

HRM as a Driver of Innovation and Entrepreneurship: Insights from MSMEs Located in Jhargram

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Abstract :

Micro, Small, and Medium Enterprises (MSMEs) have a significant role in the economic growth of developing economies like India. Innovation and entrepreneurship are crucial for sustainability of MSMEs in the long run. The presence of efficient Human Resource Management (HRM) practices is being recognized as critical drivers of organizational success. This research aims to investigate the impact of HRM practices on innovation and entrepreneurship in MSMEs located in Jhargram. Jhargram is a developing district which is a traditional base of MSMEs in agro-based and handicraft sectors. However, it remains underexplored in academic research that makes it an appropriate context to study. The present study seeks to specifically identify the key HRM practices that drive these factors. A quantitative research approach was adopted in the study. Data was collected from 110 employees using a structured questionnaire. Statistical techniques in the form of correlation and regression analysis were used to assess the links between HRM practices, innovation, and entrepreneurship. The findings revealed a significant positive association between effective HRM practices with both innovation and entrepreneurship. HRM practices like training and development, performance management, and compensation were specifically found to be prominent. The study suggests that MSMEs should give priority towards implementing robust HRM practices to foster a culture of innovation and entrepreneurship. This includes focusing on innovation, employee development, and a supportive work environment.

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Introduction

The economic development of emerging economies like India is greatly influenced by the performance of MSMEs in the country (Singh et al., 2018). MSMEs have a significant contribution to employment generation, regional development,

and industrial growth (Shelly et al., 2020). However, in order to stay relevant in the dynamic business environment, MSMEs require continuous innovation in their entrepreneurial initiatives (Singh et al., 2018). The presence of effective Human Resource Management (HRM) practices has been recognized as a key for organizational success due to the prevalence of resource constraints of MSMEs unlike large enterprises (Ogunyomi & Bruning, 2016). HRM can serve as a driver of both innovation and entrepreneurship by fostering employee engagement, enhancing skill development, and promoting a culture of adaptability (Maheshwari et al., 2020). Although the existing literature acknowledges this, however, majority of the research in this area has been carried out in western contexts.

The present study focuses on Jhargram which is one of the less-developed districts in West Bengal and has witnessed a gradual expansion of small-scale industries (Sarkar & Malik, 2019). However, there are challenges such as limited access to skilled labor, financial constraints, and infrastructural deficiencies (Sarkar & Malik, 2019). Therefore, it is imperative to explore the factors that contribute to the growth and sustainability of MSMEs in the region. Moreover, HRM practices remain an underexplored domain in this area. The present study seeks to bridge this gap by investigating the impact of HRM practices on innovation and entrepreneurship in the MSME sector of Jhargram. In specific terms, it seeks to identify key HRM practices that drive these factors through a quantitative approach. This research can provide a deeper understanding of the role of HRM in driving innovation and entrepreneurship in MSMEs. The insights derived from this study can provide valuable recommendations for business owners, policymakers, and HR practitioners to optimize HRM strategies. These can ultimately help in encouraging a culture of continuous improvement and business excellence. This could lead to sustainable growth as well as reducing regional disparities in the long run.

Literature Review

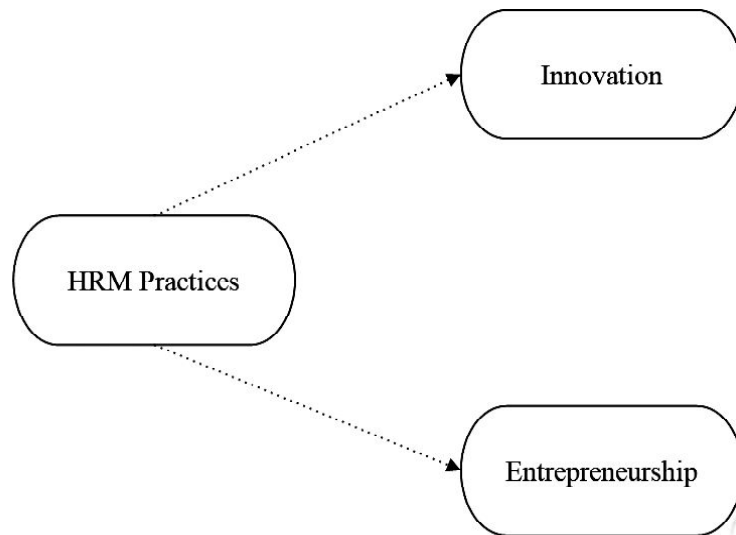
The Resource-Based View (RBV) of the firm postulates that HRM has a crucial role in promoting innovation and entrepreneurship through the development of valuable, rare, inimitable, and non-substitutable (VRIN) resources-based human capital (Barney, 1991). The VRIN resources help a firm to maintain a sustained competitive advantage in the market (Barney, 1995). Organizations with effective HRM practices can build a workforce that has the requisite skills, knowledge, and creativity for innovation (Wright et al., 2005). HRM has a decisive role in contributing to the innovation and entrepreneurship in organizations (Maheshwari et al., 2020).

Firms can create a culture that promotes creativity, risk-taking, and knowledge-sharing which are essential components of an entrepreneurial mindset through HRM practices (Boxall, 2022).

Innovation has a crucial role for organizational sustainability and competitiveness of a firm (Ça?ı?yan et al., 2022). HRM influences innovation with the help of talent management, learning and development, and an organizational culture that encourages experimentation (Shipton et al., 2005). It is to be noted that high-involvement work practices in the form of training, participation, and performance-based incentives have been linked to enhanced innovative capabilities (Vazquez-Bustelo & Avella, 2019). Moreover, transformational leadership that is facilitated by HRM strategies can drive employee motivation and creativity, further fostering innovation (Al Harbi et al., 2019). Entrepreneurship that happens in organizations known as intrapreneurship is driven by HRM practices that encourage autonomy, job enrichment, and reward mechanisms for innovative efforts (Dess et al., 1997). According to Hornsby et al. (2002), HRM policies that promote sharing of knowledge as well as cross-functional collaboration are essential for entrepreneurial success. Organizations that adopt entrepreneurial orientation through HRM also tend to be more adaptive to market changes and disruptive innovations (Rauch et al., 2009).

Several HRM practices contribute to the promotion of innovation and entrepreneurship in organizations (Hayton, 2005). Hiring employees with diverse skills and entrepreneurial potential is also found to enhance creative problem-solving (Kang et al., 2007). The presence of continuous learning opportunities in the organization also empowers employees with the skills necessary for innovation (Beugelsdijk, 2008). The presence of effective incentive systems that recognize entrepreneurial efforts can also motivate employees to pursue innovative initiatives (Gong et al., 2013). A supportive and flexible work culture in the organization drives risk-taking and experimentation (Zhou & George, 2001). Thus, from the literature review it is evident that HRM is an important driver of innovation and entrepreneurship as it fosters a culture of creativity, risk-taking, and continuous learning. In other words, HRM practices enable organizations to remain competitive through the use of human capital for innovative solutions as well as entrepreneurial growth. Figure 1 shows the proposed research framework used in the study.

Figure 1. Research Framework



Source: Author's own work

The authors have come up with the following propositions on the basis of literature review:

Proposition 1: HRM practices play a significant role in driving innovation among the employees working in the MSMEs of Jhargram.

Proposition 2: HRM practices have a crucial role in driving entrepreneurship among the employees working in the MSMEs of Jhargram.

Research Methodology

The present research study adopts an empirical approach to examine the influence of HRM practices on innovation and entrepreneurship. The respondents were drawn from diverse sectors such as manufacturing, food processing, handicrafts, retail, and services in various MSMEs located in Jhargram district, West Bengal. A purposive-cum-random sampling method was used. MSMEs were selected from the District Industries Centre (DIC) list. Employees were chosen randomly who met the inclusion criteria of being full-time with at least one year of experience. Data collection was done with the help of a structured questionnaire. We mailed a cover

letter and questionnaire which assured the confidentiality of their responses to 150 employees. The final sample consisted of 110 individuals (response rate 73.3%) with 77% male and 23% female shown in Table 1.

Table 1. Demographic Characteristics

Characteristic	Category	Frequency (n)	Percentage (%)
Gender	Male	85	77
	Female	25	23
Industry Sector	Manufacturing	35	31.8
	Services	25	22.7
	Retail	20	18.2
	Food Processing	18	16.4
	Handicrafts	12	10.9
	Total	110	100

In this study, HRM practices were treated as the independent variable and measured using a 10-item scale adapted from Conway (2004), with a sample item such as, "Regular performance feedback and guidance for improvement are provided." Innovation was considered the first dependent variable and was assessed through a six-item scale adapted from Bani-Melhem et al. (2018), with an example item being, "I bring innovative and creative ideas to my work." Entrepreneurship served as the second dependent variable and was measured using a five-item scale adapted from Su et al. (2023), with a representative item stating, "I am highly responsive to external market changes and practice lean manufacturing principles." In addition, gender was included as a control variable to account for potential differences in the perception of respondents. All items were rated on a five-point Likert scale (1 = strongly disagree to 5 = strongly agree), and gender was treated as a control variable. We have used regression analysis to test the propositions of the study. The Central Limit Theorem ensures sampling distribution in small to medium samples approaches normality which makes formal tests or box plot checks somewhat less critical (Hair et al., 2019). The sample size of 110 is adequate for regression analysis as it exceeds the recommended size of 100 observations (Harrell, 2015). Lastly, an independent t-test

was used to compare the scores for innovation and entrepreneurship between male and female participants (Field, 2018).

Results and Discussion

The descriptive statistics, inter-correlations, and reliability coefficients of the variables HRM Practices, Innovation, and Entrepreneurship used in the study are shown in Table 2. The mean values shown here indicated that participants reported relatively high levels of Entrepreneurship ($M = 5.61$, $SD = 1.17$) which is followed by Innovation ($M = 5.12$, $SD = 1.26$), and HRM Practices ($M = 4.93$, $SD = 1.22$). The inter-correlations were found to have significant positive associations among all the three variables of the study. HRM Practices showed a strong positive correlation with Innovation ($r = 0.72$, $p < 0.05$). It suggests that effective HRM practices are associated with increased innovation among the employees (Shipton et al., 2005). HRM Practices also indicated a strong correlation with Entrepreneurship ($r = 0.63$, $p < 0.05$). It denoted that effective HRM practices often translate to better entrepreneurial tendencies. This is consistent with prior studies that highlight the role of HRM in fostering entrepreneurial behavior (Rauch et al., 2009). Moreover, Innovation and Entrepreneurship are also significantly correlated ($r = 0.61$, $p < 0.05$). It implies that employees who are more innovative are also more likely to demonstrate entrepreneurial behaviors. These findings support existing literature which underscores that innovative employees are more likely to engage in entrepreneurial activities (Zhou & George, 2001). In other words, fostering an innovation-driven culture in organizations can lead to entrepreneurial initiatives.

Table 2. Descriptive statistics and inter-correlations

S. No.	Variables	Mean	SD	1	2	3
1	HRM Practices	4.93	1.22	(0.93)		
2	Innovation	5.12	1.26	0.72*	(0.89)	
3	Entrepreneurship	5.61	1.17	0.63*	0.61*	(0.91)

Notes: Cronbach's alpha values are shown in brackets. *Significant correlations at $p < 0.05$.

Source: Author's own work

The Cronbach's alpha values of HRM Practices (0.93), Innovation (0.89), and Entrepreneurship (0.91) indicated a strong internal consistency and reliability of the

measures used in the study. These results denote that HRM Practices have an important role in promoting both Innovation and Entrepreneurship. It highlights the importance of effective HRM practices in building a culture of innovation and entrepreneurial engagement in organizations. Table 3 presents the results of multiple regression analyses that examine the association between HRM practices as an independent variable and two dependent variables, that is Innovation and Entrepreneurship. The results show standardized beta coefficients, R-squared values, and F-statistics. The asterisks indicate the statistical significance at $p < 0.05$ threshold.

Table 3. Multiple Regression Analyses

	HRM Practices	R^2	F
Innovation	0.73*	0.51	114*
Entrepreneurship	0.61*	0.40	72.5*

Notes: * $p < 0.05$; and values in table are standardized β coefficients

Source: Author's own work

The standardized beta coefficient for HRM practices and Innovation was 0.73 alongside being statistically significant ($p < 0.05$). This indicates a strong positive association. It shows that higher levels of HRM practices are associated with higher levels of Innovation. The R-squared value of 0.51 indicates that 51% of the variance in innovation is explained by HRM practices. The F-statistic value of 114 was also significant ($p < 0.05$). It further supports the overall significance of the regression model. The standardized beta coefficient for HRM practices and Entrepreneurship was 0.61 alongside being statistically significant ($p < 0.05$).

This demonstrates a significant positive association between HRM practices and Entrepreneurship although it is slightly weaker than its relation with Innovation. The R-squared value of 0.40 denotes that 40% of the variance in Entrepreneurship is explained by HRM practices. The F-statistic value of 72.5 is again significant ($p < 0.05$). It confirms the significance of the overall model. In other words, Table 3 provides strong evidence that HRM practices have a prominent role in driving both innovation and fostering entrepreneurship. The findings of this study provide strong evidence that HRM practices hold a key when it comes to fostering both innovation and entrepreneurship among employees. The results also align with previous research that emphasize the importance of HRM strategies in promoting workplace creativity and

entrepreneurial behavior (Ma Prieto & Pilar Pérez-Santana, 2014). These findings suggest that HRM enhances the entrepreneurial tendencies of employees through risk-taking and recognition of opportunity (Hayton, 2005). However, in the context of MSMEs based in Jhargram, HRM practices have a slightly stronger effect on innovation. Lastly, an independent t-test was conducted to examine whether there were significant differences in Innovation and Entrepreneurship scores between male and female participants. The results indicated that the difference in Innovation and Entrepreneurship scores between genders was not statistically significant. Thus, gender does not have a substantial impact on either innovation or entrepreneurship. These findings indicate that both male and female employees have similar levels of innovative and entrepreneurial behavior in the presence of supportive HRM practices. These results are in contrast with studies suggesting gender disparities in entrepreneurial intentions (Kirkwood, 2009). However, it aligns with studies that found organizational culture and HRM strategies have a more prominent role than gender in shaping these behaviors (Brush et al., 2019).

Conclusion

This study investigated the impact of HRM practices on innovation and entrepreneurship in the MSMEs of Jhargram. The results found strong positive correlations between HRM practices, innovation, and entrepreneurship. This indicates that effective HRM strategies significantly contribute to both innovative and entrepreneurial behaviors among employees. Regression analyses also confirmed these relationships. It demonstrated that HRM practices are significant predictors of both innovation and entrepreneurship. HRM practices were found to have a slightly stronger effect on innovation compared to entrepreneurship. These results underscore the important role of HRM in building a culture of creativity and entrepreneurial engagement. It is to be noted that there are no significant gender differences in either innovation or entrepreneurship as revealed by the independent t-test. In other words, supportive HRM practices can effectively promote these behaviors regardless of gender. In this connection, MSMEs based in Jhargram should prioritize the development and implementation of robust HRM policies in the form of training, performance management, and decision-making to enhance their competitiveness. There should also be specific initiatives focusing on creative problem-solving and knowledge-sharing among the employees. Future studies must take certain contextual factors like industry type and organizational culture into consideration. This will help in a comprehensive understanding of the factors that influence innovation and entrepreneurship. This study has few

limitations due to its limited focus on MSMEs in Jhargram with a modest sample size. Moreover, it relied on cross-sectional design, and relied on self-reported data. This may restrict generalizability and causal inference. Additional control variables such as age, education, or firm size would have been desirable. Future research should consider larger and more representative samples through longitudinal or mixed-method approaches. It could incorporate multi-source data to reduce bias. Moreover, examining mediators, moderators, and firm-level performance measures would provide deeper insights.

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