

Comprehensive Verification of HR System: Human Resource Audit (HRA)

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ABSTRACT

Change is fact and a way of life, applicable to both – animate & inanimate subjects including Human Resource Management. Increased importance of human contribution to organizations competitive advantage in the knowledge driven economy transformed / changed HR function from the role of service provider to strategic business partner. In order to be effective in transformed role, regular assessment of HR function is essential for sustaining organizations growth in today's dynamic environment via Human Resource Audit. Evaluation of HR programs, policies & practices, identifying gap between objectives and results and determining what should or what should not be done in future is achieved by Human Resource Audit. It clarifies desired HR practices, establishes baseline for future improvement and evaluates current effectiveness of HR system. Human Resource Audit covers three parameters namely – the HR Policies and Practices, the HR Professionals and the HR Department. To achieve the objective of HR Audit, Comparative, Outside Authority, Statistical, Compliance or MBO approach may be adopted. The process involves – defining audit statements, assessing current practices, establishing goals and plan of action to be taken to achieve the established goals. The degree of detail and definition of performance is within the control of the audit developer. HRA enriches itself through better definition development and higher levels of performance expectations with the time and have far reaching impact on the employee's morale and performance as it is closely related through productivity, people and processes. It moves HR Professionals into an active state of defining their direction, making sense of their choices and contributing to the organization in a more definitive way.

1. Introduction

The Human Resource Function is under transformation with increased importance of the human contribution to organizations competitive advantage, especially in the knowledge driven economy. It is gradually moving from the role of a service provider to that of a strategic business partners. In order to perform this emerging role effectively, the HR function has to continuously assess.

- a) Whether it is adding tangible value to the organization through its strategies, policies, processes and practices;
- b) Whether it is doing so at a competitive cost and
- c) Whether it is doing so in a manner that is satisfying to its people, acceptable to the society and the law, and from a long term perspective, sustainable.
- d) Answer to all above questions are provided by – Human Resource Audit (HRA).

HUMAN RESOURCE AUDIT (HRA)

Auditing, a part of control function, may be defined as 'examination and evaluation of policies, procedures and practices in all phases of a business to achieve the most effective administration of the organization'. – Bold (1964).

Human Resource Audit (HRA) also called as Personnel Management Audit (PMA) or Human Resource Development Audit (HRDA), refers to the systematic examination and evaluation of policies, procedures and practices to determine the effectiveness of HRM covering three things viz.

- i. Measurement and evaluation of HR programmes, policies and practices.
- ii. Identification of gap between objectives and results

- iii. Determination of what should or what should not be done in future.

Human Resource practices and functions have a far reaching impact on the employees Morale & Performance which in turn affects the overall performance of the organization. This is why they are claimed to be closely related to a business "Balance Score Card" through 'Productivity, People and Processes' (Ulrich)

Given its criticality, a regular assessment of the HR function becomes essential for sustaining organizational health and growth in today's dynamic and at times turbulent environment where Human Resource Management needs continuous up-gradation & re-alignment.

2. Purpose(s) of Human Resource Audit (HRA)

The HR Audit can serve any of the following purposes:

- a) To clarify desired practices of HR work and Roles within the organization (HR Department)
- b) To establish a baseline for future improvement.
- c) To evaluate current effectiveness.
- d) To standardize practices across multiple sites within a division or company.
- e) To assess current knowledge and skills required for HR practitioners.
- f) To improve performance levels to key customers within the organization.

3. Scope of HRA

The HR Audit usually covers three parameters, namely, the HR Policies & Practices, The HR Professionals & the HR Department. With respect to each of these, the audit tries to find out – The Actual State; The Congruence between the

Desired/Professed state and The Actual State; The Alignment with the overall Organizational Strategy and Goals; and the Compliance with the Laws & Regulations.

A) Auditing HR Policies & Practices

All HR departments provide several services that may be clustered into six domains (Ulrich and Lake, 1990) Staffing, Training & Development, Appraisals, Rewards, and Organization Governance & Communication. For each of these six domain – assessment of activity is done, that not only describes the services being provided by the HR Department but also assesses the focus of the HR strategies, the distribution of responsibility, the resource utilization and the competencies of the HR portfolio.

Assessment of customer value is also done. HR department may be providing a range of services to internal customer i.e. employees of the organization. Customer surveys are conducted to capture the employees' perception about the importance and the quality of the HR services. Often Cost Benefit or Utility Analysis of HR functions are made to define the value of each of the HR functions. Formulae that can trace the Cost and Benefit of the services are developed and the results compared over and time and with the results of other companies, to make an assessment. Research, involving HR experiments are also sometimes conducted by using experimental & control groups. These groups may be formed across sites, or across departments. The purpose of these research studies is to identify the effective HR practice by generating comparative data. This data enables the organization to adopt the best HR practices.

B) Auditing HR Professionals

An audit of HR Professionals is essentially an assessment of the extent to which the Professionals demonstrate competence for HR function. Such an assessment requires a 360 degree feedback and according to Ulrich, employs the following five steps:

i) **Developing a Model of Competencies:**

In order to develop a Model of Competencies, it is necessary to first determine, the competencies which make a HR Professional successful. These competencies usually stem from knowledge of Business, knowledge of HR, knowledge of Change and finally Personal Credibility. In addition to determine the competencies that account for a successful HR Professional, it is also important to determine the behavioral attributes that reflect these competencies. A model that reflects both these aspects may be said to be comprehensive model for auditing of HR Professionals.

ii) **Collection of Data using the Model:**

An interview, Questionnaires, Focused Groups etc. techniques may be used to collect data to the extent the HR Professional exhibits the Modeled Competencies.

iii) **Summarizing of Data & giving Feedback:**

The quantitative & qualitative data that is collected using above mentioned steps is analyzed & codified so that specific theme emerge. These themes are then used as aids to help the HR Professional identify personal strengths & weakness.

Giving feedback is an important HRA activity. It is done in a way that protects the confidentiality of participants. The manner of the feedback should take into account the sensitivities of the receiver. The tenor of the feedback should neither be accusatory nor defensive. In addition, the individual data that is collected may be integrated into an audit for the overall HR function.

iv) **Creation of Action Plans:**

The HR audit goes beyond defining the competencies and inadequacies of the HR function. It also identifies the measure to develop the competencies at both the individual and the departmental level. At the institutional level, this may involve doing an HRA for HR Audit. At the individual level, the action plan will concentrate on developing a tailored set of trainings, readings, assignments and opportunities for training.

v) **Continuous Improvement:**

Auditing of HR professional is not a onetime HRA activity but an ongoing continuous process through which HR professionals are able to constantly build on their HR competencies and strengthen the HR functions in the organization.

C) Auditing HR Function or Department

Auditing HR function & the HR department may be an integration of individual HR competencies. However, at the same time, there are additional overall indicators of HR functions, such as ratio of total employees to HR professionals, the performance of the department against the plan, the ratio of expenditure on HR to total sales, general costs and other such measures. Temporal & spatial analysis of these can provide an overall assessment of the HR department. Comparisons against benchmarks are also a technique often used in HR audits.

4. Approaches to Human Resources Audit

Prof. K. Aswathappa has identified the following approaches, which are adopted for HRA:

a) **Comparative Approach**

In this approach, the auditors identify Competitor Company as the model. The result of the organization is compared with that of the model company/organization.

b) **Outside Authority Approach**

The auditors use standards set by an outside consultant as benchmark for comparison of their own results in 'Outside Authority Approach'.

c) **Statistical Approach**

Statistical measures of performance are developed considering the company's existing information, in this approach.

d) **Compliance Approach**

In 'Compliance Approach', the auditors review past actions to calculate whether those activities comply with legal requirements and industry policies and procedures.

e) **Management by Objective (MBO)**

This approach creates specific goals, against which performance can be measured to arrive at final decision about organizations actual performance with the set objectives.

5. Human Resource Audit Process

The following steps are involved in HR Audit process:

i) *Defining Audit Statements*

Definition of desired HR practice may be achieved in a variety of ways. A starting point is to reflect on the legal requirements and programs that the department must administer, and then consider the area of responsibility and traditional HR practices covered by the individuals function. This may include HR Planning, Organizing, Directing, Controlling, Procurement of HR, Development of HR, Compensation, and Integration & Maintenance of HR. The other area to be considered are the organizations initiatives that the HR function may be required to support i.e. Internal Customers Requirements. Specifics are unique to any organization, but examples could include supporting a total Quality Management Initiative, Team Based Work System etc. With this list in hand, a statement may be written about each major practice that an individual want to define. Typically, they are stated in the present tense and in a positive manner. The following examples will illustrate the above:

- The staffing process is documented so that the responsibility of each person in the process is clear and understood.
- Performance appraisals are completed for each employee in the organization.
- There is a train-the-trainer program for each major training program within the company.
- New employees complete a new hire orientation program of key policies and procedures of the organization within first 30 days of work.
- There is a grievance redressal process that is well understood and used by employees.

Definitions may be as complete or detailed, as the developer desires. Initially it is suggested to make more general statements and improve from year to year in those areas that the individual choose to raise the level of performance. As many as 70 to 80 statements, depending upon the size of the organization and the level of the details that are preferred to be measured may be made. Regardless of the numbers, the process is to develop a description of the level and quality of performance desired for the HR function.

ii) *Assessing Current Practices*

With the list of statements completed, the assessing of current practices requires an assessor to be objective. A good approach is to look for evidence that supports or refutes each statement made. Evidence may be take the form of policies and procedures, output from employee surveys, interviews with key customers, data collection from a Human Resource Information System, reports issued to regulatory departments, statistics etc. The first time the assessment is made, it may become apparent that the definition in step one mentioned above needs improvement or modification. These changes

should be noted and made a part of the next 'improvement cycle'.

iii) *Analysis of Strengths & Opportunities*

It is important to recognize strengths and opportunities for improvement. As results are reviewed, themes will emerge around specific HR areas. For example, one organization may be very stronger in administration and managing legal requirements. On the other hand, it may need improvement in developing higher-level systems definition. Another company may be very strong in areas like Safety, Security & Training but need improvement in Communication practices that run across the company. Reviewing the data in a variety of perspective is helpful to formulate a picture of overall HR performance against the audit. It can reflect the positive effect of actions taken in previous years as well as provide information for future actions. It may become apparent that all definitions are 'not equal in importance' the effort required to meet the definition is one factor to consider. For example, having performance appraisals for all employees may require significant effort. On the other hand, if you already have a good new hire orientation program in place then that definition is more easily met. The contribution that meeting a definition may have to the organization is another factor to consider. For example, supporting an organizations initiative like Total Quality Management may be more meaningful to the organization at this point in time than other statements. In summary, the purpose of analysis is to sort through the areas of strengths and opportunities for improvement in order to take positive action steps to improve the effectiveness of the HR function.

iv) *Establish Improvement Goals & Take Action*

The ideal time to complete an HR Audit is just prior to the annual planning process. With audit information in hand, it may be poised to take advantage of one's insights into setting next year's goals. There are two aspects of setting goals – maintenance of current good practice and development of improved practices. Knowing the capacity and capability of the HR department and system is critical in developing a realistic plan. Good practice need to become a part of the HR system and "baked in", so that they occur in a reliable, predictable fashion. Once a process or program has reached that level, then future development can occur more effectively. With little discretionary time available, it is prudent to review the analysis of step three and decide which one or two areas will provide the greatest overall improvement for the HR function, its customers and the organization. These need to be the areas that goals are established for the next year.

This is the point in the audit process, where definitions are reviewed and modified to create a new and improved vision of the HR system as we wish it to be. Doing this on an annual basis allows practices to be improved and benefits shared. Examples of improved HR measures using the Audit Process:

- a) Development and sharing of Total Compensation Philosophy.
- b) Reduction in throughput time of filling open positions
- c) Employee turnover rate
- d) HR customer survey results
- e) Percentage of training time per employee
- f) Reduction in throughput time of administrative requests

- g) Self funding variable compensation strategies
- h) Employee survey results
- i) Succession / Replacement planning
- j) Business results.

It is important for an organization to engage in constant observation and continuous improvement of the organizations policies, procedure and practices so that the organization never ceases to keep improving. The audit report will enable the organization to embark on this improvement journey.

6. Conclusion

Human Resource Audit can be a powerful lever of change in a department and organization. In one sense it is simple, in that each step can be completed fairly quickly and with ease. The degree of detail and definition of performance is within the control of the audit developer. With the time, the HRA 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 professional 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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