



Strategic human resource management practices and their impact on performance in Indian textile SMEs

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Abstract

Small and Medium Enterprises (SMEs) are fundamental to the economic fabric of India, particularly within the textile sector, which is a significant contributor to employment, exports, and GDP (Ministry of Micro, Small & Medium Enterprises, 2020). The Indian textile industry, characterized by its diversity and scale, relies heavily on SMEs to maintain competitiveness and drive innovation. However, textile SMEs face multifaceted challenges, including global competition, technological advancements, and workforce skill gaps (Kumar & Rao, 2019). Strategic Human Resource Management (SHRM) emerges as a critical mechanism to align HR practices with business objectives, thereby enhancing organizational performance (Wright & McMahan, 2011). This study investigates the strategic HRM practices employed by Indian textile SMEs and their impact on organizational performance. Utilizing a mixed-methods approach, data were collected from 120 textile SMEs across major industrial hubs in India through surveys and in-depth interviews. The study focuses on key HRM practices such as recruitment, compensation, training and development, employee relations, and performance management. Results indicate that effective HRM practices in recruitment, performance management, and compensation significantly enhance SME performance. Additionally, contextual factors like company size, age, and ownership structure influence the implementation and effectiveness of HRM practices. The findings highlight the necessity for textile SMEs to adopt strategic HRM practices to navigate global competition and achieve sustainable growth. This research contributes to the existing literature by providing empirical evidence on the critical role of HRM in SME performance within the Indian textile sector and offers practical insights for managers aiming to optimize their HR strategies.

Keywords: Strategic Human Resource Management, SMEs, Textile Industry, Organizational Performance, India, Recruitment, Compensation, Performance Management, Employee Relations, Training and Development

Introduction

Small and Medium Enterprises (SMEs) play a pivotal role in the development of India's economy, contributing significantly to employment, innovation, and Gross Domestic Product (GDP) (Ministry of Micro, Small & Medium Enterprises, 2020) [17]. Among various sectors, the textile industry stands out as one of the oldest and most significant in India, predominantly composed of SMEs that maintain a crucial presence in both domestic and international markets (Bhandari, 2018) [4]. Despite their importance, textile SMEs encounter a multitude of challenges, including fierce global competition, rapid technological advancements, and a shortage of skilled labor (Kumar & Rao, 2019) [15].

Strategic Human Resource Management (SHRM) is identified as a vital tool for addressing these challenges by

aligning HR practices with organizational goals to enhance performance and competitiveness (Wright & McMahan, 2011) [21]. Effective SHRM practices, including strategic recruitment, competitive compensation, robust training programs, strong employee relations, and comprehensive performance management, are essential for SMEs to sustain growth and achieve a competitive edge (Boxall & Purcell, 2016) [4].

The purpose of this study is to evaluate the effect that strategic human resource management methods have on the performance of Indian textile small and medium-sized enterprises (SMEs). This research aims to provide practical insights for SME managers to optimize their human resource strategies in a highly competitive global landscape by analyzing the relationship between HRM practices and performance outcomes.

Literature Review

Strategic Human Resource Management (SHRM)

Strategic Human Resource Management (SHRM) involves the proactive management of people, aligning HR practices with the strategic goals of the organization to foster long-term success and competitive advantage (Schuler & Jackson, 1987)^[20]. SHRM emphasizes the integration of HR strategies with business strategies, ensuring that HR practices contribute directly to organizational objectives and performance (Wright & McMahan, 2011)^[21].

HRM Practices in SMEs

- 1. Recruitment:** Effective recruitment ensures that SMEs attract and retain the right talent to drive business objectives (Collings & Mellahi, 2009)^[7]. Strategic recruitment involves not only attracting skilled employees but also ensuring cultural fit and long-term potential (Barney, 1991)^[2].
- 2. Compensation:** Competitive compensation packages are essential for attracting and retaining skilled employees (Milkovich & Newman, 2020)^[16]. In SMEs, compensation strategies must balance affordability with competitiveness to ensure sustainability and employee satisfaction (Gerhart & Rynes, 2003)^[11].
- 3. Training and Development:** Continuous training and development enhance employee skills and adaptability, fostering innovation and productivity (Noe, 2017)^[18]. For SMEs, investing in employee development can lead to significant performance improvements and competitive differentiation (Kirkpatrick, 1996)^[14].
- 4. Employee Relations:** Strong employee relations contribute to a positive work environment, reducing turnover and enhancing job satisfaction (Cropanzano & Wright, 2001)^[8]. Effective communication and conflict resolution are key components of good employee relations (Guest, 2017)^[12].
- 5. Performance Management:** Robust performance management systems align individual performance with organizational goals, driving overall performance (Aguinis, 2009)^[1]. In SMEs, performance management must be flexible and tailored to the specific context of the business to be effective (Pulakos, 2004)^[19].

Impact of SHRM on Organizational Performance

Research consistently indicates a positive relationship between SHRM practices and organizational performance (Huselid, 1995)^[13]. Strategic recruitment, performance management, and competitive compensation have been linked to enhanced productivity, innovation, and profitability in SMEs (Becker & Gerhart, 1996; Wright *et al.*, 2001)^[3, 22]. Effective SHRM practices contribute to higher levels of employee engagement, reduced turnover, and improved organizational commitment, all of which are critical for sustained performance (Boxall & Purcell, 2016)^[4].

Contextual Factors Influencing SHRM in SMEs

Various contextual factors, including company size, organizational culture, leadership style, and industry dynamics, significantly influence the implementation and effectiveness of SHRM practices (Barney, 1991; Delery & Roumpi, 2017)^[2]. In the textile sector, technological

advancements and global competition further complicate the HRM landscape, necessitating adaptable and forward-thinking HR strategies to maintain competitiveness and achieve sustainable growth (Kumar & Rao, 2019)^[15].

Materials and Methods

Research Design

This study employs a mixed-methods approach, combining quantitative surveys and qualitative interviews to provide a comprehensive understanding of SHRM practices in Indian textile SMEs. The mixed-methods design allows for the triangulation of data, enhancing the validity and reliability of the findings (Creswell & Plano Clark, 2018)^[9].

Sample and Data Collection

A total of 120 SMEs in the textile sector across major industrial regions in India were selected through stratified random sampling to ensure representation. The textile sector was chosen due to its significant contribution to the Indian economy and the unique challenges it faces. Data were collected via structured questionnaires and semi-structured interviews with owner-managers and senior HR personnel.

Measures

- **Recruitment:** Measured by the effectiveness of recruitment strategies, including sourcing channels and selection processes.
- **Compensation:** Assessed based on the competitiveness and fairness of compensation packages.
- **Training and Development:** Evaluated through the availability and quality of training programs.
- **Employee Relations:** Measured by the quality of communication and conflict resolution mechanisms.
- **Performance Management:** Assessed through the alignment of performance appraisals with organizational goals.
- **Organizational Performance:** Measured using indicators such as productivity, quality of goods/services, customer satisfaction, innovation, competitiveness, sales growth, and profit growth.

Data analysis

Quantitative data were analyzed using multiple regression analysis and T-tests to investigate the relationship between SHRM practices and organizational performance. Factor analysis was conducted to validate the constructs of HRM practices. The quantitative findings were supplemented with qualitative data derived from interviews, which were then subjected to thematic analysis (Braun & Clarke, 2006)^[6].

Trustworthiness

To ensure the trustworthiness of the study, strategies such as triangulation, member checking, and maintaining an audit trail were employed. Triangulation was achieved through the use of multiple data sources, while member checking involved verifying the accuracy of the findings with the participants. An audit trail was maintained by documenting the research process and decisions made during the study.

Ethical Considerations

Ethical approval was obtained from the relevant institutional review board prior to data collection. Informed consent was

obtained from all participants, ensuring confidentiality and the right to withdraw from the study at any time.

Results and Analysis
Descriptive Statistics

Table 1: Demographic Profile of SMEs

Variable	Category	Frequency	Percentage
Company Size	1-50 employees	50	41.7%
	51-100 employees	40	33.3%
	101-150 employees	30	25%
Company Age	<5 years	24	20%
	5-15 years	60	50%
	>15 years	36	30%
Ownership Structure	Owner-Managed	64	53.3%
	Professionally Managed	56	46.7%

Regression Analysis

Multiple regression analysis revealed that recruitment ($\beta = 0.42, p < 0.01$), performance management ($\beta = 0.35, p < 0.01$), and compensation ($\beta = 0.28, p < 0.05$) significantly predict organizational performance. Training and development ($\beta = 0.12, p = 0.10$) and employee relations ($\beta = 0.08, p = 0.25$) did not show a significant direct impact.

Table 2: Regression Analysis Summary

Predictor	β	t	p-value
Recruitment	0.42	4.20	<0.01
Performance Mgmt	0.35	3.50	<0.01
Compensation	0.28	2.80	<0.05
Training & Dev	0.12	1.20	0.10
Employee Relations	0.08	0.80	0.25

T-Test Results

Comparative analysis between high-performing and low-performing SMEs indicated significant differences in recruitment and performance management practices ($t = 3.60, p < 0.01$; $t = 3.10, p < 0.01$ respectively), while compensation showed marginal significance ($t = 2.10, p = 0.04$).

Table 3: T-Test Results for High-Performing vs. Low-Performing SMEs

HRM Practice	High-Performing Mean	Low-Performing Mean	t-value	p-value
Recruitment	4.50	3.20	3.60	<0.01
Performance Mgmt	4.30	3.10	3.10	<0.01
Compensation	4.00	3.60	2.10	0.04
Training & Dev	3.80	3.50	1.80	0.07
Employee Relations	3.90	3.40	1.90	0.06

Factor Analysis

Factor analysis was conducted to validate the constructs of HRM practices. The Kaiser-Meyer-Olkin (KMO) measure was 0.82, indicating sampling adequacy, and Bartlett's test of sphericity was significant ($\chi^2 = 1350.45, p < 0.001$), confirming the suitability of factor analysis. Five factors were extracted, corresponding to recruitment, compensation, training and development, employee relations, and performance management.

Findings and Discussion

The study confirms that strategic human resource management methods, in particular recruitment, performance management, and compensation, considerably improve the performance of small and medium-sized textile enterprises (SMEs) in India. Recruitment ranked as the most important element, demonstrating the need to acquire and maintain qualified personnel in a highly competitive global market. Effective performance management systems align individual goals with organizational objectives, fostering a culture of accountability and continuous improvement.

This suggests that, in addition to competitive compensation, other elements such as job satisfaction and opportunities for professional development play essential roles in employee retention and performance. Compensation practices, while important, exhibited a slightly lesser influence, indicating that other factors may also significantly impact employee satisfaction and retention. There is a possibility that training and development, albeit not being directly significant, may have indirect impacts by increasing the capacities of employees and encouraging creativity.

The application of human resource management practices is impacted by contextual factors such as the age and size of the firm. The performance of larger and more established businesses is typically influenced by the fact that they have more established human resource systems. Enterprises that are professionally managed place a greater emphasis on competitive compensation, whereas enterprises that are owned and controlled by their owners place a higher priority on performance management. This demonstrates that different management structures have different strategic priorities.

Impact of Contextual Factors

- Company Size:** Larger SMEs with 51-100 employees showed a higher correlation between strategic HRM practices and performance, likely due to more structured HR processes and greater resource availability (Barney, 1991) [2].
- Company Age:** Older firms (>15 years) demonstrated a stronger relationship between HRM practices and performance, suggesting that experience and established practices contribute to effective HRM implementation (Delery & Roumpi, 2017) [10].
- Ownership Structure:** Owner-managed firms emphasized performance management, aligning employee goals with business objectives, while professionally managed firms focused on competitive compensation to attract and retain talent (Kumar & Rao, 2019) [15].

Global Competition and SHRM

The textile sector's exposure to global competition necessitates strategic HRM practices to maintain competitiveness. Recruitment strategies that focus on attracting skilled labor, performance management systems that enhance productivity, and compensation packages that retain talent are essential for SMEs to compete internationally (Wright *et al.*, 2001) [22]. Effective SHRM practices enable these firms to deliver high-quality products, maintain strong client relationships, and achieve sustained growth in a competitive global market.

Implications for Practice

The findings underscore the importance of aligning HR practices with strategic business objectives to enhance organizational performance. Textile SMEs should adopt comprehensive SHRM practices, including strategic recruitment, competitive compensation, continuous training and development, robust performance management, and strong employee relations, to build a high-performance culture. Additionally, considering contextual factors such as company size, age, and ownership structure is essential for tailoring HR strategies to achieve optimal outcomes.

Limitations and Future Research

This study is limited by its focus on SMEs in specific regions of India, which may not be generalizable to all textile SMEs. Future research could explore SHRM practices in other sectors or regions and examine the long-term impact of HRM strategies on SME sustainability and growth. Additionally, longitudinal studies could provide deeper insights into how SHRM practices evolve and influence performance over time.

Conclusion

This study highlights the significant importance that strategic human resource management strategies play in improving the performance of small and medium-sized textile businesses in India. To successfully navigate the challenges posed by global competitiveness and skill shortages, it is essential to establish effective recruitment, performance management, and compensation practices. In order to achieve sustainable growth and a competitive edge, small and medium-sized enterprises (SMEs) need to adopt HR strategies that are tailored to their specific situations. The findings equip managers who are looking to optimize their HR strategies with practical insights and provide empirical data on the crucial role that human resource management plays in the performance of small and medium-sized enterprises (SMEs) within the Indian textile sector.

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