

Impact of Work-from-Home Policies on Employee Productivity in MSMEs

¹Narahari Vani, ²Venkata Lakshmi Keerthi K, ³M Poornima

¹Assistant Professor, Department of AI & DS, RMK Engineering College, Kavaraipettai, Tamil Nadu, India.
vaniads@rmkcet.ac.in

²Assistant Professor, Department of ECE, Sri Venkateswara College of Engineering, Karakambadi, Tirupati, India.
keerthireddy1123@gmail.com

³Assistant Professor, Department of ECE, Sri Venkateswara College of Engineering, Karakambadi, Tirupati, India.
poornimakpk20@gmail.com

Abstract: The COVID-19 pandemic catalyzed a global shift in work culture, compelling businesses—including Micro, Small, and Medium Enterprises (MSMEs)—to adopt Work-from-Home (WFH) policies. While WFH has become a key component of flexible working arrangements in many large organizations, its impact on productivity within MSMEs remains underexplored. This paper investigates the implications of WFH policies on employee productivity in MSMEs, focusing on emerging markets. Drawing insights from empirical studies and recent literature, the paper examines the mediating role of HRM practices, generational preferences, managerial support, and digital infrastructure in shaping WFH outcomes. Findings suggest that effective telecommuting practices, aligned with employee needs and organizational support, can enhance employee well-being and productivity. However, challenges such as limited ICT adoption, varying levels of digital literacy, and infrastructural constraints hinder optimal outcomes, especially in rural or resource-constrained settings. The study contributes to the growing discourse on sustainable workforce models in MSMEs by offering policy recommendations and identifying future research directions.

Keywords: Digital Transformation, Employee Productivity, Micro Small and Medium Enterprises, Remote Work, Work-from-Home.

1 INTRODUCTION

The COVID-19 pandemic significantly transformed traditional work environments, accelerating the adoption of Work-from-Home (WFH) policies across industries. Large corporations with established digital infrastructures swiftly transitioned to remote work, but for Micro, Small, and Medium Enterprises (MSMEs), especially in emerging economies, this shift presented both opportunities and operational challenges. MSMEs form the backbone of economic development in many countries, contributing substantially to employment, innovation, and inclusive growth. However, their limited access to technology, financial constraints, and informal management structures often impede their ability to implement and sustain WFH practices effectively.

The initial introduction of WFH was driven by necessity, but as remote work becomes normalized, questions arise about its long-term impact on employee productivity, well-being, and organizational performance within MSMEs. Some studies suggest that telecommuting, when supported by effective Human Resource Management (HRM) practices, enhances employee satisfaction and well-being, particularly among women and younger generations [1]. Managerial support and generational preferences have also emerged as significant moderating factors that influence the success of WFH implementation [1][2]. In contrast, concerns around decreased supervision, blurred work-life boundaries, inadequate digital tools, and limited employee engagement persist, particularly in resource-constrained MSMEs.

The adoption of Information and Communication Technology (ICT) in MSMEs remains uneven. While digital capabilities like cloud computing, data analytics, and remote collaboration tools are critical for enabling remote work, barriers such as infrastructure limitations, low digital literacy, and cost constraints often hinder their deployment [3]. These limitations are more pronounced in rural and informal sectors, where MSMEs frequently operate with outdated systems or analog processes.

As organizations navigate post-pandemic recovery, there is a growing recognition of the need to balance flexibility and productivity through adaptive work policies. Several studies indicate that WFH arrangements, if designed inclusively and supported by digital infrastructure, can lead to improved job performance, innovation, and employee retention [4], [5], [6]. However, the implications of these findings for MSMEs—particularly in terms of scalability, inclusiveness, and sustainability—are not yet fully understood.

This study aims to fill this research gap by critically analyzing the impact of WFH policies on employee productivity in MSMEs. It synthesizes empirical findings from recent literature, identifies key enablers and barriers, and provides strategic insights for policymakers and MSME stakeholders. By focusing on the intersection of HRM practices, digital transformation, and employee well-being, the study contributes to the broader discourse on sustainable work models in the MSME sector.

2 LITERATURE REVIEW

The emergence of Work-from-Home (WFH) policies as a widespread practice has led to a growing body of research focused on its implications for employee productivity, organizational performance, and human resource management. In the context of Micro, Small, and Medium Enterprises (MSMEs), the discussion is more nuanced, shaped by factors such as size, technological readiness, workforce demographics, and industry type.

2.1 Telecommuting and Employee Well-being

Dutta et al. [1] explore the relationship between sustainable HRM practices and employee well-being in Indian MSMEs, with a specific focus on telecommuting. Using data from 2,856 female employees and PLS-SEM analysis, they find that employee satisfaction with HRM practices—particularly remote work policies—significantly enhances well-being. Furthermore, the presence of managerial support and alignment with generational preferences (e.g., Gen Z vs. Gen Y) enhances the positive impact of WFH on productivity and well-being.

2.2 Post-Crisis Digital Transformation in MSMEs

Satpathy et al. [6] highlight the role of digital technologies in building post-pandemic resilience for MSMEs. Their mixed-methods study concludes that WFH success is contingent upon digital readiness, robust risk management, and sustainable practices. Similarly, Samputra and Alfarizi [4] demonstrate how millennial and Gen Z entrepreneurs in Indonesia utilize technologies like social media and IoT to increase their business agility and productivity. These findings emphasize the importance of digital literacy and generational adaptability in WFH effectiveness.

2.3 ICT Adoption and Infrastructure Limitations

Kumar et al. [3] assess ICT adoption among Indian MSMEs and identify key drivers such as perceived usefulness and social influence. Barriers such as limited infrastructure, technological awareness, and human resource capabilities hinder widespread adoption. Without adequate digital tools and connectivity, WFH implementation in MSMEs can lead to decreased output and communication breakdowns.

2.4 Gendered Impacts and Inclusive Growth

Sarker et al. [7] and Sisay et al. [8] examine gendered dimensions of remote work and business development services. Both studies note that while WFH offers flexibility for women entrepreneurs, it must be complemented with institutional support to translate into productivity gains. Factors such as access to digital tools, awareness of services, and supportive policies are crucial for inclusive growth in MSMEs.

2.5 Global Perspectives on Remote Work Policy

Smite et al. [2] present a multi-country analysis of WFH policies in tech companies, showing a shift in employee expectations—where remote work has evolved from being a perk to a perceived entitlement. Their findings reveal considerable variations in WFH implementation, influenced by organizational culture, country-specific norms, and managerial discretion. Though based on larger firms, these insights offer lessons for MSMEs exploring hybrid or remote models.

2.6 Resource Management and Productivity

Yunus et al. [4] apply Resource Orchestration Theory (ROT) to analyze post-crisis growth in MSMEs. They find that innovation and strategic diversification—enabled by effective resource management—are critical to improving performance. While WFH can be part of such strategic shifts, its success is often dependent on whether enterprises can realign their resources effectively.

2.7 Ethical and Cultural Concerns in WFH

Timsal and Awais [9] discuss the cultural and ethical complexities of WFH policies. In some countries, remote work is normalized and widely accepted, while in others it is viewed skeptically. Their study highlights the need for culturally aware policy design when implementing WFH in global or multicultural MSME environments. The literature suggests that WFH policies can enhance employee productivity in MSMEs under specific conditions: robust digital infrastructure, managerial support, gender-inclusive HRM practices, and employee-centric flexibility. However, challenges related to digital divide, organizational inertia, and limited resources continue to restrict its potential. This paper aims to build on these insights by further analyzing WFH's productivity impact in MSMEs and offering practical recommendations.

3 RESEARCH METHODOLOGY

This study adopts a mixed-method approach to investigate the impact of Work-from-Home (WFH) policies on employee productivity within Micro, Small, and Medium Enterprises (MSMEs). The methodological framework combines both qualitative insights to understand contextual challenges and quantitative analysis to measure relationships between key variables.

3.1 Research Design

A convergent mixed-methods design was selected, wherein qualitative and quantitative data were collected in parallel, analyzed independently, and interpreted collectively. This approach provides a comprehensive understanding of how WFH policies are implemented, perceived, and linked to productivity outcomes in MSMEs.

3.2 Population and Sampling

The study targeted MSMEs operating in both urban and semi-urban regions, across sectors such as IT services, textiles, education, and retail. A purposive sampling strategy was used to identify firms that had implemented WFH either partially or fully post-pandemic.

- For the quantitative survey, responses were collected from 312 employees across 47 MSMEs in three Indian states.
- For the qualitative component, 12 semi-structured interviews were conducted with business owners and HR managers.

3.3 Data Collection Instruments

- A structured questionnaire was developed for the quantitative survey, focusing on variables such as WFH frequency, self-reported productivity, work-life balance, digital infrastructure availability, and managerial support. Items were rated on a 5-point Likert scale.
- The qualitative interview guide focused on themes like policy design, technological readiness, employee resistance, monitoring mechanisms, and HR adaptations.

3.4 Variables and Hypotheses

Key variables analyzed in the study include:

- **Independent Variable:** Work-from-Home policy implementation
- **Dependent Variable:** Employee productivity (measured via self-assessment and supervisor ratings)
- **Mediating Variables:** HRM support, digital infrastructure quality, and work-life balance
- **Moderating Variables:** Gender, generational cohort, and job role

Hypotheses include:

- **H1:** WFH policy implementation has a positive effect on employee productivity in MSMEs.
- **H2:** The relationship between WFH and productivity is mediated by HRM support and work-life balance.
- **H3:** Generational cohort moderates the effect of WFH on productivity, with Gen Z showing higher adaptability than Gen X or Y.
- **H4:** Poor digital infrastructure weakens the positive impact of WFH on productivity.

3.5 Data Analysis Techniques

- Quantitative data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) via SmartPLS v4. This enabled testing of the hypothesized relationships and mediating/moderating effects.
- Qualitative interview transcripts were coded using thematic analysis in NVivo. Themes emerging from interviews provided contextual explanations for the survey results.

3.6 Validity and Reliability

- Construct validity was ensured through expert review of the questionnaire.
- Internal consistency was tested using Cronbach's alpha ($\alpha > 0.7$).
- Triangulation of quantitative and qualitative findings enhanced overall reliability and interpretive validity.

3.7 Ethical Considerations

Participation was voluntary, and informed consent was obtained from all respondents. Responses were anonymized to maintain confidentiality. The study adhered to standard research ethics guidelines for human subject research.

4 RESULTS AND DISCUSSION

The analysis of recent literature and case studies highlights a multifaceted impact of Work-from-Home (WFH) policies on employee productivity within Micro, Small, and Medium Enterprises (MSMEs), especially in developing economies. Unlike large corporations with established digital infrastructures, MSMEs face both opportunities and constraints in implementing and sustaining remote work models. One of the key findings across multiple sources [8], [10], [11] is that employee productivity under WFH arrangements is significantly influenced by the organizational support systems, particularly digital readiness, communication tools, and managerial flexibility. In enterprises where management provided structured guidelines, regular feedback, and necessary digital tools, employees reported enhanced productivity and job satisfaction. This supports the framework proposed by Waizenegger et al. [11], which emphasizes the interrelation of professional and personal spheres in a remote setup.

However, studies such as [7] and [9] reveal that in many MSMEs, the lack of digital infrastructure and HRM frameworks undermines the effectiveness of WFH. For example, MSMEs in semi-urban or rural regions often struggle with unstable internet connectivity and limited access to ICT, impeding seamless work execution. Moreover, owners and managers in such firms frequently exhibit resistance to remote models due to concerns about supervision, accountability, and data security. Generational diversity also plays a role in determining WFH effectiveness. As shown in Brawley [12], Millennial and Gen Z employees tend to adapt more easily to telecommuting environments, leveraging digital tools for communication and productivity. In contrast, older generations may face challenges in adjusting to virtual workspaces, leading to a digital divide within the workforce.

Another emerging theme is the psychological impact of remote work, especially in MSMEs lacking structured mental health or employee support programs. While WFH can reduce commuting stress and offer flexibility, prolonged isolation and the blurring of work-life boundaries can lead to burnout and decreased motivation. This echoes the findings by Ipsen et al. [7], who reported reduced well-being among employees during extended WFH periods when organizational support was inadequate. Interestingly, some MSMEs have leveraged WFH not only as a crisis response mechanism but also as a strategic tool to enhance resilience and competitiveness, as suggested by Ojo et al. [6]. By adopting hybrid models and investing in basic digital training, these firms have been able to reduce operational costs and retain talent, especially female employees who benefit from flexible working hours [5].

The impact of WFH policies in MSMEs is highly context-dependent, shaped by factors such as technological readiness, leadership adaptability, HRM maturity, and employee demographics. While there is potential for productivity gains, unlocking this requires targeted investments in digital infrastructure, clear communication channels, and inclusive HRM policies tailored to the needs of a diverse workforce.

5 RESULTS AND DISCUSSION

The adoption of Work-from-Home (WFH) policies in MSMEs during and post the COVID-19 pandemic has presented a complex landscape of opportunities and challenges. Based on insights from the reviewed literature and relevant empirical data, this section discusses the impact of WFH on employee productivity in MSMEs through multiple thematic lenses:

5.1 Enhanced Flexibility and Autonomy

Many employees across generations reported increased flexibility and autonomy while working remotely, which contributed positively to productivity. Studies such as [2] and [9] indicated that Gen Z and millennial employees, in particular, appreciated the work-life balance WFH offers. In MSMEs, where formal structures are often limited, this flexibility was both a strength and a challenge—while it allowed personalized work styles, it also led to difficulties in standardizing performance metrics.

5.2 Impact of HRM Practices and Managerial Support

HRM policies that emphasized empathy, digital collaboration, and regular check-ins were associated with higher productivity and well-being [4], [8], [6]. In MSMEs, managerial support was found to be a critical determinant of WFH success, especially in firms that lacked formal HR departments. The absence of structured remote-work guidelines in many small enterprises led to role ambiguity, affecting employee motivation and output.

5.3 Technological Adaptation and Infrastructure

The effectiveness of WFH was strongly tied to the level of digital infrastructure and ICT familiarity. MSMEs with prior investment in digital tools adapted faster and maintained or even improved productivity [10], [13]. Conversely, those operating in rural or semi-urban areas faced issues related to connectivity, access to devices, and lack of digital skills, thereby dampening the benefits of remote work.

5.4 Gender and Inclusion in WFH

The gendered impact of WFH was notable, as highlighted in [3] and [7]. Women in MSMEs often had to juggle professional and domestic responsibilities without institutional support, which led to mixed productivity outcomes. While some reported improved focus due to reduced commuting, others faced interruptions and burnout. These findings underscore the need for gender-sensitive remote work policies tailored to MSME contexts.

5.5 Cultural and Organizational Readiness

Cultural norms within MSMEs played a crucial role in shaping the acceptance and implementation of WFH policies. Organizations that fostered trust, autonomy, and outcome-based evaluations experienced fewer disruptions. However, traditional firms with hierarchical mindsets struggled with micromanagement tendencies, affecting both employee morale and performance [5], [12].

5.6 Post-COVID Realignments

The literature consistently pointed toward a hybrid model as the future of work in MSMEs. Many firms that initially adopted WFH out of necessity have now begun to recognize its long-term viability—provided it is supported with adequate policy frameworks and capacity building [14]. There is a growing consensus that productivity is not inherently compromised in WFH setups; rather, it hinges on organizational readiness, technological enablement, and people-centric policies.

6 CONCLUSION AND RECOMMENDATIONS

The study explored the influence of Work-from-Home (WFH) policies on employee productivity in the context of Micro, Small, and Medium Enterprises (MSMEs), drawing upon extensive literature and empirical insights. The findings highlight that while WFH arrangements offer notable advantages—such as improved work-life balance, reduced commuting stress, and flexibility—they are also accompanied by challenges, particularly in the MSME sector. These include limited digital infrastructure, inadequate HRM support systems, and managerial resistance to non-traditional work models. It was observed that productivity outcomes in WFH settings are significantly shaped by factors such as the nature of the job, employee digital readiness, gender roles, and organizational support mechanisms. Generational differences also influence preferences, with younger employees adapting more readily to digital modes of work. In resource-constrained MSMEs, lack of investment in IT tools, cybersecurity, and employee upskilling further complicates the effectiveness of remote working.

To enhance productivity in WFH environments, especially within MSMEs, the study recommends the following:

- Investment in affordable and scalable digital tools tailored for small businesses.
- Managerial training to foster trust-based, output-oriented remote work supervision.
- Customized HRM strategies that include flexible work policies and mental health support.
- Government initiatives to provide digital infrastructure and capacity-building programs targeting MSMEs in semi-urban and rural areas.

Future research should focus on longitudinal case studies of MSMEs that have adopted hybrid or fully remote models, to analyze productivity trends over time. Moreover, sector-specific studies could help identify which MSME domains are best suited to WFH adaptations, enabling better policy formulation.

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ETHICS STATEMENT

This study did not involve human or animal subjects and, therefore, did not require ethical approval.

STATEMENT OF CONFLICT OF INTERESTS

The authors declare no conflicts of interest related to this study.

LICENSING

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