

BOOSTING INDIAN ECONOMY VIA SMES

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Abstract:

The SSI sector is noteworthy segment of Indian economy. The modern small scale sector has led to greater economic development in India. SSI units produce a wide variety of products. It is essential to sustain and empower the SMEs for the fuller utilization of the human as well as economic resources, as the Small and medium-sized enterprises in India have many problems such as absence of financial services, inadequate managerial resources, poor IT, lack of marketing expertise, technology innovation, market research and inadequate infrastructure. The role of Government for MSMEs has changed from the controller to that of a friend and facilitator. The target areas of Government for the development of SMEs are easy access to capital, technology, skill development, marketing and infrastructure so that they can gain competitive advantage in the domestic and global markets.

INTRODUCTION

The small scale industry, all over the world, is playing an important role in the growth of the national economies. They augment the balanced regional industrial development and act as a nursery for entrepreneurship.

The SSI sector is noteworthy segment of Indian economy. The modern small scale sector has lead to greater economic development in India. They have made a significant contribution in expanding employment opportunities, adoption of modern techniques and dispersal of industries in small town and rural areas. The Small scale industry in India have contributed over 55 percent of industrial production, 40 percent of country's exports, employment to over 175 lakh people in 31.75 lakh units, 100 lakh entrepreneurs. As the small scale industry is contributing significantly in the growth of Indian economy, Government has initiated various schemes for their assistance.

SMEs have been passing through an interim period due to globalization and liberalization and WTO regime. Many units have been facing a tough time because of economic recession in India and abroad.

Those SMEs supported by technological base, international business outlook, competitive spirit and willingness to change, can face the challenges and contribute to the development of Indian economy.

Some unique characteristics of SMEs are small capital investment, High employment orientation, Located in rural and semi-rural areas, Virtually all these firms are privately owned and are organised as sole proprietorships, Most of the funds come from the entrepreneur's savings, Utilization of locally available human and material resources and Greater operational flexibility.

The following are the problems of SMEs:

- Inability to capture market opportunities.
- Lack of innovation in their products and processes.
- Lack of the Financing services.
- Inadequate infrastructure and quality labour.
- Poor IT and knowledge infrastructure.
- Problems related to marketing.
- Difficulty in the procurement of raw material.

They have advantages due to:

- Their size.
- Their comparatively high labour-capital ratio.
- Requirement for a shorter gestation period.
- Focus on comparatively smaller markets.
- Need for lower investments.
- Accelerate the growth of industrial entrepreneurship.

Definition of SMEs

According to MSMED Act 2006, the micro, small and medium enterprises are classified in two classes:

- (a) Manufacturing Enterprises-** The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951. The Manufacturing Enterprises are defined in terms of investment in Plant & Machinery.
- (b) Service Enterprises:** The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

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Both categories of enterprises have been further classified into micro, small and medium enterprises based on their investment in plant and machinery (for manufacturing enterprises) or on equipments (in case of enterprises providing or rendering services). The present ceiling on investment to be classified as micro, small or medium enterprises is as under:

Table : Classification of firms

Old definition (Prior to 2nd October, 2006)		
Classification	Investment limit for Plant, Machinery or Equipment	
	Manufacturing Enterprises	Service Enterprises
Micro	Upto Rs.25 lakh	Upto Rs. 10 lakh
Small	Above Rs.25 lakh & upto Rs.1 crore	-
Medium	Not defined	Not defined
New definition (from 2nd October, 2006)		
	Manufacturing Enterprises	Service Enterprises
Micro	Upto Rs.25 lakh	Upto Rs. 10 lakh
Small	Above Rs.25 lakh & upto Rs.5 crore	Above Rs.10 lakh & upto Rs.2 crore
Medium	Above Rs.5 crore & upto Rs.10 crore	Above Rs. 2 crore & upto Rs.5 crore

Source: www.dcmsme.gov.in/publications/census10.pdf.

Government Policies and Support Measures: Brief History

Government has laid special emphasis on the growth and development of SMEs throughout post-independence period as the SME sector is a significant constituent of Indian economy. The SMEs add to the gross domestic product, output, employment and exports. The development of the policy framework and support measures of the Government can be categorised into the following three periods:

1948-1991

- ❖ Small Industries Development Organization (SIDO) was established in 1954, as an apex institution for the organised growth of small businesses. Later on, it was renamed as Micro, Small and Medium Enterprises Development Organisation.
- ❖ The National Small Industries Corporation (NSIC), the Khadi and Village Industries Commission (KVIC) and the Coir Boards were constructed.
- ❖ Supportive measures for SMEs such as Priority Sector Lending scheme of commercial banks, excise exemption, reservation under the Government Purchase Programme and 15% price preference in purchase, were provided by the Government.
- ❖ Institutes such as Small Industries Service Institute (SISI) were formed all over India for imparting training to youth.
- ❖ Tool Rooms were set up for imparting technical services required for SMEs.

1991-1999

- ❖ In 1991, when the government introduced New Economic Policy measures for the Small enterprises were laid in the light of liberalisation. As a result, SMEs had to face the competition from foreign MNCs.
- ❖ Infrastructure, technology and quality development were stressed upon.
- ❖ Testing centres, new Tool rooms and Sub-contracting exchanges were constituted.
- ❖ The Small Industries Development Bank of India (SIDBI) and a Technology Development and Modernisation Fund were instituted to promote financial services to SMEs.
- ❖ A Delayed Payment Act was promulgated to make quick payment of dues to SMEs.
- ❖ An Industrial Infrastructure Development (IID) scheme was started.

1999 onwards

- ❖ In 1999, the Ministry of MSME which was earlier known as Ministry of Small Scale Industries and Agro & Rural Industries (SSI & ARI) was created for the development of the SMEs.
- ❖ The new Policy was launched in August, 2000, for dealing with the issues relating to credit, infrastructure, technology and marketing.

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- ❖ A Credit Linked Capital Subsidy Scheme was announced with a purpose of technology upgradation and a Credit Guarantee Scheme was launched to provide collateral-free loans to SSIs.
- ❖ The exemption limit for relief from payment of Central Excise duty was increased to Rs.1 crore (\$0.25 million).
- ❖ A Market Development Assistance Scheme for SMEs was started.
- ❖ In 2006, the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 was enacted, the objective of which was the development of small enterprises.

Focus Areas of Government for the Development of SMEs

The role of Government for MSMEs has changed from the controller to that of a friend and facilitator. The target areas of Government for the development of SMEs are easy access to capital, technology, skill development, marketing and infrastructure so that they can gain competitive advantage in the domestic and global markets.

Finance

Finance is one of the critical inputs for the promotion and development of the micro and small enterprises. Some of the features of existing credit policy for the MSMEs are:

Priority Sector Lending: Finance to the SMEs is part of the Priority Sector Lending Policy of the banks. For the public and private sector banks, 40% of the Net Bank Credit (NBC) is earmarked for the Priority Sector. For the foreign banks, however, 32% of the NBC is earmarked for the Priority Sector, of which 10% is earmarked for the SME sector.

Institutional Arrangement

SIDBI is the apex financial institution for the promotion, financing and development of the SME sector. Apart from extending financial assistance to the sector, it coordinates the functions of institutions engaged in similar activities. SIDBI's major operations are in the areas of:

- Refinance assistance
- Direct lending
- Development and support services.

Main Schemes of SIDBI

National Equity Fund Scheme which provides equity support to small entrepreneurs setting up projects in small scale sector.

Technology Development & Modernisation Fund Scheme for providing finance to existing SSI units for technology upgradation/modernisation.

Single Window Scheme to provide both term loan for fixed assets and loan for working capital capital.

Composite Loan Scheme for equipment and/or working capital and also for worksheds to artisans, village and cottage industries in small scale sector.

MahilaUdyam Nidhi (MUN) Scheme provides equity support to women entrepreneurs for setting up the enterprises in the small scale sector.

Scheme for financing activities relating to marketing of SSI products which provides assistance for undertaking various marketing related activities such as marketing research, R&D, product upgradation etc.

Equipment Finance Scheme for acquisition of machinery/equipment by the SMEs.

Venture Capital Scheme to encourage SSI ventures to obtain capital equipment, as also requisite technology for building up of export capabilities including the cost of total quality management and acquisition of ISO-9000 certification.

ISO 9000 Scheme to meet the expenses on consultancy, documentation, audit, certification fee, equipment and calibrating instruments required for obtaining ISO 9000 certification.

Commercial banks are important channels of credit flow towards the SME sector and play a crucial role in financing their working capital and long term requirements .At the State level, State Financial Corporations (SFCs) and State Industrial Development Corporations (SIDCs) provide long-term finance for the MSME sector. In addition, Government has announced a 'Policy Package for Stepping up Credit to Small and Medium Enterprises (SMEs)', with a view to double the credit flow to the SME sector within a period of five years. To provide proper financial assistance to the MSMEs, the Ministry of MSME has also put into practice the following major schemes:

Credit Guarantee Scheme

This scheme was launched in August 2000 to provide credit facility up to the limit of Rs.100 lakh to the new and existing micro, small and medium enterprises without collateral security. The guarantee cover is up to 75 per cent of the credit sanctioned [85%

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in respect of loans up to Rs.5 lakh and 80% for loans offered to SMEs operated by women and all loans in the North- East Region].

Performance and Credit Rating Scheme

The Performance and Credit Rating Scheme was launched in April, 2005 .This scheme facilitates the SMEs in taking performance-cum-credit rating. If the rating of a unit is high then it would help them in getting credit from financial institutions on improved terms. The scheme is implemented by the National Small Industries Corporation.75% of the fee charged by the rating agency is reimbursed by the Government subject to a maximum of Rs.40,000.

Emerging Sources

In recent years, there is an increased flow of capital in the form of primary/secondary securities market, venture capital and private equity, external commercial borrowings, factoring services etc.

Competitive Technology

To augment the growth of MSME sector, ten state-of-the-art Tool Rooms and Training Centers were established. The Tool Rooms are operating with the use of latest advancements like CAD/CAM, CNC machining for tooling, rapid Prototyping, etc. Tool Rooms also impart special training to meet the requirements at international level.

The Ministry of MSME has started the following schemes and programmes for technology upgradation of the MSMEs:

ISO 9000/14001 Certification Fee Reimbursement Scheme

Government has introduced this scheme for technological upgradation, quality improvement. Under this scheme 75% of the fees are refunded to the entrepreneurs, subject to a maximum of Rs.75,000 for acquiring Quality Management System (QMS) / ISO 9000 certification and/or Environment Management System (EMS)/ISO 14001.

Micro and Small Enterprises Cluster Development Programme

The programme initiates measures for capacity building, skill development, technology upgradation of the enterprises, better credit facility, marketing assistance, setting up of common facility centres etc.

Credit Linked Capital Subsidy Scheme

The Credit Linked Capital Subsidy Scheme was started in 2005 to facilitate technology upgradation by providing 15% capital subsidy to manufacturing SMEs, on institutional finance up to Rs.1 crore for the introduction of well-established and improved technologies.

National Manufacturing Competitiveness Programme

This programme was started in 2007-08. There are ten components under this programme aimed at improving the entire value chain of the MSME sector. These are:

- (a) Building Awareness on Intellectual Property Rights for the Micro, Small & Medium Enterprises (MSMEs):** Awareness programmes, seminars and trainings are imparted to the entrepreneurs under this scheme. Also, help for funding on Patent registration is provided to the entrepreneurs and IP Facilitation Centre (IPFC) was set up under this scheme.
- (b) Scheme to Support Entrepreneurial and Managerial Development of SMEs through Incubators:** The scheme aims at promoting innovative business ideas, which could be implemented in a year. Under the scheme, various institutions like engineering colleges, research labs etc. will be granted funds upto Rs.6.25 lakh. The incubator will provide technology guidance, workshop, lab support and linkage with other agencies for successful beginning of the enterprise.
- (c) Enabling Manufacturing Sector to be Competitive through Quality Management Standards (QMS) and Quality Technology Tools (QTT):** This scheme was launched during the year 2008-09 to improve quality and productivity in the SME sector. The major activities under this scheme are:
 - Introduction of Appropriate Modules for Technical Institutions;
 - Organising awareness campaigns for MSEs;
 - Organising Competition-Watch ;
 - Implementation of quality management standards and quality technology tools in selected SMEs;
 - Monitoring International study missions.
- (d) Mini Tool Rooms under PPP mode:** Under this scheme 15 Mini Tool Rooms will be instituted. Competitive bidding from entrepreneurs and associations will be invited to set up tool rooms with Government support upto Rs.9 crore.

- (e) **Marketing support to SMEs (Bar Code):** The purpose of this scheme is to encourage the small and medium enterprises to take up the Bar Code certification. This will facilitate them to sell their products at a higher price in the National as well as International markets. Under this scheme, 75% of annual fee of Bar Code certification for the first three years are refunded to the small entrepreneurs.
- (f) **Lean Manufacturing Competitiveness Programme for MSMEs:** Under the Lean Manufacturing Programme (LMP), MSMEs will be assisted in reducing their manufacturing costs, through proper personnel management, better space utilization, scientific inventory management, improved process flows, reduced engineering time and so on. LMP also brings improvement in the quality of products and lowers costs to gain competitive advantage. The broad activities planned under the scheme include Just in Time, Kanban System, Cellular layout, Poka Yoke etc. The Scheme has been approved as a pilot project for Lean Techniques interventions in 100 Mini Clusters.
- (g) **Promotion of Information and Communication Tools (ICT) in Indian MSME Sector:** The objective of this programme is to identify those clusters of SMEs, which have quality production and export potential. These units are promoted in adopting ICT applications to gain competitiveness in the Domestic and International markets. The broad activities planned under the scheme include, identifying target clusters for ICT involvement, establishment of e-readiness infrastructure, building up web portals for clusters, skill enhancement of MSME staff in ICT applications, preparation of local software solutions for MSMEs to augment their competitiveness, creation of e-catalogue, e-commerce etc.
- (h) **Design Clinics Scheme for MSMEs:** The main purpose of the scheme is to bring the MSME sector and design knowledge into a common platform and to offer expert advice and solutions on real time design problems, resulting in continuous improvement and value-addition of the existing products. It also aims at value-added cost effective solutions. Design clinics secretariat is formed along with regional centres under this scheme.
- (i) **Marketing assistance and Technology upgradation scheme for MSMEs:** The objective of this scheme is to identify and encourage those clusters of MSMEs which have export potential and assist them to attain competitiveness in the Domestic and International markets. The broad activities planned under the scheme include technology upgradation in packaging, development of modern marketing techniques, competition studies etc.

- (j) Technology and Quality Upgradation Support to MSMEs:** This Scheme is aimed at sensitizing the manufacturing (MSME) sector in India to improve their technologies, usage of energy efficient technologies to reduce emissions of Green House Gases, adoption of other technologies as per the global standards, improve their quality and reduce cost of production etc. The major activities planned under the scheme include capacity building of MSMEs clusters for clean development interventions, execution of energy efficient technologies in MSME sector, starting carbon credit aggregation centres and encouraging MSMEs to acquire product certification licences from National or International bodies.

Skill Development

The Ministry of Micro, Small and Medium Enterprises promotes the development of micro and small enterprises in the country with the objective of creating self-employment opportunities and skill development of existing and potential entrepreneurs. Programmes are conducted include Entrepreneurship Development, Entrepreneurship and Skill Development, Management Development and Business Skill Development. 20% of the training programmes are conducted for the weaker sections of the society (SC/ST/Women/Physically Handicapped). Vocational and educational training are also conducted through the Regional Testing Centres, Field Testing Stations and autonomous bodies like Tool Rooms and Technology Development Centres (TDCs). There are various specialized programmes for engineers, diploma holders so that their absorption by the industry is immediate.

Marketing and Procurement

Under Government Stores Purchase programme, various facilities are provided to units registered with National Small Industries Corporation (NSIC) in order to support them for marketing their products. These facilities are:

- Issue of Tender Sets free of cost;
- Exemption from payment of Earnest money deposit;
- Waiver of Security Deposit upto the monetary limit for which the unit is registered;
- Price reference up to 15% over the quotation of large-scale units. In addition to these facilities/benefits, 358 items have also been reserved for exclusive purchase from the SME sector to support them in marketing their products.

Export Promotion

Export promotion from the SME sector has been given a high priority. To help MSMEs in exporting their products, the following facilities are offered:

- Products of SME exporters are displayed in International exhibitions and the expenditure incurred is reimbursed by the Government;
- To acquaint SME exporters with latest packaging standards, techniques etc., training programme on packaging for exporters are arranged in various parts of the country in association with the Indian Institute of Packaging;
- Under the SME Marketing Development Assistance (MDA) Scheme, assistance is provided to the individuals for participation in overseas fairs/ exhibitions, overseas study tours, or tours of individuals as member of a trade delegation going abroad.

Infrastructure development

For setting up of industrial estates and to develop infrastructure facilities like power distribution network, water, telecommunication, drainage and pollution control facilities, roads, banks, raw materials, storage and marketing outlets, common service facilities and technological back up services etc. for MSMEs. The Integrated Infrastructural Development (IID) Scheme was launched in 1994. The scheme covers rural as well as urban areas with a provision of 50 per cent reservation for rural areas and 50 per cent industrial plots are to be reserved for the small enterprises. The Scheme also provides for upgradation of the infrastructural facilities in the existing industrial estates.

Performance of SMEs

Production

The small to medium enterprises add to the GDP and output of the Indian economy. They have contributed over 55% of the industrial production.

Employment

In India, small to medium enterprises create remarkable contribution in expansion of employment opportunities. According to the 4th All India Census of MSMEs 2006-07 there were 2.61 crore micro small and medium units in 2006-07 which employed over 6 crore people.

Exports

Small businesses contribute over 45%-50% of the country's exports. The SSI sector mainly exports sports goods, readymade garments, woolen garments and knitwear, plastic products, processed food and leather products.

Challenges of SMES

In today's liberalised regime, survival of small to medium enterprises is difficult due to the competition from multinationals companies. Added to this, is large scale exports of agricultural commodities in processed and semi processed form by large export houses and multinationals leaving gap in the supply of these resources which have traditionally been the input for tiny industries. Besides, liberalisation in imports of capital goods related components, it is feared, would exert pressures on the existing markets of ancillaries and SSI vendors.

Yet the winds of change have opened up new vistas for the larger and progressive small scale units. They have the flexibility and adaptability to switch to low-volume and specialised markets and diversify into differentiated products with appropriate manufacturing process. The other small scale and tiny units operating in decentralised sector could gain through linkage with large enterprises. Foreign direct investment (FDI) will have the spin-off effect of linkage with small scale units which can provide the supply base to the large scale undertakings. These units as the suppliers to duty free license holders could avail the benefit of deemed exports under the new EXIM policy entering into buy back arrangements for labour intensive activities like reprocessing and repackaging for exportable goods and qualifying as ancillaries to large industrial houses having foreign collaboration through equity/technology transfers, modernisation and quality upgradation, could also be rewarding options. Having attained superior quality standards, they could even upgrade themselves as the suppliers of components and finished products of MNCs .By taking the advantage of advanced technologies through MNC route the more dynamic ones could over onto the developing new technologies and processes which could even be exported to the developing countries and become global players by entering into joint ventures with the small and medium enterprises in these countries.

Indian industry is at crossroads where on the one hand, it is to integrate itself with the global markets while on the other hand, it has to face competition in the domestic market from the International suppliers. The future of Indian small scale industry lies with the continuous improvement in the field of technology, product quality, factors affecting productivity and adoption of competitive marketing strategies. On moving from protected economy to a market-oriented economy, some transitional problems seem to be

unavoidable. But with its intrinsic strength and various support services available to it, the sector can look forward to level of sustained development in the coming years.

RECOMMENDATIONS FOR THE DEVELOPMENT OF INDIAN SMES

SME are considered as the growth engine of Indian economy .As the Small and medium-sized enterprises in India have many problems such as absence of financial services, inadequate managerial resources, poor IT, lack of marketing expertise, technology innovation, market research and inadequate infrastructure, it is essential to sustain and empower the SMEs for the fuller utilization of the human as well as economic resources.

1. **Financial:** Absence of institutional finance on easy terms is a major hindrance in the path of SMEs to access to new technologies.
 - **Review the existing system of working capital:** It was confirmed through secondary data analysis that generally inadequate loans are sanctioned to the SMEs. Hence, the existing system of assessment of working capital should be improved.
 - **Educating the entrepreneurs:** Banks and the Government should take steps for educating the entrepreneurs. This will reduce credit funding risk in financing SMEs and bring more transparency in their dealings.
 - **Marketing of bank products:** Majority of entrepreneurs are not aware of the various schemes of banks which are specially designed for the SMEs .So, there is a need of more aggressive marketing efforts.
 - **Committee Approach:** A ‘Committee Approach’ in taking lending decisions should be adopted by the banks. This arrangement will help to removes the element of fear in the minds of bank officers and enable them to take decisions regarding lending to SMEs more confidently.
 - **Trained officers for SME lending:** A special pool of trained officers who have a positive outlook towards SME units should be formed to handle SME lending operations.
 - **Rewarding the performers:** The officers who have performed well in SME lending should be given incentives. Banks should chalk out an incentive scheme for this purpose.
 - **Revision in the organisation structure of the banks:** Delays are there in the lending operations by banks. Hence, the bank needs to review their organisation structure to ensure faster loan sanctions.

- **Marketing:** As marketing is a crucial area for the SMES, the problems related to marketing should be addressed by the government. Government has taken steps to ensure the provision for finance for marketing related activities through various institutions.
 - **Cost of loans:** Banks should lower the cost of loans for the SMEs.
 - **Payment of the bills:** Government should earmark some limit for the payment of bills of SMEs by large corporates.
2. **Technical innovation:** In today's competitive world, the success of an organization depends upon innovation function. Unfortunately, SMEs in India are lacking in innovativeness. Innovation of both products and processes, would add to the competitive capability of SMEs in terms of cost reduction, quality improvement, new market penetration including international markets and firm growth. Hence, an "Innovation Policy" should be instituted. The policy should focus on the liaison of SMEs with external organizations such as large establishments, centres of technology development, R&D institutes and foreign enterprises which would promote a spirit of innovativeness in the SMEs sector of India.
3. **Outsourcing:** Outsourcing can be the most practical solution for the SMEs to become more cost-efficient provided the entrepreneur negotiates well with the service provider. Enterprise technology is a fast-changing area and it may be difficult for smaller enterprises to keep up with the latest developments. Secondly, in some sectors, it is risky to make large IT investments, since newer technologies tend to make the previous ones obsolete at an alarming rate. Thirdly, outsourcing helps to save costs.

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