

HUMAN RESOURCE AUDIT SYSTEM FOR EVALUATING EMPLOYEES PERFORMANCE

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Abstract

In the present competitive business environment, most of the organisation are to economize their operation with maximal effort. A way how to eliminate excessive expenses is making internal processes more efficient. The management has to recognize the important role of Human Resource Department in order to successfully manoeuvre organizations towards profitability. It is necessary for the management to invest considerable time and amount, to learn the changing scenario of the HR department and update itself with the transformation in HR and be aware of the HR issues cropping up. It is the fact that the most expensive even the most productive factor is labour force. Hence the aspect of human resource management gains significance Against this background, different aspects of human resource audit framework and their evaluation for human resource effectiveness like potential source of competitive advantage have been discussed in this paper.

Keywords: *effectiveness, human resources, partial-system method, personnel controlling, evaluation of human-resource effectiveness*

1 INTRODUCTION

Human resource management has gain significant importance over the last few decade. Out of various resource man power is become one of the important resource for any organisation. In the word of reek philosopher Pretoqoras "Man is the measure of all things," This means that man is able to integrate any current or future applications in his work. The desired characteristics of any planned or projected activities are its purposefulness, rationality, logicity, system thinking, it means effectiveness. The effectiveness of any organisation might be observed at inputs (optimal utilization of sources: material, energy, human resources, means for work), at a level of transformation process (quality of intradepartmental processes) and at outputs (production quantity, product utility value, range of goods, supply timing). This can be achieved through better utilisation of human resource, developing high effective system of human resources facilitating information for better-making decisions of company managerial unit, Cost saving in human-resource management and so on. Against this background, different aspects of human resource audit framework and their evaluation for human resource effectiveness like potential source of competitive advantage need to be explored .

2. Human Resource Audit

Human resource audit is emerged as one of the important tool for evaluating Human Resource performance. Human Resource Management can be defined as a set of measures

designed interdisciplinary regarding recruitment, selection, employment, ergonomic use of the organization of labor, material and moral stimulation of employees. HR audit is considered a diagnostic tool for identifying strengths and weaknesses of an organization. An effective audit can be useful in motivating employees for constructive thinking, identifying positive aspects and organizational deficiencies and providing recommendations for improvement.

The word “audit” comes from the Latin verb *audire*, which means, to listen. Listening implies an attempt to know the state of the affairs as they exist and as they are expected/ promised to exist. Auditing as a formal process is rooted in this feature of listening. Consequently, it is a diagnostic tool to gauge not only the current status of things but also the gaps between the current status and the desired status in the area that is being audited. In the similar pattern, The HR audit is defined as a complex process of activity monitoring and information collection. The HR manager assures that activities are carried out according to plan, measuring progress towards objectives and detecting deviations from plan to take corrective action. This responsibility is not only related to providing services to people, guide them how to work and record their performance, although managers must do so. On top of that human resources management is considered to be an investment having as purpose: giving people the power to work efficiently and effectively. We consider we are not mistaken when we say that man is the most valuable asset of an organization. A company’s success is determined by the quality of human resources, the procedures to attract and retain the brightest employees capable to make the most difficult tasks with the same enthusiasm they make the easy ones.

3. Concept of HR audit

Human Resource Management (HRM) is the function within an organization that focuses on recruitment of, management of, and providing direction for the people who work in the organization in developing people through work. The Management function has emerged as a necessity for people to organize their working time and activities, taking into account the magnitude of activities in an organization so that processes within an organization to give maximum of efficiency. In the course of continuing economic change, HR function has evolved to complex tasks with a direct impact on organizational strategy. Human resources have become a strategic production factor, and at the same time the main component of performance for all domains and all organization levels. Such evolution allows us to appreciate that human potential is extremely important for the management of the organization both according to the efficient use, and quantitative and qualitative assurance. HR audit has become necessary to assure and ascertain the quantitative and qualitative use of Human Resource.

4. HR audit and its Necessity to the organisation

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. The important reasons of HR audit in the organisation are summarised as :

- HR audit is necessary to assure quality of the human resources in the company so as to maintain the quality of organization.
- A Human Resources Audit is a comprehensive method 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 ensure compliance with ever-changing rules and regulations.
- Human resource audit in its scope is beyond the conventional audit. The human resource audit is more clearly defined as “a method to evaluate the efficiency of human resource at all

levels throughout the organization, in order to ascertain whether sound management prevails throughout, and to recommend its effectiveness where such is not the case” .

- Derived from monitoring the output of human resources, auditing has evolved over time and has become a basic function of human resources management. Besides being able to reveal the true dimensions of human resource activities, auditing helps the manager in all stages of management decisions from information provided by a well-founded audit.
- HR audit should be considered a diagnostic tool for identifying strengths and weaknesses of an organization. An effective audit can be useful in stimulating constructive thinking, identifying positive aspects and organizational deficiencies and providing recommendations for improvement.
- Though, HR audit is not mandatory, but it is undeniable the need for such an audit for an effective management of human resources.

5. Does Hr Planning And Audit Matters?

In essence, workforce or HR planning is about predicting future labor market needs. It requires an understanding of the make-up of the current workforce, an investigation into future service needs and an analysis of the type and size of workforce required to meet them.

It is becoming increasingly important for agencies as they adopt new ways of operating in order to adapt to changes.

The challenge will be to ensure that agencies can minimize the costs and grab the opportunities that such changes brings - quicker career progression, effective recruitment, and more flexible job design and workforce deployment. By identifying workforce capabilities and by considering what will be needed in the future and planning systematically, managers can limit the risks associated with unanticipated events. In particular, HR planning will help organizations to:

- Identify potential problems, manage risk and minimize crisis management cycles.
- Contain human resources costs, including the cost of turnover, absenteeism, structural changes and staff movements.
- Develop workforce skills that take time to grow.
- Optimize the use of human, financial and other resources.

Apart from it the reason for conducting an HR audit is to find out how effective and efficient the organization's HR activities are and to determine the areas for improvement and identify changes. The purpose of the HR Audit is to conduct a more in depth analysis of the HR function to identify areas of strength and weakness and where improvements may be needed. Conducting an audit involves a review of current practices, policies, and procedures, and may include benchmarking against organizations of similar size and/or industry.

An HR Audit in effect includes five different components.

Functional Audit

This aspect of the HR audit examines:

- the HRD systems and procedures, encompassing training and development, organization development and career development.
- Whether HRD systems and procedures are aligned with the HRM systems and procedures to promote competence, confidence and performance. This includes job design, HR planning, performance management systems, selection and staffing.
- Fairness and consistency in compensation and benefits, employee relations and your HR record keeping, particularly in regard to providing timely management information.

Service Audit

This aspect of the audit activity looks at the service responsiveness and reliability of the HR function. This will include an assessment of such things as response times, willingness to help line managers/staff, and the knowledge of the HR staff etc.

Compliance Audit

This assesses the degree to which HR is compliant with the relevant legislation – e.g. Labor Laws, etc. This part of the audit will assess whether the required policies, practices, and procedures exist, and to what extent management and labor have been trained to enact these codes of best practice.

Financial Management Audit

A comprehensive audit of HR systems and procedures needs to go beyond the inspection level. Basic financial ratios/scorecard measures appropriate for a staff function like HR need to be put in place to audit the efficiency of the various HR functions.

Strategic Audit

Each organization should have an overall people management strategy that aims to increase the value of employees to the business. The strategic audit will examine whether the HR strategy, policies and processes are aligned with and support the achievement of the business's mission and objectives.

6. Evaluating Human-Resource Effectiveness : Some Scientific Trends

The freedom of markets, technological developments, improvements in the sectors of information and communications and increased demands by the citizens in the modern world has forced management to develop scale for evaluating Human Resource Effectiveness. The management has to ensure all its competitive advantages, so that it can survive and become more effective and efficient for the citizens and not to be absolutely disdained. Some of the techniques developed by the management are summarised as below:

The partial-system method (Figure 1) how to raise effectiveness of all human-resource *system* contains these four areas [2]:

- Effectiveness of human-resource *processes* (planning, profiling potential and stabilised employees, recruitment and individual job search, employee selection, employee separations, work force reduction, and retention, internal staffing, motivating, training, development and orientation),
- Effectiveness of individual *job performance*,
- effectiveness of human-resource *department*,
- effectiveness of human-resource *system* at all.

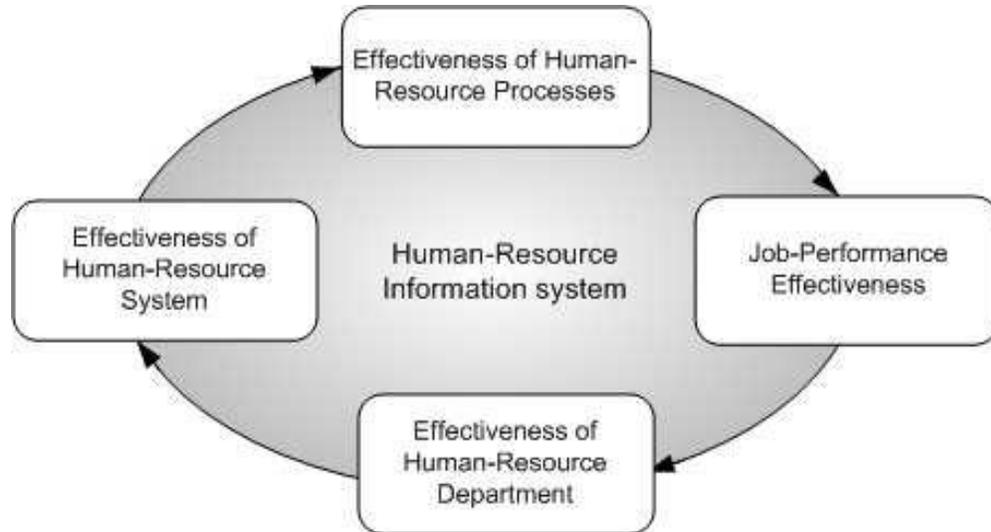


Figure 1 Human-resource effectiveness observation by partial areas

This method is intended on saving indicators and qualitative indicators of investigated partial spheres. Values of the all proposed indicators must be connected with managerial planning (planning of finance, economy, production, logistic, marketing, quality, research ...). All the aspects have to synchronise with organisational vision, mission, strategic goals, philosophy and culture. The basic index of efficiency is known as **labour productivity**. The productivity ratio indicates intensive exploitation of labour. It is important to set for analysis- making :

Indices and the unit of production volume, Term determination (year, month, day, hour),

Number and category of employees, which productivity is detected.

The level of the productivity is set by ratio of production quantity to volume of used inputs in a given term :

$$\text{Productivity} = \frac{\text{Surplus value of production}}{\text{Labour force}}$$

$$\text{Productivity} = \frac{\text{Revenues} - \text{Costs to stock, material, services}}{\text{Labour Force [average number or hours worked]}}$$

The productivity growth must be stronger than labour-costs growth (wages + social benefits) for healthy advancement of an organization.

The personnel-controlling method deals with quantitative and qualitative aspects of human resources. This method offers 5 basic tools for human resource effectiveness increasing :

1. **Personnel costs and personnel statistics:** Organizations usually make evidence of these values. However the problem is bounded comparison with dates from other organisations. This is a tool having operational and quantitative character.

2. Personnel Indexes: Properly specified personnel indexes are available to compare with other values of other organisations (benchmarking), so they can help to company progress. They are most quantitative and have operational character, for example: surplus value of employee, fluctuation measure and ratio values of human-resource processes (managers per number of employees, human-resource specialists per number of employees, number of managerial posts taken from internal supply, number of days devoted to education pro year, etc.).

3. Human-resource standards: These indicators are defining aims and distance to personnel indexes. Resource of human-resource-standard determination is business plan, like economies aims, internal rationalization and optimalization, comparison with the best organisations in appurtenant industry (example: “each manager will take self-development training at least 2 days a year”, “each team or department will have a meeting every week”, “career growth to middle and high managerial post requires skills and knowledge from at least two areas of management”, “the most denominational factor of each employee will be found and removed”, ...).

4. Personnel audit: This is wide control of efficiency and results of personnel management. Human- resource audit should perform external company due to dispassionateness. The first step is gross arbitration of human resource efficiency, the second step, if it is necessary, is focusing on critical points. The first phase of audit contains:

Evaluation of human-resource system by standard criteria, personnel strategy and politics appraisal, evaluating of personnel-controlling tools. It is held by interview with personnel manager mostly.

Accosting of selected intern customers of personal management (managers and employees) focused on human-resource goals, quality of personnel work and managerial process at all.

Record execution (questionnaires, analysis), result evaluation. Evaluation of strategic missions, appraisal their practical application, inputs-to-targets match survey, strengths and weakness analysis and comparison with competition, appraisal of human-resource organising in terms of standardisation, decentralization eventually automation.

Audit feedback to personnel management. Discussion about results, their comparison with strategic terms, designation of most important topics for personnel managers.

7. STEPS FOR EVALUATING OF HUMAN-RESOURCE EFFECTIVENESS

The effectiveness evaluation of human resources is difficult and long-time work, but it is a way how to dynamize personal management and cost savings – personnel costs, even costs of other organizational units too. The process of human-resource-effectiveness evaluation (Figure 3) is composed form five steps:



Figure 2 Evaluating of Human Resource Effectiveness [Source: own]

Index List : The first phase of effectiveness evaluating process is creation of index list. The list should contain quantitative and qualitative indexes segmented by partial- system method or personnel-controlling method, or combination of both methods, maybe supplemented some specific index depending on a specific character of a company.

A difficult part of list making is an index analysis (a manual for managers to know the signification of the indexes) – their calculation, significance, variables, relation with other personnel even aggregate indexes, measure of internal and external factor influence (example: high fluctuation may be caused by various reasons: law motivation of employees, by insufficient development of employees, wrong work environment, wrong leading of management, etc.).

It is necessary to survey human-resource information system for suitable data selection, too.

Index Planning: The second step is indicator selection from the index list. Management chooses the most important indexes, so that information from selected indexes covers the effectiveness of human-resource system by partial areas and as a unit. If personnel data required for index quantification are missing, this is an impulse to refill human-resource information system.

Index planning means to determinate expected values of indexes in time. Appraised values might be set by time-series trend, by benchmarking with similar organisation (in branch) or by company and human-resource targets.

Calculation and Comparison: Some selected indexes are quantified in information system (e.g. costs and revenues), some of them should easy calculate (e.g. productivity), and some others are qualifiable by expertise, opinions of managers, personnel specialists and employees (investigations, inquiries).

First should be calculating quantitative indexes as indicators, if human-resource system is balanced. These are compared with the plan, even in time-series and the suitable ones by benchmarking. Acquired deviation is reevaluated in respect of notable factor changes. In spite of undesirable deviation of quantitative indexes, qualitative analyses

should be started.

This is the right point to appreciate the effectiveness of processes, reveal deficiencies and reserves of system and to search *reasons* of proved deficiencies and possibilities of reserve increase.

Corrective Actions: Management and personal specialists suggest corrective measures - methods, ways and variants to remove undesirable effects and to improve weaknesses in

human-resource system. Variants should be evaluated by the efficiency and efficacy criteria and possible future organization consequences. This step is close connected with managerial planning because planned changes of other departments (e.g. technology changes, innovation implementation, planned expansion into new market, etc.) influence human-resource system. All aspects for implementation of the best variant must synchronize with the mission, the vision, the strategies, the philosophy and the culture.

The time length of variant implementation and the continuous watch occurring of notable factor changes in this term are inevitable. Flexible reactions to incoming changes and making plan modification should be realized according to actual situation.

Effectiveness Appraisal:

Review of the whole process. Search of mistakes in evaluating of human-resource effectiveness. Step-by-step-backward answer to questions like:

- Has the wished change been reached?
- Have all important changes in the time of realization been regarded? Have the right decisions and the right flexible reaction been made? Has really the best variant been chosen?
- Have our reserves and the causes of ineffectiveness been right assigned? Have the indexes been right calculated?
- Have right indexes been chosen?
- What information is suitable to refill into information system? etc.

Improvement of qualitative indexes and conditions (e.g. higher satisfaction of employees, higher motivation, knowledge growth, improvement of employee relations ...) should cause getting quantitative indexes the better.

Effectiveness appraisal is superior starting point for next evaluating human-resource process maybe with a new index list detected by effectiveness appraisal.

8. CONCLUSION

HR audit can be a powerful tool for measuring organisational performance and managing organizational change. The time to time HR audit need to be enriched by a better definition and a higher level of performance expected. Employees are an asset to a company and play a vital role in the achievement of the goals and objectives. The senior management, therefore, needs to understand how efficient its human resource department functions. Most companies work to ensure the minimum employee turnover. The retention of employees is a key role played by the human resource department. The human resources department should ensure that skilled employees are recruited and trained. Any organisation which are interested to increase the human-resource effectiveness, an effective HR audit system is needed. The question of human-resource effectiveness can not be satisfactorily analysed in the absence of its proper audit. Some scientific approach need to be evolved to manage cost, revenues and quality of human-resource system and the method of personnel controlling. These approach will create source for further development of human-resource-effectiveness-evaluating theory and creation of a model for implementation in organizations.

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