

EFFECTIVE HR AUDITS

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A Few Questions to Think about

- Are your HR strategies and systems aligned with your short and long-term business goals and plans?
- How effectively are they designed or structured?
- How well are they being implemented?
- Are they having the right impact in terms of financial outcomes, intellectual capital building, and talent management variables?
- How effective is your PMS, L&OD, Competency Mapping, Recruitment and Placement, Succession Planning, Systems, etc.? Are they needed? How could they be restructured and how can they be implemented better for an enhanced ROI?
- Are your HR staff professionally well prepared to drive the HR you need for the present and the future of the company? In what areas do they need to be strengthened?
- Do your line managers and other employees have a learning attitude and are they continuously learning to equip themselves to meet business challenges from time to time?
- Do your top-level managers have the right kind of styles that promote an HRD (enabling, empowering, and engaging) culture?
- What is the HRD Culture of your organization? Is it aligned with your ambition and Talent management philosophy?
- How is your organizational culture? Is it enabling and empowering?

These are the kind of questions answered by a good HR Audit. To answer such questions, the HR Auditor or the team leader of the HR audit should be professionally trained and an experienced expert in HR systems and processes. S(he) should have a good theoretical background and partial experience in implementing HR. Answering these questions requires an in-depth study and analysis of various systems, competencies, culture, and their impact.

In an audit, the questions are answered by using various methods including (i) Examination of various documents (policies, formats, manuals, circulars, etc.), (ii) understanding the past, present and the intended future through interviews with the top management team, Heads of Departments, HR staff, a cross-section of employees drawn from all levels and some critical customers and suppliers individually and in teams, (iii) observation of various processes through visits (to plant, facilities, manufacturing units and other workplaces, meetings, QCs, training sessions etc.), and (iv) questionnaire studies.

HR Auditors:

HR Auditors need to Be Trained, Empathetic, Positive Evaluators, Researchers, and Analysts. They need to be trained in Observation, Interviewing, Questionnaires, and other evaluation methods of human processes. Programs are available to train HR auditors as knowledge of HR is a “must” besides the skills mentioned above. It is however possible to train line managers in acquiring such knowledge and skills over a period of time or use them for specific evaluation. For example, a team of line managers can be trained exclusively to undertake a ‘training audit’ as a part of the larger HR audit or ‘PMS audit’ of quality circles audit, etc. However, they can’t be called HR auditors as an

HRD auditor is required to do a comprehensive audit of all HRD Systems, Structure, Strategies, Competencies, Culture And Impact of HR. HR auditors should constantly update themselves with research and new developments in HR.

Some Experiences:

Many experiences with HR audit and a few studies are well documented in my book on HR Audit published by Sage first in 1999 and recently in 2014. I am giving below some additional experiences.

The HRD Audit of a USA-based MNC located in India revealed that the organization had employed young staff, paid them higher than market rates, and had some excellent HR practices with a lot of informality and empowering culture. The audit revealed that while the HR systems were excellent, the culture was very good, and the alignment was also in the desired direction, the only area of improvement was found to be uncertainty in the future career growth experienced by many of the employees. The employees had no idea of the growth plans of the company and consequently their career growth. The audit suggested some long-term planning for the company along with evolving some form of career planning for the young and energetic employees of the company. The CMD and top management of the company expressed their inability to influence their bosses in the US who did not care much for the small unit in India. The report pushed the MD and top management to give thought to this and prepare a plan and present the HR audit report along with a long-term plan for the company HQ in the US. The US board was impressed with the audit report and plan, which they later approved. **This is one of the reasons why we call HR Audit a “Hook Tool”.** It hooks the top management to find high and low points, attend to low points and leverage on high points in HR.

In another case, the MD of a Germany-based company in Gujarat was reluctant to carry out an HR audit as he maintained that his company’s growth was predictable and was going to stagnate at 8% given the likely future market conditions. He believed that HR could do very little to change it. With some persuasion by the CHRO, he finally agreed to go ahead with the HR audit. The audit indicated various areas of improvement in internal processes and systems linked to HR. For example, the need for focussed target setting by various departments through KPAs and competency mapping etc. After the MD was presented with a detailed HR Audit report presentation, he was keen to implement the proposed suggestions and he even proudly presented it to his German counterparts who decided to undertake similar exercises in other units. These actions resulted in the enhancement of their growth rate in subsequent years.

In another company, the HR audit provided an opportunity for the MD to understand the difficulties and apprehensions of his staff. He also got sensitized to the negative effects of some of the existing practices by his middle-level managers. For example, his open-door policy was used by senior and middle-level managers well but did not percolate down. And his insistence on discipline got interpreted as an ‘inhuman’ approach of the company. The MD did not know this until the audit. He did not change the HR policies but changed his communication style and methods that also enhanced the morale and motivation of employees.

There are many examples of the benefits of an HR audit. Like any other system, the success of the HRD audit depends on its implementation. The success can be ensured by the following actions:

- It should be commissioned by the CEO or the MD with the full understanding and support of the top management.
- It should begin with a presentation and dissemination of the purpose and intended outcomes through a series of presentations or sessions by the top management with the help of the auditors
- The Audit should be projected properly as a systematic evaluation to improve the future of the company and its people through HR policies, practices and competencies and not a fault-finding exercise. All employees and particularly the HR staff should be assured of its development impact.
- The auditors should win the trust of the employees by their conduct and the way they put questions and examine records or interview people. The best way is to start with a talk on various HR practices globally and how HR enhances business results and the future of employees.
- The audit should not be prolonged. Once started it should be completed in a few days to weeks. Prolonged audits give rise to unnecessary apprehensions. At the end of the visit, the auditors should have an informal presentation of their findings to the top management so that they are not taken by surprise at the time of the final report. The author has come across some enthusiastic companies that start implementing parts of the recommendations even before the report is submitted.
- The audit report should focus on the strengths of the organization and suggest mechanisms to leverage the same.
- The audit report also should give recommendations for improvements in each area: Systems, Competencies, Culture, Alignments, and Impact of HR etc.

Pain Points

Audits present gaps that could be threatening to the HR staff. This is one reason why most CHROs are afraid of getting audit done. It requires a lot of courage to hear the gaps. Audit reports if not used properly could help unscrupulous elements play internal politics. Transparency from the beginning helps to a large extent.

Audit points out improvements in all or many areas and it may not be possible to implement all at once, so phasing out of the implementation is necessary. Auditors should suggest the same as an implementation plan.

If the top management cannot trust and share their plans with the auditor, the auditors can't do justice in terms of aligning HR to the future. However, such plans for reasons of confidentiality cannot be shared-the auditors should respect the same and carry out the audit with the data available to them.

HRD Score Card

In India, we have also developed a system of converting the HRD Audit outcomes into a scorecard. Based on the HRD audit, Scores are assigned to the company which indicates the level of maturity of HRD in relation to four dimensions: HRD Strategies & Systems (1000 points), HRD Competencies (500 points) (including the competencies of HR staff, line managers, unionized staff, top management and the HRD department), Organization's HRD culture (500 points), and Business Impact of HR (500 Points) (intellectual capital building, Talent management and financial impact). The scorecard gives an understanding of the level of HRD maturity in the company, as illustrated below:

HRD SCORE CARD				
Name of the Organization		Logistics		
HRD Systems Maturity Grade	HRD Competence Grade	HRD Culture Grade	Business Linkage Grade	Overall HRD maturity Rating
B	B	C	B	BCCB

In the figure above SCORECARD SCALE: A* Highest score & highest maturity level; A is Very high maturity level; B* High maturity level; B Moderately high maturity level; C* Moderate maturity level; C Moderately low maturity level; D* Low Maturity level; D Very low maturity level; F Not at all present

The above scorecard at a glance tells the CEO and top management the improvement areas on various counts. The culture has to be given more importance. Others are all at an average level of maturity-A, B Grade.

Do' and Don'ts for CEOs on HR Audit

- Always get your CHRO to initiate and commission HR Audit so that (s)he is fully involved and ensures maximum benefit out of it.
- Ensure that the purpose is clear from the beginning-whether you like a full comprehensive Audit (covering HR strategies, structure, systems, and practices), HRD competencies of all stakeholders (HR staff, line managers, workmen, top management etc.) HRD and organizational Culture, and HR's impact on Business (talent, intellectual capital and financial variables) or you like to audit only select subsystems.
- Make sure you have qualified auditors. Preferably have a prior discussion before commissioning an audit
- Circulate a note before the start of the audit explaining the purpose of the audit and the outcomes expected and how you plan to use them
- Start the audit with a talk or address by the auditors, the senior and top managers explaining the methodology and scope of the audit and seek their cooperation. Line managers can spend about 2-3 hours' with the auditors and the HR staff should spend more time with the auditors.

- Get the competencies of HR Managers tested by consultants as it will help the organization prepare development plans for HR staff. Assure them of the criticality of their function and the need for their growth.
- If you do not wish to be consultant dependent there are simpler methods like large-scale interactive process workshops and audit workshops for conducting the audit. They are harmless. Recent experiences on a Nationalised bank suggest that audit can be conducted using workshop method very effectively where even consultant's report of specific systems like manpower planning, succession planning can be subjected to audit.
- Make sure the audit findings are presented in an informal way to the top management team. CEO and CHRO together before finalizing the report should ensure all the concerns and context are taken adequate note of by the auditors
- Insist on an HR improvement plan as a result of audit and preferably an implementation plan with phases from the auditors.
- Remember the main difference between HR audit and F&A audit is that the former relies on stats with documentation and goes on to rely heavily on people, their feelings, and experiences while the latter relies exclusively on documents, feelings, and opinions do not normally matter. Hence all audits require compulsory involvement of employees and interviews with them etc. Questionnaires can tell the truth if anonymity is assured and ensured.
- A good time to conduct an audit is when your CHRO has left, and a new CHRO or HR Director is to be appointed and is about to take over. It gives an implementation agenda to the new CHRO or HR Director.
- An audit can be done at any time, when things are looking up and you are doing well or when chips are down or when you have some free time. There is no specific timing for audits. Your need and context determine the audit scope and methodology.

Dos and Don'ts for a CHRO

- Always involve the CEO and top management by circulating some literature on HR and HR audits. Unless they are involved the implementation becomes difficult
- Be prepared to face some criticism from the audit reports. No one is perfect and NO HR department has ever been fully mature. All people matters are continuously evolving and developing and hence there is no need to be apprehensive
- An audit that says only good things and has no improvement plan may not be good news.
- Open yourself fully, totally, and express your views opinions and desired improvements fearlessly as the audit is a way for you to get many things done to maximize the impact of your function and role.
- Insist on a presentation of the methodology to the top management once the audit begins and ensure all the Dos and don'ts mentioned above for CEOs are followed meticulously to the extent possible
- Avoid employing your friends as auditors. It creates difficulties for them as well as for you.
- Get HR staff roles reformulated and the competency development plan outlined based on the audit. You could also get your budgets rationalized or invest in the intellectual capital building for a higher impact of HR
- Read literature on HR audit and get yourself prepared. The scope of the audit is to be decided after careful thought and familiarity of what audit can yield what it cannot.

Simpler methods of audit

Simpler forms of audit have been used when SAIL announced HR awards for its Golden Jubilee year celebrations. IIMA team developed a comprehensive audit questionnaire and obtained detailed responses from companies. It is said that the lengthy questionnaire itself made many organizations think and reflect about their HRD. This required a self-audit. The questionnaire responses were graded and selected companies were visited by a team of experts from IIMA and SAIL to do a mini audit.

A similar methodology was adopted by the Khandelwal committee (Prof. T.V Rao along with Prof. D. Pathak from IIT Mumbai, M V Nair Chairman of Union Bank, and a senior official from ICICI Bank)