat—Malhotra and Mishra (2024) discovered poorly developed training programs and weak retention strategies.

Sharma and Meet (2024), focusing on Rajasthan's RIICO industrial zones, found that on-the-job training remained the dominant form of skill development, with minimal adoption of formal HR procedures. Similarly, Hiremath and Mandali (2019), in their empirical analysis of the Hubli region, pointed out structural HRM limitations and low employee engagement—issues mirrored in the Sonipat industrial landscape.

Goswami and Paul (2020), while studying Rajasthan post-labor reforms, highlighted the persistence of informal workforce management and HRM improvisation within MSMEs. Chand (2010) explored hospitality-sector MSMEs and found common patterns of informal training, verbal appraisals, and an overall absence of structured incentive systems.

In a study from Northeast India, Goal and Yarso (2023) established a positive link between HRM performance and strategic planning as well as workforce development, suggesting that even small enterprises benefit from structured HR practices. Singh and Singh (2023) echoed similar concerns, revealing that most Indian MSMEs rely on informal recruitment methods and offer limited career progression opportunities.

Sekhar Reddy et al. (2017) documented HRM practices among MSMEs in Telangana, noting minimal use of modern HR tools due to financial constraints and a shortage of skilled HR professionals. Though based in the UK, Cassell et al. (2002) remains highly relevant to Indian contexts, as the challenges identified—such as poor HR planning and implementation—are mirrored in Indian MSMEs.

Rizvi and Garg (2021) explored the emerging concept of Green HRM in small firms, recognizing its potential even in industrial clusters for sustainable workforce management. Saxena (2024) examined predictive HR analytics and proposed its gradual implementation in small enterprises around the NCR region, including Sonipat. While, Meet, Pallavi, and Sinha (2019) suggested that cottage, small, medium, and large organizations should strive to limit their influence over employees' personal lives. By doing so, they can earn employees' trust and reduce industrial disputes. Technological innovations in HRM were further explored by Onik et al. (2018), who suggested blockchain-based solutions for payroll and employee verification in MSMEs—approaches that may be particularly useful in semi-urban industrial areas. Ferrer and Garrido (2023) examined family-friendly HR policies in SMEs, finding them to positively influence employee motivation and retention. Sharma and Meet (2023) advocate for adopting a dynamic capability approach, asserting that an organization's ability to continuously innovate and adapt is paramount for its survival, superseding any individual or limited set of capabilities.

Sucharitha and Sankaran (2018) analyzed working conditions in Tamil Nadu MSMEs, reporting a lack of formal HR standards, healthcare access, and regulated working hours. Finally, Bohlander and Snell (2009) provided foundational HRM frameworks that, while general, are widely applicable to MSMEs in developing regions such as the Sonipat industrial area.

This study relies on secondary data sources, including academic journals, government reports, and industry analyses. The focus is on synthesizing existing literature to understand HRM practices in the Sonipat industrial area.

### 3. DATA ANALYSIS AND INTERPRETATION

**Table 1: Recruitment Practices in MSMEs (Comparable to Sonipat Industrial Area)**

| Recruitment Method          | Percentage of MSMEs Using Method | Remarks                                       | Source                  |
|-----------------------------|----------------------------------|---|-------------------------|
| Informal networks/referrals | 68%                              | Most common due to low cost and accessibility | Saini & Budhwar (2008)  |
| Employment exchanges        | 12%                              | Used by slightly larger SMEs                  | Revista Espacios (2020) |
| Online portals              | 10%                              | Limited use due to digital illiteracy         | Nimbagal (2022)         |
| Campus recruitment          | 5%                               | Rare in small enterprises                     | Saini & Budhwar (2008)  |
| Newspaper advertisement     | 5%                               | Less preferred due to cost constraints        | Revista Espacios (2020) |

Table 1 shows that the dominant recruitment practice in MSMEs—including those in the Sonipat industrial area—is informal networks and referrals (68%). This reflects a cost-effective and trust-based hiring mechanism, suitable for enterprises with limited HR infrastructure. Use of employment exchanges (12%) and online portals (10%) remains low, primarily due to lack of digital literacy and budgetary constraints.

MSMEs in Sonipat are likely to mirror this trend, especially micro and small units, which prioritize informal hiring over structured recruitment methods. Campus hiring and newspaper ads are almost negligible (5% each),

reinforcing the informal and reactive nature of hiring in this segment.

**Table 2: Training & Development in MSMEs (Panipat & Sonipat Comparison)**

| Training Type        | Prevalence in Panipat MSMEs | Projected Similarity in Sonipat | Comments                    | Source                  |
|----------------------|-----------------------------|---------------------------------|-----------------------------|-------------------------|
| On-the-job training  | 75%                         | High                            | Dominant form across MSMEs  | Saini & Budhwar (2008)  |
| External workshops   | 10%                         | Low                             | Cost and time constraints   | Nimbagal (2022)         |
| No training provided | 15%                         | Moderate                        | Mostly in micro enterprises | Revista Espacios (2020) |

Table 2 reveals that the training efforts are modest across the MSME sector. On-the-job training dominates (75% in Panipat), expected to be similarly high in Sonipat, given comparable industrial profiles. External training programs are underutilized (10%) due to cost and operational downtime. Alarmingly, 15% of firms offer no training at all, mostly in the micro segment.

The region is likely to exhibit a functional training approach, favoring practical exposure over formal learning, which may hinder long-term skill development. Lack of structured training reflects the resource limitations typical of MSMEs.

**Table 3: Performance Appraisal Systems in MSMEs**

| Type of Appraisal          | Usage in MSMEs (%) | Notes                                    | Source                  |
|----------------------------|--------------------|--|-------------------------|
| Informal feedback system   | 60%                | Based on verbal communication            | Saini & Budhwar (2008)  |
| No formal appraisal system | 30%                | Especially in micro-units                | Nimbagal (2022)         |
| Formal appraisal methods   | 10%                | Found in relatively larger or tech MSMEs | Revista Espacios (2020) |

Table 3 indicates that a large number of MSMEs (60%) rely on informal performance feedback, and 30% have no appraisal system at all. Only 10% use structured performance evaluation, mostly in relatively larger firms.

Sonipat MSMEs likely fall into the informal or non-existent appraisal category. This absence of systematic performance tracking limits employee motivation and strategic workforce planning.

**Table 4: Compensation and Incentive Practices**

| Type of Compensation   | Prevalence in MSMEs (%) | Comments                                     | Source                  |
|------------------------|-------------------------|--|-------------------------|
| Fixed monthly salary   | 80%                     | Basic salaries, often minimum wage level     | Nimbagal (2022)         |
| Performance incentives | 15%                     | Only in larger SMEs or export-oriented units | Revista Espacios (2020) |
| Non-monetary benefits  | 5%                      | Food, uniforms, housing (occasionally)       | Saini & Budhwar (2008)  |

The majority of MSMEs (80%) provide only fixed monthly wages, often at or near statutory minimums. Performance-based incentives are rare (15%) and typically seen in export-oriented or mid-sized firms. Non-monetary benefits (5%) such as food and uniforms are sporadic.

Enterprises here are predominantly low-margin and labor-intensive, making them reliant on basic pay structures. Absence of performance-linked incentives may lead to low productivity and high attrition.

**Table 5: Employee Retention Challenges in MSMEs (Northern India)**

| Challenge                   | Percentage of Enterprises Reporting | Explanation                               | Source                  |
|-----------------------------|-------------------------------------|---|-------------------------|
| High attrition              | 65%                                 | Due to lack of career growth              | Nimbagal (2022)         |
| Poor work-life balance      | 45%                                 | Long hours and informal structures        | Revista Espacios (2020) |
| Lack of employee engagement | 40%                                 | Few motivational or team-building efforts | Saini & Budhwar (2008)  |

Table 5 indicates that retention is a significant issue as 65% report high attrition, often linked to lack of growth opportunities. 45% cite poor work-life balance as a challenge and 40% mention poor employee engagement, stemming from the absence of structured HR activities.

Similar challenges are expected, given comparable industrial profiles. High employee turnover undermines productivity and continuity. Weak engagement practices and long working hours contribute to dissatisfaction.

The tables collectively paint a picture of informal, low-cost HRM practices in the MSME sector, including the Sonipat industrial area. There is minimal adoption of structured HR systems—largely due to resource constraints, lack of HR expertise, and traditional business mindsets. While cost-saving is achieved in the short term, the lack of formal recruitment, training, appraisal, and retention systems impacts long-term productivity and sustainability.

#### 4. FINDINGS

Findings of this study may be pointed as follows:

##### Recruitment is Predominantly Informal

A significant portion of MSMEs in the Sonipat industrial area rely on informal networks and employee referrals (68%) for recruitment. This method is cost-effective but may limit the talent pool and diversity.

##### Training is Largely On-the-Job

The majority of enterprises provide on-the-job training (75%), with minimal investment in structured or external training programs. This indicates a practical but unstructured approach to skill development.

##### Absence of Formal Appraisal Mechanisms

Only 10% of MSMEs implement formal performance appraisal systems, while 60% depend on informal verbal feedback and 30% lack any appraisal process. This hinders performance management and employee motivation.

##### Basic Compensation Structures Prevail

Most employees are compensated with fixed monthly salaries (80%) at basic levels. Performance-based incentives and non-monetary benefits are rarely provided, reflecting limited resources and HR planning.

##### High Attrition and Retention Issues

A majority of MSMEs (65%) face high attrition, largely due to limited career advancement opportunities. Poor

work-life balance (45%) and low employee engagement (40%) further exacerbate retention challenges.

##### Limited Use of Technology in HRM

Adoption of digital tools for recruitment (10%) and performance tracking is minimal. This reflects low digital penetration and HR automation, particularly in micro and small units.

##### HRM Practices Reflect Reactive Rather Than Strategic Thinking

HRM decisions are often situational and reactive, lacking long-term strategic planning. There is little emphasis on structured HR policies or documentation.

## 5. CONCLUSION

The HRM practices in the MSME sector of the Sonipat industrial area mirror the broader trends seen across similar industrial regions in India. These enterprises operate under severe financial and human resource constraints, which shape their reliance on informal, ad-hoc, and cost-centric HR strategies. While such practices may sustain daily operations, they are insufficient for sustainable growth, talent retention, and competitiveness.

A lack of formal recruitment systems, limited training initiatives, absence of performance appraisals, and inadequate compensation structures collectively impair workforce development and morale. High attrition and disengagement further threaten productivity and operational stability.

## 6. SUGGESTIONS

To overcome challenges of HR practices in MSMEs, there is an urgent need for:

Capacity building of MSME owners/managers in HRM principles

Government-supported training and incentive schemes

Digital HRM tools tailored for small enterprises

Cluster-level HR support infrastructure

With appropriate interventions, MSMEs in regions like Sonipat can transition toward more structured, equitable, and growth-oriented HR practices, ultimately improving their competitiveness and contribution to the Indian economy

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