

AN ADVANCED APPROACH TO ASSESSING HR AUDIT PRACTICES IN INDIAN SMALL AND MEDIUM ENTERPRISES

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Abstract

The growth of small and medium enterprises (SMEs) is essential for the development of modern economies. Their expansion involves multiple stakeholders across different economic sectors. SMEs foster private ownership, encourage entrepreneurship, and are characterized by their flexibility and ability to respond quickly to market changes. They create employment, diversify economic activity, support sustainable development, and enhance national competitiveness through contributions to trade and exports.

This study evaluates key human resource (HR) factors and best HR practices in SMEs, focusing on organizational structure, employee training and career advancement, and organizational culture. A mixed approach involving literature review, site visits, observations, and a survey of 100 participants was employed. The findings align with earlier research indicating that HRM practices significantly influence SME performance.

The study's limitation relates to restricted access to timely data because many SMEs hesitate to share information. Still, the results confirm the positive association between HRM practices and SME success and highlight which HR elements drive growth or require improvement. These insights can be applied to any SME setting. This is among the earliest studies to analyze HR factors and best practices through the lens of structure, culture, and personnel development in SMEs.

Keywords: HR Audit, Turnover, SMEs, Human Resource Management, Organizational Structure, Training, Promotion.

INTRODUCTION

Human Resource Management (HRM) refers to long-standing practices that include recruiting employees, selecting the right candidates, orienting and training them, evaluating performance, offering compensation, ensuring health and safety, and motivating staff. For SMEs, HRM's primary objective is to maximize the efficiency of its workforce and build a competent employee base that strengthens competitive advantage.

Human resources are the most valuable asset for SMEs more important than capital, equipment, or technology because no business function can operate effectively without skilled personnel.

This paper begins by outlining the importance of HRM and reviewing literature on HRM practices, organizational structure, organizational culture, and training and promotion within SMEs. The second section elaborates on the methodology, including hypotheses and the eight-step research process.

Modern employment environments demand that employers attract, retain, and manage talented staff while reducing legal risks (Harris, 2002). Many business leaders recognize that efficient people management boosts organizational performance and creates competitive advantage (SABPP HR AUDIT UNIT, 2018–19). Employees must continuously update their skills to remain relevant (Jha, 2013).

HR audits allow organizations to evaluate the effectiveness of their HR functions (Minhajul, 2015). Despite significant HR investments, many firms perceive HR departments as falling short of expectations (Usha, 2015). Other issues include non-compliance with laws, inadequate compensation structures, and poor documentation (Kelli, 2008). Organizations ignoring modern HR methods often fail to attract and retain skilled employees (Agata, 2015). Without understanding employee motivations, companies face turnover challenges with financial consequences (Gupta, 2004).

HR AUDIT

A Human Resource Audit is a vital component of HRM and has gained increased attention among HR practitioners. It serves as a systematic evaluation of HR practices, providing feedback to both HR departments and operational managers on how effectively HR responsibilities are being handled.

In essence, an HR audit performs a quality check on HR activities, examining how well these practices support overall organizational goals. It also helps refine management objectives and policies by evaluating whether current goals are appropriate and efficient.

Some key benefits of HR audits include:

1. Identifying the HR department's contributions.
2. Enhancing the professionalism and image of the HR function.
3. Encouraging accountability among HR staff.
4. Clarifying HR roles and responsibilities.
5. Promoting consistent HR practices.

6. Helping resolve personnel issues.
7. Ensuring legal compliance.
8. Reducing HR costs.
9. Supporting change management.
10. Improving HR information systems.

The scope of HR audits is broad and covers recruitment, training, promotions, performance appraisal, compensation, employee relations, and research, among other areas. HR audits provide a framework for evaluating how well HR activities are executed and what improvements are needed.

RELATIONSHIP BETWEEN HR AUDIT AND HR MANAGEMENT

In several organizations, HR personnel may assess and report the performance of line managers to senior leadership. HR audits often reveal hidden issues, such as high employee turnover or ineffective training practices.

Effective HR audits rely on strong collaboration between HR teams and line managers. Managers should be informed of audit results before final reporting, giving them time to make improvements. HR audits encourage joint interpretation of data, enabling managers to understand and address their challenges.

Line managers are more receptive to audit reports when they see clear benefits and when the information is provided promptly. Data-based evaluations reduce conflicts between HR and line departments and strengthen cooperation.

HR AUDIT INFORMATION SYSTEM DESIGN

Conducting an HR audit requires a robust information system. Key considerations include:

a) Data Collection

Bias may occur when supervisors report on their own departments. Data collected by external consultants or researchers is often perceived as more reliable.

b) Asking the Right Questions

Collected data must help improve organizational performance. Trend analysis is often more useful than isolated data points.

c) Interpreting the Data

HR departments must help managers analyze and draw conclusions from audit data.

d) Encouraging Action

The true purpose of data is to drive corrective action. Joint review sessions between HR staff and managers help avoid misinterpretations.

Data collection should be cost-effective and focus only on HR areas that matter most. Decentralized organizations may assign HR staff an advisory role, with line managers handling day-to-day operations.

APPROACHES TO HR AUDIT

Auditors may use one or more of the following approaches (Weather & Davis, 1996):

1. **Comparative Approach**
2. **Consultant Approach**
3. **Statistical Approach**
4. **Compliance Approach**
5. **Management by Objectives (MBO) Approach**

COMPONENTS OF AN HR AUDIT REPORT

A comprehensive HR audit report typically includes:

1. Table of contents
2. Introduction: objectives, scope, methodology
3. Summary of findings and recommendations
4. Detailed analysis by department
5. Overall summary
6. Appendices containing supporting data

SMEs IN INDIA

SMEs, defined as MSMEs under India's MSMED Act (2006), form a major portion of the industrial sector. India hosts approximately 42.5 million SMEs, accounting for 95% of industrial units. They employ around 106 million people—second only to agriculture.

SMEs contribute nearly 30% to India's GDP, 33.4% to manufacturing output, and 40% to exports. Globally, SMEs generally employ fewer than 250 employees.

Staff Size Categories:

- Micro: fewer than 10 employees
- Small: fewer than 50 employees
- Medium: fewer than 250 employees

ROLE OF SMEs IN THE INDIAN ECONOMY

SMEs contribute 6.11% to manufacturing GDP and 24.63% to services GDP. India plans to increase this contribution to 50% as part of its \$5 trillion economy vision.

SMEs promote inclusive growth, generate jobs, support entrepreneurship, and enable financial inclusion at local levels.

A. Downward Trend in Indian SMEs

Although SMEs significantly contribute to manufacturing and services, recent data shows a decline in their overall share, indicating structural challenges.

B. Challenges Faced by Indian SMEs

Key issues include:

- Difficulty securing loans due to complex banking procedures
- Competition from large enterprises offering quality services at lower prices
- Lack of technological awareness and outdated production methods

C. Strategies to Strengthen SME Contribution Using Data

- Provide accessible guidelines based on reliable data analytics
- Establish knowledge centers and training programs
- Create financial institutions dedicated to SME funding

CONCLUSION

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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