

## **Human Resource Management: Effective Tool for Organizational Efficiency and Financial Management**

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**Abstract** - With the advancement of information technology and the drastic changes in the overall approach with which organizations are run, the shift in the focus from cost reduction to cost optimization is inevitable. It is evident from many of the recently conducted studies that those who are policy makers or implementers often mix cost reduction approach with the cost optimization approach. Wherever costs are to be incurred, they are often incurred. Also, the categorization of the costs to be kept under consistent surveillance also gets wrongly done many a times. As a result, financial management of the entire organization remains at stake. Out of the several avenues of effective financial management, carefully devised human resource management practices remain the crucial one.

In today's world, human resource management practices and related procedures are increasingly becoming an essential part of the considerable growth of a firm. It can play an efficient role in the overall management of the organization. One of the most commonly adopted business models in terms of set up are Micro-, Small-, and Medium-sized Enterprises (MSMEs). In order to attain effective and efficient management of the MSMEs and to attain the sustainability for MSMEs, application of appropriate Human Resource Management system is essential.

In this research, researchers aim to shed some light on the importance of human resource management practices and their potential effect on the financial management of the MSMEs. There are probable adverse effects of inefficient human resource management practices on the financial management of firms. This research is further intended to highlight how MSMEs can improve further with the help of appropriate human resource management systems.

### **Introduction**

The research explores the relationship between financial management and recruitment, retention, costs and turnover of the manpower of the MSMEs. Human resource management acts as an effective tool to enhance the financial management by introducing such employees to the organizations who have specialised knowledge in their respective areas including finance and operations. Efficient utilization of the resources and funds are inevitable for the organizational survival and progress. However, lack of competent and skilled manpower makes it difficult for the organizations to operate efficiently. Human resource management plays a significant role in attracting and retaining financially efficient talent in SMEs. Human resource managers are required

to pay attention to all the aspects of employment and management of people working in the organisation to make it function smoothly. Human resource management can reduce the cost of production and other expenses by hiring people who specialise in financial skills. It is to be noted that in this research, the focus is not only on the individuals who specialize in financial management, but also on individuals specializing in other areas. In the sense, financial awareness of the employee need not be expected only from the person who is working in finance and accounting department of the organization. Financial literacy and awareness are expected to be portrayed across all the departments of the organization. However, for recruitment, selection, retention and management of the turnover, human resource

management or the H. R. Manager needs some knowledge and skills in financial management. Human resource managers can increase productivity in the organisation and reduce unessential expenses so that the company can generate revenue at its maximum capacity. Ultimately, the employees of the company are its real *human assets* who decide how fast the company can grow financially in the years ahead. Placing the right people in the right place at right time does not happen easily. The entire system with attendant processes and procedures have to be devised carefully by the right people. It is the responsibility of human resource managers to hire and deploy the right people within different functional areas of the organization for efficient operations. Maximum output with the least possible cost and increased profitability with every finished cut off remains to be the ultimate objective for the management. That can be achieved only with the handling of the human resource management of the organizations (in Research, the scope is confined to MSMEs). The human resource manager takes all the responsibility of managing the human resource in the firm, so it is part of the task that the recruitment is done in such a way that it results in financial efficiency of firm in the long term. Usually in the MSME sector, the firms with comparatively small sizes do not have exclusive human resource management manager. In this case, owners or top management takes care of human resource management function. This is one of the reasons why many firms in the MSME sector fail in attaining financial efficiency. Unlike the corporate sector houses which are big enough in nature, scope and size, wherein high capital investment, specialization of the functionalities and separation of ownership from the Management are common features, MSMEs need to pay attention towards HRM. Human resource management is a sensitive function for many organizations as it involves human beings with the linking of technical, emotional, psychological and technical skills to make the organization reach the required level of financial efficiency and sustainability.

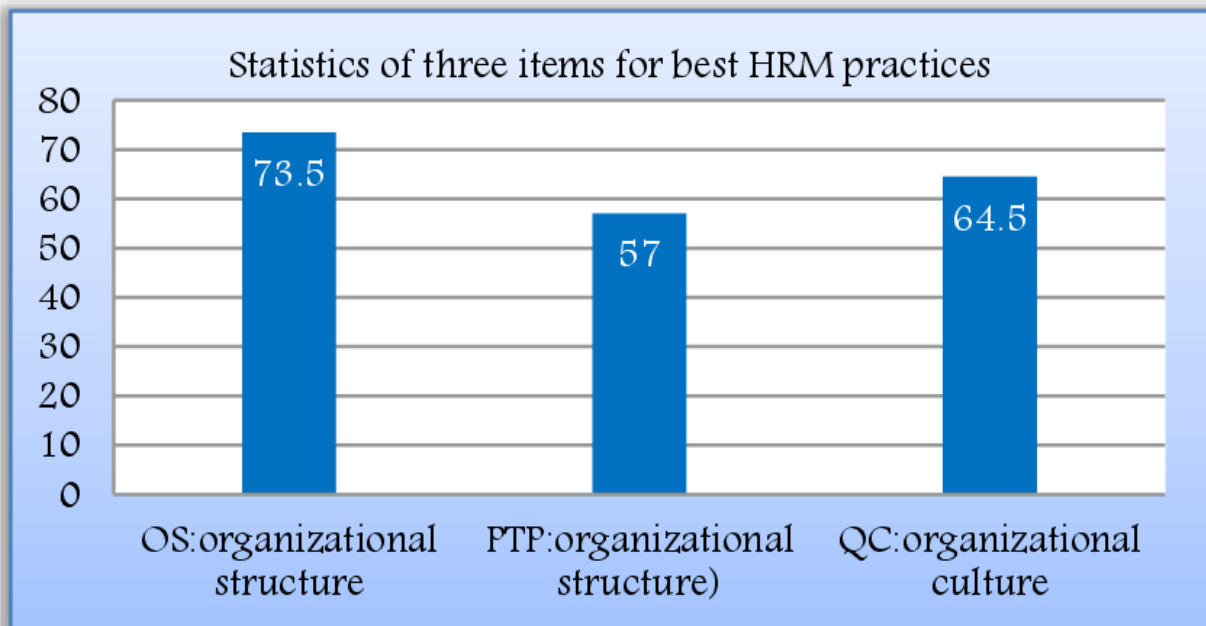
### **Literature Review**

The research focuses on the importance of human resource management for finance-related practices in MSMEs throughout the country (Khan, 2021). The author highlights the imbalance between the pace of technology based economy and the pace of HRM practices revealing that HRM and its overall operations are turning out to be imperative with the increased speed. The human resource function in the MSME can take an important area of research regardless of its size (AlQershi et al. 2022). Efficient human resource management practices generate better opportunities to enhance efficiency in the process of producing goods and services. This in turn ensures satisfaction of the demand and supply for the society. If the management is done with effectiveness and efficiency, the human resource connection is a significant area in realising the aim of business as an integral source (Nasrallah & El Khoury, 2022).

The contribution of MSME to the gross domestic product of India is worth all the recognition since it employs around 40% of the workforce in the entire country. However, even though the contribution of the MSME sector and its share in the GDP have been rising every year, it is also observed that MSMEs generally pay less attention to the management of human resources. Instead, most of the MSMEs focus more on the operational activities of the day to day affairs. On one side, the rising economy based on skills is increasing the importance of the management of human resources and their functioning. However, MSMEs seem to ignore it too often (Anyakoha, 2019). Human resources might not be the main area of focus for small firms, but once the size of the firm starts increasing, human resources management function becomes essential to cope with the pertaining changes in the level of dimensions (Moustaghfiret al., 2020). On the other side of the spectrum, the condition is that even if the small firms want to keep human resource management as their core area of focus, they are unable to attract efficient and suitable talent for the efficient functioning of the firm, who could provide guidance for the organisation and deal with lack of *brand pull* of the organisation. This could be both, due to the lack/inadequate

awareness towards the crucial role of human resource management in the organization as well as lack of/inadequate funds even though the

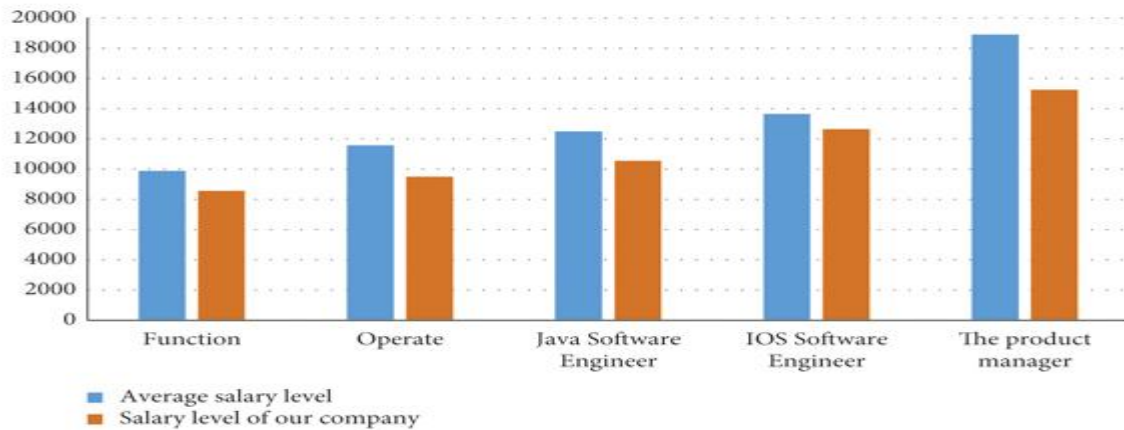
awareness is there. MEMEs often neglect either innocently or intentionally the importance of an efficient human resource management function.



The HR management adventurous in nature are even not planning to join these medium and small size enterprises since there is no surety of two main things, one is meddling by the owner and the other is, the level of empowerment of function (Anwar & Li, 2021). HR professionals often can be questioned about the productivity they are offering especially when such questions are highlighted by the management of small enterprises affected by the prevailing situation. In the period where India is emerging from being heavily dependent on agriculture, the question arises if it is pertinent to know the driver of the economy is not overburdened with any of such things; unlike Venezuela or the United States of America, the need to understand the economy is held at the path of development not only by joint companies like Tata, Reliance but all together with medium and small enterprises. Currently, both small- and medium-sized enterprises phase challenges on double levels in terms of resource constraints on one side and the high need for well-trained and skilled employees on the other. Uncertainty in the external environment of MSMEs increases the woes. This sums up the requirement for effective

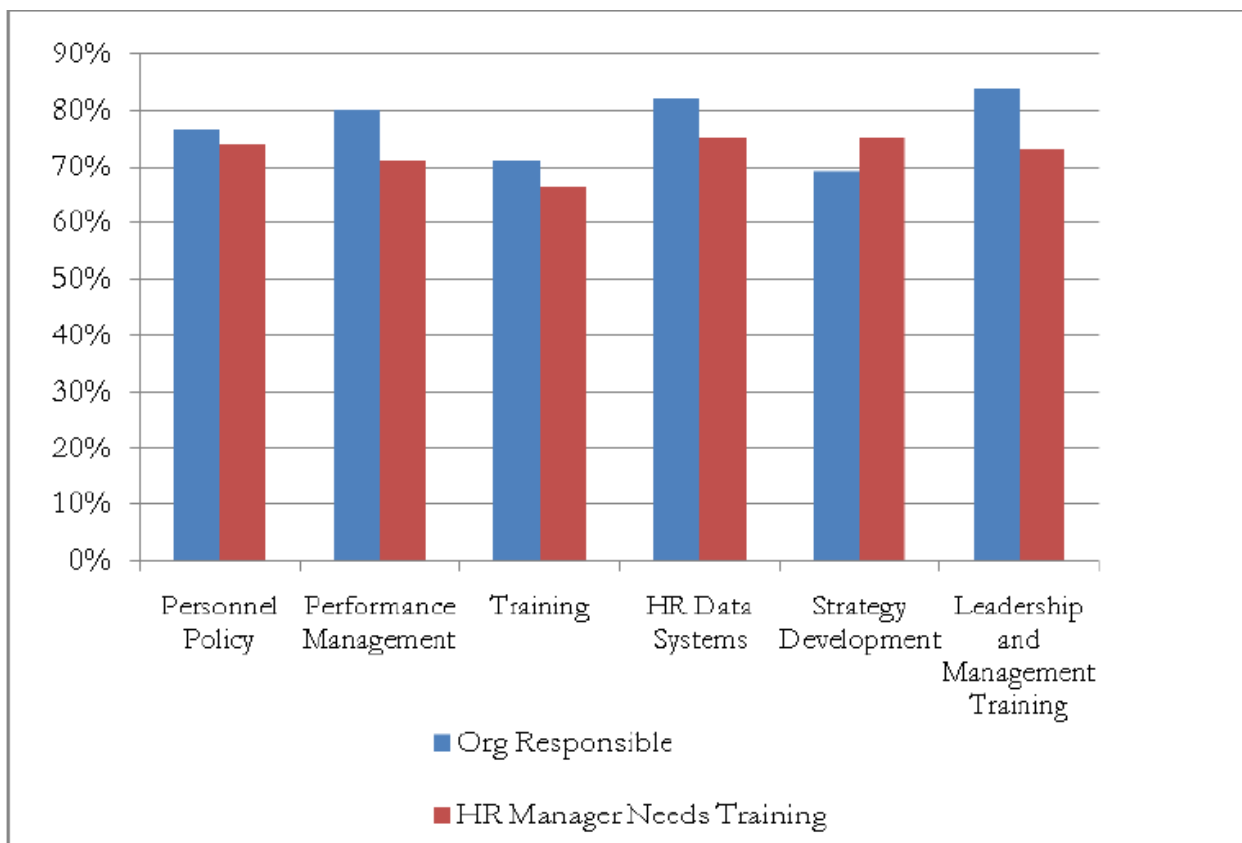
and efficient Human resource management practices in small and medium-sized firms. Human resources management function and its role in the overall operational efficiency and profitability of the organization may not be visible directly all the time.

Small firms are generally considered to be not so specialised compared to large ones. Furthermore, internal and external environment factors are not so carefully scrutinized and strategized for small firms as for the large firms. Teams and source management are still termed emergent instead of completely developed since very little focus is made on human resource practices. Human resource management is considered suitable with specific number of policies which have importance in terms of the right strategies for any enterprise. Human resource practices are generally used to facilitate integration, engagement of employees, flexibility in the working environment and good quality of work life including meeting broader business goals. For example, HR practices may be used in altering the organisation's values, level of productivity and mechanism of delivery.



Brand Value Enhancement: human resource management highlights the internal branding research, which focuses on recruiting, training, and giving incentives to the present employees. Internal market human resource management influences the employees to get engaged with customers so that such engagement can increase quality interaction which will lead to the strengthening of the brand positively. To conclude, if the company shows care to the employees, the customers will also show good care for the brand image of the business organisation (Nasrallah & El Khoury, 2022).

Reduction in Cost of Production: human resource management in small and medium-sized enterprises reduces the cost of production by hiring and retaining the employees who are performing well and are expected to stick with the firm for a longer period prioritising the training and mentoring of the employees. Due to this, they can keep enhancing their skills and stay updated with the problems of new needed skills to compete with the competitors. This can be done by automating the repetitive processes, promoting the mobility of talent and consolidating overall activities (Hindasah & Nuryakin, 2020).

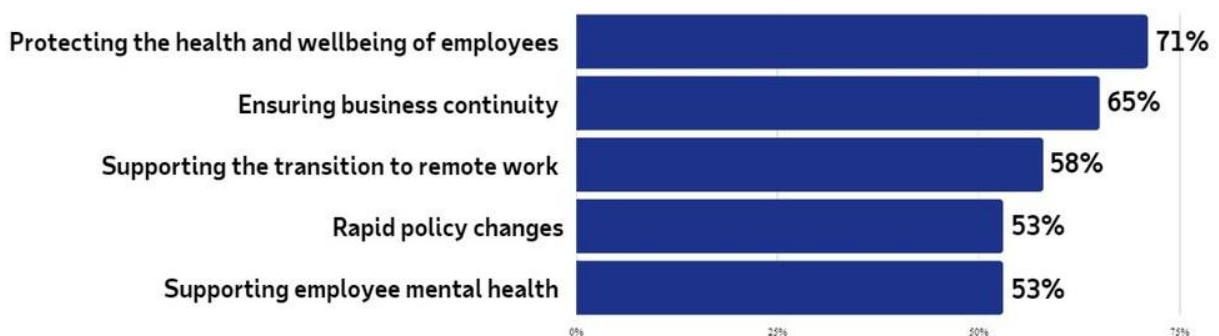


**Increased Efficiency and Profitability:** human resource management is a strategic, current and integrated way of employing staff including the development and progress of employees working for the enterprise. All these activities by HR link to the final direction and accomplishment of the goals and objectives of the firm. Looking specifically at the revenue of small and medium-sized enterprises, resource management is seen to have a direct correlation to the behaviour of workers, which can ultimately decide the final impact on the operational efficiency. This is likely to be positive thereby allowing firms to generate extra profit.

**Increased Efficiency and Effectiveness in Functioning of Medium and Small-Sized Enterprises:** As the firm grows in size, there is a requirement for the HR function to be managed more professionally, formally and in structured way. This is in the best interest of the firm. Human resource management is responsible for finishing all the tasks by the hired employees with due effectiveness and efficiency. The

functioning of HR is not only limited within the Departments of the organizations but also to the Management including middle and top levels with healthy intra and inter organizational relationships. Multiple factors decide the requirement for HR practices making HR function play its role effectively (Centobelli, et al. 2019).  
**Optimum Utilisation of Human and Non-Human Resources:** HR functioning and management focus on training and development, which helps in optimising the use of human resources as well as Non-human resource. It further helps the employees to reach their organisational goal including their individual goal. Linking of individual goals with the organizational goal is quite difficult but highly required functionality of any effective Human Resource Management System. It has got a direct impact on the retention of manpower, low labour turnover and attrition and overall long term sustainability of the organization (El Chaarani et al., 2022).

**Challenges Facing HR Professional Because of COVID-19**



**Reduced Opportunity Cost:** Due to the uncertainty in the internal and external environmental factors as well as due to the scarcity of funds, it is not affordable to any organization to incur some opportunity cost. Opportunity lost is Opportunity Cost. Especially in MSMEs, it is common to see the arrival of such a situation in which management has to choose between allocation of funds on Human and Non-Human resources. Both are crucial and required but allocation percentage would decide the success or failure of the management. Opportunity cost as well, is based on the right choice of allocation. To quote further,

increasing demand is formed by more inventory and recruiting more people in the long term can boost the business's production capacity. However, if there is a sudden influx of a fresh trend in the market, to deal with the situation, the organization will have to opt for immediate release of available inventory even at comparatively low cost. Instead, if the organization introduces more human resources to increase the product activity, the firm may not even reach the level of a break-even point. The opportunity cost of recruiting more people in such a situation is high. HRM reduces such opportunity costs by

taking smart decisions per the situation (Putra & Until the past few years, only big firms were seen investing in scientific and carefully devised human resource management systems. With the lapse of time, even MSMEs have also started thinking seriously about the HRM and its practices. However, the pace and the intensity of the HRM in MSMEs is not at par with the real requirement of the same.

The reasons are also quite obvious. In the sense, as compared to the large organizations, MSMEs do not have big funds. Due to this, they are not able to attract skilled, competent and cream of career professionals. As a result, MSMEs can either outsource the HRM function for an unlimited period or they can manage from whatever resources they have at the moment for the implementation of HRM. Outsourcing of the HRM also has got its own benefits. In the sense, MSMEs get sufficient time to focus on strategic matters instead of looking for routine HR systems (Talom & Tengeh, 2020).

#### **Research Problem**

In this research, the researchers focus on the problem of financial efficiency in Micro, Small and Medium Enterprises (MSMEs) due to lack of/inadequate human resource management and skilled potential with the Manpower to run the enterprises. This, in turn results in the increased cost of production, reduced market share, higher labour turnover, reduced profitability, disturbed working capital management, idle time, wastage/underutilization of the resources, financial crunch and so on. It also stops the firm from growing bigger in future. An SME needs to have employees who know the importance of financial management irrespective of the domain and area of specialization. Existence of the effective and efficient human resource management will reduce the probability of above referred issues with the organization.

#### **Research Significance**

The results of this research can help MSMEs to change their perspective towards the human resource management system. Financially efficient MEMEs can go far in the journey of reaching newer heights. Even transformation from Micro to

Santoso, 2020).

Small and from Small to Medium can also be assured with the effective human resource management systems. In this study, researchers emphasize how hiring the right people for the right position can be financially efficient for MSMEs.

#### **Objectives Of The Research**

Three objectives were developed to guide this research:

1. To create a financially efficient structure for MSMEs
2. To study various impact factors of efficient human resource management system in MSMEs
3. To provide avenues to the HR practitioners to increase financial efficiency of the organization.

#### **Research Methodology**

The common approach for collection of data for this research remained to be a combination of primary as well as secondary data with a major emphasis and focus on the secondary data. The research was mainly with a qualitative approach wherein the researchers expect a deeper understanding of a particular situation and subject. The qualitative approach was studied in social science to support the researchers studying social and cultural phenomena. It included sources such as interviews, observations and published data. This research has taken the form of secondary data available on the contribution of human resource management in enhancing the financial efficiency of SMEs. The topic and its report are collected for understanding and concluding the efficiency and effectiveness of human resource management in MSMEs for creating a better structure for financial development.

Based on the given set of conditions and data collected, development of the Hypotheses was done. It followed the following analysis:

Hypothesis Testing

H1. *There is a significant impact of human resource management on the efficiency of MSMEs*

To test the hypothesis, *regression statistical analysis* procedure was used.

Table 1: Prediction of efficiency of small and medium-sized businesses

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	82.56	7.879		10.415	0.000
	HRM	.182	0.311	0.313	5.685	0.000

a Dependent Variable: efficiency of small and medium-sized businesses

From table 1, it is found that, the “t” value for HRM is 5.685 at 0.05 level of significance. This shows that, there is a significant impact of HRM on the efficiency of small and medium-sized businesses.

H2. There is a significant relationship between Human Resource Management and financial management of MSMEs

The *Pearson Correlation Coefficient* analysis was used to test Hypothesis 2.

Table 2. Pearson correlation

Correlations			
		HRM	Financial Management of MSMEs
HRM	Pearson Correlation	1	.321
	Sig. (2-tailed)		0.000
	N	440	440
Financial Management of MSMEs	Pearson Correlation	.321	1
	Sig. (2-tailed)	0.000	
	N	440	600

The table shows that there is a significant relationship between HRM and Financial Management of MSMEs.

DISCUSSION& FINDINGS

In this research, researchers have attempted to show the relationship, connection and interdependency between HRM practices and organizations’ capacity to enhance profitability. They also made an attempt to map the interpersonal relationships between the Management and the Employees with the latter working effectively on the attainment of the individual goals thereby achieving organizational goals. This study has looked at several ways to improve overall financial and profitability management of the organization with effective HRM. A considerable portion of the HR manager’s portfolio is finding effective ways with cost and time optimized approach to hire, retain and develop the manpower in such a way that in the long run, the same human resources will turn the organization profitable. Unless the firm is very big, the owner probably takes care of all employee

issues on their own instead of hiring a HR Manager. This approach of MSMEs, sometimes due to inability due to shortage of funds and sometimes simply due to negligence coming out of ignorance, need to be addressed.

Since there is no guarantee that the owner will get in the way or that employees will have enough power, HR managers keep themselves little away from MSMEs. When the uncertain and ever changing situation especially after Covid-19 was highlighted, the approach and perspective of the MSMEs towards HRM and HRM practitioners towards MSMEs have started changing.

At a time when India is trying to get its economy to be less dependent on agriculture, it's important to take note that India’s big corporate houses like Tata and Reliance along with MSMEs are keeping the economy on its current path of growth. MSMEs have twice as many problems as they used to because they have fewer resources and need more highly skilled workers. External uncertainty adds more fuel to the already existing problems of MSMEs. This is a short summary of why businesses

of all sizes need efficient and effective ways to manage their Human Resources.

HRM used to be something that only big companies cared about, but as time went on, even MSMEs have started realizing the importance of having an effective human resource management system. However, merely recognizing the importance of HRM and related practices is not sufficient. The challenges of MSMEs are still the same as they used to be. Additionally, the scale and intensity of the problems have increased over a period of time. Recognizing the importance and acting on the same in practice remains to be different with different types and scale of organizations. How to implement the required effective HRM practices remains the real challenge for MSMEs.

### **Conclusions**

In this research, the researchers have highlighted the strategic use of Human resource management in such a way that the small- and medium-sized enterprises can reach the optimum financial efficiency level. The success of MSMEs highly depends on the risk anticipation and bearing, competency, cost optimization, resources optimization and strategized profit planning. In addition, financial literacy and efficiency of the human resources are highly required. Since the owner driven and absence of ownership from management remain to be the generally observed common features for MSMEs, existence of effective HRM practices and implementers in the form of HR Professionals is the need of an hour for any MSME. In turn, implementation of appropriate HRM practices will ensure HRM professionals recruit and hire competent, capable, financially literate and knowledgeable individuals to manage organizations. Human resources and its role is enhancing the efficiency and effectiveness in all the aspects of the organization including financial management and operations of the firm. MSME can grow at a fast pace and even compete with Corporate Sector organizations. If the MSMEs fail to devise HRM Practices properly, the entire financial management of the organization is likely to collapse.

Departments can be different, domains can be different, contribution in the profitability can be

different but one thread tying them all and contributing highly in the financial management of the MSMEs indirectly is human resource management. In the highly competitive world of 'Perform or Perish', HRM in association with the Finance, Marketing and Operations functionalities of the organizations strive to perform better to sustain the business.

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