

Impact of CHRO/CPO led best practices through HR department on SME Business Growth in India: A Literature Review

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Abstract: *In the new normal it is well established that the greatest asset for business is people. Organizations may have plant and machinery, ideas, finance, technology but human capital makes the difference. Whereas large organizations have understood the criticality of this aspect Small and Medium Enterprises (SME) are still warming up to the idea. Some SME have HR department and use it effectively to implement people practices and run the organization professionally, whereas others make it as a simple transactional and administration focused function only to implement directions provided. In the process the strength and rigor of better people practices which the HR department can deliver is compromised. This study aims to identify the impact which a CHRO/CPO and the HR department can make in SME organizations to grow the business professionally.*

Key Words: *HR in SME, SMEHR, CHRO in SME*

Introduction

India vision of GDP by 2030 of \$5 Trillion:

India has witnessed tremendous vigour and vibrancy in its economic growth in the last decade. The current vision of making India a 5 trillion USD GDP economy will propel India to status of a developed economy and may give the status of an economic super power. Indirect taxes through services have a significant contribution towards this agenda. The key factor in this growth would be the various businesses which contribute to the economy. Indian SME has a very and critical role to play in this growth story and vision of Indian economy by 2030.

Indian SME role in growth of Indian GDP, definition, types:

Indian SME eco system is a unique eco system and perhaps a unique model to study. the classification of SME in India is defined by Ministry of Small and medium Enterprises(MSME).

The classifications are:

- i. Micro
- ii. Small
- iii. Medium
- iv. Enterprise

Each of the above are classified basis the size and number of people they employ. **India** has approximately 6.3 crore **MSMEs**. The number of registered **MSMEs** grew 18.5% Y-o-Y to reach 25.13 lakh (2.5 million) units in 2020 from 21.21 lakh (2.1 million) units in 2019. Definition of Micro, Small and Medium enterprises: In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified as below: (i) a micro enterprise, where the investment in plant and machinery or equipment does not exceed one crore rupees and turnover does not exceed five crore rupees; (ii) a small enterprise, where the investment in plant and machinery or equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees; and (iii) a medium enterprise, where the investment in plant and machinery or equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees. 3 Annual Report 2020-21

1.2.3.1. The new classification has come into effect from 1st July, 2020. The earlier criterion of classification of MSMEs under MSMED Act, 2006 was based on investment in plant and machinery / equipment. It was different for manufacturing and services units. It was also very low in terms of financial limits. Since then, the economy has undergone significant changes. a revision in MSME criteria of classification was announced in the “Aatmanirbhar Bharat” package on 13th May, 2020. This has been done in order to be realistic with time and to establish an objective system of classification and to provide ease of doing business. 1.2.3.2. As a result, a new composite criterion of classification for manufacturing and service units has been notified on 26.06.2020, with guidelines regarding composite criteria to facilitate the present and prospective entrepreneurs. Now, there will be no difference between manufacturing and service sectors. Also, a new criterion of turnover has been added in the previous criteria of classification based only on investment in plant and machinery. The new criteria are expected to bring about many benefits that will aid MSMEs to grow in size. It has also been decided that the turnover with respect to exports will not be counted in the limits of turnover for any category of MSME units whether micro, small or medium. This is yet another step towards ease of doing business. This will help in attracting investments and creating more jobs in the MSME sector. The change in criteria of classifying the MSMEs is set to offer major relief to the exporters.

With this change in criteria of classification of MSMEs the Government has also done away with the difference between manufacturing and services.

Significance of people in SME business:

Whether in manufacturing or in Services the criticality of people has increased in the 21st century business scenario due to the higher consumerism. Increased interactions with end users either directly through retail outlets, deliveries at last mile or offering tech-based services through malls, cabs on rent etc. all require quality of people and the ability to manage them productively. Hence the shift has moved from fear-oriented management of people to managing people through motivation, reward and recognition, learning and development and career progression. In most SME across any sector both in manufacturing and services human resource at all levels requires quality of hiring, managing and growing. No SME business wants to risk and experiment by having people of lower quality. Hence People top the list of the most significant component of any SME business.

Classification of HR -transaction and transformation:

Human Resources function has a transactional and administrative part of it which includes basic hygiene and maintenance of workforce such as payroll accounting, attendance and time office, compliances such as PF and ESI, leave calculations, office maintenance, staff welfare, issuing joining, separation letters, searching CV, conducting screening interviews etc. The common link in all these activities is that they attract penalties by the authority upon non compliances, hence SME owners have no choice but to adhere to them. Hence almost all SME organizations have a person to attend to these activities. Another link is the fact that these are very basic jobs and do not need any specialized skill or qualification of HR. Hence in many SME systems these activities are performed by both HR and non-HR resources from any discipline as these jobs require knowledge of excel and basic rules of compliance. None of these activities contribute or impact growth. These are hygiene activities to be performed at all stages of business and are considered very basic activities.

There are however other set of activities in HR which contribute to the growth of the organization such as talent management, capability building, productivity-based performance management system, culture building, competency development etc. These activities require specialized skills of HR department with a unit comprising of team members specializing in each element of transformational HR such talent attraction, talent management, talent engagement, talent development and employee relations. This can be performed by qualified professionals of HR who will take up the role of CHRO and the HR department, provide functional leadership to build the organization for future and has a

direct impact on business. Most SME are looking for transformational HR Solutions and not just transactional HR deliveries from their HR department. This has also become relevant in the 21st century post pandemic as HR has evolved from managing basic labour, IR and personnel manager role to managing knowledge and skilled worker. The 21ST century employee is tech savvy, young, ambitious, willing to take risks and is not highly fussy about brands but looks at the role, manager capability and the culture to grow. These aspirations can only be provided by HR department under the leadership of a competent CHRO/CPO of a company by its transformational and not transactional practices and approach.

Case for CHRO/CPO and HR department in SME:

The big question is why, when and how the SME organization must have a CHRO/CPO. There are multiple views on this and since Indian SME is still evolving some more work may happen to get more clarity with data about what is the right time to have a CHRO and HR department. A paradox in SME business is the fact that 106 million people are employed by which is equal to 40% of India's workforce by 42.5 million SME, most of these are urban based employment. Despite such huge density of human capital in SME the department of HR in SME is negligible or insignificant. The first or second highest component in the profit and Loss Account of the SME is people cost comprising of salaries, wages and related costs. However, is there any strong department to manage such huge investment of the business, grow, retain and make them productive? It is a must have requirement for SME with 50 plus employees to have CHRO/CPO and HR department for the organization future. Most SME commit the mistake of waiting till the business grows to have a dedicated department of HR with CHRO/CPO but by then the department has to spend lot of time in undoing what has already been prevalent rather than put the right mechanisms in place. This change management of transformation creates lot of turbulence. The role of HR must be of a strategic business partner and contributor rather than just a delivery of instructions function. The size of the HR department can be based upon the international scale based upon the size of the employees and its expansion plan. The CPO however must surely have a minimum of 5 people in the team to manage the department effectively. The biggest impact of HR department will be in enhancing productivity of the business. The impact of the HR department can be measured by various business metrics of HR available in the SME context.

Objective

The main objective of the research is to establish the correlation and impact of Human

resource practices by the Human resource department and its impact in SME businesses in India. Indian SME eco system has basic functions of HR and therefore in many SME organizations even the need to have a structured HR department is not considered. This research will explore the need and the impact of a HR department amongst SME in India and its impact on business.²

Review of Literature

Naveed R. Khan, Marinah Avang, Che Md. Zulfiki 2013, found that HR outcomes posed the biggest challenges faced by the SME owner. According to them the link between HR practices and organizational commitment is high. Best HR practices increase the organization commitment of employees. Empirical evidence is still required to substantiate the point statistically.

Sunil Mani 2009, highlights that one of the key factors critical for the growth of SME is to build a team at the early stages. He has quoted Gupta (2011) to say that amongst the two major gaps faced by Indian entrepreneur building a team is one of them. HR plays a big role in building a great team for the SME.

Elvis Munyaradzi 2013, has concluded that there is statistical and significantly positive correlation between success of SME and competence of managers.

Shobha Bhardwaj 2019, concluded that HR practices have positive effect over the output of SME firms. However, it was also emphasized that long term strategic advantage can be gained by choosing the right method at the right time.

Samuel Mahangazi 2014, validated that the claim of theorists such as Mintberg on organization productivity that there is correlation between human resources and business growth and strategy.

Vipan Kumar, Sandhya Wakdikar, Rammi Kapoor concluded that for the auto Industry in NCR the growth of business and entry to new markets is based upon attention to research and development, Human Resource Development policies and practices. Elements such as organization structure, skill enhancement, competency assessment were all key aspects of the growth in business.

IV. Real and Live Case Studies of Effective HR department in SME as part of my consulting work there are at least 20 case studies of SME organizations where before and after results are available of HR department. This work is part of the professional work of Elenchus HR Solutions a Transformational HR firm based in Gurgaon.

Conclusion

SME do not have structured HR department. The ability to use the total benefit of a quality

HR department is a gap area for SME owner. HR department of SME need to be having the elements of large sized company with application in SME. Measuring effectiveness parameters have to be made available for transparency in measurement.

Future Scope of Research

Very less research has happened in this area and it offers possibility of research in the future.

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