



When and why do entrepreneurs need to invest in the Human Resource function?

Investing in HR is not just adding people in a function or buying the latest HRIS, it's a shift in mind-set of the leadership. How the function shifts, is influenced by vision of the entrepreneur, growth of the business and its commitment to people



When the entrepreneur decides to scale up his organization, it's time to establish processes and systems. These systems enable the leadership to take people related decisions

Pranesh, Mr. Shah, his father and I, were in a meeting when he put this question to me. "Why do we need to invest in HR? We already have three HR staff, what more do we need?"

Mr. Shah had started his chemical manufacturing business 30 years ago and had grown it to a 400 cr company. He had done this with 1 person to manage payroll and administrative issues, so his bewilderment at "invest more in HR" was understandable.

At that point, Pranesh explained how a good HR function is critical. He had obviously been exposed to the 'professional way' of work at his internship and wanted to replicate a similar approach in his business.

Pranesh had ambitious plans for the business, he wanted to double the revenues in 5 years, explore international markets, set up more manufacturing sites and diversify into other areas. He wanted to look for strategic tie ups internationally.

He was clear that they would need to change a few things. "We cannot grow at that rate by doing

the same things we did for the last 30 years" he would say to me.

"I want you to help us build this organization for the future, to make this organization sustainable and growth oriented," he said.

"But he is an HR person, what will he do?" Mr. Shah interjected.

It is true, whenever the question of growth presents itself, entrepreneurs plan to increase sales, make deals, appoint sales personnel, increase manufacturing base, cut costs. They are perfectly legit ways and deliver the required results.

But Pranesh mentioned the word "sustainable". That changes the game. When growth gets a sustainability vector, it brings numerous dimensions that can be addressed only by an organization building mindset. It differentiates the ones who only want to grow business in terms of revenues and profitability alone and the ones who want to build an organization. It's what separates the boys from men!

Why is investment in HR such a big deal?

Investment in HR is a commitment to investing in people. It is a big deal because,

- Unlike a lot of other investments, this one takes time to provide returns.

- The returns may not always be in monetary terms, they are more in kind (talent and processes) and sensory (culture).
- It requires entrepreneurs with 'a vision' to invest early on in their people.
- It also requires a change in the way people are seen in the organization.

Investing in HR is not just adding people in a function or buying the latest HRIS, it's a shift in mindset of the leadership. A shift in the way the leader envisions the future of the company and how people are at the core of this strategy.

When does an entrepreneur begin to invest in HR?

When to invest in HR is a chicken and egg question. It is really upon the entrepreneur. A few pointers I can offer:

Scale

Systems and processes are required to manage scale. There are successful million dollar businesses that are run by a team of 4 people. They do not require HR processes or systems.

The purpose of a process is to manage scale, simple.

When the entrepreneur decides to scale up his organization, it's time to establish processes and systems. These systems enable the leadership to take people related decisions.

All systems that we have heard about right from the administrative, time and attendance to the more strategic, leadership development and performance management functions enable people related decisions in organization.

Processes allow us to manage resources (which are limited) to suit the demands put on them. For eg: How will you now distribute your salary increase budget among people in the organization when hiking salaries is going to prove expensive?

Change of philosophy

A focus on developing people and taking quality people decisions reflects the mindset of the entrepreneur. It says that he / she is keen on building an organization, identifying the right people to work with and that they value the people who work with them. It is a shift from running a business where people are treated as "hands" to valuing them as integral to the success of the organization.

Strategy

People in a business are a resource, a living breathing resource. This resource, needs to be planned in a manner that aligns with the goals of the organization.

Pranesh wanted to explore international markets, he would require International Business Development skills that were not present in the company.

When those skills would be required is dictated by the strategy. Where can he find those skills will be determined by whether he can develop someone from his current employees or whether he would need to hire.

This decision will hinge on the kind of talent development processes the company develops over time.

Apart from managing scale, what else do HR processes and systems deliver?

Decision making & accountability

They take away the burden of decision making from the person and system enable it. They render transparency around decision making and the outcomes, for management and employees. They play a huge role in empowering the employees.

"If I know the outcome of my decision, then I can be held accountable for the result"

Pranesh was telling me how promotions and salary increases in the company were decided by his father and he found it difficult to understand why certain decisions were made with regard to certain people.

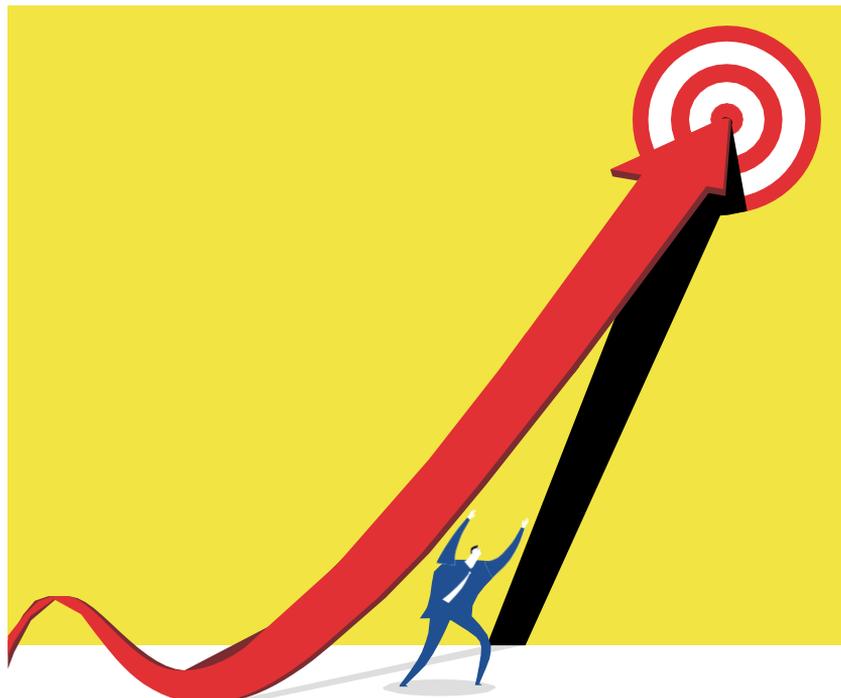
He was keen to shift the scenario to where he and his father only decide on 5% exceptions and the others are decided by a Reward Policy / Process that would apply for 95% of the people.

Measurability

Processes and systems render measurement of outcomes.

One of the questions that I asked Pranesh was about his employee cost/revenue ratio. At first he did not understand why I was asking. I urged him

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to get the numbers only to reveal that his current ratio was 13.5 percent.

When this ratio increases, the business model becomes unsustainable (especially manufacturing). Rising employment cost/revenue ratio is an indication that the costs are increasing at a faster pace than revenues.

This is just one of the examples of what can be measured. Other HR metrics offer a view into the organization and the issues that may arise. Measurability also allows us to benchmark ourselves. It aids to understand how competitive we are.

Culture

While culture is established at the very inception of the business, the HR function brings it to the awareness of the organization. The spirit in which policies and processes are designed, the manner in which people decisions are taken and importantly, how people are treated.

the same. Arrange for cleaning of premises etc. Issues around compliance were all taken care by the accounts manager. Most workers were casual labour and wages were paid on a weekly basis.

Operating Belief: Need get things started and with few costs. Multi task across functions and aim to provide basics.

Stage 2. (Personnel Administration)

There were two manufacturing sites and about 150 workmen. Support needed to manage compliance and liaise with unions. Apart from that the staff had grown to 30 people including a few geographically spread in the sales function.

There was one dedicated person to manage all administrative support to employees and workmen who was also in-charge of administrative arrangements. The administration function's primary responsibility was to maintain order and records (leaves, personnel files, memos).

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Culture is a key determinant on what kind of people the organization attracts.

How does an entrepreneur build the HR function? What comes first and what can he do later?

I would like to put this in context of Pranesh's organization and how their HR function has grown. Let's look at it stage wise.

Stage 1. (No personnel Management)

The business was set up with a single small manufacturing unit. There were a total of 50 workmen and 4 staff including Mr. Shah. The only administrative activity was to pay salary at the end of the month in cash and keep records of

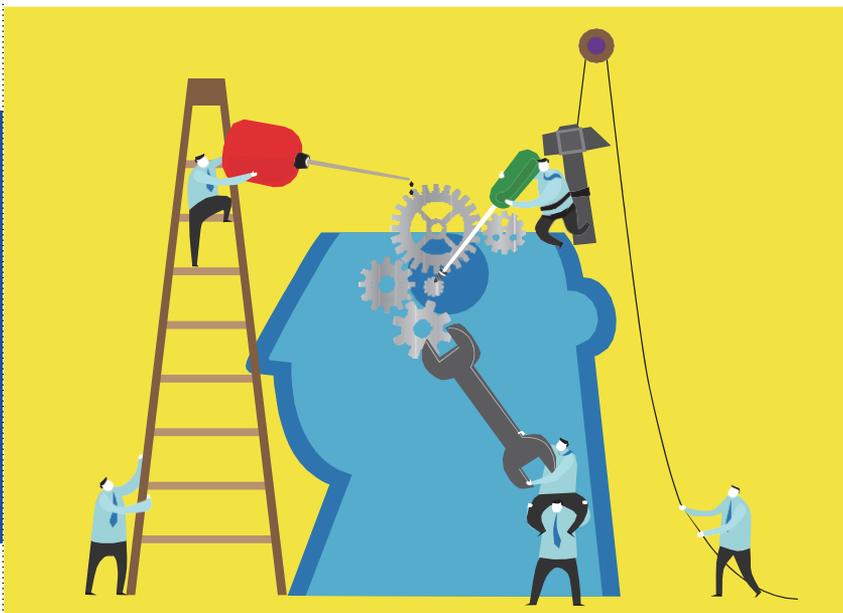
Operating Belief: Provide basic support to people. Manage day to day issues around grievances etc.

Stage 3. (Basic Personnel Management)

With 4 sites and 300 people there are 3 people in the HR function but are located at respective manufacturing sites. 2 of the personnel are engaged in managing demand and supply of labour at the plants, managing issues with the union and taking care of compliances and liaising with local authorities.

The resource at the corporate office consolidates leave records and provides input for payroll. Some form of appraisal process has been initiated on paper forms. These forms are collected and the ratings are used to pay out annual increases. The resource also recruits for vacancies that are put up by managers or HODs.

Operating Belief: Due to a certain scale, dedicated experienced staff needs to run the processes.





Growing complexity warrants some investment in skilled personnel mgmt.

Stage 4. (Effective HR Management & Development)

This is a conscious move towards a more structured HR function. It is an acknowledgement that HR requires specialised skills and expertise. There is differentiation between administration and HR and Industrial Relations as distinct skills.

It is at this stage that the business recognises the growing complexity and scale that needs to be managed. There is a need to understand talent requirements, skills from a strategic perspective.

Investments are made to develop skills for the future, fresh talent is acquired. There is a consciousness about being recognised as an employer of choice. Processes are designed that support talent acquisition, engagement and development.

The organization does not aim to fill current vacancies only, but invests in acquiring future managerial and leadership talent.

Salary increases are no more an annual affair but are integrated into the Performance Management System. There is a shift from “compensation and benefits” to “total rewards” herein talent is positioned basis their skills and performance and skill requirement in business.

Employee experience becomes a vital metric.

Operating Belief: The organization, as it prepares for the future, needs to attract and retain good people and be viewed as an employer of choice. HR facilitates performance and identifies potential through robust processes and systems.

Stage 5. (Strategic Human Resources)

HR is no longer a support function. It is integrated into the business strategy. HR drives business decisions through people, analytics and data. The focus of the function shifts from running processes alone to focusing on culture, leadership development, values.

Every system will take its own time to adapt to new ways of doing things but the thrust comes from entrepreneurs who are ready to take on the future with courage under their wings and an eye on the future

The focus is not about delivering performance today but sustaining performance and growth tomorrow. HR focuses on sustainability initiatives, drives awareness about community impact, works with leadership to pave the way for the future with a focus on values and vision.

The purpose of the business acquires a larger form other than to make money.

Operating Belief: The function is the keeper of the culture and extends the organization values to the community that it serves.

Pranesh’s organization is at Stage 3 and with all that he has said, it seems they want to move to Stage 4.

How long will that take?

It is best not to think about this in a linear manner (only in terms of time). How the function shifts, is influenced by, vision of the entrepreneur, growth of the business and its commitment to people. But for the organization that wants to grow and in a manner that is self-sustaining, the Human Resources function will play a critical role.

Every system will take its own time to adapt to new ways of doing things but the thrust comes from entrepreneurs who are ready to take on the future with courage under their wings and an eye on the future.  

About the Author

The author, Gautam Nabar is the founder of TheGrowthStory, an HR and OD consulting initiative. He works extensively with entrepreneurs to help them chart their HR strategy and execute the same. He is passionate about Behaviour Sciences and is keenly interested in areas of Inclusion & Diversity, Culture and Group Dynamics. He can be reached on gautamnabar79@outlook.com