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# A Conceptual Study of Performance Management Strategies in Small Scale Enterprises

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## Abstract

*Small-scale enterprises play a crucial role in development of economy, job creation, and innovation. However, they often operate with limited resources, manpower, and financial constraints, making effective management strategies essential for their survival and growth. Investing in management strategies is essential for any entrepreneur who needs to grow and succeed in today's competitive marketplace. There are different types of management strategies but specific strategies like Performance management stands out from other management strategies by focusing on ongoing feedback, goal alignment, and continuous improvement to enhance employee performance and organizational success, unlike other management practice that focus on specific areas like operations or finance. In this research it will focus that well-implemented performance management strategies by Small Scale Enterprises can differentiate itself from its competitors in terms of increased sales, revenue, and market share. Entrepreneurs also apply performance management strategies to inspire and motivate their teams, so that they contribute their best.*

**Keywords:** Small Scale Enterprises, Performance Management, Human Resource Management, Employee Productivity, Organizational Performance, Performance Appraisal, Performance Evaluation, Entrepreneurship Development, Challenges in SMEs, Business Growth, Management Strategies

## Introduction

Entrepreneurship Development in Small Scale Sector has a special relevance and is of paramount importance for a country like India as it helps in providing commodities and services, creating huge volume of employment opportunities with lesser time lag, exploiting locally available natural resources, mobilizing local expertise and savings combining with more appropriate indigenous technology. But, sustained growth and the survival of small scale industrial units is attributable to the general background, education and experience of entrepreneurs as well as their managerial skill, know-how and practices along with other crucial factors. Till date, a number of studies on small scale industries covering different aspects have been conducted. Majority of the studies relate to socio-economic factors which contribute to the growth and development of entrepreneurship. The nature of performance management practices in the small scale industrial units will be studied as it helps entrepreneurs to understand performance of their employees.

## Research Methodology

The research is based on existing data which is available on the internet, magazines, journals and books

## Literature Review

1. Yirgalem Tadele Gerba, P Viswanadham, (2016). Performance measurement of small scale enterprises: Review of theoretical and empirical literature, International Journal of Applied Research ISSN (P) : 2394-7500. This paper highlights multi-dimensional approaches that includes hybrid measures (financial and non-financial measures) of firm performance has been widely used and suggested by various authors in single study to overcome shortcoming of single measure of small firm performance.
2. Kumar, Pankaj & Rajanala, Nirmala. (2015). Performance Management System (PMS) Indian Small and Medium Enterprises (SMEs): A Practical Framework- A Case Study. Asian Journal of Research in Business Economics and Management ISSN (P): 2249-7307. In this paper a case study approach was adopted where in Performance Management System of Small and Medium Enterprises engaged in manufacturing activity was captured and detailed interviews were held and information was sought accordingly.

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Arora, S., & Rao, S. (2025). A Conceptual Study of Performance Management Strategies in Small Scale Enterprises. *The International Journal of Commerce Management and Business Law in International Research*, 2(5), 87–90. <https://doi.org/10.5281/zenodo.17470601>

Some studies reveal that there is no proper/formal process of PMS adopted in some enterprises, but findings of the researcher suggested existence of well-established PMS. Kafetzopoulos, Dimitrios. (2020). Performance management of SMEs: a systematic literature review for antecedents and moderators. International Journal of Productivity and Performance Management. ISSN(P) : 2020-0349. The idea behind this study is to analyze existing performance management in Small as well as Medium Scale Industries and also to develop a conceptual model which helps to improve growth and performance by understanding the relationship that exists between various factors that influence performance of SMEs.

3. Prof. Grace Hemalatha and Ms. Soundarya R. (2022) A Study On Employee Performance Management System At Powerica Limited. International Advanced Research Journal in Science, Engineering and Technology .ISSN (P) 2394-1588 . The study reflected Powerica Ltd where management system of performance of its employees were evaluated on the basis of objectives of the company. This evaluation system focuses on employee development which in turn has a positive effect and also works as motivation .
4. Sh. Sohan Lal . (2023) A study on challenges of small scale industries in India. International Journal of Creative Research. ISSN: 2320-2882 .This research paper explains the importance of Small Scale Industries for the development of a country .Usually in India the contribution of SSI is more than 40% and it helps to generate employment in specially rural areas . But at the same time it faces challenges such as lack of capital resources , so government has introduced to resolve this issues that will also help in growth and development of small industries.

### Objectives

- 1) To understand the concept of Small Scale Enterprises.
- 2) Performance Management System in Small Scale Enterprises.
- 3) Effects of Performance Management System on productivity of Small Scale Enterprises.
- 4) Challenges in implementing effective Performance Management System.

### Concept Of Small-Scale Enterprises

Enterprises are engaged in manufacturing or rendering services to meet the needs of various markets. In today's Economic development process, enterprises play a pivotal role and are being defined under Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. As per MSMED Act, 2006 enterprises are categorized into Micro, Small and Medium Enterprises. In a Developing country like India, Small Scale Enterprises play a pivotal role in shaping the socio-economic conditions of most countries, especially developing countries. They make use of smaller machinery and employ

limited manpower. Since India is a labor-intensive country, the establishment of these industries creates employment opportunities, particularly for the underprivileged. In this way they contribute significantly to the economy by increasing the country's per capita income.

Small- scale enterprises focuses on producing goods or providing services on a small scale in comparison to large corporations and prefer to operate on a more localized or regional level. They contribute significantly to employment generation, fostering entrepreneurship and economic development. Government mostly encourage the inclusiveness of small scale industries as it helps in the growth of the country. The small-scale sector contributes about 40% to the total exports of the country; thus plays a key role in the development of Indian economy. Small Scale Industries can be successful if the environment in which they operate is conducive.

### Performance Management System In Small Scale Enterprises

Performance management is one of the form of Human Resource management. It covers every aspect and is also essential for ensuring smooth operations, enhancing productivity, and maintaining a positive work environment. Since organizational performance is directly linked to the performance of the employees working there, it becomes very important for an organization to have a Performance Management System for their employees. Nowadays these systems are being automated that is different performance management software solutions are used for managing employees' performance which makes everything super easy and smooth to operate and keep a record and not only that, organizations are using various modes like Performance Reviews, 1-on-1 conversations, instant feedbacks, 360-degree feedback and so on for managing the performance of the employees. Below listed are few points are the reason why Performance Management System is important in every enterprise -

1. Performance Management helps employees to understand their goal and what is expected of them by the organization.
2. Organizational goals and Individual goals are aligned with the help of Performance Management.
3. Facilities like check-ins and one on one conversation help the managers and the employees to have regular and continuous engagements so that they are on the same page in terms of the achievements and limitations.
4. Gives the managers and the employees to identify any training or professional developmental needs during the process.
5. Engagement and Productivity within an organization can be improved by giving and getting feedback.
6. Increases efficiency and improves transparency within the work-force.
7. Organizational Goals can be achieved by improving employee motivation to work.

8. Performance Management System is a combination of planning, management and appraisal.

### **Effect Of Performance Management System on Productivity of Small Scale Enterprises**

Now a days, for managing people more specialized and formalized methods are being used .Previous methods of management such as performance appraisal and performance evaluation are now being absorbed into the concept of Performance Management .This concept minimizes the comprehensive process of managing people and results in success for both organization and individuals as it minimizes the comprehensive process of managing people .Business objectives are also met easily with the help of this process .In this ongoing process ,managers and employees often meet to analyze and review expectations and responsibilities of job , performance and development strategies and their ultimate goal is to encourage employees to give their best performance, align their efforts with strategic objectives of the organization, and create constructive and fulfilling work environment for everyone. Human resource managers make use of Performance Management and links individual objectives with departmental targets in order to know the attainment of departmental goals. Employees skills are enhanced with training and coaching so they can meet their goals and advance in their careers as well. Managers then evaluate employees' behavior, effort, and results to celebrate their successes, identify their strengths and weaknesses, and help them progress further and also. Implementation of performance management properly in any organization helps to maximize the performance of every individual (employee) in turn enhancing overall effectiveness and productivity.

### **Challenges In Implementing Effective Performance Management System**

Small- scale industries—often single-owner or family-run, resource- constrained, and agile—face unique challenges in adopting performance management systems (PMS). Unlike larger organizations, these firms lack formal structures, dedicated personnel, and strategic planning mechanisms that facilitate systematic monitoring and improvement. Yet, in spite of these constraints, integrating effective PMS is critical: it aligns employee efforts with organizational goals, improves productivity and financial outcomes, and fosters adaptability in rapidly evolving markets.

Following are the Challenges faced by SSI in Implementing Effective Performance Management System -

1. **Limited Resources:** Small-scale industries often have limited financial, human, and technological resources, making it difficult to implement and sustain performance management practices.
2. **Lack of Expertise:** Small-scale industries may not have access to HR experts or professionals with experience in performance management, making it

challenging to design and implement effective practices.

3. **Informal Culture:** Small-scale industries often have an informal culture, which can make it difficult to establish formal performance management practices.

4. **Limited Data:** Small-scale industries may not have access to robust data and analytics, making it challenging to measure performance and make data-driven decisions.

5. **Resistance to Change:** Employees in small-scale industries may resist changes to traditional ways of working, making it challenging to implement new performance management practices.

6. **Time Constraints:** Small-scale industries often have limited time and capacity, making it challenging to devote resources to performance management.

### **Conclusion**

By understanding the aspects of working pattern of the business, Small Scale Enterprises can develop effective performance management practices that drive business success and sustainability. It also helps to achieve their goals with increased productivity and efficiency .Adopting best performance management system helps SSI to maintain a competitive edge in their industry and improve their market share.Thus above study helps to understand the importance of performance management in an industry.

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### **Conflicts of interest**

The authors declare that there are no conflicts of interest regarding the publication of this paper.

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