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Strategic Role of HR Audit in Organizational Effectiveness

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Abstract

HR function has emerged as a key factor in organisational performance and business success. HR audit helps in taking stock and refining HR policies, procedures and practices aimed at organizational effectiveness. The study indicates that HR audit increases the efficiency of Human Resource function, gives opportunity to align the HR practices with the organizational strategy, identify improvement areas, and fine-tune the HR current practices in sync with organizational strategies.

Keywords: HR Audit, Organizational Effectiveness, HR Functions

Introduction

Human Resource Management (HRM) has evolved over the years as a strategic partner in organizational success. As the HR functions have undergone a paradigmatic shift, graduating from administrative managers to strategic consultants, the transition has been quite challenging for many practitioners (Laabs, 1997). The changing nature demands the HR professionals to participate and contribute fully to their companies as true strategic business partners. In today's competitive climate, companies operate within the confines of a heavily-regulated employee environment. The scope of the HR function includes establishing and administering a host of policies and practices—many of which involve compliance implications—that significantly influence the productivity and profitability of the enterprise. Sometimes HR department are not sure whether they are doing everything they should be doing so as to perform at the highest possible level to provide effective delivery (Amy, 2010).

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.

HR audit must perform two basic functions. First, it must be a management information system whose feedback provides information about the situation in order to facilitate the development of managing processes or the development of HR. On the other hand, it must be a way of controlling and evaluating the policies that are being applied, as well as the established processes. The results can be valued through their cost (Walker, 1998). The Things that get measured get managed (Kaplan & Norton 2008). HR Audit is very much helpful to face the challenges and to increase the potentiality of the HR personnel in the organization. It involves a company's strategic actions to take an intensely objective look at its HR policies, procedures and practices.

The fundamental performance questions addressed in a strategic audit of HR are "Does the department align human resources and management practices, policies and procedures with the organization's strategic objectives. The basic functions of the audit of conformity or of performance as an element of HR auditing are threefold. The first function is examining to see if the firm is fulfilling all its administrative social obligations, as well as those relative to the collective rights of its personnel. The second is to study the relationship between the employees and the firm based on the legal statutes. The final function is verifying if the firm fulfils its financial obligation as well as its informative ones.

This study is relevant although the concept of HR audit is not a new concept, it is one that is not generally utilized as part of an organization's audit cycle and there is not enough literature available, needs in-depth study. Therefore it was decided to conduct a study to understand the experiences of top management, Managers and executives of HR about the effectiveness of the existing HR functions, practices and analyse whether HR audit is a

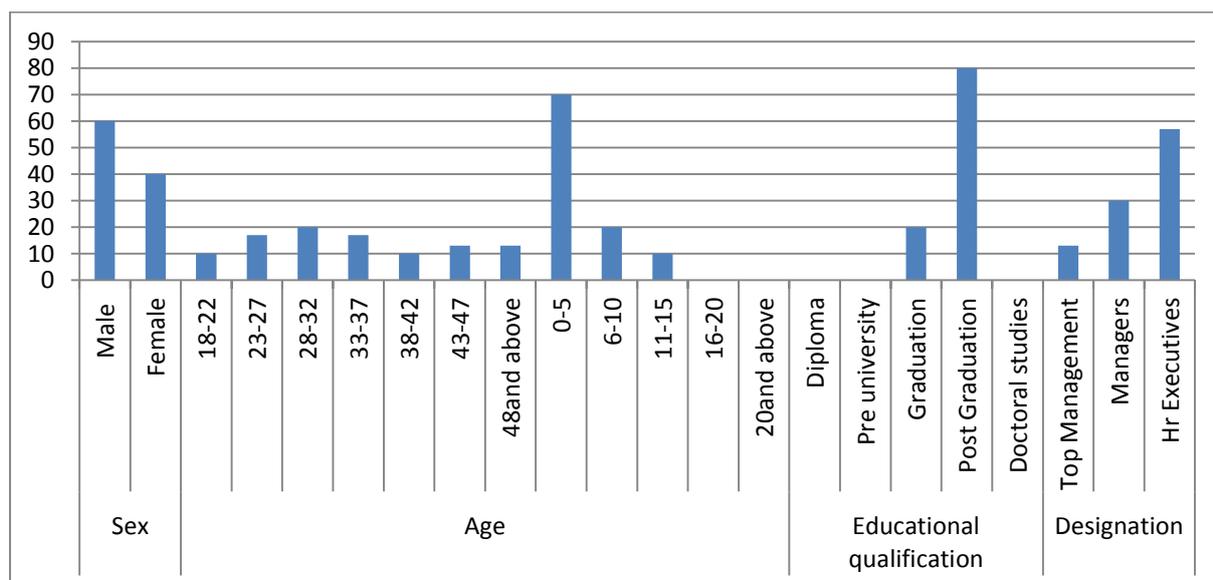
systematic process to examine the HR strategies, policies and procedures being practiced in an organization.

Methodology

A quantitative approach was used to enable the researcher to collect data. Permission was taken from the authorities concerned after explaining to them the purpose of the study. Only those HR employees who were involved in the HR audit of any company participated in the survey. It is a study based on self-administered questionnaire with the top management, managers, executive of HR working in the department of HR in Bangalore. Three companies were taken from Bangalore purposively. Thus there were a total of 30 respondents of which 10 employees were selected from each of the companies. Care was taken to ensure privacy and they were assured confidentiality of their identity. The data collected was tabulated and analyzed using the statistical package SPSS. Findings were described using proportions and percentage.

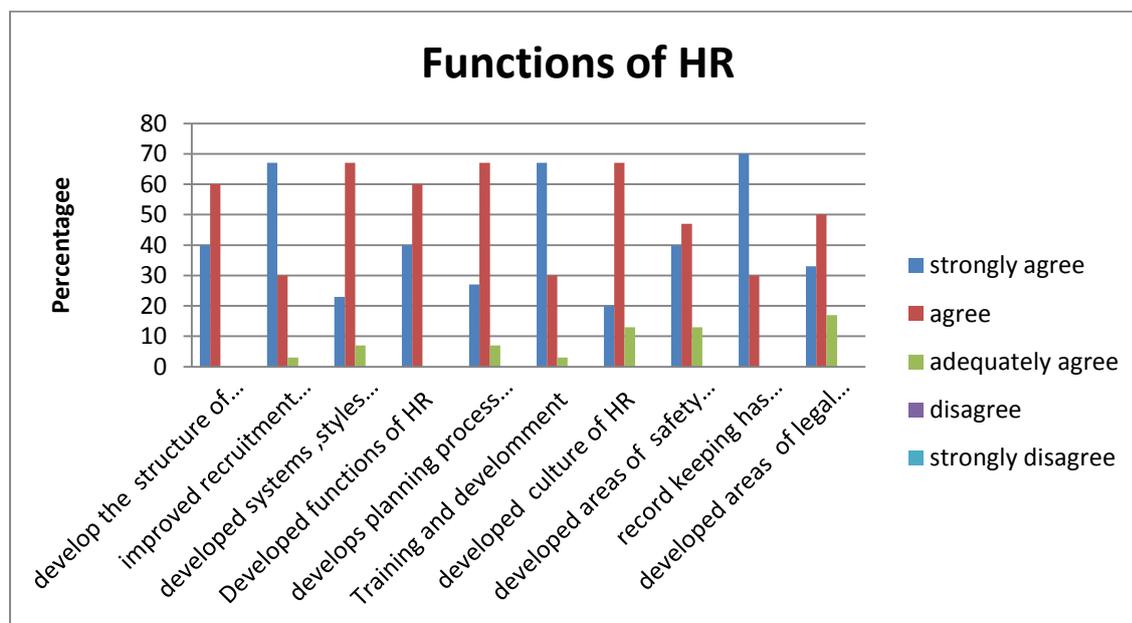
Results and Discussion

Figure 1: Base-line Characteristics



The above figure clearly shows that out of 30 participants, 60% of the respondents were male and 40% were female. 10% of the respondents were between the age group of 18-22, 17% were between 23-27, 20% were between 28-32, 17% were between 33-37, 10% were between 38-42, 13% were between 43-47 and 13% were above 48 years of age. Majority (70%) of the respondents had work experience of 0-5 years, 20% had 6-10 years of experience and 10% had experience of 11-15 years of service. Majority (80%) of the respondents were post graduates and 20% were graduates. 13% of the respondents were from the Top Management HR, 30% were Managers-HR, 57% were HR Executives.

Figure 2: Functions of Human Resource

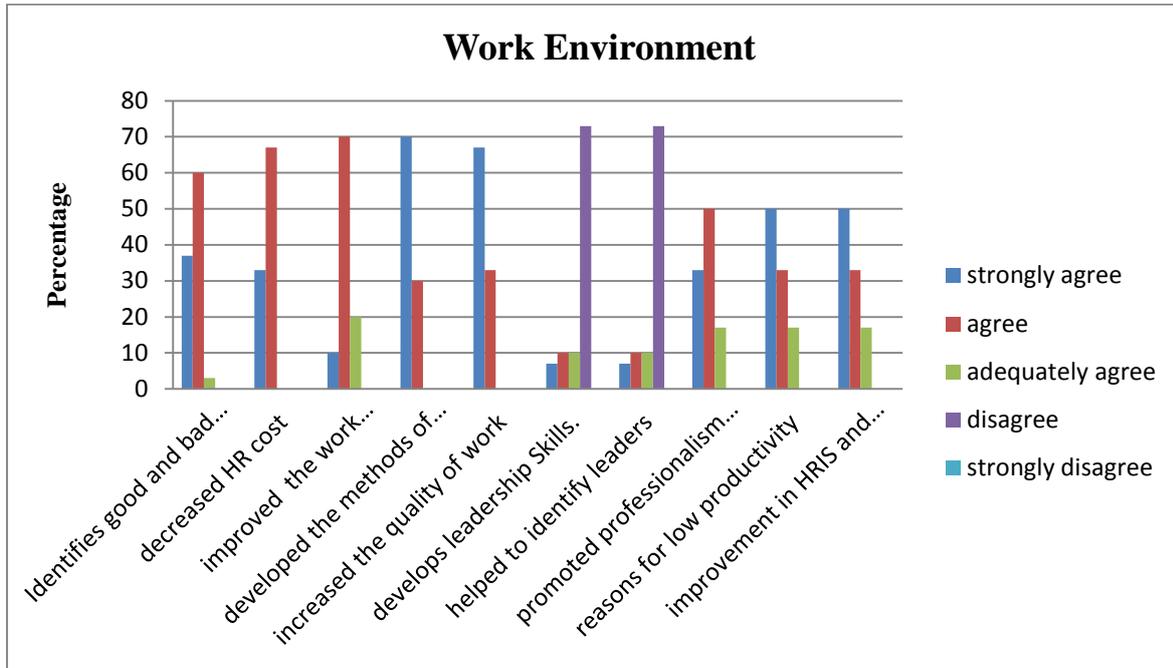


HR audit prepares the employees for future challenges (Menon, 2009). Similar findings are observed in this study where majority (90%) of the participants agree that there is a need for HR audit and that it is a powerful tool for collecting information about HR activities and identifying areas that need improvement.

All the respondents (100%) agree that HR audit is a powerful tool which has helped in bringing about improvement in record keeping, structure, system and culture of the department and the organization. HR audit report has helped in improving the policies and procedures, develop an action plan to correct errors in objectives, policies and procedures of the organisation.

Safety and legal aspects is another area where there has been drastic improvement. 90% of the respondents agree that the safety aspects and legal compliance has improved which has led to transparency in HR department. The participants today are aware of not only their area of work but also other functions and process of the HR department. Majority of the respondents (90%) agree that audit has brought about an improvement in recruitment, professional development, performance appraisal, employee recognition and internal communication. The study shows that there has been a great improvement in interview process which has led to selecting the right candidate for the right job. The HR audit has also improved the linkages between HRD and other systems like Total Quality Management (TQM), personnel policies, strategic planning, etc.

Figure 3: Work Environment

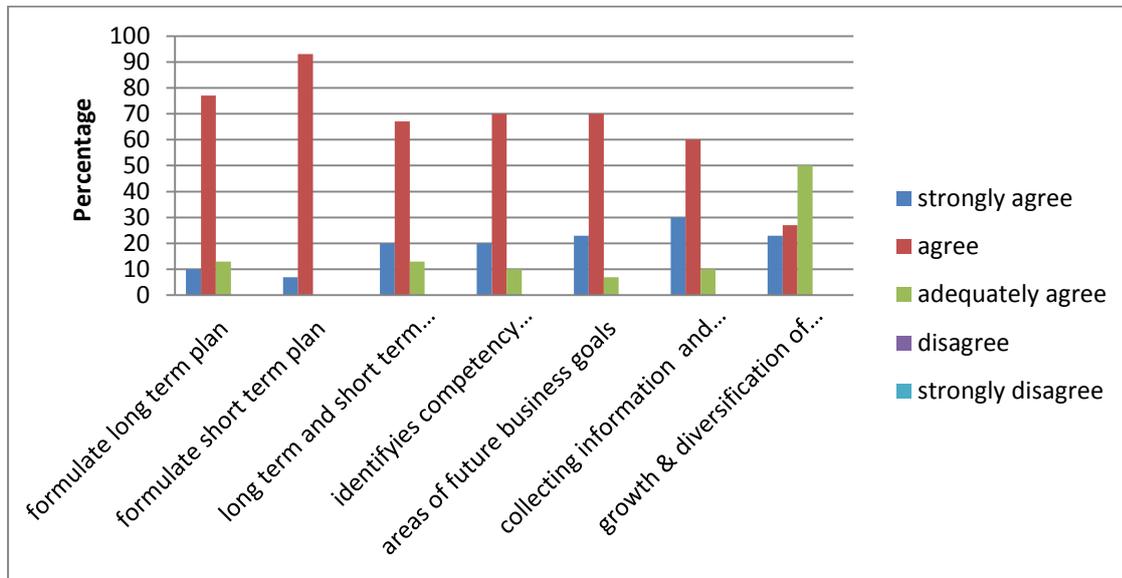


The above figure indicates that 93% of the respondents agree that HR audit identifies good and bad performance within HR functional areas. Majority of the respondents (90%) agree that HR audit is a powerful tool for collecting information about HR activities and identifying areas that need improvement, evaluates the reasons for low productivity and develops areas of HRD activities.

As a result of HR audit, management of Human Resource Information System (HRIS) and data feedback have improved which in turn helps in evaluating new programs and trends on which there is no available data for the purpose of comparison. It has helped in decreasing HR cost and developing HR strategies, increasing clarity of thought and sense of direction.

Majority of the respondents (70%) disagree that HR audit identifies leaders and develop leadership skills. Majority (90%) of the respondents agree that HR departments are able to see the bigger picture and work as one of the major growth engines for the organisation which has not only identified the competencies required but also improved work environment, promoted professionalism among employees and brought about a change in the appraisal system.

Figure 4: Align HR process towards business goals



The above figure clearly shows that 77% and 93% of the respondents agree that HR audit has helped to formulate long term and short term goals. 87% agree that this has in turn helped to formulate vision, plans and brought about improvement in assessing the competency requirements for the department as well as the organization. Thus HR audit has attempted to assess the existing skills and the competency gaps in order to achieve the long-term business goals and short term results of the company. Majority (90%) of the participants agree that HR audit helps in collecting information and identify areas that need improvement.

According to Flamholtz (1987) HR audit is a systematic assessment of the strengths, limitations and developmental needs of its existing human resource in the context of organizational performance. 91% of the respondents agree that the evaluation of HR audit has helped the organization to have a clear understanding of the lacunae and align the HR processes with business goals. The competencies may deal with technical aspects, managerial aspects, and people. It has helped in identifying the required competencies for future business goals not only as increased quality of work but as also stock of things to improve HR for expanding, diversifying and entering into a fast growth phase.

A majority (90%) of the respondents agree that HR audit has helped the employees clearly articulate the goal of HR department. They have developed “business plan” to achieve the same. This HR business plan sets out the vision, strategy, priorities, core capabilities, and required competencies of the HR department. There has been an increase in global staffing and understanding global culture. HR professionals have advanced acumen in international

business practices, international labour laws, multicultural sensitivities and multiple languages and they grow with the need of changing technologies. Today the organization continuously improves and aligns personal, workgroup, and organizational competency thanks to HR audit as an intervention.

Conclusion

Indeed HR audit is an effective tool to assess the efficiency of the current HR activities. HR audit gives 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 towards continuous improvement.

On the whole HR audit increases the efficiency of Human Resource function, helps contribute towards the organization effectiveness, and develops professional image of the HR department. HR audit also helps in reducing HR cost and increasing motivation of the HR personnel. All the HR functions such as performance appraisal, training and development etc. are fine-tuned as a result of HR audit. Thus it goes without saying that the human resource department can transform itself to be a strategic business partner by making the HR audit a part of the audit cycle of the organization.

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