Impact of Fiscal and Monetary Policies on Employee Retention Strategies in the MSME Sector: A Study of Madhya Pradesh

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Abstract The Micro, Small, and Medium Enterprises (MSME) sector in India is not only the backbone of economic development but also a major employment generator. Employee retention, however, remains one of its critical challenges due to resource limitations, informal HR practices, and policy volatility. This paper examines the influence of Union Budget 2024–25 provisions and recent monetary policy changes on employee retention strategies in the MSME sector of Madhya Pradesh.

The study integrates fiscal interventions—such as tax reliefs, credit guarantees, and skill development subsidies—with monetary instruments like interest rate revisions, liquidity infusion to NBFCs, and sector-specific refinance schemes by SIDBI and RBI. A mixed-method approach was employed, combining survey responses from 180 MSME owners and HR managers with macroeconomic policy data.

Statistical analysis through SPSS included ANOVA, regression, and factor analysis to assess how these policies impacted specific retention practices, such as performance-based incentives, training programs, welfare benefits, and flexible working conditions. Findings indicate that MSMEs which actively leveraged fiscal schemes under the budget were more likely to implement structured retention strategies. Monetary policy support, especially interest subvention and refinancing programs, allowed for better working capital liquidity and reduced attrition.

The study concludes that policy alignment with HR strategies is essential for sustainable employment in the MSME sector. Recommendations include greater policy dissemination, integration of HR tools in subsidy schemes, and development of a long-term MSME employment framework under future national budgets.

Keywords— MSME, Employee Retention, Union Budget 2024–25, Monetary Policy, Human Resource Strategies, Madhya Pradesh

I. INTRODUCTION

The MSME sector contributes approximately 30% to India's GDP and employs over 111 million individuals. Despite this scale, employee retention continues to be a pressing concern due to operational constraints, inadequate compensation structures, and high mobility in skilled and semi-skilled labor segments.

Recent economic reforms, including policy packages post-COVID-19 and budget announcements for 2024–25, have introduced new dynamics into HR planning for MSMEs.

This research investigates how fiscal policies (e.g., credit-linked capital subsidies, EPF contribution support, GST concessions) and RBI-led monetary measures (e.g., MSME refinancing, MCLR adjustments) shape organizational capacity to retain skilled employees. Focusing on Madhya Pradesh—a state with a growing base of agro-based, textile, and engineering MSMEs—this study seeks to understand how businesses are adapting retention strategies under financial policy influence.

The paper contributes to HRM and economic policy literature by connecting macroeconomic decisions with ground-level HR outcomes, advocating for evidence-based MSME employment policy formulation.

II. LITERATURE REVIEW

2.1 Employee Retention in MSMEs The MSME sector in India is characterized by high attrition rates due to informal employment, inconsistent salaries, and a lack of structured HR frameworks (Gupta & Sharma, 2021). Many small enterprises struggle to provide long-term career incentives, health benefits, or adequate training facilities, all of which are vital for employee engagement and loyalty.

2.2 Influence of Fiscal Policy on Retention Government support through the Union Budget has been increasingly directed toward MSME sustainability. Measures like Credit Linked Capital Subsidy Scheme (CLCSS), Emergency Credit Line Guarantee Scheme (ECLGS), and Production-Linked Incentives (PLI) help MSMEs maintain competitive advantage and reduce cost pressures (MoMSME, 2023). According to Bansal & Mehta (2022), these interventions allow businesses to divert savings into employee welfare programs and performance-linked incentives.

2.3 Monetary Policy and MSME Credit Flow Monetary policies of the RBI, particularly repo rate changes, refinancing facilities via SIDBI, and NBFC-targeted liquidity schemes, directly impact MSME cash flow and hiring ability.

The RBI's Framework for Revival and Rehabilitation (2016) is cited as a key enabler for micro units facing stress. Studies by Kulkarni (2022) show that improved credit access enables MSMEs to invest in workforce stability and skills upgradation.

2.4 Retention Strategies in MSMEs Common retention strategies adopted by Indian MSMEs include flexible work hours, performance-based bonuses, on-site skill training, and community-based welfare schemes (Seth & Rajan, 2020). However, these vary widely depending on firm size and awareness of government support. Formalized retention policies are more likely among MSMEs with institutional funding support or trade association membership.

2.5 Role of Budget 2024–25 in Employment Support Union Budget 2024–25 focused on MSME empowerment by expanding the scope of PM Vishwakarma Yojana, extending ECLGS, reducing GST compliance burdens, and incentivizing formal employee onboarding. According to Confederation of Indian Industry (CII, 2024), these schemes have the potential to stabilize employment and reduce rural-to-urban labor migration.

2.6 Case Studies and Regional Gaps Case studies in Tamil Nadu and Gujarat show that MSMEs that accessed budgetary subsidies were able to retain employees even during downturns (Das & Kumar, 2021). However, in states like Madhya Pradesh, gaps in scheme awareness, documentation ability, and credit intermediation limit policy penetration. Reports from the MSME-DI Bhopal (2023) confirm that less than 45% of MSMEs avail retention-linked government benefits.

2.7 Need for Integrated Policy-Driven HR Strategy Recent literature recommends aligning HR practices with fiscal instruments. Kumar & Singh (2023) argue for convergence between employment-linked tax benefits and enterprise retention targets. HRMS-based monitoring tools, budget-tied retention KPIs, and soft loan conditionalities linked to welfare investments have shown promise in pilot evaluations.

III. OBJECTIVE OF THE STUDY

1. To assess the impact of Union Budget 2024–25 provisions on employee retention strategies in MSMEs of Madhya Pradesh.

2. To evaluate the role of RBI-led monetary policy measures in improving liquidity for HR investment in MSMEs.

3. To identify specific retention strategies influenced by policy incentives in the MSME sector.

IV. HYPOTHESIS TESTING

H_{01}: Union Budget provisions do not significantly influence employee retention strategies in MSMEs.

H_{a1}: Union Budget provisions significantly influence employee retention strategies in MSMEs.

H_{02}: Monetary policy support has no significant effect on workforce stability in MSMEs.

H_{a2}: Monetary policy support has a significant effect on workforce stability in MSMEs.

H_{03}: There is no relationship between awareness of fiscal/monetary schemes and structured HR practices in MSMEs.

H_{A3}: There is a significant relationship between awareness of fiscal/monetary schemes and structured HR practices in MSMEs.

V. RESEARCH METHODOLOGY

5.1 RESEARCH DESIGN: The study follows a descriptive and causal-comparative research design using a mixed-methods approach. It examines the effect of fiscal and monetary policies on employee retention strategies in MSMEs.

5.2 STUDY AREA: The research was conducted in key industrial districts of Madhya Pradesh—Indore, Bhopal, Gwalior, and Jabalpur—where MSMEs are actively operational.

5.3 POPULATION AND SAMPLING: The population comprises MSME owners, HR managers, and financial officers. A sample size of 180 respondents was selected using purposive sampling, ensuring diversity in industry type and geographic location.

5.4 Data Collection Methods:

- *Primary Data:* Structured questionnaires administered to MSME representatives and key informant interviews.

- *Secondary Data:* Union Budget documents, RBI monetary policy statements, SIDBI reports, and publications from MSME Development Institutes.

5.5 Tools Of Analysis: The following tools were used with SPSS version 26:

- Descriptive Statistics (mean, frequency, percentage)

- ANOVA (to assess variance in retention practices based on policy exposure)

- Regression Analysis (to identify the influence of policy variables on HR outcomes)

- Factor Analysis (to explore underlying dimensions of employee retention)

5.6 Data Collection Period: Data was collected between February and March 2025, aligning with post-budget implementation timelines to capture policy awareness and response.

VI. DATA ANALYSIS AND INTERPRETATION

The data from 180 MSMEs across four major industrial cities of Madhya Pradesh were analyzed using SPSS v26. This section presents the results of descriptive statistics, ANOVA, regression, and factor analysis.

Table 1:
Profile of Respondents

Parameter	Category	Frequency	Percentage
Gender	Male	112	62.2%
	Female	68	37.8%
MSME Size	Micro	74	41.1%
	Small	64	35.6%
	Medium	42	23.3%
Sector Type	Manufacturing	88	48.9%
	Services	92	51.1%

Interpretation: Respondents represent a balanced distribution across gender, MSME category, and sector, ensuring diverse insights into retention practices.

Table 2:
Awareness of Union Budget Schemes for MSME

Awareness Level	Respondents	Percentage
High	49	27.2%
Moderate	76	42.2%
Low	55	30.6%

Interpretation: Majority of MSME owners/managers had only moderate or low awareness of budgetary schemes, indicating scope for targeted information dissemination.

. Table 3:
Common Retention Strategies Adopted

Retention Strategy	Adoption Rate (%)
Flexible Work Arrangements	61.7%
Performance-Based Bonuses	68.9%
Skill Training Programs	54.4%
Health and Welfare Benefits	45.0%

Interpretation: Performance-based incentives remain the most popular retention tool, followed by flexible work and training initiatives

Table 4:
ANOVA – Budget Awareness vs Retention Strategy Use

Source	SS	df	MS	F	Sig.
Between Groups	10.42	2	5.21	4.38	0.014
Within Groups	210.31	177	1.19		
Total	220.73	179			

Interpretation: Statistically significant differences ($p < 0.05$) exist between MSMEs with varying levels of budget awareness and the retention strategies adopted.

Table 5:
Regression – Impact of Monetary Support on Attrition Reduction

Predictor	B	Beta	t-value	Sig.
(Constant)	1.94		6.27	.000
Access to Refinance Funds	0.48	0.52	5.89	.000
Interest Subsidy Avail.	0.37	0.41	4.21	.000

Interpretation: Both variables significantly predict reduction in employee turnover, indicating the strong influence of monetary policy access on retention outcomes

Table 6:
Factor Analysis – Dimensions of Employee Retention

Factor	Key Components	Eigenvalue	Variance Explained
Policy-Driven HR	Scheme awareness, EPF contribution, ECLGS	2.83	27.9%
Motivational Practices	Bonus, promotion pathways, job rotation	1.97	21.1%
Workplace Support	Health benefits, flexible timing	1.68	18.2%

Interpretation: Three latent factors together explain 67.2% of the variance in employee retention behaviors among MSMEs.

Table 7:
Thematic Analysis – Interview Highlights

Theme	Frequency	Sample Quote
Lack of Awareness on Subsidies	16	"We missed onboarding support due to paperwork delays."
Scheme-Enabled Staff Retention	12	"Post-budget, we retained 8 key workers using SIDBI funds."
Need for HR Digitalization	14	"A digital HRMS would help track incentives better."

Interpretation: Qualitative data reinforces the importance of timely policy access, structured retention design, and digitized HR frameworks for MSMEs.

Hypotheses Testing

Hypotheses	Test Applied	Calculated Value	p-value	Hypotheses Status
H_{01}: Union Budget provisions do not significantly influence employee retention in MSMEs.	ANOVA	F = 4.38	0.014	Rejected
H_{a1}: Union Budget provisions significantly influence employee retention in MSMEs.	ANOVA	F = 4.38	0.014	Accepted
H_{02}: Monetary policy support does not significantly affect workforce stability in MSMEs.	Regression Analysis	β = 0.52	0.000	Rejected
H_{a2}: Monetary policy support significantly affects workforce stability in MSMEs.	Regression Analysis	β = 0.52	0.000	Accepted
H_{03}: There is no relationship between policy awareness and structured HR practices in MSMEs.	ANOVA/Regression	Significant	<0.05	Rejected
H_{a3}: There is a significant relationship between policy awareness and structured HR practices.	ANOVA/Regression	Significant	<0.05	Accepted

Interpretation: The hypotheses testing validates the influence of both budgetary and monetary policies on MSME employee retention. Awareness and utilization of schemes significantly correlate with structured HR practices, affirming the role of policy frameworks in shaping MSME workforce strategies

VII. CONCLUSION AND POLICY RECOMMENDATIONS

The study provides empirical evidence on how fiscal and monetary policy tools—especially those announced under Union Budget 2024–25 and recent RBI directives—impact the employee retention landscape within the MSME sector of Madhya Pradesh. The findings confirm that both awareness and utilization of policy schemes correlate with stronger, more structured HR retention practices.

Budget-linked initiatives such as credit guarantees, tax rebates, and skilling subsidies have allowed MSMEs to invest in performance-based bonuses, welfare benefits, and flexible employment conditions. Monetary policy instruments such as refinance access and interest subvention have boosted liquidity, supporting MSME resilience in retaining staff during financial stress.

However, scheme awareness gaps, documentation challenges, and lack of HR digitization remain key hurdles for full-scale policy absorption. A hybrid approach combining top-down fiscal support and bottom-up HR strategy integration is crucial for sustainable workforce development in the MSME sector

VIII. POLICY RECOMMENDATIONS

1. *Localized Policy Awareness Drives:* State governments should collaborate with MSME-DIs and industry associations to disseminate scheme information via digital and vernacular platforms.

2. *HR-Tech Integration Incentives:* Provide financial incentives for MSMEs that adopt digital HRMS systems aligned with workforce performance metrics.

3. *Conditional Loan Schemes:* Link SIDBI/MSME loans with retention KPIs like skill certification and average employee tenure.

4. *MSME Employment Retention Index (MERI):* Develop a scoring system to evaluate how effectively MSMEs utilize policy benefits for workforce stability.

5. *Public-Private Training Coalitions:* Expand retention-focused skilling programs jointly delivered by private trainers and public institutes with funding from budget provisions.

These interventions will not only improve employee retention but also support the long-term viability and productivity of India's MSME backbone.

IX. LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

Limitations:

1. *Regional Specificity:* The study is limited to MSMEs in Madhya Pradesh and may not capture variations across other Indian states.

2. *Short-Term Policy Horizon:* The analysis is based on post-budget feedback within two months of announcement and may not reflect long-term impact.

3. *Self-Reported Bias:* The responses from MSME representatives are self-reported and may involve over- or under-estimation of policy usage.

4. *Sectoral Homogeneity:* The sample lacked deeper stratification across MSME sub-sectors (e.g., IT vs. manufacturing).

5. *Limited Qualitative Depth:* While interviews were conducted, a more extensive qualitative study could add depth to retention strategy insights.

X. SUGGESTIONS FOR FUTURE RESEARCH

1. *Longitudinal Assessment:* Conduct follow-up studies tracking MSMEs over 12–24 months to assess sustainability of policy-driven HR practices.

2. *Cross-State Comparative Studies:* Compare policy awareness and retention impacts across states to identify governance best practices.

3. *Retention and Digital HR Adoption Linkages:* Explore the causal relationship between HRMS adoption and employee loyalty metrics.

4. *In-depth Case Studies:* Develop sector-specific case studies (e.g., textile MSMEs vs. service MSMEs) for targeted policy redesign.

5. *Integration of ESG and Retention:* Study how environmental and social governance norms influence employee satisfaction and retention in MSMEs.

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