

**SME EMPLOYEES' PERCEPTIONS OF THE WORKING CONDITIONS THAT
EXIST IN THEIR COMPANIES WITH REGARD TO HR AUDITS.**

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ABSTRACT

Human resource management plays a crucial role in organizations by enhancing job efficiency to meet the business objectives set by leadership. HR often navigates workplace dynamics, balancing corporate activities with collective bargaining agreements and government regulations. The scope of HRM is undeniably vast. To evaluate the effectiveness of these various divisions, the HRD audit is employed. Understanding both personal and corporate influences is key to assessing employee expectations across different HRM sub-systems. Small industries are vital for a nation's sustainability, serving as indicators of market growth and prosperity. Similarly, effective administrative management is essential for the longevity of any company. Small businesses do much more than just follow standard corporate processes, which can sometimes be unclear. Fields like personnel management, accounting practices, and funding strategies are critical areas where successful management can ensure the sustainability of small enterprises. The organizational environment often mirrors positive work habits, making it important to delve into the personal and organizational factors affecting both SME employers and their employees. This research study aims to analyze how employees in SMEs perceive the working conditions within their organizations, particularly in relation to HR audits.

INTRODUCTION

HR Audit is a process that evaluates how well HR functions are performing within a legal framework, with the goal of boosting their effectiveness. It also sharpens the focus on improving the quality of HR functions and the distribution mechanisms that contribute to the organization's success. Many small business owners find it incredibly tough to navigate their challenges, whether it's due to a lack of resources or insufficient managerial skills. For these small-scale entrepreneurs, surviving in such an environment can be daunting, as they often face issues like limited resources and a deficit in management expertise. Moreover, there's a noticeable gap in research focused on small and medium-sized enterprises (SMEs), as most studies tend to concentrate on financial and marketing challenges. This leaves a significant void for both SMEs and HR professionals who are looking for insights. The researcher has observed that many SMEs, despite facing similar hurdles, are developing effective reform strategies through targeted HR initiatives. Unfortunately, these efforts often go unrecorded and unexamined due to the lack of formal analysis. The research conducted aims to shed light on emerging trends and the cause-and-effect dynamics between various HR functions in small and medium-sized businesses. This study is crucial for expanding the knowledge base on HR management in SMEs, ultimately seeking ways to enhance the skills, commitment, and workplace culture of human resources in these organizations.

HUMAN RESOURCE MANAGEMENT

Human beings are inherently social creatures; we hardly ever find ourselves working or living in isolation. We actively prepare, build, and nurture our relationships, often without even realizing it. These connections stem from our behaviors and our ability to manage them. From a young age, we all learn to understand others and navigate various life situations. This learning continues to evolve, especially when it comes to managing relationships in the workplace. At the heart of human resource management lies this crucial aspect of handling labor relations.

The primary goals of the HR function include:

- Fostering internal cohesion, fairness, and efficiency
- Equipping the workforce with the skills needed for smooth operations, both now and in the future
- Ensuring adherence to local, national, and international regulations

Defining and updating the guiding principles and values that shape our actions The essence of human resource management is reflected in the following characteristics:

- **Pervasive Function:** Managing human capital is a comprehensive task that involves everyone in the organization at various levels. It's not something a manager can delegate entirely; they must provide direction and support in hiring specialists with expertise in staff and industrial relations.
- **Inherent Part of Management:** Human resource management is a vital component of the business process. Many employees across the organization play a role in this, not just those in HR. A manager's key responsibility is to select individuals who will thrive in their roles.
- **People-Centered:** The management of human capital is focused on people and is crucial for all types of organizations. Every level of the workforce, from top to bottom, is engaged in this process.
- Human resources management is fundamental to all functional areas. It encompasses various practical management fields, including development, financial management, and promotion. This responsibility falls on every leader, from the top down, across all departments.
- When it comes to human relations, managing human resources means empowering the organization's workforce. People shouldn't just be seen as cogs in a machine; they have unique needs, diverse opinions, and individual aspirations. Administrators should be equipped to handle these differences effectively, fostering genuine connections with their team members.
- Building personal relationships often involves skills in evaluation, transition, and supporting subordinates through training. Managing human capital is an ongoing process, not a one-time event.
- To achieve corporate goals efficiently, this management must be a continuous effort. Human resources management also includes a variety of personnel activities or functions. This covers everything from staff development and recruitment to selection, training, performance evaluation, and employee benefits. Most organizations establish a dedicated recruitment department to handle these tasks effectively.

HR AUDIT

This process involves reviewing the current HR procedures, processes, and structures to ensure compliance with laws and regulations. The audit often uncovers opportunities for enhancing the human resources function. Companies typically conduct this evaluation on an annual basis. The audit encompasses various HR roles, including hiring, compensation and benefits, performance evaluations, and exit interviews, among others.

In recent years, the HR audit has evolved beyond just a management tool; it has become an essential resource for making informed decisions about employee-related matters that align with the company's broader objectives. This evolution broadens the scope and competencies of HR audits, distinguishing them from other types of HR assessments. Walker (1998) identifies two approaches to HR auditing: one that focuses on the internal aspects of the function and another that looks at external factors.

From an external perspective, if the final assessment of HR performance centers on its impact on business outcomes, the calculations should yield results that extend beyond the HR function itself. Internally, similar to evaluating any employee's performance, the focus is on analyzing behaviors and expenditures. The agency's ability to provide these resources to the company at the most reasonable cost will be evaluated. This approach applies traditional operational metrics, such as quantity, efficiency, functionality, cost, and speed, concentrating on operations, expenses, or output ratios.

Another well-known classification of the HR audit method involves distinguishing between three areas of focus: legal auditing for compliance, operational or effectiveness audits, and strategic audits. It's worth noting that there is a notable lack of research specifically targeting small and medium-sized businesses, as most studies tend to concentrate on financial and marketing issues.

HR AUDIT IN SMES

HR auditing is all about ensuring that organizations get the right people with the right skills, knowledge, and expertise at the right time and cost. It helps businesses tap into the talents of dedicated employees effectively. Small businesses play a crucial role in a country's economic growth, but over the years, their viability has often been challenged by conflicts between accounting and auditing firms. Both accounting and auditing services are vital for the success of small businesses, as they are key factors that can impact and shape these organizations. Unfortunately, many small companies struggle to maintain proper accounting standards, which are essential for transparency in their operations and decision-making. Without solid accounting skills, it's tough for management to ensure the sustainability of these businesses. In India, small and medium enterprises (SMEs) have become a vibrant part of the economy, significantly contributing to job creation and rural industrialization through capital-efficient and labor-intensive practices. The socio-economic landscape in India has been shaped by micro, small, and medium industries, which represent the dominant form of business worldwide. In fact, small firms make up 99% of

all businesses in the European Union and about 80% in the U.S., while in India, they account for a staggering 97%. However, audits of small to medium-sized firms have revealed a concerning lack of corporate controls, which skilled accountants find troubling. Many small and medium-sized businesses often overlook the importance of sound accounting practices, only addressing them when regulatory demands arise. This lack of adequate and efficient accounting systems has led to the premature failure of many enterprises.

REVIEW OF LITERATURE

Ulrich & Grochowski (2018) recommended nine dimensions of HR should be audit for the improvement of effective HR in the organization that meets the needs of globalization. These dimensions are HR reputation, HR context/deliverables, HR strategy, HR design, HR and organization capability, HR analytics, HR practices, HR professionals and HR work style. Based on the above discussions and reviewing the detail literature it is observed that researcher hardly found any study on Effective HR Audit Scale development. This indicates the need of research on HR Audit scale development.

F.R. Alexxander pravin Durai, I. Adaikalasamy, (2014) “The research described current HR auditing activities in Mando Automotive India Ltd. and its interpretation, the results being that the HR audit is an annual analysis to assess human-resource performance and effectiveness. While the HR audit does not have any legislative duty to carry out, it is necessary to increase human resource efficiency, monitor labour costs and resolve the trade union challenges. Study is clearly quite small in the HR audit field. Thus, companies with HR practice audits need to be found and the understanding of staff to HR practice audits observed.

Anne Cannings, Trevor Hills (2012) “It seeks to indicate that a different strategy can be followed to the audit of human capital (HR). It is also meant to clarify and add a selection of instruments to complement the current method. It analyses and discusses the limitations of the conventional and current popular approaches and introduces a modern paradigm focused on corporate contribution. And – Existing HR auditing methods should not represent existing HR practice aspirations and discourse. The audit found that there was significant improvement in the interviews, which contributed to the appointment of a correct applicant for the right position, which has not only commonly defined needed competencies, but has encouraged integrity. This research also showed that the interview procedure is strengthened and the candidate is well-recognized.”

Until the word practical audit has arisen, the auditing has progressed to become more precise. A

functional audit aims at diagnosing, assessing, tracking and recommending specific business functional areas within the limits. The HR audit is a sort of audit. Any audit typically aims at determining people responsible for each operation, defining the goals of each task, evaluating policies and procedures, sampling available information to determine the policies and protocols to be implemented, preparing audit reports that are commendable of acceptable targets, policies and procedures.

Kells (2011)“The seven performance audit critics were addressed on the basis of literature review in the report. The paper concludes that feedback is not true in all situations but is meant to act as a category of risk that should be administered during the conception of the performance audit programmes. Reports of audit and recommendations of experts are not included for scrutiny.”

OBJECTIVES OF THE STUDY

- To understand the concept of Human Resources Audit and its importance for Employees in SMEs
- To analyze the perception of employees of SMEs on working conditions prevailing in their organizations: With Reference to HR Audit.

RESEARCH METHODOLOGY

The Research is Exploratory in nature. The sampling method used for sample selection is Random sampling. The sample size of the Research study is 128 Respondents. The primary data was collected through Questionnaire. The secondary data was selected through Articles, Research Papers and online sources. The data was analyzed through One-way ANOVA.

DATA ANALYSIS AND INTERPRETATIONS

DEMOGRAPHIC ANALYSIS

Table 1: Gender of the Respondents

Gender	Frequency	Percent
Male	88	69%
Female	40	31%
Total	128	100%

Out of 128 Respondents, 88 were Male and 40 were females.

Table 2: Age of the Respondents

Age	Frequency	Percent
21-25 Years	24	19%
26-30 Years	2	2%
31-35 Years	15	12%
36-40 Years	36	28%
> 40 years	51	40%
Total	128	100%

Out of 128 Respondents, 24 were from 21-25 Years age group, 2 were 26-30 Years age group, 15 were from 31-35 Years age group, 36 were from 36-40 Years age group, and 51 were from > 40 years age group.

Table 3: Qualification of the Respondents

Qualification	Frequency	Percent
Graduation	40	31%
Post-Graduation	12	9%
Professional Degree	44	34%
PhD. Scholar	32	25%
Total	128	100%

Out of the 128 Respondents, 40 were graduated, 12 were post-graduated, 44 got Professional Degree and 32 were PhD. Scholars.

Table 4: Current Position in the Company of the Respondents

Current Position in the Company	Frequency	Percent
Jr. Management	17	13%
Management	106	83%
Sr. Management	5	4%
Total	128	100%

Out of 128 Respondents, 17 were in Jr. Management, 106 were in Management and 5 were in Sr. Management.

Figure 4: Current Position in the Company of the Respondents

Table 5: Years as a Staff of the Respondents

Years as a Staff	Frequency	Percent
< 1 Year	10	8%

2-3 Years	4	3%
3- 5 Years	77	60%
> 5 Years	37	29%
Total	128	100%

Out of 128 Respondents, 10 worked for more than 1 year in the same organization, 4 completed 2-3 years, 77 worked for 3 to 5 years and only 37 worked below 5 years.

Table 6: Department of the Respondents

Department	Frequency	Percent
Finance	10	8%
Human Resource	3	2%
Operation	12	9%
Technical	30	23%
Others	73	57%
Total	128	100%

Out of 128 Respondents, 10 were from Finance Department, 3 were from HR team, 12 were from operations, 30 were in Technical Department and 73 worked in other departments.

HYPOTHESIS COMPARISON

There is no employee perception in the working conditions of an organization prevailing to HR Audit

Vs.

There is an employee perception in the working conditions of an organization prevailing to HR Audit

HR Audit supports in evaluating the role of an individual contributor in SME's. This team support SME's in the devising company strategies. So, it is essential to assess the perception of employees towards the HR audit. This evaluation will help the HR examiners (auditors) to revamp the HR audit based on the employee perception of the SMEs.

Socio-demographic factors like age, gender, qualification, year as a staff, current position in the company and department have been chosen to gauge the employee perception of SMEs towards HR audit on the process like ensure compliance, improve HR practices, the balance between the current & future needs of the organization, evaluate the level of adequacy in the sub-system, job rotation/transfers, career planning through IDPs, work on potential appraisal, work on performance, coaching and feedback, manpower planning, welfare management, health

management and OD & self-renewal systems.” One-way ANOVA has been used to evaluate the employee perception of SMEs towards HR audit. Listed below is the discussion on the employee perception based on the socio-demographic factors and the collected data from 128 employees.

Ensure Compliance: Apart from the independent assurance HR audit team also provides a prospect to evaluate the financial disadvantage and advantages of HR function. Besides that this team also allow the department to develop a benchmark of their key initiatives, assess the department effectiveness, establish standards, ensure compliance etc. According to (Sharma, 2014) this HR audit team also helps in promoting the innovation within the department, try to build a good relationship between the line managers and the staff, improve the HR contribution, quality, and image of the HR function. “According to employees, this holds true at a different socio-demographic level such as age (p-value=0.00), gender (p-value=0.01), qualification (p-value=0.00), position in the company (p-value=0.00) and department (p-value=0.02). This infers that employee’s perception towards HR audit is significantly positive.”

Improve HR Practices: In regards for the improvement in HR audit practice, as per (J, 2001) there is still an opportunity to run the HR audit process effectively. The author further says that the first and foremost thing which HR audit team should implement is to keep the accurate record or reason for employees leaving the company. In addition, HR audit team should also focus on defining clear roles, and responsibilities of employee’s post discussing with their line managers. This team should also classify critical departmental problems, and align HR strategies with organizational strategy. “This holds true as per the SME employee perception of various socio-demographic level such as age (p-value=0.00), gender (p-value=0.02), qualification (p-value=0.00), years as a staff (p-value=0.02), current position in the company (p-value=0.01) and department (p-value=0.01).” This infers that apart from the existing HR audit activities, SME employees still look forward to the improvement in the current HR practices.

Evaluate the Level of Adequacy of the Sub-system: Sub-system maturity level indicates the effectiveness & efficiency of the HR audit sub-system. “Human resource score-card is a tool to evaluate the maturity level of the sub-systems used in SMEs. Each sub-system is predominantly assessed at a 5-point Likert scale. These sub-systems are being demonstrated at the various department level to determine the HR audit. As per the results at age (p-value=0.05), gender (p-value=0.05), experience (p-value=0.00), position (p-value=0.01),” and department level (p-value=0.01), SME employees have accepted the same. They further said that these sub-systems are significantly helpful for the HR team to know the departmental wealth.

Job Rotation / Transfers: As per the SME employees, there organization has effective welfare measures, employee well-being policy, and CSR (corporate social responsibility) system in place. However, the SMEs are advised to deliberately focus on job rotations and transfers. “This has come up from all the socio- demographics factors like age (p-value=0.01), gender (p-value=0.01), experience (p-value=0.01), current position in the company (p-value=0.00), and department (p-value=0.01).” in infers that at all level, irrespective of there age, gender, department, experience SME employees look forward for the support from HR audit team in regards to the job transfers especially from higher experience employees. According to the data of 128 employees, current audit HR systems in SMEs are at an average maturity level.

Does Career Planning: Along with Job rotation, SME employee perception from HR Audit team is also to help them in doing career planning. Here data of 128 employees also indicates that career planning in SMEs are at an average maturity level (68.7%).

Manpower Planning: Is the process involves in forecast planning of an employee to fulfil the future needs of the organization. This activity has a direct association with the business dynamics. Forecasting of manpower planning in any organization wholly depends on the company’s strategies and policies. According to (Cowling, 1997), this activity provides answers to the questions like the count of employees needed to fulfil the future requirement, types of skills required, the status of current manpower and their skills, the rate at which employees are lost due to the turnover, age structure of an employee etc. “In the study according to the data, socio-demographic factors like age (p-value=0.01), qualification (p-value=0.01), experience (p-value=0.00), current position in the company (p-value=0.01) and department (p-value=0.01) have a dominant influence on HR audit especially for the employees whose age is greater than 35 years and have either postgraduate or professional qualification.”

Welfare Management: In SMEs, term welfare comes with many suggestions, meanings, implications and ideas such as well-being state, happiness, development of HR, health, prosperity etc. An employee feels connected if his/her needs are taken care of. This term could be approached from several angles. Few of them are listed above. For any company, employees welfare is a desired state of presence involving mental, emotional and physical health of an employee. To assess whether all these four critical elements are present among the employees or not HR does the audit (Dayarathna, 2019). In the research as per the employees, none of the socio-demographic factors like age, gender, qualification, experience, current position in the company and department has any dominant influence on HR audit on welfare management.

Health Management: For a healthy and productive workforce, it is significantly essential for an active functional business to understand the well-being and health of the employees (Holt, 2014). As per the results of SMEs employees, this statement holds true at the department level. The probability value of the agreement on the information is closure to 0.02. This means that at 95% confidence level, SMEs employees agreed that there will be a significant impact in the working condition of the workers if at department level their health and well-being are taken care of.

OD & Self-renewal systems: Organization development and self-renewal system, presents the maturity of the SMEs. However, there is a considerable lack in the understanding of the internal and external resources access and their knowledge to facilitate strategic renewal (Oswald Jones, 2006). Further to this author (Yolles, 2003) mentioned that nowadays, OD is recognized as a core nitty-gritty of contemporary HRD, which comes with the complexity and challenges. “That is why SME employees feel that to solve this complexity department and relevant qualification is extremely important. Significant value for the department is 0.01, and the qualification is 0.04. Hence it can be said that according to (Yolles, 2003), (Oswald Jones, 2006) and employees of SMEs there is a significant positive impact of organization development and self-renewal system audit on employees of SMEs.”

Employee Perception at Socio-Demographic Level												
Employee Perception on HR Audits	Age		Gender		Qualification		Years as a Staff		Cur. Position in the Comp.		Dep.	
	F	Sig.	F	Sig.	F	Sig.	F	Sig.	F	Sig.	F	Sig.
Ensure compliance	9.7	0.00	3.4	0.01	5.6	0.00	1.4	0.22	0.4	0.01	0.5	0.02
Improve HR practices	5.8	0.00	1.8	0.02	5.2	0.00	3.2	0.02	0.8	0.01	0.7	0.01
Balance between the current & future needs	5.2	0.00	3.7	0.05	10.4	0.00	1.6	0.02	1.3	0.03	0.6	0.01
Evaluate the Level of adequacy of the subsystem	0.9	0.05	0.6	0.05	0.7	0.57	5.6	0.00	3.2	0.01	3.6	0.01
Job-Rotation/ Transfers	0.4	0.01	0.1	0.01	1.1	0.37	3.4	0.01	4.1	0.00	2.3	0.01
Does Career Planning	0.6	0.01	1.5	0.02	1.0	0.42	4.5	0.00	2.7	0.03	7.0	0.00
Work on Potential Appraisal	0.6	0.70	0.1	0.74	2.1	0.10	0.8	0.01	0.4	0.08	0.8	0.01
Work on Performance, Coaching & Feedback	0.9	0.05	0.2	0.65	2.8	0.04	0.3	0.01	1.3	0.03	1.4	0.02
Manpower Planning	0.7	0.01	0.0	0.96	3.8	0.01	0.9	0.00	1.1	0.01	0.5	0.01
Welfare Management	0.3	0.90	0.2	0.62	1.1	0.35	0.7	0.06	1.0	0.40	1.0	0.39

Health Management	0.4	0.79	0.3	0.60	2.2	0.10	1.3	0.27	1.2	0.33	1.6	0.02
OD & Self-renewal systems	0.4	0.81	0.2	0.69	2.8	0.04	0.2	0.92	1.9	0.11	0.8	0.01

CONCLUSION

According to the study, gap do exist between the HR audit process and the SME employee perception. However, this can be because of the lack of the awareness about the processes. Here research also indicates that, employee perception at different factors like age, gender, qualification, experience etc. are different. Activities like ensure compliance, improve HR practices, balance between the current & future needs of the organization and employees, assessing the adequacy level of the subsystem, job rotation, career planning, potential appraisal, manpower planning, welfare management etc. are being appreciated a lot by the employee's pf SMEs. Hence it can be proved that employee perception in the working conditions of an organization prevailing to HR Audit in SMEs are significant.

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