

A framework for auditing HR: strengthening the role of HR in the organisation

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Abstract

Purpose – *This paper aims to propose that a new approach to human resource (HR) audit is needed. It also aims to explain the new approach and introduce a range of tools to support it.*

Design/methodology/approach – *The paper reviews traditional and existing common approaches, identifies the shortcomings of these, and proposes a new framework based on business contribution.*

Findings – *Existing approaches to HR audit do not reflect the current aspirations and rhetoric on HR practices as promoted by Holbeche, and Ulrich et al. This emphasises the need for a new approach.*

Practical implications – *The work proposes a new framework to assess HR activity against alignment and contribution to organisation strategy and goals, as well as the prevailing culture, thus forcing HR audit to move beyond legal compliance of HR practices. A range of processes, tools and techniques are identified.*

Originality/value – *The paper contains a completely new approach (the authors assert) to HR audit which is more rigorous and wide ranging in scope. It moves HR audit away from legal compliance to increasing the HR contribution to the organisation, thereby creating improved business performance.*

Keywords *Human resources, Audit, Benchmarking, Impact, Evaluating, Performance, Human resource management, Auditing, Performance management*

Paper type *General review*

How organisations can benefit by growing the impact of human resources management to support their purpose and aim.

1. Introduction

A human resources management audit can assess how current human resources and employment management arrangements contribute to the purpose and aims of the organisation and how these arrangements support stability and manage the obligations and expectations. It is essentially a comparison of “what is”, and “what should be”. This presents two fundamental challenges – measuring “what is”, and defining “what should be”. We argue that traditional models are too insular to achieve this, and most processes too limited in their scope. We therefore propose a new model and process to human resources (HR) audit.

1.1 Traditional approaches to HR audit

An HR audit can be described as “a systematic, formal evaluation of all human resource policies and programmes in an organization” (Hercus and Oades, 1983), which is an internally focused review of the HR activity. Rothwell and Kazanas (1994) take a wider view, suggesting that the audit concerns itself with the extent to which the HR activity supports, and is consistent with, the purpose of the organisation it serves – a more external approach. Yet our experience, the many documented models, and the approaches offered by those who promote HR audit, do not bear this out.

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Traditionally, the approach has been internally focused – assessing the compliance of the HR function to regulatory requirements, efficiency of processes and staff, the effectiveness of processes when measured against ratios eg staff turnover, and the service levels to the organisation. The models proposed by Weisbord (1978 (Six Box Model)); Hornstein and Tichy (1973), and Lawrence and Lorsch (1967) all follow this approach. Some early models do look beyond the internal operations of the HR function, for example Levinson's (1972) Clinical Approach, the Nadler and Tushman (1977) model, and Kotter's (1978) Seven Circle Model; yet the extent to which they focus on how the HR function interacts with the external environment is limited to measuring the response to or support for change, and the quality of relationships with service users.

Moving into the twenty-first century, Holbeche (2001) claims that "What chief executives require is someone who can translate the organisational needs back into business language and help executives with what must be done to people if the business strategies are to be achieved." Ulrich and Brockbank (2005) go further: "The HR value proposition means that HR practices, departments, and professionals produce positive outcomes for key stakeholders – employees, line managers, customers, and investors." In other words, a successful HR activity produces contribution to the organisation's goals, and within the prevailing culture.

Yet even the audit process proposed by Sacht (2001) based on Ulrich's four key principles of HR (line management friendly systems, line management legal compliance, implementing HR strategy to increase workforce value, and effective procedures) is still internally focused on the HR environment, auditing:

- The functional role – systems, HR management and provision of information.
- The service role – customer service and responsiveness.
- Compliance – legal.
- Strategic – workforce development and increasing value.

To assess if modern audit practice has changed to meet these wider definitions of successful HR, we recently reviewed 12 providers of specialist HR audit services, and found that the audit offered covered the areas shown in Table I.

So professionally offered audit is primarily:

- An internally oriented activity, focusing on best practice and compliance.
- Carried out in isolation from the organisation in which it operates
- A problem or problem avoidance approach, not an improvement/benefits approach

Whilst most of the providers surveyed above produced results or reports, only two offered an action/improvement plan.

So despite the recent thinking that successful HR is about bringing benefit and contribution to the organisation in which it operates, current audit thinking and practices do not, by and large, conform to the rhetoric, and would appear to have changed little over the last 30

Table I	
<i>Activity/focus</i>	<i>%</i>
Legal compliance	100
Practices – efficiency, effectiveness, and best practice	60
Management of HR function/professionalism	25
Organisational alignment/contribution	25
Benchmarking to ratios, etc.	16
Customer confidence/service	16
Job descriptions	8
Training evaluation/validation	8

“[...] current audit thinking and practices do not, by and large, conform to the rhetoric, and would appear to have changed little over the last 30 years.”

years. Indeed, the latest publication on HR auditing by McConnell (2011) proposes an entirely “practices and compliance checklist” process with little regard for the contribution HR may actually make, or even undermine, to the success of the organisation in which it operates. We must therefore conclude that current audit practices fall short of the aspirations for successful HR in the twenty-first century as proposed by Holbeche, Ulrich and Brockbank by ignoring the organisational context such as goals and culture.

1.2 A new model for HR audit

The approach proposed below is to assess current HR and associated operational procedures and practices in relation to the organisational aims and culture. Practices are ongoing streams of activity such as recruitment, remuneration, learning and development, and employee relations. This encompasses the internal approaches traditionally promoted above, and introduces new external factors which go to the heart of why the HR function exists. Issues, potential actions and an assessment of priorities can then be identified. These together would lead to the creation of a plan and timetable for implementation of selected options. It is both a model of audit, and a process as a means of achieving valued outcomes.

2. The HR audit framework – the model

Traditional HR audits have focused on the HR activity internally, in isolation from the context (see 1.1 above). This centres on “doing things right”:

2.1 Traditional (“do it right”)

- Legal compliance.
- To identify potential serious problems (away from focus).
- To identify areas for potential improvement of practices (towards focus).
- To identify under-utilisation of HR resource.

This approach relies on finding authoritative criteria or benchmark standards, such as sector ratios and HR best practice, which can be difficult to define or inappropriate to apply (see 2.4 below). It also disregards the context of operations, and the value created (or not) by activities.

We propose an audit framework that seeks to measure and assess if HR is “doing the right things” to promote stability and enable the organisation to reach its goals:

2.2 Our approach (“do the right things”)

The above plus:

- To assess value for money.
- To ensure HR activity is aligned and contributes to organisational goals.
- To improve effectiveness of an organisation through contribution to goals.
- To ensure HR activity is aligned to the culture and practices of the organisation context.
- To ensure the basis for stability in workforce management – and doing the right things that enable any flux or turbulence or other events or decisions affecting the stability to be controlled and managed.

This is a holistic approach which recognises the interconnected nature of operations; HR does not and cannot operate effectively in a vacuum.

We set both these approaches aside from the act of due diligence, which is the investigation and examination of a business activity prior to contractual relations.

We summarise our holistic approach to HR audit as the HR audit framework, as shown in Figure 1.

2.3 The basis for HR audit framework application

The stimulus for applying the audit framework may come from a number of sources but in our experience it typically arises from the awareness of an issue or concern. Often, the audit of the HR activity will be prompted when issues are already needing urgent management attention; these issues will need to be addressed either alongside or before the audit can take place, to ensure continuity of operations in the short term. Sometimes dealing with an issue itself will highlight areas of audit focus, for example lack of or poor use of procedures to support people management in the organisation. However audit should not be limited to this issue alone if the operation is to be considered in as a holistic activity.

We would suggest that an organisation seeking to manage its operations effectively, and realise output potential whether goods or services, should undertake periodic HR audit as a matter of good management.

The benefits of a more holistic HR audit as we propose are:

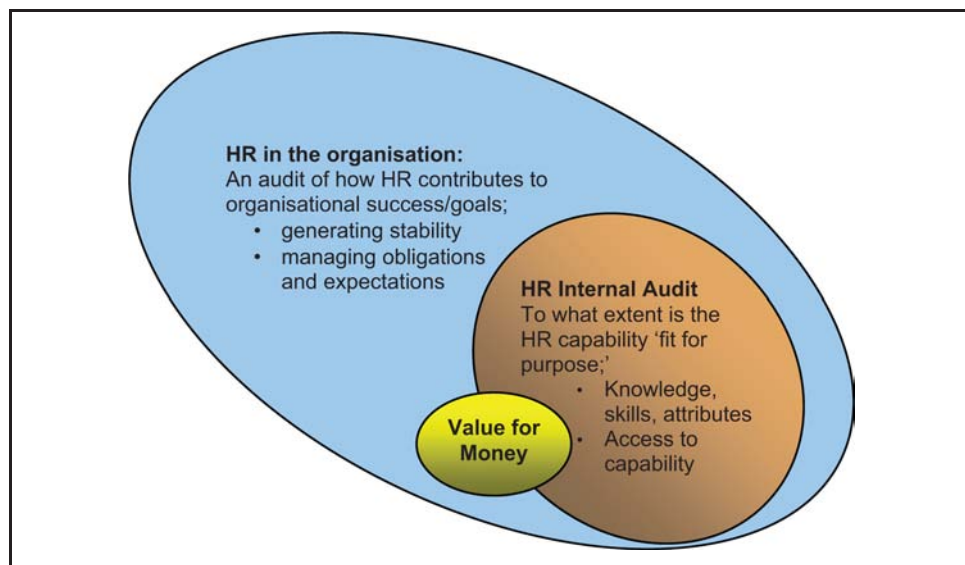
- An assurance that HR practices support rather than undermine organisational aims.
- The elimination of wasteful or unnecessary HR practices.
- The use of HR practices that are consistent with the culture and values of the organisation, or consistent with the desired culture in times of change.

These are outcomes much more in line with the modern role of HR as proposed by Holbeche, Ulrich and Brockbank above, and in addition treat HR as integral to organisational performance.

2.4 HR audit framework and benchmark standards

There are existing difficulties with traditional auditing HR activity:

Figure 1 HR audit framework



- No single set of benchmarks or standards exist; we have ACAS Codes of Practice, Public Sector Regulatory and Governance requirements, Statute and EU Regulatory requirements, sector performance ratios, and professional best practice, to name a few.
- No one single benchmark or set of standards is fully applicable to all types and sizes of organisations; sector and best practice comparisons may not be what delivers success to the organisation under review.
- Benchmarks and standards are unlikely to predict the impact of a HR activity or practice on organisational effectiveness, without due examination of the prevailing culture.

The HR audit framework provides for a systematic examination of the workings of any organisation, business, etc., especially with regard to the economical use of resources and worthiness of product or result – that is the provision and productive activities of the HR department/capability – within a given environment.

It is capable of using and integrating a range of applicable recognised internal or external benchmarks or standards – and the audit assessment can assess against such standards, then apply the appropriate interpretation for a given size and nature of a firm.

3. The HR audit framework components – the process

The components of the HR audit framework consist of:

- the HR audit concept;
- three-stage methodology; and
- tools and techniques.

3.1 *The HR audit concept*

Human resources management within an employing organisation takes place within a specific context, the context of an economic organisation with a well-known purpose and related strategic, operational and financial objectives. The procedure systems and practices of HR and workforce management need to be aligned with the business, the employment of people, and within the circumstances of how the employment relationship operates.

HR needs to ensure there is in place an infrastructure of HR and employment policies and procedures covering, typically recruitment and selection, performance management, employee relations, learning and development, and administration and recording. HR departments will need to ensure that their organisations attract, develop, compensate and retain the people they need to support the essential purpose and operations of the firm and to enable the firm to achieve its objectives. The purpose HR is to create and maintain stability in the firm's workforce and in workforce management. HR must be able to balance current and future business needs to ensure that the workforce is appropriate and effective on delivering what the firm requires. They also need to ensure legal compliance.

The relationship between a firm and an individual involves a set of obligations involving expectations and mutual reliance creating a position of dynamic social equilibrium which gives rise to commitment and trust. The obligations derive from both the transactional (complete) contract and the relational (incomplete) contract. The incomplete contract relates to the expectation that an employee will be supported by, typically; good work relationships, opportunities for training and development, and the exercise of discretion in carrying out the job in harmony with other people and management. All these are carried out within both overt and covert prevailing values which underpin the behaviour and manner of operation in an organisation.

HR needs to be part of and in close relationships with the senior management group to ensure that the management of the workforce is able to support the overall business strategy. In the event of any flux of turbulence affecting the workforce or the business, then HR will need to react to ensure that effective and appropriate remedial action is taken. Where major change is contemplated then it is the role of HR to participate in the planning of the

change and in implementing the planned change manage the transition for a previous position of stability to a new position of stability.

The HR audit framework can be especially useful in the situation of change or where a firm has grown to a size where the initial human resources management systems and procedures may be in need to review and strengthening to respond to the expansion of the business.

The aim of the HR audit is to determine the extent of:

- co-ordination with the organisational context;
- efficiency within the HR practices;
- the effectiveness of HR practices; and
- the value for money offered.

To do this, we focus on three key aspects of the situation (see Figure 2):

1. Aims of the organisation: the main or strategic aims of the organisation, what it seeks to achieve and how it wishes to achieve this; may include market or other environmental factors, typically expressed as a business plan or strategy.
2. HR practices: what HR does, the impact it has on, and the relevance to, the organisation; how these “fit” with the culture. The efficiency and effectiveness of these practices.
3. Prevailing culture/values: the capability to exercise and integrate/exploit HR practices and achieve organisation aims.

The audit seeks to assess how well each of these three aspects is integrated with each other. A fully-integrated organisation will have clear aims that are underpinned by appropriate and effective HR practices, and a culture which will enable these two to operate.

The application of the HR audit framework involves a three-stage methodology together with associated tools and techniques.

3.2 Three-stage methodology

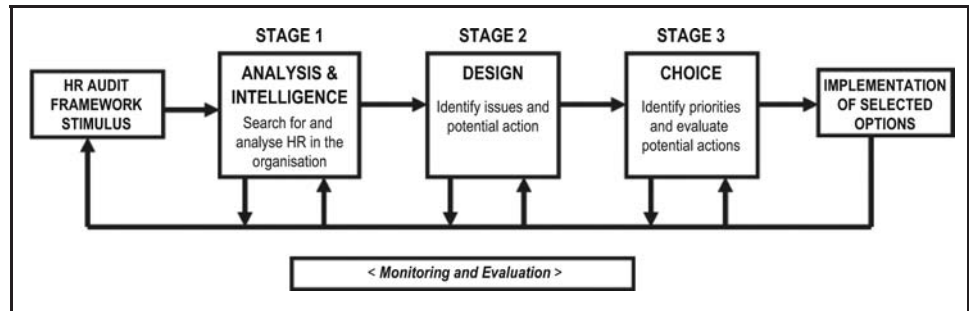
We propose a three-stage audit process, integrated with monitoring and evaluation (see Figure 3). Each stage is supported by a series of tools and techniques (see 3.3 below).

3.2.1 Stage 1 – analysis and intelligence. The search for what provision and practices exists at present and how such provision or absence of a necessary provision operates. The aim to assess the “what is” situation; what is done, in practice, by whom, and when. It goes beyond just reviewing HR as an entity, for example legal compliance, HR strategy statements, HR capability and documentation, as it includes the operational goals and strategic aspirations of the organisation, evidence of values and cultural norms, and how these integrate with HR practices – the beginning of identifying “what should be”.

Figure 2 HR audit concept



Figure 3 Three stage methodology



3.2.2 Stage 2 – design. The identification of gaps or convergence between “what is” and “what should be”. The HR audit concept is used here to determine specific areas of concern, and those aspects functioning in harmony with the aims and culture of the organisation. This stage forms the basis for identifying the choices available to the organisation to preserve existing effective HR practices, and the opportunities to improve HR support of the organisation. The output of this stage is described in 3.3.2 below.

3.2.3 Stage 3 – choice. The arrangements for making fresh provision by evaluating potential options and prioritising specific actions. The emphasis here is on identifying those actions which generate the most impact for the organisation, and those with which they feel most engaged. We would not expect an organisation to action all the outputs from Stage 2, and the main concern here is that the organisation takes control and responsibility for its future actions to improve HR support of the organisation.

We acknowledge that the methodology requires at least a reasonable degree of cooperation in order to carry it through effectively. This is consistent with our notion that HR audit is a business improvement tool, not a HR evaluation event carried out in isolation.

3.3 Tools and techniques

Each stage is supported by a range of tools and techniques to aid diagnostics and decision making:

3.3.1 Stage 1 – analysis. This stage typically includes desk research, observation, questionnaires or surveys, critical incident techniques, interviews, Delphi technique, focus groups, flow charts and any existing records. Tools can include assessing HR compliance to legal requirements, HR competence and capability analysis, tracking the interactions between HR and managers, and the cost/value indicators, as well as examination of organisational goals, cultural norms and belief systems, and business/market or environmental drivers. The emphasis is on data collection, both documented and behavioural, to feed into stage 2.

3.3.2 Stage 2 – design. The design stage identifies the outcomes of the stage 1 analysis and assigns them to one of seven possible types of results, based on the HR audit concept:

1. A = unsupported organisation focus – no HR support for organisational aims.
2. B = non-contributory HR practices – wasted HR effort.
3. C = unhelpful cultural norms and values – aspects that prevent HR and organisational effectiveness.
4. D = jeopardised activity – effective HR practices unsupported by the culture.
5. E = unsupported congruent activity – where HR needs to develop practices.
6. F = practices without contribution – “HR bad habits” which promote an unhelpful culture likely to undermine organisational success.
7. G = fully integrated and effective HR practices – no action required.

These groupings will form the basis of the reporting back to the organisation, and identify the basis for action, but are not of themselves actions. This comes from stage 3.

3.3.3 *Stage 3 – choice*. The tools for this stage include:

1. Coding to prioritise potential actions:
 - (Red) high priority – key requirements that are absolutely essential for success and must receive high priority.
 - (Amber) high improvement – factors that are clearly necessary for success and which must receive some attention.
 - (Green) optional improvement – factors of little immediate concern to top management.
 - (Blue) pre-emptive action – avoiding future problems in execution of business development and workforce management.
2. Effort/impact analysis to quickly evaluate potential solutions to selected actions on the basis of the size of the impact and the degree of effort required, and decide:
 - Box 1 – implement immediately.
 - Box 2 – items for detailed action planning – start now for long-term success.
 - Box 3 – do it if you have the time and resources.
 - Box 4 – disregard.
3. Setting effective objectives for selected solutions:
 - *Time scale.*
 - *Outcome.*
 - *Resources.*
 - *Control.*
 - *How.*
4. Implementation and monitoring plan to provide a managed approach to resourcing and implementing those actions selected (Figure 4).

4. Restrictions on HR audit

The HR audit framework is designed to be used in organisations where there is an interdependent relationship between HR and the organisation – that is, each depends on the other to be effective. We see this as not necessarily the same in some contracted HR services, where assessment of HR effectiveness may be restricted to:

- Comparing the “value benefit” of contracted HR services – the up front bottom line cost only.
- Comparing (“auditing”) according to contract cost/services received as opposed to organisational benefit.
- Using service level agreements within outsourcing contracts as a criterion for audit.

“The major aim of the HR Audit Framework approach is to strengthen the role and contribution of HR to the organisation in which it sits, and therefore promote rather than undermine organisational performance.”

Figure 4 Implementation and monitoring plan

Activity	WEEK 1	WEEK 2	WEEK 3	WEEK 4	WEEK 5	WEEK 6	WEEK ...	WEEK ...	WEEK ...	Who	When	Resources	Dependencies	Notes
Action 1	←→													
Action 2		←→												
Action 3					←→									
Action 4			←→											
Action 5														
Action ...														

Note: Depending on the actions identified and selected, this Plan may encompass a few weeks to 2-3 years

We are not therefore proposing that the HR audit framework is used in contracted out HR transactional services where service level agreements or contractual indicators only may be the main drivers for measuring transactional HR contribution to the organisation. However the HR audit framework would be of value in those situations for measuring the impact and effectiveness of HR business partnerships within the organisation, and identifying potential improvement routes.

5. Benefits of using the HR audit framework

We argue that to audit the effectiveness of HR as integral to organisational success leads to:

- A reduction in problem and situation uncertainty.
- An increase in the number of available solution alternatives.
- A focus on productive solutions – so that the implementation will stand the test of time.
- A more efficient utilisation of individual abilities – by improving human resource management effectiveness and opening up new opportunities for supporting stability and future response to change.
- An increase in competitive advantage through enhanced workforce management.
- An overall improvement in organisational performance.

The major aim of the HR Audit Framework approach is to strengthen the role and contribution of HR to the organisation in which it sits, and therefore promote rather than undermine organisational performance. This should not be confused with increasing HR resources or influence, and the outcome of an audit could be to reshape, remove or reorganise HR provision to more closely align to the business. The benefit to the HR professional is greater impact and relevance to the organisation. The benefit to the organisation is improved performance.

6. The HR audit framework in practice

The following are brief examples of how we have used the HM Audit Framework approach to assist organisations to achieve improved performance through HR:

6.1 Case study 1

A product and distribution company, built up over eight years to a turnover of over £12m and an over 55 UK employees. Its products sell in both the UK and on other countries in Europe, South America and Asia. The HR audit framework carried through the sequence of HR audit framework stages and identified that the HR infrastructure need to be replenished with new or revised schemes and procedures (design stage outcome “A” – unsupported organisation focus). The member of the board of directors responsible for workforce management was better placed to manage the employment relationships with less demand on time and also produced guidelines for the planning and consultation with staff on changes. The latter point was very important as the company was continuing to advance incremental innovations related to the main thrust of its product penetration and to improve efficiency at all stages of the production, sales and distribution processes. The analysis identified that the HR capability required to be reinforced with enhance organisational focus with improved alignment and support for the aims of the business. Appropriate options were identified so as to ensure high priority to achieve the required HR capability which was implemented by a systematic plan. The plan was formulated with objectives for the selected solutions based on the “TORCH” method of setting effective objectives.

6.2 Case study 2

A logistics company that wins contracts to run warehouse capacity and to provide transport for distribution and deliveries. People were transferred from a previous contractor in a unionised environment with a style of workforce management that was insecure and difficult with the kind of practices. The HR audit framework carried out a complete review of both the current arrangements and identified issues and options for potential action (design stage outcome “B” – non-contributory HR practices). The options for action included the creation of a comprehensive and more appropriate range of HR policies and practices, improved clarity in the procedural relationship with the recognised trade union and engendered a more collaborative management approach. Implementation helped transferred employees to quickly identify with the new employer, generated a good cooperative atmosphere which ensured both stability and effective management and coordination of all aspects of the business including excellent customer relationships. The outcomes following analysis recognised that the focused on the problem of non-contributory HR practices with a degree of ineffectual activity which formed the content of an implementation plan with “TORCH” objectives.

6.3 Case study 3

NHS PCT experiencing a merger and shift of services wanted to adjust policies and procedures to fit new working patterns. The HR Audit Framework reviewed the proposed changes and identified that the prevailing culture and working practices were out of step and likely to undermine the changes, meaning that practices were likely to change in name only (design stage outcome “D” – a jeopardised activity). Using both the colour coding for potential actions, and TORCH to refine those selected, a series of management development workshops promoted and developed the new working behaviours required; in addition, a number of key business processes around communication, reward and recruitment were implemented to support the shift in culture, making good use of the effort/impact analysis.

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