

A Study On The Relevance And Benefits Of Human Resource Audit And Its Impact On Business Results

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Abstract

The historical role of Human resources have changed significantly from a clerical function to a strategic partner in planning and attaining organizational goals. The functions of HR department has got a direct impact on business results. The role of HR executive is changing from traditional form to a business partner role where he not only talks about employee morale, turnover, commitment etc., but rather claim being as “business partners”. HR managers claim that HR functions and services are helping to accomplish business objectives set by the organization. HR audit helps the organization to assess their current position and identify the areas for improvement. It gives feedback about the Human resources function to the managers at the top level of the organization. It is looked at as an overall quality control check on Human resource services of an organization. This paper focuses on Human resource audit practices, modalities of conducting such an audit and talks about the relevance and impact of such audits on business results of the organization. It also focuses on Human resource audit approaches and talks about the benefits of establishing industry standards.

Keywords: *HR audit, Business results, compliance, relevance, resources*

Statement of the problem

As HR functions are changing from traditional clerical form to an important business function in an organization it is important and necessary to study the existing effective HR practices. In order to assess the HR department HR audit is being conducted in various organizations and it is important to analyse its impact on business results. The challenge is about having a dedicated HR resources for audits and only HRD professionals can be HRD auditors as domain knowledge of HR and comprehension of HR functions is imperative.

Objectives of the Study

- To study the concept and role of HR audit
- To study the relevance and benefits of HR audit practices.
- To analyze the impact of HR audit practices on Business results.

Limitations of the study

- The study is largely based on secondary data.
- The study is conducted in a short period of time.

Research Methodology

1. Source of data – this study is based on secondary data
2. Research design – Descriptive research

Review of Literature

1. A Study on Human Resource Audit Practices Perception of Employees in Mando Automotive India Limited by Alexander Pravin Durai published in IJARCSMS, 2014

The purpose of the study was to find out the perception of employees on HR audit practices in Mando Automotive India limited. The study was done with the help of primary data collected from 452 Operation Engineers and 200 staff members. This study also found out the perceptual difference among OE's regarding HR Audit practices. It concluded saying that the employees in different years of experience have different perception. Gender, Education, region and Employment status of OE's have no association. The study urges HR department of the company to redraft the job specification statement with increased emphasis on the multi-skills of prospective applicants.

2. HR Audit: Auditing HR Practices of Public and Private Companies. Arabian Journal Business and Management Review by Jothilakshmi M (2015)

This study talks about the HR practices and systems of one Private and a public limited company i.e Reliance and BSNL. This study emphasizes on why there should be an HR audit and has made a comparison of standards followed by these two companies. It highlights the strengths and weaknesses of HR practices followed and implemented by these companies and gives suggestion for improvement.

3. Auditing Human Resources as a Method to Evaluate the Efficiency of Human Resources Functions and to Control Quality Check on HR Activities by Osama Shaban (2012)

This study gives a feedback about HR functions to operating managers and HR specialists. The current study aims to evaluate the efficiency of human resources functions and to control quality check on HR Activities through human resource auditing. The scope of the study will cover areas such as; human resource functions, managerial compliance, and human resource climate. The study concluded that audit can be used as a measure to evaluate the personnel activities, climate, and compliance of an organization's policies.

4. HRD Audit: Evaluating the Human Resource function for Business Improvement by T.V Rao

The book talks about the importance and need for HR audit. It also highlights the advantages of HR audit function its practices on India. It gives a clear overview of HR policies and HR audit with regard to future growth of an organization.

Introduction

The historical role of Human resources have changed significantly from a clerical function to a strategic partner in planning and attaining organizational goals. The functions of HR department has got a direct impact on business results. The role of HR executive is changing from traditional form to a business partner role where he not only talks about employee morale, turnover, commitment etc., but rather claim being as “business partners”. HR managers claim that HR functions and services are helping to accomplish business objectives set by the organization. Human resource audit is a process that paves way for a true transformation in HR strategy and services. HR audit has emerged from the practice of yearly finance and accounting audit and it is as mandatory as finance and accounting audit for every company. HR audit is a systematic process, which examines the important aspects of the management to identify strengths, weaknesses and areas which can be further improved. It is an important management control device and a tool to judge organization's performance and effectiveness of HR management.

The American Accounting Association's Committee on Human Resource Accounting (1973) has defined Human Resource Accounting as “the process of identifying and measuring data about human resources and communicating this information to interested parties”. HRA, thus, not only involves measurement of all the costs/ investments associated with the recruitment, placement, training and development of employees, but also the quantification of the economic value of the people in an organization.

Flamholtz (1971) too has offered a similar definition for HRA. They define HRA as “the measurement and reporting of the cost and value of people in organizational resources”.

Human resource audit means the systematic verification of HR practices in an organization. An effective HR audit helps in identifying the need for improvement and enhancement of the HR function. It is a mechanism to review the current HR policies, practices and systems to ensure that they fulfill the rules and regulations. Human Resources Audit, measures of human resource outputs and effectiveness under the given circumstances and the degree of utilization of human resource outputs. It gives feedback about the HR functions to operating managers and HR specialists. It also provides feedback about how well managers are meeting their HR duties. In short, the audit is an overall quality control check on HR activities in a division or company and an evaluation of how these activities support the organization's strategy. The HR audit covers various functions of HR like Recruitment, Compensation & Benefits, Performance evaluation, Termination Process and exit interviews etc. It is an analytical, investigative and comparative process. It is a periodic review to measure the efficiency and effectiveness of personnel programs. It provides quality control check on HR activities and helps a firm to know if its human resource practices have an impact on business results. Human resource audit acts as a powerful influence on motivation of employees at work due to participation of employees in decision making. Pressures

from trade unions of employees and their participation in formulating policy and questioning of managerial competence have raised the need for Human Resource Audit. A properly conducted audit helps in the following:

- ❖ To recognize strengths
- ❖ To reveal problem areas
- ❖ Confirms compliance with latest regulations
- ❖ Ensures effective HR policies
- ❖ Builds confidence in HR function

An HR audit and subsequent HR audit report will pinpoint the weaknesses and risks in the HR department and help address these problems. Good HR practices can influence financial and other performance indicators of corporations by generating employee satisfaction and commitment. Most corporations believe that it is their people who provide them a competitive advantage. The mission statements, annual reports, value outlines and vision statements of these corporations reflect the great value that they attach to their employees. With increased research evidence of the linkages between HR practices and business development, corporations are getting more interested in establishing good HR practices. Good HR practices and policies can go long way in influencing business growth and development.

To get the best out of HR function, there should be good alignment of the function – its strategies, structure systems and styles with business goals. HR Audit is an attempt to assess these alignments and ensure that they take place. It is a comprehensive evaluation of the current HRD strategies, structure systems, styles and skills in the context of short and long term business plans of a company. It evaluates the current level of efficiency and focuses on suggestions and improvements for future growth of an organization. In addition to using productivity of people and their services to measure the impact of HR on businesses, HR assessments are made of the function itself. One of such assessments is HR audit and various approaches can be adopted by the organizations to conduct HR audit.

Approaches to HR audit

The following approaches are adopted for the purpose of evaluation:

- Comparative approach
- Outside authority approach
- Statistical approach
- Compliance approach
- Management by objectives (MBO) approach

Comparative approach: Under this approach the auditors identify one company as model and compare the audit results obtained with this model and then evaluate.

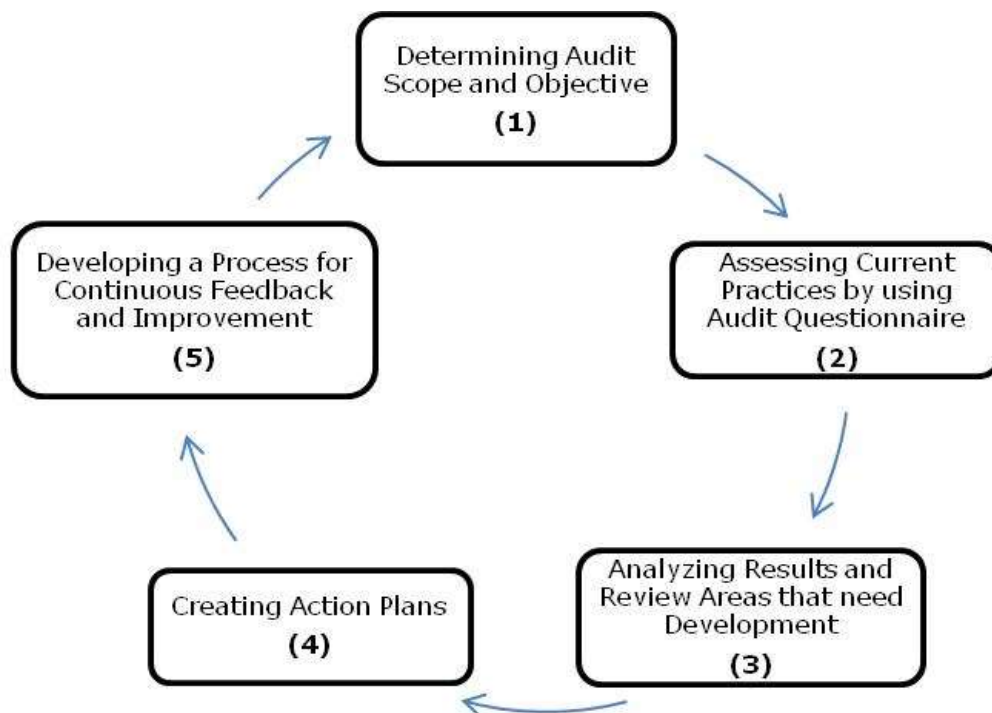
Outside Authority Approach: In outside authority approach a benchmark set by outside consultant is used to compare own results.

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.

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.

Management by objectives (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.

HR audit Process: a model



Auditing HR Practices

Human resource functions and activities has a major impact on business results. In order to measure and track the impact of HR on the business, HR assessments should be made in the form of HR audits. Such HR audits may be carried out on practices, professionals and on the department in itself.

HR Practices

Auditing HR practices requires assessment of services offered by HR department. Since there is no set standard norms exist to assess the overall HR functions can be summarized into important domains as follows:

- Staffing
- Training & Development
- Performance appraisal
- Organization Governance
- Communication

Each of the above domains have various services offered and assessments have to be made to see how these practices impact the business results. Auditing HR practices should reveal that the organization's HR policies are in compliance with the local, state and federal laws.

HR Professionals

Auditing HR professionals will require 360 degree feedback and helps the organization to identify the strengths, competence and weakness of the HR team. The audit should reveal if the HR professional of an organization possesses the required knowledge, skill, ability and competence to achieve organizational goals. One such way to assess is self-assessment where the professional rates him/herself. Data can be collected from various groups through interviews and through questionnaire to assess the competence of the professional. It also helps the organization to understand the behavioral traits of the individual at appropriate places. This helps the individuals to develop and plan for future opportunities where they continuously unlearn old and learn new things.

HR Department

Auditing HR department will help the organization to identify the key areas where they are exceptionally doing good and areas where improvement is needed. To conduct such audit a benchmark has to be established in each

industry. Such standards help the organizations to compare themselves with the industry standards and identify the gaps in an HR department's delivery of HR practices. It helps the organization to ensure that the existing HR practices are in alignment with the organizational practices to achieve organizational goals.

Suggestions & Recommendations

The degree of effectiveness of an HR Audit is dependent on the skill level of the auditor, which in turn determines the degree of the benefit accrued from the process. The organizations having a dedicated HR audit team have benefitted from the audit process and the recommendations implemented have benefitted them in achieving organizational goals. Hence HR Audit is viewed as a process which is mandate and helps the organization in linking HR practices to business results. Overall, audits need to be seen as a development exercise and the goals of HR audit should not be to pinpoint responsibilities but rather to identify areas for improvement.

Conclusion

HR audit helps the organization to prepare themselves to face the challenges and to improve the potentiality of the HR personnel of the organization. Thus every organization which conducts HR audit should be able to identify and have a good HR audit team and also should implement the recommendations given in the audit report at the end of the audit process. This instills a sense of confidence among employees that management is reviewing HR practices and motivates them to contribute more towards achieving organization's goals. This will help organization to win trust among employees and work towards overall development of the organization. At the same time, if audit reports are not effectively used, it could lead to internal politics. Hence it should be used effectively for further improvement of the organization. HR audit has a great impact on the business results.

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