

## Human Resource Auditing Practices and Its Impact on Employees' Performance

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### **Abstract**

*Human element is said to be the most essential input in any corporate enterprise. Without this element, business enterprises are nothing. They cannot achieve anything without the help of the employees. Human capital and human resources are the two terms that are used almost interchangeably. There are three important segments in human resources. These are demographic segment, diversity segment and skill and qualification. The importance of human resources in any organization is ever increasing. As the success or otherwise of any concern depends heavily on the quality and performance of its human resources, the performance of the human resources of any concern needs to be monitored closely and measured correctly. In this light the human resource auditing practices are gaining importance. This paper attempts to highlight the basic understanding of human resources auditing practices with some reference in national and global context.*

**Key-words:** Human Capital, Human Resources, Human Resource Auditing Practices.

### **1. Introduction**

Human resource is a group of individuals who in totality creates the workforce of an organization. Human element is said to be the most essential input in any corporate enterprise. Without this element, business enterprises are nothing. They cannot achieve anything without the help of the employees. So, from the corporate point of view, employees are the most valuable asset of the enterprise whose value is increased by giving training to them for the development of their skills and efficiencies. Man with his conscience, efficiency and thought makes the main objective of the organization successful. In order to develop human resources three important segments are to be considered. They are:

- **Demographic Segment:** The characteristics or features of individuals i.e. age, gender etc. all are included in this segment.

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- **Diversity Segment** : The total workforce working in the organization or changes in the population includes diversity segment
- **Skill and Qualification**: It refers to the talent and efficiency of the employees, which also includes the competencies of the individuals or the workforce.

The term human capital is simultaneously used with human resources. Human capital is the knowledge of the different individuals which is important for the achievement of the ultimate objective of the organization. It also includes talent, manpower, capacity and their capabilities which lead towards the success of the corporate enterprise.

Earlier, human beings started earning by means of trade to maintain their life but as centuries passed by, things have changed a lot. Now-a-days, individuals get themselves engaged in different categories of enterprises in order to earn their livelihood. Thus, this in turn helped the corporate sectors to achieve their own success in this competitive environment. Companies gradually came to know about the importance of the human resources in their organizations. Therefore, human beings are considered as the most valuable asset of the enterprise. The idea that human resources, employees are the most important asset is gradually increasing its claim in the 21<sup>st</sup> century. The importance of the employees has been increasingly emphasizing the organizations. Organizations are relying on the managers to get their job done by the employees. Humans perform routine functions of organizations like managing cash flow, making business transactions and dealing with the customers which could not be possible without them. An organization's success mainly depends upon the talents, skills, abilities and efficiency of the employees. When the skills and talents are valuable and rare in nature, and unable to copy those skills, then only an organization can achieve its biggest target in this challenging environment.

Regarding the performance of the business, *Balanced Scorecard* is the most widely accepted performance management methodology. Performance management has been strongly influenced by the rise of Balanced Scorecard framework. It is common for the managers to use Balanced Scorecard framework in order to identify and clarify the goals of an organization.

## 2. Role of Human Resource Auditing Practices (HRAP)

Human Resource Audit (HRA) plays an important role in performance of a firm through identifying the goals or objectives of individual employees, likes and dislikes and their feelings which most significantly influence their work performance. The success of a business organization depends on the quality of human resources, their desires and ambitions which will help to determine the present position of the organization. Human resource is one of the important strategies used by the organizations. Researchers have emphasized the role of employees in obtaining the enterprise goals, that employees are the most important and valuable asset which is the ultimate source of competitive advantage. This is because it is the people who carry out the activities in an organization which ultimately produce end-result of profitability and sustainability. Therefore, the success or failure of an organization depends upon the effort of the employees. Human Resource Audit evaluates all the activities of the human resources in an organization in order to assess their effectiveness and efficiency. It is generally done to improve those activities, to find out the deficiencies and short comings and thereby rectifying those errors for the better performance of the firms. Thus, Human Resource Audit has a definite role in meeting the final objective of the organization. It gives a feedback regarding the human resource functions to the human resource specialists.

Companies need to audit their human resource management practices at regular intervals in order to find out their addition of value into the business.

HRA can be conducted for the department or for the whole organization. It gives a more professional image of an organization and helps in bringing out the problems not necessarily linked with human resource division of an organization. It is an addition to the various tools and concepts used for effective management of human resources. Human Resource Auditing is generally done by many companies annually. The combination of high satisfaction and maximum productivity amounts to employee engagement. Engaged employees are invaluable assets since they are motivated to perform to the highest of the abilities and efficiencies because of their dedication and voluntary commitment to the success of the organization. This process helps a company to get general idea of its current market position in the competitive environment and thereby plans for betterment of future. By observing Performance Appraisal Report of the employees, HRA helps to evaluate the performance of the employees and also gives suitable suggestions for improving the efficiency of the employees.

Human Resource Auditing Practices varies from one organization to another organization. A set of Human Resource Auditing Practices that has given high productivity and also a great deal of opportunity and competitive advantage in one organization will not necessarily give similar result in another organization working in the same industry. More importantly, HRAP is used to set up the human resource performance standards or guidelines and also identifies the different areas for change and improvement. The elements which are included in HRAP are as follows:

- Personnel policies,
- Performance appraisal,
- Evaluation process,
- Recruitment,
- Selection,
- Training,
- Job analysis etc.

So, human resource auditing practices and policies need to be adjusted with these environmental changes since these practices have a direct impact on employee performance and ultimately organizational competitiveness.

The scope of HRAP is wider in nature because it requires a thorough assessment and evaluation of human resource function and is not only a personnel activity. It depends on the objectives or needs of the employer in the organization. Thus, human resource audit is a tool that is used to collect and evaluate information about the organization's human resource policies, procedures and practices. It is also a review of all these policies and procedures which helps the human resource management system to identify the strengths and needs for improvement.

### **3. National and International Scenario**

The adoption of professionalized Human Resource Development practices in India is a recent phenomenon that has gained popularity in the past 10 years. Since, liberalization, the Indian organizations are dealing with the growth and changes. Foreign firms which started operating in India since liberalization do not confine themselves in Human Resource Development

which the Indian firms do but they also undertake wider programmes and strategies of Human Resource Management. The concept of HRA and corporate performance is one of the recent developments in the sphere of Human Resource Management. Many companies now use this concept that delivers sustained success to the organizations by improving the performance of the people who work in those organizations leading to improved performance of the companies. Employees today are looking for development opportunities, future career options and work-life balance in an organization. To retain the leadership position, the company continuously innovates its human resource strategy to meet the changing needs of the employees.

In Tata Consultancy Services (TCS) during the year 2011-2012, the gross addition of 70,400 employees and net addition of 39,969 employees was highest ever in the history of the company. In BHEL, an integrated human resource management system was implemented which aims at reaching out and redefining the role of human resource functions through the process of standardization and optimization. Companies like Mahindra and Mahindra recognizes that its people are the key to the success of the organization and in meeting its objectives. During the year the company continued with a focus on training and development of employees. A large number of employees attended the training workshops conducted during the year which includes personal effectiveness programme called GROW. In ONGC, the company follows human resource policies. The total manpower of the company was 246 as on 31<sup>st</sup> March 2012 compared to 233 on 31<sup>st</sup> March 2011. The company provides necessary training and development programmes in order to train the employees skillfully so that they can operate in the changing environment.

Thus effective human resource planning and management is required at all stages of an employee's corporate lifecycle in order to ensure employee growth and satisfaction. Human Resource Auditing Practices helps the employees to move in the right track for the purpose of achievement of the end-result or ultimate objective of the business organization.

In Singapore, attraction of the foreign investors depends on the most important resource namely, human capital. In the year 1965, Singapore got separated from Malaysia. In the later part of 1970, industries in Singapore felt the necessity of more efficient use of human labor. In the 21<sup>st</sup> century, training is the most key factor for the development of the labor and government is investing over \$2.5 billion in 5 years continuously for the education and training. More and more training programmes have been introduced in order to give training to the employees for proper and right kind of development in their skills and capabilities so that they becomes the most useful and essential asset for the organization, thereby helping the industries to earn more and more profits by producing greater amount of output.

Now-a-days many organizations give more emphasis on the gaining part in this competitive environment. Newer technology, modernization of equipments, good marketing strategy and excellent customer services and many more elements contributed towards the profit or gain of the enterprise. Apart from these elements, human resources are still the best and the most important element for the success or failure of the business. Without them organizational day to day work is not possible. So, organization's profitability is always related to the human resources and their efficiency and ability cannot be replaced by new technology or by new machines.

In the 21<sup>st</sup> century, the role human resources is much more strategic because of the long term strategies which are implemented into the business and these strategies are to be carried out

by the human resources on the basis of their qualifications, cultural and technical capabilities for the organization's success. The organization and management has been flexible in nature in order to manage the employees strategically. People who worked during 1600s to 1700s were guided by a systematic process. Under this process, production of goods and services were generated by a small group of workers in a small working place. In the early 1900s, many changes took place in the work place.

After the industrial revolution, different machines and other techniques were introduced to increase production. However, soon various problems cropped up with this increased production. The number of workers increased in order to run and maintain those machines. This forced the managers to develop certain rules and regulations for the workers. At that time, workers were seen as a part of the machines rather than a part of the jobs. They were not considered as social human beings. All the jobs are broken into specific tasks and are divided among the employees. In the late 1920s and early 1930s a new development in the area of human resources occurred by the implementation of the Hawthorne studies. It reflected the social side of the workers. This era focuses on the organizations in a large manner and lesser on the individuals. Human Resource Management experienced a major transformation in the forms and functions over the past two decades and is a primary factor for the organizations operating in the global and competitive economy.

Earlier some analyses suggested that human beings are not any commodity or any resource but they are the creative and social human beings in the organization. ISO 9001:2000 revision identifies the different processes responsibilities and authorities and their ability to communicate and interact with each other in a business enterprise. Later on countries like France and Germany adopted these processes. In 2001, the International Labor Organization (ILO) decided to revise its recommendations of 1975 and it came into a conclusion that labor is not a commodity, but today's changing and globalised economy can make a labor much more productive by enhancing their skills and talents in various ways for the growth of the business enterprises. Governments of the developing nations used to encourage the immigration of the human resources from the developed nation to their own countries for the growth of their economy. Later, United Nations supported this view of the developing nations and helped those developing nations with their foreign aids so that they can give necessary training to the new people.

A company's human capital asset is the collection of the experience, knowledge, energy and talents of the individuals. With these elements they choose to work in the business organizations. According to the 2001 Human Capital Index (HCI) study, adoption and implementation of the Human Resource Practices in 5 broad areas which will bring a result of 47% increase in the market value. These 5 areas were established by Watson Wyatt. They are:

- Total rewards and accountability
- Collegial, flexible workplaces
- Recruiting and retention excellence
- Communication integrity
- Focused human resource service technology

The American Society for Training and Development (ASTD) conducted a study in the year 2000 and found out a result of 500 US based publicly traded firms on the basis of the average annual training expenditures. The results were that the firms in the first half of the

group i.e. those firms invested more in training and development had a total stockholder return 86% higher than the firms in the bottom half. For the achievement of the corporate success effective human resource planning and management is required at all the stages of an employee performance in order to give them proper satisfaction and growth. More the combination of high satisfaction and maximum productivity more will be the labor engagement in the productive enterprises. These engaged employees are invaluable assets of the organizations since they perform their own work or jobs to the best of their abilities and efficiencies because of their sincere dedication towards the success of the business. The skills, knowledge and experience of each individual contribute towards the growth of the business enterprises. For the economic development, all those human capital is necessary.

Strategic Human Resource Management plays an important role in our today's competitive environment for the development of the organizations. The organizations now-a-days focuses on the ideas of the employees, they approaches the talented people, develop their skills and capacities by giving them proper training so that they can contribute or perform their tasks more efficiently to improve the position of the organization. The organizations also give their efforts to meet the demands and the expectations of the individuals working under it in order to create a comfortable workplace and a good atmosphere among them. Thus, human resource is one of the important strategy since the people who carry out the activities in the organization ultimately produces the end-result of profitability and sustainability. Therefore, the success and failure of the organization totally depends on the efforts and efficiencies of the individual workers.

Human resource as defined by Khatri (1999), as "People are one of the most important factor providing flexibility and adaptability." According to Rundle (1997), employees are the most essential factor in determining how well the firm will respond to the competitive environment. They are the most vital factor or determinant behind the successful running of the business and it is very much important for the organization to take care of those people so that they in return can give much more to the business. People in other way they are much more adaptive in nature since they can able to change themselves with the changing atmosphere and also when any difficult situation is placed before them they can easily come out of that situation by applying their superior skills and their intelligence. Besides tackling with the problems they can generate new and innovative ideas like how to save more costs, better means of working environment and even ideas for the improvement of the organization or the ideas that will take the organization forward. People generally work in order to earn their living and usually go those organizations where they are paid well and also provided with some more benefits. These better pay packages motivate them to work harder for the organization.

Motivated employees work better and their quality of work is also good and also their dealing with the difficulty situations is somewhat different and fruitful than the employees who are not so sincere towards their work. Some employees if they are less paid also prefer to work in a secured environment as being well paid means more competition for the best position which leads to a more stressed working environment. Human resource is an intangible asset and is the main driving force for the survival of the organization in this competitive society. Human resource is the result of the human relations movement of the early 20<sup>th</sup> century when the different researchers are creating the ways of increasing the business value through the Strategic Human Resource Management. Earlier human resource used to focus on the transactional work like payroll and benefits administration but with change in the environment, globalization, advancement of technology human resources now focuses on the

different areas like merger and acquisitions, industrial and labor relations and in other areas too. Researchers emphasize the role of employees in obtaining the enterprise goals as they are the most important asset for the future growth of the business enterprises. In other words, the most biggest and valuable asset any company has is its people because all the management plans for the enhancement of the success of the organization are to be carried out by the people.

A clear picture can be visible due to the rapid growth of the Japanese companies throughout 1970s and 1980s where the needs of the companies match with the needs of the employees. By integrating companies' needs and employee needs, the company is a more profitable position since it will obtain higher productivity by the help of the employees and also in return it gives back the employees with a better quality work environment. Changes in the work place create new challenges for both the employees and also for the company. This creates new opportunities for the workers and these new challenges will guide the workers to find out new practices that will meet the needs of the constantly changing work environment. HRA performs a significant role in the performance of the firms listed in the Nairobi Stock Exchange. A research was done on 40 companies listed in Nairobi Stock Exchange; it was found that most of the listed companies conduct HRA.

So, globally HRA practices take place in some of the companies. By conducting HRAP which is a part of the audit cycle of the organization, human resource department transforms the organization into a very effective and efficient one.

#### **4. Conclusion**

For human resource departments to operate efficiently within today's challenging and globalised economy for their growth in the future, they need a good number of talented and skilled employees, management planning capabilities and also a good work environment. Strong planning and management capabilities provides information to the business managers to attract, develop and retain the best people for ensuring success of the business and to move business forward. By using wide range of employees and their skills and talents efficiencies are gained, costs can be reduced and their quality of workforce can be improved. More and more timely and accurate data can be produced by the help of the human resources working with their dedications in the organization. Traditionally, human resource focused mainly on administrative functions.

However, due to technological advancements, administrative tasks have been reduced and human resource shifted its functions from administration to its strategic planning and development. Employee's talents and efforts have a direct impact on the productivity of the business. When these efforts are not viewed by the business or neglected by them, at that time, lack of commitment and sincerity are found among the workers. Thus, the employees will not be motivated and will not give their best efforts and this will lead the organization towards failure. Employees today are looking for development, opportunities, future career options, empowerment and work-life balance in an organization. To maintain the leadership position, the company continuously innovates and customizes its human resource strategy to meet the changing employee needs. HRAP is very much required for evaluating real position of any organization. In HRA, all the important areas of the organization is analyzed and feedback is taken by the auditor. In other words, it is a systematic review of all the parts of human resources.

Further HRA focuses on the areas of weakness and strengths and helps to find a solution for the weaknesses. The main area of HRA is that it newly discovers the potential areas inside the business and after that promotes for the future growth of the company. Hence, HRA is a part and parcel of every organization. The systematic application of HRA helps to achieve the overall development of any organization. Findings of research are to be compiled in a particular report so that it can give a clear picture of the organization's human resource activities. It includes not only the detailed results of audit but also a list of recommended and suggested actions. It helps the employer to take corrective action on the basis of the report. Thus human resource valuation and audit both will be helpful in improving the efficiency of human resources in the changing business scenario.

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