

Managing Human Resources in Small and Medium Enterprises (SMEs) in Developing Countries: A Research Agenda for Bangladesh SMEs

Mohammad A Arafat¹ and Dr Ezaz Ahmed²⁺

¹ School of Business, Independent University, Bangladesh

² School of Management and Marketing, Central Queensland University, Australia

Abstract. The Small and Medium Enterprises (SMEs) work as the engines of economic growth in the global economy. SMEs contribute towards economic developments including creating and expanding jobs in underdeveloped rural and urban areas and providing flexibility and innovation in the economy. There is a plethora of research and discussion on the role of SMEs in developing countries, yet there is scope of research to be conducted on the human resource management (HRM) of the SMEs. The current paper discusses the extant literature on SMEs in Bangladesh context and proposes an HRM model to be tested in the research context. The research paper also discusses and identifies the significance of HRM among the SMEs in Bangladesh. The paper contributes to the existing literature by proposing a new dimension of research area: managing HRM among SMEs in Bangladesh. A detailed theoretical model and two research questions are proposed in the current research.

Keywords: Small and medium enterprises, Developing countries, Bangladesh.

1. Introduction

Bangladesh, a developing country is South Asia significantly benefitted socially and economically from the contributions of SMEs [1] – [3]. In Bangladesh, the SMEs account for approximately 45% of manufacturing value addition, 80% of industrial employment, 90% of total industrial units and about 25% of total labour force [4]. These are the enterprises with minimum capital investment with increased labor engagement, unsophisticated technology oriented, use local resources, cater to local and regional demands. The development of SMEs contributes to the increase in per capita income, generates immediate employment opportunity, promotes more equitable distribution of national income, make effective mobilization of untapped capital and human skills and leads to dispersal of manufacturing activities all over the country, leads to growth of villages, small towns and economically underdeveloped regions. SMEs can be termed as an employment generating machine for the nation and since promotes industries in the underdeveloped regions of the country; SMEs tend to balance regional development and economic harmony. For the above reasons, Government of Bangladesh places it a priority sector in the framework of economic planning to help to achieve Millennium Development Goals especially in the field of reducing extreme poverty, eliminating hunger, empowering and ensuring equal rights of women in the country. To achieve the objectives, Bangladesh Government takes several strategies to provide initiatives through several government institutions, organizations as well as sets of specified rules & encouragement for financial institutions to facilitate the development of SME sector in Bangladesh. The Government of Bangladesh formulated the National Industrial Policy 2010 by giving special emphasize for developing Small and Medium Enterprises (SMEs) as a thrust sector for balanced and sustainable industrial development in the country with the vision for facing the challenges of free market economy and globalization [5]. Though there has been plethora of research on SMEs' impact on social and economic condition of Bangladesh, less emphasis has been placed on the HRM issues of SMEs in Bangladesh context. The current paper is set in the following manner: following a brief discussion on the definition of SMEs, the history and current status of SMEs in Bangladesh context would be discussed. Finally, the future of SMEs in light of the New Industrial Policy 2010 and HRM challenges, recommendations for the SMEs would be discussed.

2. Objective of the Study

Over a time period, the status of SMEs changes in a country and there is a scope to understand and revise the potential of the status of SMEs. Bangladesh, a developing country in the South Asia is no exception with regard to the SMEs. The main objective of the paper is to discuss and identify the role of HRM plays in the SMEs in Bangladesh. The paper would provide an understanding of the current status of SMEs in the context of the New Industrial Policy 2010 and a theoretical model is proposed for further research. The paper would also discuss the challenges and recommendations for Bangladesh's SMEs.

3. Defining SMEs: One Size Does Not Fit All

The definitions of SMEs vary from country to country around the world. SMEs, both in size and shape are not uniform across the globally. There is no universally accepted definition of SMEs as it depends not only on investment level and number of workers but also on technologies and technical complexities of production, degrees of skills demanded from workers and managers, end use of products and so on, which varies from country to country. For example, the EU members state Germany defines SME as an enterprise with a limit of 500 employees, while in Belgium it is only 100. There is no standard definition for a small business in the United States also. The most commonly used definitions based on either size of employment and capital investment or fixed assets. The technical definition varies from country to country in the world but is usually based on employment, assets or a combination of the two. Some countries have different definitions for SME in the manufacturing and services sector and may exempt firms from specialized industries or firms that have shareholdings by parent companies. According to the European Union, SMEs are defined as enterprises which have approximately 250 employees and an annual turnover not exceeding 50 million Euros. Further there is a distinction of small enterprises with fewer than 50 employees and a turnover of less than 10 million Euros and micro-enterprises with less than 10 employees and a turnover of 2 million Euros [6]. In the UK, sections 382 and 465 of the Companies Act 2006 define an SME and according to the Act, a small company has a turnover of not more than 5.6 million pounds, a balance sheet total of not more than 2.8 million pounds and not more than 50 employees [7]. A medium-sized company has a turnover of not more than 22.8 million pounds, a balance sheet total of not more than 11.4 million pounds and not more than 250 employees [7]. In the USA, the definition of small business is set by a government department called the United States Small Business Administration (SBA) Size Standards Office. According to SBA, an SME organization must be independently owned and operated [8]. Unlike the UK and the European Union which have simple definitions applied to all industries, the US has chosen to set size standards for each individual North American Industry Classification System (NAICS) coded industry. This variation is intended to reflect industry differences in a more effective way. The most common size standards are: 500 employees for most manufacturing and mining industries, 100 employees for wholesale trade industries, \$6 million of annual receipts for most retail and service industries, \$28.5 million of annual receipts for most general and heavy construction industries, \$12 million of receipts for all special trade contractors and \$0.75 million of receipts for most agricultural industries. In Malaysia, SMEs in the manufacturing, manufacturing related services and agro-based industries are defined as organizations with full-time employees not exceeding 150 or with annual sales turnover not exceeding RM 25 million and SMEs in services, primary agriculture and Information and Communication Technology (ICT) sectors are organizations with full-time employees not exceeding 50 or with annual sales turnover not exceeding RM 5 million [9]. The definitions of SMEs among the South Asian countries vary. As such, in India the Small Scale Industries (SSIs) are industrial organizations with investment in fixed assets (plant and machinery) either held on ownership terms or on lease or by hire purchase does not exceed Rs. 10 million. The Small Scale Service and Business Enterprises are industry related service and business enterprises with investment in fixed assets, excluding land and building of up to Rs. 1 million [10]. According to the Small and Medium Enterprises Development Authority (SMEDA), SMEs are defined as organizations employing no more than 250 employees with a paid up capital up to Rs. 25 Million and annual sales up to Rs. 250 Million [11].

4. Industrial Policy 2010 of Bangladesh and SMEs

According to the Industrial Policy 2010, Government of Bangladesh classified all industrial organizations into four groups: large, medium, small and cottage and further defined each classification for

manufacturing and non-manufacturing sector (service). In manufacturing sector, medium industry is defined as organizations with either the value of fixed assets excluding land and building between Tk. 100 million or 300 million or with employees between 100 and 250. In manufacturing sector, small industry is defined as organizations with either the value of fixed assets excluding land and building between Tk. 5 million and Tk. 100 million or with between 25 and 99 employees. For non-manufacturing or services, medium industry refers to organizations with either the value of fixed assets excluding land and building between Tk. 10 million and Tk. 150 million or with between 50 and 100 employees. On the other hand, small industry correspond to organizations with either the value of fixed assets excluding land and building between Tk. half a million and Tk. 10 million or with between 10 and 25 employees [5].

4.1. Government policy under Industrial Policy 2010 for SMEs

The Government of Bangladesh view SMEs as an agent of job creation in rural and urban areas, facilitator of reducing poverty and inequality in the society, instrument for enhancing standard of life. For the Government of Bangladesh, four salient guidelines for SME policy were [5]:

- The Government encourages SME entrepreneurs through providing adequate loan and training programs to create strong position of SMEs in the economy.
- SMEs are re-financed Bangladesh Bank (central bank of Bangladesh) through three re-financing funds.
- Women entrepreneurs are given priority for SME loans. 15% of total loan are allocated for women entrepreneurs and the interest rate to be capped at 10%.
- Information and Communication Technology (ICT) Industries to get priority for government priority assistance.

5. Managing Human Resources in SMEs: A New Research Agenda

In the last two decades, most of the studies analysed and reported SMEs' economic, social and other policy impacts in Bangladesh context. For example, Uddin (2008) assessed the economic efficiency and overall performance of SMEs in the developing countries and concluded that the economic performance and efficiency largely depend on the country's macroeconomic policy and government's special preferences and promotions of SMEs [12]. In another study, Miah (2007) identified a series of constraints for SMEs' growth in Bangladesh [13]. Echoing Miah (2007), a number of other studies investigated the role of available funds for the SMEs in Bangladesh [14], [15]. In recent studies, Quader and Abdullah (2012) also identified seven factors that constraint growth of SMEs in Bangladesh [16]. Managing human resources in SMEs has been overlooked and there is a scope for systematic study to identify the key issues related to managing human resources in SMEs in Bangladesh. In the last two decades, there has also been a dramatic shift in the field of managing human resources in organizations by focusing more towards the aggregate form (macro) than individualistic performance management (micro). Leading from Porter (1980) and Barney (1991)s' research, a number of theories of HRM has indicated the significance of employees as an indispensable resource for the organizations [17], [18]. It is important to note that unlike other resources in organizations, human resources are potentially be non-obsolete and their skills are transferable across different products, technologies and markets. In today's increasing intensive market competition, SMEs' organizational efficiency and effectiveness is an important indicator for its sustainability in the long term. The review of the current literature suggests that HRM practices focuses on activities that include human elements for the efficient operation of the organizations. Arguably, to have sustainable SMEs in Bangladesh, a more systematic research on it HRM is warranted, along with the Government's fiscal and monetary policies. Based on Phillips (1996)'s model of comprehensive HRM practices, two broad questions of HRM should be explored and researched [19]:

- Is there a dominant HRM practice among SMEs in Bangladesh? To what extent does organizational practice/ activities influence the HRM practices: communication; empowerment; motivation; participative management; performance evaluation; reward and recognition; supervisory leadership and training and development?

- What is the relationship between SMEs' HRM practices of communication; empowerment; motivation; participative management; performance evaluation; reward and recognition; supervisory leadership; training and development and employees' perceptions of job satisfaction and organizational performance?

A comprehensive theoretical framework is presented in the following (Fig. 1) with their proposed relationship:



Fig. 1: Human Resource Management- Organization Performance Model [19]

6. Conclusion

Small and medium enterprises (SMEs) play a vital role in the economic growth, poverty alleviation and rapid industrialization of the developing countries like Bangladesh. SMEs are significant in underlying country's economic growth, employment generation and acceleration of industrialization. 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. SMEs in Bangladesh would face an intense competition from the international markets and a systematic analysis of its HRM practices would suggest the policy makers and SMEs to manage their business efficiently and effectively. A stable macro-economy, an open trade and investment regime and a competitive financial sector are argued to be most essential ingredients for a vibrant private sector and it would be also applicable to the SME sector. Future research on SMEs should focus on managing its human resources and its impact on SMEs' performances. The proposed model of HRM and organizational performance would guide the researchers to formulate more context specific research questions and concerns. It is thus recommended that more research on managing human resources in SMEs is conducted in a more systematic process.

7. References

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