

Is HR Audit a diagnostic tool for improvement? - A Study

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Abstract

The wide spread of human resource management is a set of measures designed interdisciplinary regarding recruitment, selection, employment, ergonomics, organization of labor, material and moral stimulation of employees. Focus of this paper is to analyze what way HR audit considered a diagnostic tool for identifying strengths and weaknesses of an organization. The HR audit is a complex activity monitoring and information collection manager assures that activities are carried out according to plan, measuring progress towards objectives and detecting deviations from plan to take corrective action. An effective audit can be helpful in stimulating constructive thinking, identifying positive aspects and organizational deficiencies and providing recommendations for improvement. This paper aims highlighting the importance of human resource auditing in today's working environment as a factor in maximizing the efficiency of activities performed by employees of an enterprise.

Key words: Human Resource Management; Interdisciplinary; Ergonomics; Stimulation; HR audit; Diagnostic tool; Corrective action; Constructive thinking; and Efficiency.

Introduction

A Human Resources Audit is a comprehensive method or means to review current human resources policies, procedures, documentation and systems to identify needs for improvement and enhancement of the HR function as well as to assess compliance with ever-changing rules and regulations. HR audit is an important management control device. It is a tool to judge organizations performance and effectiveness of HR management. According to Dale Yoder, “Personnel audit refers to an examination and evaluation of policies, procedures and practices to determine the effectiveness of personnel management.”

HR Audit refers to determine the effectiveness and efficiency of HRM. It is an analytical, investigative and comparative process. It gives feedback about HR functions to operating managers and HR specialists. It enables to know about the effectiveness of personnel programs. It further provides feedback about how well managers are meeting their HR duties. It provides quality control check on HR activities.

Auditing has been a routine exercise in the area of finance, especially because it is a statutory obligation. However, in case of Human Resource, there is no legal binding to adopt auditing.

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Some of the companies nevertheless prefer to have Human Resource audits. Like any audit, the Human Resource Audit is also a systematic formal process, which is designed to examine the strategies, policies, procedures, documentation, structure, systems and practices with respect to the organization's human resource management. It systematically and scientifically assesses the strengths, limitations, and developmental needs of the existing human resources from the larger point of view of enhancing organizational performance.

The human resource audit is based on the premise that human resource processes are dynamic and must continually be redirected and revitalized to remain responsive to the ever changing needs. Human Resource Audits are not routine practices aimed at problem solving. Instead of directly solving problems, HR audits, like financial audits, help in providing insights into possible causes for current and future problems.

Approaches to HR Audit:

According to William Werther and Keith Davis, there are five approaches for the purpose of evaluation.

These are briefly outlined as under:

1. **Comparative Approach:** Under this approach auditors identify one model company and the results obtained of the organization under audit are compared with it.
2. **Outside Authority Approach:** In outside authority approach a benchmark is set to compare own results. A standard for audit set by outside consultant is used as benchmark.
3. **Statistical Approach:** Under statistical approach the statistical information maintained by the company in respect of absenteeism, employee turnover etc. is used as the measures for evaluating performance.
4. **Compliance Approach:** Under compliance approach the auditors make a review of past actions to determine to see whether those activities are in compliance with the legal provisions and in accordance with the policies and procedures of the company.
5. **MBO Approach:** Under MBO approach specific targets are fixed. The performance is measured against these targets. The auditors conduct the survey of actual performance and compare with the goals set.

Review of literature

Great HR is about making the business better, not HR better. A lack of business acumen will hurt any business leader, including those in HR: if you don't know "why" business decisions are being made, you cannot connect decisions to business outcomes. Ulrich and his team call this being a "strategic positioner." As described in their paper, The New HR Competencies:

Business Partnering from the Outside-In: “High-performing HR professionals think and act from the outside-in. They are deeply knowledgeable of and able to translate external business trends into internal decisions and actions. They understand the general business conditions (e.g., social, technological, economic, political, environmental, and demographic trends) that affect their industry and geography. They target and serve key customers of their organization by identifying customer segments, knowing customer expectations, and aligning organizational actions to meet customer needs.”

According to Ulrich, to become a strategic positioner you need to know:

1. Your company’s financial and business strategy
2. How your company is going to win
3. Who your stakeholders are, both internally (e.g. c-suite and board) and externally (e.g. customers and investors)
4. What the conditions are that generate risks and opportunities for your business

If you gave your HR department an economic literacy test, what would the result be? Do you know who your company’s top customers are? Do you know who your competitors are? These were a few of the questions posed by Ulrich to the audience.

To be great in HR, you need to pivot from looking from inside the business outwards, to looking from outside in. A critical mindset shift, according to Ulrich, HR needs to evolve from “trusted advisor” to “credible activist”

In some ways, Ulrich explained, HR is its own worst enemy. If you look at the results of Ulrich and Filler’s mapping of leadership traits, while CEOs and CHROs were very similar, they differed the most in one trait: confidence. When it comes to confidence, the CEO and COO took top marks, followed by the CIO, CMO, and CFO, and lastly the CHRO.

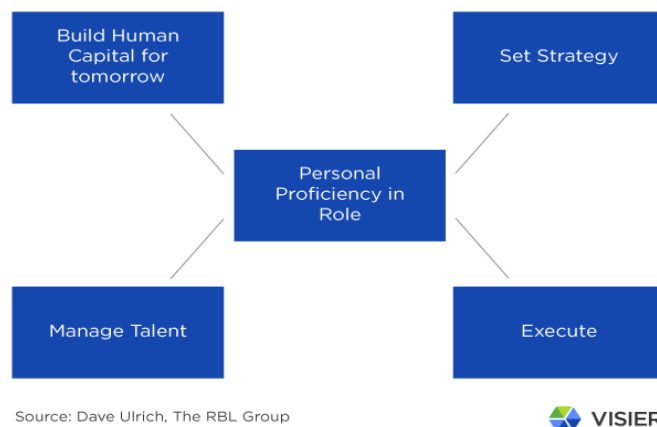
To build confidence, HR needs to know the organizational strategies and communicate the value of workforce programs, plans, and decisions in the terms of the business. As Ulrich explained, “HR that starts with the business doesn’t get as much resistance from the business.” In other words, value is in the eye of the receiver. Connect your ideas and plans to specific business issues or goals, and you are more likely to win support.

Ulrich emphasized the need for HR leaders to increase their resilience and become more comfortable with taking risks. Referring to Dr. Angela Lee Duckworth’s popular TED Talk, Grit, Ulrich talked about how perseverance and passion for long-term goals is a more significant predictor of success than IQ or EQ. According to Ulrich, to develop more grit, HR leaders need to lower their fear of failure and make it OK to fail. In his book, *Failing Forward: Turning Mistakes into Stepping Stones for Success*, best-selling author John C.

Maxwell discusses how the difference between average and achieving people is their perception of and response to failure. Most people — not just those in HR — are never prepared to deal with failure. Rather, failure is something feared, misunderstood, and avoided.

Ulrich calls this building “learning agility”. To fail forward you need to reduce your fear of failure and — when failure happens — focus on learning from it instead of being defeated by it (as Maxwell expresses: “Stop failing backward and start failing *forward!*”). Great leaders are not just highly proficient in their own roles. According to Ulrich’s research on the Leadership Code and Leadership Brand, great leaders also know how to:

- Set strategy;
- Execute;
- Manage talent; and
- Build human capital for tomorrow



This study takes lead from the above study to formulate objectives and methodology.

Objectives of the study

1. To find out why HR matters now more than ever?
2. What are the Issues that can be considered in HR Audit?
3. To discuss about auditing HR department with reference to policies and practices
4. To find out how to conduct an effective HR audit

Methodology

This study aims to explore the above research questions to understand how HR audit is vital in effectively managing HR function. Part of this research is secondary data basis followed by few interactions and interviews of HR managers.

Why HR Matters Now More Than Ever?

Regardless of their industry, size, or location, companies today face five critical business challenges. Collectively, these challenges require organizations to build new capabilities. Who is currently responsible for developing those capabilities? Everyone or no one. That vacuum is HR's opportunity to play a leadership role in enabling organizations to meet the following competitive challenges:

Globalization

Gone are the days when companies created products at home and shipped them abroad “as is.” With the rapid expansion of global markets, managers are struggling to balance the paradoxical demand to think globally and act locally. That imperative requires them to move people, ideas, products, and information around the world to meet local needs. They must add new and important ingredients to the mix when making strategy: volatile political situations, contentious global trade issues, fluctuating exchange rates, and unfamiliar cultures. They must be more literate in the ways of international customers, commerce, and competition than ever before. In short, globalization requires that organizations increase their ability to learn and collaborate and to manage diversity, complexity, and ambiguity.

Profitability through Growth

During the past decade, most Western companies have been clearing debris, using downsizing, reengineering, de-layering, and consolidation to increase efficiency and cut costs. The gains of such yard work, however, have largely been realized, and executives will now have to pay attention to the other part of the profitability equation: revenue growth.

The drive for revenue growth, needless to say, puts unique demands on an organization. Companies seeking to acquire new customers and develop new products must be creative and innovative, and must encourage the free flow of information and shared learning among employees. They must also become more market focused—more in touch with the fast changing and disparate needs of their customers. And companies seeking growth through mergers, acquisitions, or joint ventures require other capabilities, such as the finely honed skills needed to integrate different organizations' work processes and cultures.

Technology

From videoconferencing to the Internet, technology has made our world smaller and faster. Ideas and massive amounts of information are in constant movement. The challenge for managers is to make sense and good use of what technology offers. Not all technology adds value. But technology can and will affect how and where work gets done. In the coming years, managers will need to figure out how to make technology a viable, productive part of

the work setting. They will need to stay ahead of the information curve and learn to leverage information for business results. Otherwise, they risk being swallowed by a tidal wave of data—not ideas.

Intellectual Capital

Knowledge has become a direct competitive advantage for companies selling ideas and relationships (think of professional service, software, and technology-driven companies) and an indirect competitive advantage for all companies attempting to differentiate themselves by how they serve customers. From now on, successful companies will be the ones that are the most adept at attracting, developing, and retaining individuals who can drive a global organization that is responsive to both its customers and the burgeoning opportunities of technology. Thus the challenge for organizations is making sure they have the capability to find, assimilate, develop, compensate, and retain such talented individuals.

Change, Change, and More Change

Perhaps the greatest competitive challenge companies face is adjusting to—indeed, embracing—nonstop change. They must be able to learn rapidly and continuously, innovate ceaselessly, and take on new strategic imperatives faster and more comfortably. Constant change means organizations must create a healthy discomfort with the status quo, an ability to detect emerging trends quicker than the competition, an ability to make rapid decisions, and the agility to seek new ways of doing business. To thrive, in other words, companies will need to be in a never-ending state of transformation, perpetually creating fundamental, enduring change.

More specifically, HR can help deliver organizational excellence in the following four ways:

- First, HR should become a partner with senior and line managers in strategy execution, helping to move planning from the conference room to the marketplace.
- Second, it should become an expert in the way work is organized and executed, delivering administrative efficiency to ensure that costs are reduced while quality is maintained.
- Third, it should become a champion for employees, vigorously representing their concerns to senior management and at the same time working to increase employee contribution; that is, employees' commitment to the organization and their ability to deliver results.
- And finally, HR should become an agent of continuous transformation; shaping processes and a culture that together improve an organization's capacity for change.

The following issues can be considered in HR Audit

- The company's recruitment process
- Benefits and compensation process
- Contracts and employee handbooks
- How employee performances are evaluated
- Training and education programs
- To evaluate HR strategy
- Hiring and firing practices
- Exit procedures

Each area can be customized to meet company's specific needs. In fact, depending on what are the needs, an HR audit can focus on specific area, such as evaluation of hiring process, training process etc., or cover the whole spectrum of HR department's activities.

Auditing HR Professionals

Audit of HR professionals is an important parameter of HR audit, as it assesses their competence. To carry out effective audit of HR professionals, a competency model must be developed, along with behavioral attributes that complement these competencies and indicate a successful HR professional. Different tools can be used in collecting data that identifies the extent to which the modeled competencies are exhibited by the HR professionals. The results obtained should be quantified in order to have a clear understanding of the strength areas and areas that need improvement, based on these figures further action plan can be devised on how to overcome areas for improvement.

Auditing the HR Department

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.

The audit process for HR audit is similar to that of any other audit. It includes:

- Defining audit scope and objective: the purpose of the audit and the desired outcomes from the audit.
- Assessing current practices: carrying out the audit activities and looking for evidence.
- Analyzing results: identifying areas of strengths and areas that need improvement.
- Action plan: review and modifications in the overall HR system.

- **Reporting:** the assessment of effectiveness and efficiency of various areas covered by the audit, areas of concern, and recommendations for improvement to the management.

HR audit can be a powerful lever of change for the human resource department in any organization. HR audit gives the opportunity to align the HR practices with the organizational strategy, identify improvement areas, and keep abreast with the current practices. It allows an organization to assess and evaluate any gaps or potential risks and increase the commitment of HR professionals to continuous improvement. By making the HR audit a part of the audit cycle of the organization, the human resource department can transform itself from the organization's "evil" to the "People's Hero," and from a "soft area" to a credible, strategic business partner.

Auditing HR Policies & Practices

Audit of the HR policies and practices is the assessment and evaluation of the conventional HR practices being followed in an organization. These include:

- **Workforce planning:** Assessment of existing resources; future personnel requests; analysis of succession plan; and staff turnover analysis.
- **Staffing:** Assessment of methods and procedures used in recruitment; recruitment costs; recruitment efficiency in filling vacant positions; efficiency of selection procedures.
- **Performance management:** Analysis of methods used in the personnel assessment; assessment of results and effects of the personnel evaluation process.
- **Training and development:** Analysis of targets and forms of training; study of the training program; assessment of personnel after completing training; the efficiency and results of the training program; analysis of development system of personnel in the organization; job analysis; analysis of the plan for personnel development.
- **Compensation and benefits:** Analysis of motivation forms; their relationship with personnel motivation; analysis of the level and structure of compensation.

How to conduct an effective HR Audit?

Steps to conduct an effective HR audit

1. **Determine the scope:** The first step of conducting an HR audit is to determine the scope of the audit. If an HR audit has never been conducted, a comprehensive review of all policies and procedures are recommended. Going forward, businesses may choose to conduct audits that focus on specific HR functions, such as payroll or record keeping.

2. **Develop a plan:** The next step is to develop a plan for conducting the audit. Identify the goals of the audit, assemble the audit team and create a timeline for completing the audit.
3. **Gather and analyze the data:** Once the audit begins, the audit team should gather all the applicable documents and forms under the scope of the audit. The audit team should also review current and potential legal actions.
4. **Produce a report:** After all of the necessary information has been analyzed, the next step is to create a report with the findings of the audit. This report should identify any strengths and weaknesses found during the audit, as well as offer recommendations to correct any instances of noncompliance.
5. **Create an action plan:** Once the audit is complete, company executives should meet with the audit team to discuss the findings and formulate a plan to address each problem or area of concern identified in the report. Action items may include changes to policy, procedures and/or training practices. Organizations should also consider their available resources when setting a timeline for correcting noncompliance issues, and ensure any corrective actions are realistic and achievable. In addition, organizations should take measures to ensure the audit information is kept confidential and protected from unintentional disclosure.
6. **Evaluate the progress:** Once corrective measures have been implemented, organizations should continuously monitor and periodically review the new processes or procedures to ensure the organization stays compliant.

An effective human resources (HR) audit looks into every discipline of the human resources function. HR disciplines include recruitment and selection, workplace safety and risk management, training and development, employee relations, and compensation and benefits. The purpose of an HR audit is to determine if organization's policies are current and if they comply with federal and state laws governing the workplace.

1. Monitor employee record keeping processes for compliance with federal and state regulations concerning what constitutes an employee personnel file. Research state regulations on employee access to personnel files and ensure your workplace policies are congruent with state law. There are no federal laws that mandate employee access to personnel files; however, the U.S. Equal Employment Commission and the U.S. Department of Labor promulgate rules on record retention for employee files.
2. Review your organization's recruitment and selection processes to ensure that they are nondiscriminatory and that they comply with equal employment opportunity policies. Title

VII of the Civil Rights Act of 1964 prohibits employers from engaging in discriminatory practices related to recruiting, hiring and all other employment actions. Be sure that your employment advertisements, structured interview questions and pre-employment tests are straightforward and unbiased.

3. Examine workplace safety measures and risk management practices. The U.S. Occupational Safety and Health Administration enforces safety laws for most employers. The agency also provides technical guidance for companies whose employees handle complex machinery and equipment and dangerous chemicals and substances. Ensure your workplace safety logs and reporting processes are in compliance with both federal and state regulations.

4. Evaluate training and employee development opportunities to reveal any disparities in training methods or accessibility by employees. At a minimum, employees should be required to complete new hire orientation and mandatory training on workplace policies pertaining to fair employment practices, sexual harassment and reporting employee complaints.

5. Review employee relations processes to determine if your workplace investigations are conducted in a manner that assures employees their concerns will be handled by a human resources staff member specially trained to handle sensitive matters. Employee relations matters can sometimes lead to costly litigation. Therefore, managing your organization's investigation and resolution processes is important for minimizing your liability for claims related to unfair employment practices.

6. Compile compensation and benefits information. Ensure your organization's privacy officer is qualified to handle confidential records containing employees' medical information and that the officer understands how to apply standards under the Health Insurance Portability and Accountability Act (HIPAA) and the Family and Medical Leave Act (FMLA). Review your salary practices for compliance under applicable minimum wage laws and employee classification for nonexempt and exempt status.

Findings

1. HR Audit process can cover a whole range of areas and can be a specific or broad depending on the company's requirement.
2. Globalization, profitability through growth, technology, emerging concept of intellectual capital and change are the leading means of 'why hr matters now more'.
3. The audit of the HR Department is an integration of both the HR function and HR competencies.
4. An effective human resources (HR) audit, as an improvement tool, looks into every discipline of the human resources function.

Conclusion

Undoubtedly HR audit is a diagnostic tool for system improvement. Most of the fortune companies are strongly believes that HR audit is vital of organizational effectiveness. The competitive forces that managers face today and will continue to confront in the future demand of organizational excellence. The efforts to achieve such excellence, through a focus on learning, quality, teamwork, and reengineering are driven by the way organizations get things done and how they treat their people. Those are fundamental HR issues. To state it plainly, achieving organizational excellence must be the work of HR. When HR becomes a part of strategy execution, Hr audit is considered a diagnostic tool for identifying strengths and weakness of the department to improve the effectiveness of HRM function.

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