HR Audit – Via Media for Measuring Organizational Effectiveness

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Abstract
Auditing has been a usual practice in the field of finance, particularly because it is a constitutional obligation. However, in case of Human Resource, there is no legal binding to implement auditing. Some of the companies favor the process of Human Resource audits. Human resource audit is a tool which appraises effectiveness of human resource functions of an organization. The audit of the HR Department is an integration of both the HR function and HR competencies. It also involves a more numeric analysis of the HR department in terms of the ratio analysis, the cost and expenditures associated with HR. Take care of your people and they will take care of your business. This is the motto of many successful organizations. In this context, it becomes imperative to ensure that the entire HR process is well managed and the organization is able to recruit, motivate and retain good talent. The best tool to ensure that HR process is running well is HR Audit. Effective audits pinpoint the gaps between “what is” and “what should be” or “what could be.”

Keywords: HR Audit, Audit process & Approaches, Organization effectiveness.

1.1 Introduction
The historical role of Human Resources has changed dramatically since its inception in the early 1900s. What began as a primarily clerical function is now a strategic partner in planning and attaining organizational policies and goals. Today’s business climate puts the onus on the HR department to accept the challenge of doing more with less, while contributing value toward business objectives. Human resources also has to address the rapidly changing conditions affecting the type of employees required and their changing needs, so the function requires flexible and knowledgeable practitioners. HR strategic planning has become an integral part of doing business and it is important that human resource professionals be both professionals in the field and competent business persons. In order to walk the talk of being a “business partner,” HR managers have to provide real evidence that they are having a strategic business impact. Management is often asking, “How are we doing?” However, this is not always an easy question to answer. This is especially so, when it is difficult to obtain some type of objective measuring tool to determine how well a certain HR function is performing.

1.2 Human Resource Audit – An efficient tool:
The Human Resource Audit is an organized official process, which is designed to investigate the strategies, policies, procedures, documentation, structure, systems and practices with respect to the organization's human resource management. It systematically and scientifically evaluates the strengths, constraints, and developmental needs of the existing human resources in order to improve organizational performance. The human resource audit is based on the principle that human resource processes are dynamic and must constantly be redirected and revived to remain responsive to the changing needs.
Human resource audit is conducted to ensure compliance, improve HR practices, train managers of company, prepare for potential government audit or litigation, gain an understanding of department's environment, and show a "good faith effort and correct errors. Basic principles of audits are to identify the Scope, develop a Questionnaire, collect Data, benchmark Findings, provide Feedback about Results, create Action Plans and foster Climate of Continuous Improvement. Generally, no one can measure the attitude of human being and also their problems are not confined to the HR department alone.

2.1. Review of Literature
An attempt has been made to review case studies and the work of individual researchers, magazines, journals, articles pertaining to brand building and creating brand names. A wide range of academic literature on Human Resource Audit has been reviewed for the purpose of this study. Increased emphasis on the need to improve the efficiency of HR services is leading to innovative approaches to redesign HR delivery systems. Today, it becomes necessary to focus instead, on the opportunities to develop competitive advantages within an organization to increase its capacities. HR’s challenge is to help the organization realize success. At the same time, it is also necessary to protect and leverage the investment in human capital by way of training and development in order that organizations benefit from employees’ efforts and contributions (Byham & Riddle, 1999). Evolving roles of HR necessitate HR professionals be responsible first and foremost for understanding and furthering business needs. In order to provide useful information to managers, it is necessary to evaluate the results generated by the design and implementation of personnel policies. The diagnosis of HR functions can be done through one essential tool – HR Audit. In general, any audit seeks to identify who is responsible for each activity, determine the objectives of each activity, review the policies and procedures used, sample the available records to find if the policies and procedures are being followed, prepare an audit report commending proper objectives, policies and procedures, develop an action plan to correct errors in objectives, policies and procedures, and follow up on the action plan at a later stage, to see if it solved the problems found through the audit (Berry, 1967).

HR audit is a type of functional audit. Thus, as a first approach, one could say that HR auditing consists of diagnosing, analysing, evaluating, and assessing future lines of action within the framework of HRM. It is a systematic assessment of the strengths, limitations, and developmental needs of its existing human resources in the context of organizational performance (Flamholtz, 1987). The key to an audit is to remember that it is a learning or discovery tool, not a test. Whenever the HR audit is
taken up, the scope is decided. Audit need not be exhaustive, but should be focused on particular function of HRM such as Training and Development, Performance Appraisal, Compensation, etc. The audit should investigate the breadth and meaningfulness of the processes and support materials in place that ensure the skill sets needed, so it becomes important for the HR department to understand why those practices are carried on. In such situation HR audit helps to build on essential areas and eliminate those areas that are not important.

3.1 Statement of the problem
The paradigm of HR function has shifted from qualitative to quantitative in nature. HR today speaks the language of numbers: the same language management speaks, understands and expects from its HR department, thus giving HR a more strategic outlook. The role of HR function has changed dynamically. However, there is always room for improvement which can’t be ignored. For HR, the diagnosis of improvement areas can be done through one essential tool: the HR Audit. The main intent of this study is to clarify the practices of HR audit’s performance as a efficient tool to establish a baseline for future improvement, and to evaluate current effectiveness of an organization.

4.1 Need for the study
Many companies recommend that their business clients perform regular human resources audits as a proactive measure to keep the company out of hot water concerning legal issues, such as wrongful termination lawsuits. Yet, HR audits are important because they can identify HR successes as well as HR deficiencies. An annual HR audit should be incorporated into HR department's activities and the results used to develop improvements to the departmental functions as well as organization's workforce. Realizing the importance of human resource audit in the current scenario, the paper attempts to study the impact of human resource audit practices ensure the company is on the right track as it grows and adds employees to its staff.

5.1 Objectives of the study
- To analyze the practices used by the business organizations for HR Audit.
- To study the organizational effectiveness in associate with HR audit.
- To identify the approaches adopted by the companies for HR Audit.

6.1. Methodology
Information for the study was collected from both Primary and Secondary sources.

6.1.1. Primary Data was collected by interviewing various HR managers.
6.1.2. Secondary Data was collected from various online sources, books and journals.

6.1.3. Limitation of the Study
- The study has been conducted only in Chennai
- The period of study is limited

7.1 Implications of the Study
Generally, no one can measure the attitude of human being and also their problems are not confined to the HR department alone. So it is very much broad in nature. It covers the following HR areas such as Audit of all the HR function, Audit of managerial compliance of personnel policies, procedures and legal provisions, Audit of corporate strategy regarding HR planning, staffing, IRs, remuneration and other HR activities and Audit of the HR climate on employee motivation, morale and job satisfaction.

7.1.1 AUDITING PROCESS: ESSENTIAL STEPS
The Auditing process is a function of the objectives and the scope of the Audit, the nature of the organisation and the level of involvement of the top management. Though this process may vary from organisation to organisation, it essentially follows the stages described below.
7.1.1.a. Briefing and orientation: This is a preparatory meeting of key staff members to:
- discuss particular issues considered to be significant, chart out audit procedures, and develop plans and programme of audit

7.1.1.b. Scanning material information: This involves scrutiny of all available records and documents pertaining to the personnel as well as personnel handbooks and manuals, guides, appraisal forms, material on recruitment, computer capabilities, and all such other information considered relevant. Human Resource Audit is the critical analysis of the existing human resource management within the organization

7.1.1.c. Surveying employees: Surveying employees involves interview with key managers, functional executives, top functionaries in the organizations, and even employees representatives, if necessary. The purpose is to identify and enumerate issues of concern, present strengths, anticipated needs and managerial philosophies on human resources.

7.1.1.d. Conducting interviews: The key issue here is to list the pertinent and probing questions. The decision on these questions depends on the scope and purpose of the Audit as well as on the culture of the organization. The skill of the interviewer lies in getting relevant and correct information without threatening the interviewees.

7.1.1.e. Synthesising: The data thus gathered is synthesized to present the:
- current situation, priorities, staff pattern, and issues identified.

Similarly, future needs are identified and appropriate criteria developed for spotlighting the human resource priorities and specific recommendations made.

7.1.1.e. Reporting: Like planning meetings for briefing and orientation, the results of the audit are discussed within several rounds with the managers and staff specialists. In the process, the issues get further crystallized. Based on the findings and the discussion during the meetings, then a final report is prepared and presented formally to the Management. This report should include, the “state of the organisation” report, the assessment of effectiveness and efficiency of various areas covered by the Audit, a legal compliance/ areas of concern report, and critical recommendations for improvement.

HR Auditing: Matrix Illustrating Possible Relationship of Audit Purpose to Client Need

7.1.2 The Auditing Process-Getting Started

7.1.2.a. Developing a Checklist
After audit goals and success criteria have been defined, it is helpful to develop a checklist that can be used to determine the presence or absence of certain practices, and to compare and contrast practices with policy or legal requirements. For example:
- What policies should be audited? The selected policy should be stated, followed by an indication of how one would verify that the policy is being carried out, and, ultimately, by measurement of the degree to which compliance or lack thereof is
taking place. • **What practices should be audited?** The selected practice should be stated, followed by what the policy or law requires, and, ultimately, by measurement of the degree to which compliance or lack thereof is taking place. • **What records should be reviewed?** The selected record should be stated, followed by what the record should contain, and, ultimately, by measurement of the degree to which compliance or lack thereof is taking place. • **What trends should be tracked?** The selected trend should be stated, followed by an “X-and-Y” chart defining the measurement points, and ultimately, by analysis of the implications of the historical data plotted on the chart. • **What analysis will be done?** Audits lead to tremendous insights in and understanding of how an organization functions. However, reducing information obtained from an audit to meaningful components can be overwhelming. Experience has shown that by following the sequence suggested below, the auditor can navigate more quickly through the data and compress the analytical process. As the auditor moves through the data-reduction process, analysis should become more complex and intuitive.

7.1.2.b. **Description:** Questions to be asked during the audit should be framed to solicit a written or oral description; for example: What are the key objectives? What is the mission? Transcribing the answers makes it possible to later engage in systematic verification through comparison with existing written records and reports. Inconsistencies usually are the result of unequal access to information.

7.1.2.c. **Clarity:** Once descriptive information has been collected, the next step is to probe for common understanding. Often, discrepancies among individuals as to what something means is the result of poor communication.

7.1.2.d. **Fit:** Individuals may be clear and agree on a course of action, but clarity and agreement are not an indication that a particular action is the right one to take. The organization may not have the resources to implement the action; managers may not know how to carry it out; and, most important, the action may be undesirable from the user's or customer's perspective.

7.1.2.e. **Planning Questions**

The word “audit” comes from the Latin verb audire—to listen. Listening is used here in a broader sense than just listening with our ears. It includes using our eyes, as well, when we search for answers to important organizational or functional issues.

7.1.2.f. **Collecting Data**

Collecting information can be laborious and time-consuming. Depending on the size of the target audience, the available time, and the type of data to be collected, it may be necessary to use and blend the strengths of a number of different data collection methods. Such methods include interviews, questionnaires, a review of relevant records, observation, or a combination of these methods. Sources from which HR data can be obtained for auditing purposes include: human resources policies, the HR mission statement, employee handbooks, affirmative action plans, employee surveys, absenteeism and turnover studies, cost per hire studies, employee lawsuits, bulletin board notices, organization charts, published salary surveys, EEO compliance reports, classification studies, operating budgets, and workers' compensation claims.

7.1.2.g. **Analyzing Audit Data**

After data are collected, it is important to examine the information with an eye toward assessing readiness for change and identifying possible reasons for resistance to change. Resistance, whether based on real or perceived fears, will be a formidable block to action-consideration and action-taking, which result from analysis and application of audit results. The more information available as to what may trigger resistance, the better will be the quality of the recommendations suggested to overcome it.

7.1.3 **Human Resource Audit approaches**

HR auditing in recent years is not only considered mere instrument of control an but also has become a necessary decision making tool in personnel related matters according to the global objectives of the company. As a result, all of the functions and competencies of HR auditing are being progressively expanded.

7.1.3. **Common approaches to Human Resource Audits**

There are five common approaches for the purpose of evaluation of HR in any organization:

• **Comparative approach:** In this approach, another division or company that has better practices or results is chosen as the model. The audit team audits and compares the audited firms results with the
best practices of the model organization. This approach is commonly used to compare the results of specific activities or programs. The approach is often used with turnover, absence, salary data and staffing levels. It helps detect areas where improvement is needed. It also makes sense to compare where a procedure is being used for the first time.

- **Outside authority:** In this approach, standards set by a consultant or taken from published research findings serve as the benchmark for the audit team. The consultant or research findings may help diagnose the cause of problems.

- **Statistical:** This approach relies on performance measures drawn from the company’s existing information system. From existing records, the audit team generates statistical standards against which activities and programs are evaluated. With the mathematical standards as a base, the team may uncover errors while they are still minor. Often this approach is supplemented with comparative data from external sources such as other firms or industry association surveys. The information is usually expressed in ratios or formulas that are easy to compute and use.

- **Compliance approach:** This approach reviews past practices, to determine if actions taken followed legal requirements and company policies and procedures. The audit team here often examines a sample of employment, compensation, discipline and employee appraisal forms. The purpose of the review is to ensure that the field offices and the operating managers have complied with internal rules and legal regulations, such as minimum wages and equal employment opportunity laws.

- **Management by Objectives (MBO):** In this management by objectives approach, managers and specialists set objectives in their area of responsibility. Then they create specific goals against which this performance can be measured. The audit team researches actual performance and compares it with the previously set objectives. They can then evaluate the trends in this area.

8.1 Conclusion:
The auditors always prepare and submit an audit report to authority of the organization, which may be clean or qualified. The clean report indicates the appreciative of the department's function, but the latter one represents the gaps in performance and therefore contains remarks and remedial measures. HR Audit is very much helpful to face the challenges and to increase the potentiality of the HR personnel in the organization. The HR Audit can be a powerful lever of change in your department and organization. In one sense it is simple, in that each step can be completed fairly quickly and with ease. Also, the degree of detail and definition of performance is within the control of the audit developer. At time passes, the Audit enriches itself through better definition development and higher levels of performance expectations. It takes on a systems approach because it is comprehensive, inclusive of all traditional HR practices, yet accommodating to the uniqueness of company cultures and business initiatives. Finally, it moves HR professionals into an active state of defining their direction, making sense of their choices, and contributing to the business in a more definitive way.

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