

THE IMPACT OF HUMAN RESOURCES AUDIT PRACTICES IN INDIAN SMES: NOVEL APPROACH

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Abstract

Development of small and medium enterprises (SME) represents primary goal of every modern economy. It is complex challenge which includes great number of directly concerned parties in every sector of the state and economy. SME stimulate private ownership and entrepreneurship. Their characteristic is that they are flexible and can easily adjust to changes in supply and demand on the market. At the same time, they open possibilities for increase of employment, promote diversification of economic activities, support sustainable growth and give significant contribution to export, trade and increase the competitiveness of the entire economy. Importance of SME for economy is undisputable. This work aims to assess human resource factors and best practices in small and medium enterprises (SMEs). The human resources (HR) components considered in this paper are organizational structure, personnel training and promotion, and organizational culture.

To achieve the objective of this study a combination of inclusive literature review, visits, observations and a survey of 100 respondents was used. These results are consistent with previous findings which reported that the SMEs performance was affected with the practices of human resource management. The main limitation in this work is the non-availability of timely data from many SMEs due to their lack of trust in these studies towards improving SME performance. The findings of this research not only show the positive relationship between HRM and SMEs, but also focus on elements leading to success, other lead to flair and some other mixed, which can be easily adapted to organizational structure, organizational culture and personnel training elements. These results could be applied on any other SMEs. This is the one of the first studies to examine HR factors and best practices through organizational structure, personnel training and promotion, and organizational culture of SMEs.

Keywords: Human Resource Audit, Turn Over, small and medium enterprises, human resources management, organizational structure, personnel training, promotion.

I. INTRODUCTION

Human resource management(HRM) is the age old practice of recruitment, employee selection, providing proper orientation and induction, providing proper training and skills development, employee assessment and appraisal, providing proper compensation and benefits, employee motivation, maintaining

employee health and safety. The major purpose and principle of HRM, more so in SMEs, is to make proficient utilization of existing human resources and the desire to have skilled and competent workers to make their firm more effective than their competitors. Humans or men are the most important assets for SMEs rather than money, materials or machines

because without skilled and competent workers no activity can be performed efficiently and cost effectively. The first part, which is the introduction, discusses the importance and goals of this study and literature review which discusses the Human Resources Management in Small and Medium sized Enterprises (SMEs), Organizational Structure (OS), Organizational Culture (OC) and Personnel Training and Promotion in SMEs and problem formulation. The second part of this paper describes the proposed methodology which discusses the hypothesis of the study and the eight step research methodology procedure.

Today's employment environment is risky demanding that employers attract, manage and retain excellent employees while avoiding the legal liabilities based on employment practices (Harris, 2002). Most business leaders acknowledge that effective people management practices provide superior performance and provide the business a sustainable competitive advantage (SABPP HR AUDIT UNIT, 2018-19). Thus, organizations must regularly update their human resources to survive the competition in this changing employment world (Jha, 2013). The human resource audit supports an organization to review and critically analyze the effective performance of employees and human resource functions (Minhajul, 2015). Despite the huge investments by some companies into human resource, there is a wide feeling that human resource has not lived to its expectations of either the top management or the line managers (Usha, 2015). Other challenges associated with human resource include noncompliance with employment laws, inadequate compensations and benefit plan design, not maintaining appropriate levels and poor recording (Kelli, 2008). Organizations, which are discarding modern professional methods in reference to the personnel function, are unable to recruit and motivate the best specialists, or gain a reputation for being successful employers and credible partners (Agata, 2015). Unless organizations take concrete steps to understand and act on what drives employees to stay or go, the human resources bleeding will go straight to the bottom line (Gupta, 2004).

1.1 HR AUDIT:

Human Resource (HR) audit is an important aspect of the human resource management. It is now receiving a great deal of attention from HR practitioners. HR audit is used as a tool for review of the effectiveness of human resource practices. It is a tool for evaluating the personnel activities of an organisation. It gives feedback about HR functions not only to operating managers but also to HR department about how well operating managers are meeting their HR duties. In brief, audit is an overall quality control check on HR activities in a public organisation and an evaluation of how these activities support overall organisational strategy. HR audit also helps clarify organisational and management goals. Since the appropriateness of organisational goals and objectives set to be achieved can be questioned in relation to the problems being addressed, HR audit provides procedures for evaluating goals and objectives. Audit may result in efforts to restructure management practices and goals. It may also contribute to the craft of new policies emergence of and potential solutions. HR audit concerns the consideration whether a previously adopted policy alternative should be replaced with another or persisted with given the imperatives of efficiency and economy.

Thus, HR audit is an effort to analyses organizational goals and practices and improve upon personnel performance. K. & mentioned ten benefits resulting from HR audit:

1. Identification of the contributions of the HR department to the organization;
2. Improvement of the professional image of the HR department;
3. Encouragement of greater responsibility and professionalism among members of the HR department;
4. Clarification of the HR department's duties and responsibilities;
5. Stimulation of uniformity of HR policies and practices;

6. Finding solution of critical personnel problems;
7. Ensuring timely compliance with legal requirements,
8. Reduction of HR costs through more effective personnel procedures;
9. Creation of increased acceptance of the necessary changes in the HR department, and;
10. A thorough review of the department's information system

The scope and subject areas of HR audit are very wide. It represents a 'whole man approach,' in that it assumes that the management of human resources involves much more than the practice of selecting, training and firing employees. The field of human resource audit includes:

- (a) Recruitment and selection,
- (b) Training and development,
- (c) Promotion, transfer, and career development,
- (d) Performance appraisal and job evaluation,
- (e) Morale and discipline,
- (f) Salary, rewards and benefits,
- (g) Personnel policies, procedures and programmes,
- (h) Employer – employee relations, and (i) Research.

The HR management audit allows rating the extent to which an organization has basic HR activities in place and how well they are being performed. In deciding upon rating, there is need to consider how other managers and employees would rate the activities. The total scope provides a guide for actions that will improve HR activities in the organization.

2. AUDIT RELATIONSHIP WITH HR MANAGEMENT:

In many organizations often, staff managers are also placed in the position of appraising the

work of line managers and reporting their findings to the upper management. Personnel may audit how well line managers keep payroll costs in line or how well they are utilising training resources. Personnel auditing thus discloses excessive and costly turnover that may be afflicting organisational practice. There are four more elements that could be considered prerequisites in HR auditing. First, successful personnel managers learn that they are more effective in bringing about improved performance if they discuss the results of their evaluations with the manager before sending them to the higher management. This affords the manager the opportunity to improve his performance before the boss learns of performance 'lag'.

Instead of pressure technique, the staff report becomes a device to help the manager remove or reduce defects in operations and meet the standards established as desirable by the top management. To that purpose, HR audit creates healthy relationships between the staff and line groups. Second, personnel are asked to associate line managers in data collection and interpretation processes from the beginning.

It is important that line is afforded a voice in deciding what data should be gathered and how it should be disseminated. Often, personnel distribute the data to the managers concerned without commenting. Here itself, supervisors themselves are encouraged to interpret and give meaning to data collected. Third, line managers will be ready to accept a staff controls report if they can see how its contents will help them achieve their objectives, and if it is timely, personnel's chief job is to help the line management detect and handle its own problems. Here, the line's motivation to learn rises as it acknowledges there is a problem to be tackled. And finally, the extent to which personnel develop impersonal, quantitative measures reduces the staff line conflict that usually afflicts the auditing process

3. DESIGNING INFORMATION SYSTEM FOR HR AUDIT:

Human resource audit is a difficult exercise. It requires the designing of an effective human resource information system to be effective. The most important issues related to the HR information system may be:

(a) **Collecting data** In collecting data, often there is the problem of bias if the same is done by managers or individual supervisors on their own performance. For example, if supervisors who report their own department accident records may be tempted to suppress or hide potentially embarrassing incidents. Generally, it is observed that data collected by outsiders, consultants and university based researchers appear more credible than insider reports.

(b) **Asking questions of the data** Data, which is to be collected, should provide useful information to enhance organisational effectiveness. Often the data is found to be misleading. Therefore, for most purposes, trend comparisons may be preferable.

(c) **Interpreting the data** Looking at the quantity and quality of data, it is the responsibility of the HR department to assist the management in analysing and data interpreting the data.

(d) **Stimulating remedial action** Most organisations in the public sector are seen generating more than the adequate quantity of data. But the main purpose is to stimulate remedial action. In some cases, the action may require consultation between the supervisor and the higher management. In some other cases, it might be useful to have the staff responsible for data collection with the line management in jointly arriving at an agreement regarding the implications drawn from data. Without such participation, there can be serious misinterpretations of data. Here, it may be mentioned, that generating data is costly even with computers. Its quality can overwhelm, line managers who may be deluged with more data than they can profitably use. Therefore, considering the cost of data collection, only the data relevant to human resource audit should be collected.

Further if the organisation practices a policy of decentralization, the central office staff will be limited primarily to an advisory function, although it may also perform occasional auditing tasks to assure the top management of largely harmonious industrial relations. Line managers will be more willing to accept an audit report if its expert contents to help them achieve their objectives better. It is critical for the HR department to develop a working relationship with the line particularly the top management that balances any constraining forces with timely participation and sharing. As auditors, personnel managers should consider difficulties each manager faces in meeting the standards set for his unit by the line management.

4. APPROACHES TO HR AUDIT:

Auditors may adopt any of the five approaches for the evaluation purpose:

- (i) The comparative approach,
- (ii) The outside consultant approach,
- (iii) The statistical approach,
- (iv) The compliance approach,
- (v) The management by Objectives - MBO approach, (Weather and Davis, 1996).

I. Comparative Approach

II. Consultant Approach

III. Statistical Approach

IV. Compliance Approach

V. Management by Objectives (MBO) Approach.

5. COMPONENTS OF HR AUDIT REPORT:

After auditing the policies, practices and required areas of the human resource management, a report has to be prepared for consideration of the line or the top management. The report may be presented in the following order:

- i. Table of contents;
- ii. Preface or introduction giving a statement of objectives, scope, research methodology and techniques of the HR audit;
- iii. A summary of the conclusions and recommendations of the HR audit;
- iv. The main report with analysis of data of each section or department concerned;
- v. A Summary which is general comprehensive in nature and more in comparison to the brief prepared at the beginning of the HR audit report;
- vi. An appendix containing supporting data, which might be too voluminous to appear in the body of the audit report.

INDIAN SMES:

SMEs stands for small and medium enterprises. For every country, there is a separate definition of SME. In India, as described above, the SMEs are defined under the MSMED Act, 2006 as MSMEs. We can say that the SME is a basic concept, and MSME is its definition in an Indian context

Number of SMEs in India: The number is estimated to be at 42.50 million, registered & unregistered together. A staggering 95% of the total industrial units in the country. SME & Employment opportunity: Employs about 106 million, 40% of India's workforce. Next only to the agricultural sector.

The small and medium businesses (SMEs) in India include 63.4 million units and accounts for nearly 30% of India's GDP, employing about 460 million people. The sector also makes up for 33.4% of the India's output in manufacturing, giving employment to around 120 million Indians, according to CII. Small and medium-sized enterprises (SMEs) are non-subsidiary, independent firms which employ fewer than a given number of employees. This number varies across countries. The most frequent upper limit designating an SME is 250 employees, as in the European Union. Around 1.3 million SMEs contribute 45% to India's manufacturing output and 40% of India's total

export. In a way, they form the backbone of the Indian economy. Small and mid-size enterprises (SMEs) are businesses that maintain revenues, assets or a number of employees below a certain threshold. Each country has its own definition of what constitutes a small and medium-sized enterprise (SME).

- There are three main criteria that determine whether your enterprise qualifies as an SME: Staff headcount (< 250 annual work units) Annual turnover (\leq €50 million)

The staff headcount criteria for the different sizes of SMEs are as follows:

- Micro-sized: <10 AWU.
- Small-sized: <50 AWU.
- Medium-sized: <250 AWU.

II ROLE OF SMES IN INDIAN ECONOMY

SME's Contribution to Society: SMEs subsidize around 6.11% of the assembling GDP and 24.63% of the GDP from running exercises. SME overhaul has set an objective to up its commitment to GDP to half by 2025 as India turns into a \$5 trillion eco-nomy. [4].

Table 1: Activity wise approximate number of SME's

Activity Category	Estimated Number of Enterprises (in lakh)			Share (%)
	Rural	Urban	Total	
(1)	(2)	(3)	(4)	(5)
Manufacturing	114.14	82.50	196.65	31
Trade	108.71	121.64	230.35	36
Other Services	102.00	104.85	206.85	33
Electricity*	0.03	0.01	0.03	0
All	324.88	309.00	633.88	100

□ Ex-ports: It con-tributes around 45% of the over-all disseminates from India.

□ In-clusive growth: SMEs con-tribute in advan-cing in-clusive growth by on condition that opportunities in villages, tier II and tier III cities. For example: Khadi and.

□ Job Opportunities: After agriculture, SMEs are proving highest employment to Indian society.

□ Promoting new ideas: It gives opportunity to potential entrepreneurs to explore and implement new business ideas.

□ Financial inclusion: Small businesses and industries in villages, and other places provide formal banking facilities.

A. Downward trend in Indian SME:

The over- all involvement of SME and GDP of our country has decreased in terms of statistical reports.

With around 63.4 million units throughout the geographical expanse of the country, MSMEs contribute around 6.11% of the manufacturing GDP and 24.63% of the GDP from service activities as well as 33.4% of India's manufacturing output.

B. Problem areas of SME`s in India:

In present time, Indian SME`s are really encountering some problems. These problem are of different type and are dynamic in nature. Most of the problems are controllable but few are uncontrollable too. Considering data exploration and de-tailed can be exp-lained as follows: - [10]

- Unavailability of funds from financial institutions-As the process of getting load approved from banks is very complicated and length which requires a lot of paper work. Therefore, the general public is unable in taking credit from bank. [12]

- competition from large scale companies- These days established companies which are of large scale in nature are proving good and quality services at very low price. Therefore it is becoming difficult for SME`s to compete with such strong players in same market.[13]

- lack of expertise- SMEs people are not updated with recent trends and technologies. Therefore, there procedures for production of goods and products are outdated and hence cannot be compared with what multinational companies are proving in affordable rates. [9].

C. Ways to improve the con-attribution of SME`s in India`s GDP by con-suming Data.

- Access to proven guidelines:

Many people may not be aware of different methods/steps for their startups. STATISTICAL data can be used for providing relevant and authenticated information by the mean of data analysis for different SME`s sector and should make it available for common people to utilize it.

- Knowledge Centers

Big data can be used to collect sufficient information which SME`s people might need. Government should provide different training programs for awareness of people.

- Dedicated financial body for SME`s:

There should be availability of some financial institutions which can provide required funds to budding entrepreneurs in cheaper rates.

CONCLUSION WORK:

The research paper presents analyses the meaning, importance and role of the human resource audit. Auditing helps the top and line management evaluate how well its policies on a whole are working. It appraises the overall effectiveness of an organization`s human resource utilization. It stimulates the subordinates to pay particular attention to the areas assigned highest priority by top management. Regular human resource audits make it possible to detect significant trends before they generate crises. Besides, regular audits make the whole personnel control process less threatening. Thus, human resource audit helps identify policies and practices that need to be modified or changed in response to the changing circumstances. The learning outcomes of this paper execute Understand the nature, importance and scope of HR audit; Describe the approaches to HR audit; and Design information systems for HR auditing.

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