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HR AUDIT: AN EVALUATION OF HR PRACTICES**MARIAM AHMED****INSTRUCTOR****DEPARTMENT OF MANAGEMENT SCIENCES****VIRTUAL UNIVERSITY OF PAKISTAN****LAHORE****ABSTRACT**

The main purpose of this paper is to evaluate the performance of HR department by appraising its practices through HR audit and to find out the role of HR department in achieving the overall objectives of business. Descon Engineering and Construction Company is chosen as case study. In this HR Audit, the primary data has been gathered from the employees of the company by using interview technique and interview questions have been adopted from the developed Department Organization Questionnaire especially designed for HR audit. The secondary data has been collected by analyzing the documents of the company regarding policies and procedures. The sample size is consisted of twelve employees of different departments from middle and front-line level through purposive sampling. The Comparative approach has been used for data analysis. The data analysis shows that Descon has formal and well-established HR department and practices. These practices are well-aligned with the needs of the organization and very supportive in achieving the goals of the organization which is shown by the company's growth trend in terms of profit and the company as a whole. The turn over rate of the HR, finance and marketing departments is very low and equal to 1% whereas other departments have high turn-over which is 10-20% due to the project based nature of the company. The company is on the way of achieving its business strategy with the help of HR practices and policies.

KEYWORDS

Descon Ltd, Engineering & Construction Sector, Evaluation, Human Resource Audit, Human Resource Practices.

INTRODUCTION

The Human Resource department of an organization has several responsibilities. The main duties of this department are employee recruitment & selection, development, evaluation, compensation and employee relations. The role of Human Resource department is changing and amplifying with the increasing diversity of the human resource in the organizations and multifaceted legal and ethical issues in global organizations. In a nutshell, today the Human Resource department is playing its role towards organization as well as towards the society in which it operates. For fulfilling these multidimensional responsibilities, it is necessary to evaluate the performance of Human Resource department at regular intervals for measuring its effectiveness and efficiency for achieving the goals of organization. This evaluation of HR department and its practices is done through the process of HR Audit which tells the organization about its present standing and condition.

HR audit is conducted in the organization to review and assess the quality of human resource practices and policies. The team of HR audit consists of HR experts and consultants evaluate the activities of HR department in terms of effectiveness and efficiency. They appraise the role of HR department in achieving the strategy of the organization through this audit. The major quantifiable deliverables of HR audit are satisfaction of employees regarding the HR practices and policies, minimize the regulatory fines and law suits, increase in efficiency and effectiveness, clarity and understanding of employees regarding the HR functions and procedures, low turn-over rate and high retention of best employees.

The main purpose of this paper is to evaluate the performance of HR department of chosen organization by appraising its practices through HR audit and to find out the role of HR department in achieving the overall objectives of business. As Frans (1999) explicates Human Resource Audit as a measure to take snapshot of the HR department's current performance for further improvement in its systems and procedures for enhancing the efficiency and effectiveness of the organization in general. Therefore, this paper analyzes the performance of HR department of chosen organization by assessing its practices and policies and the role of this department in the overall growth of the organization.

LITERATURE REVIEW

Today's role of Human Resource department is more pro-active and it has responsibility to find out the causes of employee dissatisfaction and mismanagement. If there is need to scan the environment for identifying the changing trends of the business practices, there is also a need of using a research based approach to evaluating Human Resource activities (Lengnick & Lengnick, 1988) and it can be achieved by widening the scope of the Human Resource audit so that it covers the corporate strategy, the Human Resource function, managerial conformity and employee satisfaction (Florkowski & Schuler, 1994).

Human Resources have an ultimate and significant role in meeting the organization's corporate strategy. Organizations are consisted of people and the main responsibility of Human Resource department is to find the right people for the right jobs so that the organization can gain a competitive edge in the marketplace. Understanding the organization's corporate strategy is very much important for planning, staffing, compensation, employee relations and retention, training and other Human Resource activities. Human Resources are effective for the organization only when they contribute to the firm's strategic goals. It is necessary for Human Resource department to learn about the firm's overall strategy through interviews with key executives, review of long-range business plans, and logical scanning of the environment to reveal changing trend for its effective and efficient role in the organization (Wright & Snell, 1998).

Human Resource audit is a rational evaluation of the working of the Human Resource department. It must reviews all the key practices of Human Resource Management like Human Resource Planning, Job Analysis, Compensation Management, Affirmative Action, Recruitment & Selection, Training & Development, Orientation, Career Development, Performance Appraisals and Labor Management Relations (Werther & Davis, 2000).

Human Resource Audit basically identifies the gaps between the policies and practices followed by the Human Resource Department. Large organizations carry out Human Resource Audits almost in the same manner as financial audits. They appoint a team of experts who have the indispensable functional experience in one or more specific areas. The best way to begin the Human Resource audit is to evaluate the past audit reports, or on the basis of functions performed by the Human Resource department (Werther & Davis, 2000).

The next step of audit team is to identify who is responsible for each activity of the department and determines the objectives of each activity. The team appraises the policies and procedures used in the organization regarding the Human Resource Management and get the sample of available records to find if the policies and procedures are being followed or not and prepare an audit report including proper objectives, policies and procedures. A complete action plan is being developed on the basis of analysis of objectives, policies and procedures, the errors in the objectives if any are being corrected and follow up on the action plan at a later stage to see it has worked or not (Lengnick & Lengnick, 1988).

The audit team starts the Human Resource audit with the gathering of data from workers to find out how well their needs are being met. Employee feedback and information is gathered on wages, benefits, supervision, career planning, and performance appraisals. The effectiveness of the Human Resource department can be judged by its ability to meet the employee's needs as well as serving the organization's interests at the same time. Employee actions including turnover, absenteeism and unionism are more likely to occur when their needs are not being met (Lengnick & Lengnick, 1988).

The Human Resource head reviews the overall performance of his/ her department and its role in the organization. The comprehensive report is developed contains a summary of all the information given to the operating managers and staff specialists. The Human Resource head collects the feedback about the

attitudes of operating managers and employees regarding the department's benefits and services, analyzes the departmental goals and plans to achieve them, human resource problems and their consequences, suggestions for required changes and the priority for their implementation (Werther & Davis, 2000).

TOOLS OF HR AUDIT

In a Comparative Approach, another company or unit that has more developed practices or results is chosen as the model. The audit team audits and weighs against the audited firm's results with the best practices of the model organization. This approach is normally used to match the results of some certain activities or programs. This approach is usually used for comparing the results of turnover, absenteeism, salary data and staffing levels. It helps to identify areas for improvement. It also makes sense to compare where a procedure is being used for the first time (Blair & Meshulam, 1998).

In the Outside Authority Approach, standards set by a consultant or taken from published research findings are used as the benchmark for the audit team. The consultant or research findings may help to diagnose the cause of troubles (Werther & Davis, 2000).

The Statistical Approach depends on performance measures drawn from the company's existing information system. From existing records, the audit team creates statistical standards against which activities and programs are appraised. With the mathematical standards as a base, the team may discover errors while they are still minor. For example, by tracking and managing turnover and absenteeism rates from one period to another, the team can compare and analyze the data to see how well Human Resource and operating managers control these problem areas. Often this approach is supplemented with comparative data from external sources such as other firms, or industry association surveys. The information is usually expressed in ratios or formulas that are easy to compute and use (Martocchio, 2001).

With the Compliance Approach, the auditor reviews past practices, to determine if actions taken followed legal requirements and company policies and procedures. The audit team here often examines a sample of employment, compensation, discipline and employee appraisal forms. The purpose of the review is to ensure that the field offices and the operating managers have complied with internal rules and legal regulations, such as minimum wages and equal employment opportunity laws. By sampling elements of the Human Resources information system, the audit team looks for deviations from laws and company policies and procedures. The team can then determine the degree of compliance achieved (Wright, Gardner, Allen, 2005).

In the MBO (Management by Objectives) Approach, managers and specialists set objectives in their area of responsibility. Then they create specific goals against which this performance can be measured. The audit team investigates actual performance and compares it with the previously set objectives. They can then evaluate the trends in this area (Werther & Davis, 2000).

In actual practice, audit teams normally use several of the above strategies, depending on the specific activities under consideration. Feedback is then given to senior management, the operating managers and the employees. Unfavorable feedback leads to remedial action and development in the contribution of the Human Resource department (Wright et al, 2005).

The audit team uses a combination of several information-gathering tools to collect data about the firm's Human Resource activities. These tools include interviews, surveys, historical analysis, external information, Human Resource experiments and international audits. Each tool provides partial insights into the firm's activities. By using these tools skillfully, the audit team can get an insight into the effectiveness of the organization's Human Resource activities (Noe, 2002)

Interviews of employees and managers often provide audit teams with a powerful tool for collecting information about Human Resource activities and identifying areas that need improvement. Interviews can be conducted on both sides to determine the reasons for problems like turnover or absenteeism. Comments and criticisms from interviewees can help pinpoint perceptions and causes that will then form the basis for corrective action. Suggestions by interviewees may reveal ways of better dealing with the issues. Where criticisms are valid, changes should be made. Where the Human Resource department is correct however, employees may have to be educated and trained by explaining the reasons for the procedures in place that are a cause for concern (Werther & Davis, 2000).

Exit interviews are conducted with departing employees to learn their views and experiences with the organization. Questions asked along these lines are reviewed later to find out if there is a major cause for turnover, absenteeism, dissatisfaction etc. The Human Resource department must take an active interest in exit interviews. Some employees may be hesitant to pass judgment on and speak their mind. Reasons must be studied to determine if trends exist among employees of the organizations.

The scope for taking interviews is however time consuming and limited, therefore there is a trend among Human Resource departments to use questionnaires to widen the scope of their research. Survey Questionnaires may lead to more honest answers than face-to-face interviews. Attitude survey feedback can find answers to concerns (Werther & Davis, 2000).

An analysis of historical records can also reveal important trends. Compliance with laws and company policies and procedures can also be determined, as well as the success of action plans to remove points of concern. Specific areas that may be covered include employee safety and health, grievances, compensation, affirmative action, programs and policies. There may be a conflict between these laws and the organization's practices, however a proper study and analysis is helpful to level out these discrepancies and meet the organizational goals (Grip & Sieben, 2005).

External information can also be helpful in giving the audit team a perspective against which the firm's activities can be judged. Such information can be available from various public and private agencies and government departments. Examples include wages and salary surveys, employee turnover rates, workforce projections, future employment opportunities, and accident rates by professions that can serve as benchmarks for comparison purposes. Workforce demographics such as age, sex, education and racial composition are useful in evaluation of affirmative action programs. Some information may also be provided from consultant studies and research bureaus (Florkowski & Schuler, 1994).

Another tool available to the Human Resource audit team, especially in evaluating new programs and trends on which there is no available data for comparison purposes, is to themselves conduct a field experiment. In using the field experiment, the Human Resource audit team compares an experimental group with a control group, under realistic conditions. Such experimentation is usually employed in researching absenteeism, turnover, compensation, job satisfaction and safety activities. For example, in checking the effectiveness of a job safety program, the audit team may implement a safety-training program to half the supervisors (the experimental group). The other group (control group) contains supervisors that have not been given this training. The accident rates and safety records of both groups can be compared at a later stage, some months after the safety program has been concluded. If results reveal that the experimental group has a considerably lower accident rate and better safety record, there is evidence that the safety program was effective (Martocchio, 2001).

A cost benefit analysis will also be conducted to compare the costs of the training program with the benefits to the workers and the company. However the field experiment method can have some drawbacks. Managers may be hesitant to experiment with workers because of morale problems and potential dissatisfaction among those who were not selected. On the other hand, employees involved in the experiment may feel influenced. The experiment itself may be bewildered by changes in the work environment or simply by the two groups talking to each other about the experiment.

Once the audit has been concluded, the Human Resource audit team leader will compile the findings and recommendations of the audit team into a Human Resource Audit Report. This report is a comprehensive definition of the Human Resource activities and includes both commendations for effective practices and recommendations for improving practices that are less effective. Recognition of both good and bad practices is more balanced and makes room for wider acceptance of the report (Werther & Davis, 2000).

OBJECTIVES

- To study the HR practices of the chosen organization
- To compare the HR practices with the developed HR policies of the organization
- To identify the gaps between the policies and actual procedures and practices followed by HR department of the organization

SIGNIFICANCE

This study will explore the development of Human Resource departments in Pakistan. It will explain the importance given to HR practices in the engineering and construction sector of Pakistan and will elaborate the role and support of HR practices in the growth and profitability of Descon Ltd.

METHODOLOGY

Descon Engineering and Construction Company is chosen as case study. The primary data has been gathered from the employees of the company by using interview technique and interview questions have been adopted from the developed Department Organization Questionnaire especially designed for HR audit. The secondary data has been collected by analyzing the documents of the company regarding policies and procedures provided by the management of the organization. The population is all the employees of Descon whereas the sample size is consisted of twelve employees of different departments from middle and front-line level through purposive sampling. The Comparative approach has been used for data analysis. The HR practices of Descon have compared with the established theories of HR. In this way the gaps have identified between real world practices and theories of HR.

FINDINGS

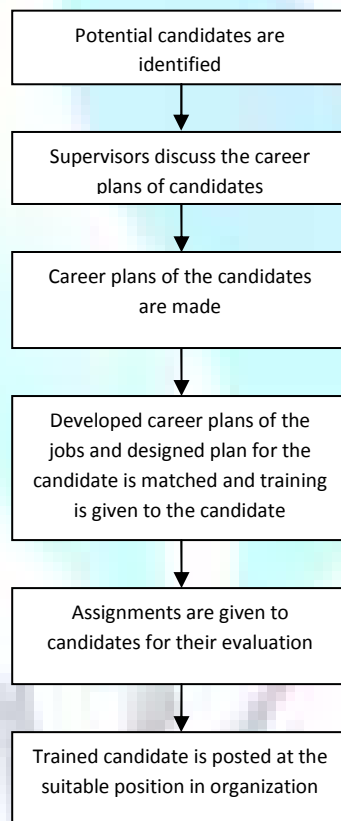
HR PLANNING AT DESCON

It has been found by interviewing the selected sample consists of employees of Descon that HRP of the company is very strong and well –aligned with the business strategy of the company. There is systematic process in which the needs of the organization and its human resources are reviewed in formal manner on monthly basis. The company also devises formal career plans on the basis of HR planning. The career counseling is also provided to the employees for future career aspects and succession planning is also important part of HR planning. The process of HRP is very supportive for the company for achieving its goals and objectives as it truly identifies and addresses the developmental and HR needs of the organization.

This research elucidates that the HR Staff rate the human resource planning process as five (5) – more than adequate but the other department would rate it as four (4) – adequate only. This is because of the there are so many small units of HR department in the different divisions and units along with the centralized HR department and other departments consider the HR department as cost creating unit. HR is not formally recognized in the business field therefore people do not understand the significance of this department in the growth of the organization.

The career planning process in Descon Ltd is explained by the following pictorial representation.

FIGURE 1.1: FORMAL CAREER PLANNING IN DESCON LTD



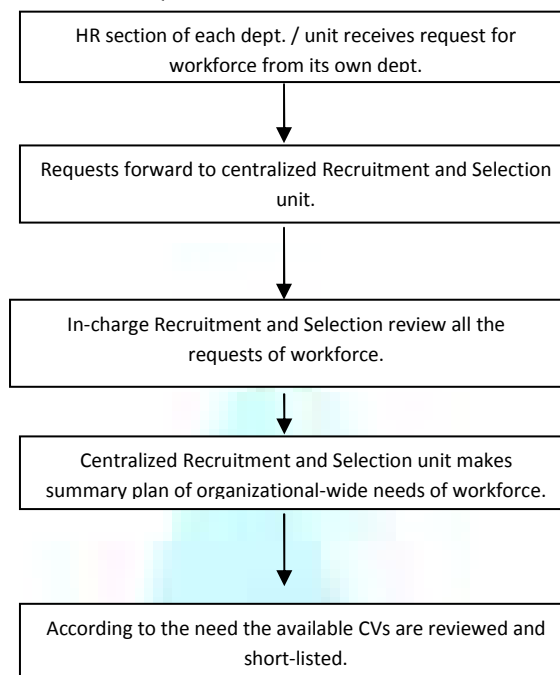
Source: Author Survey, 2009

RECRUITMENT & SELECTION AT DESCON

The recruitment and selection process of Descon is very systematic and comprehensive. It is linked with HR planning so strategic recruitment is carried out in this organization. This activity is handled by an independent unit named as Recruitment & Selection cell which is connected with the centralized HR department. There is a formal process for identifying job vacancies that is known as “Workforce Requirement Identification”. The potential candidates are properly screened and checked before hiring. They are interviewed three times before hiring. But there is one problem which has been highlighted after analyzing this practice that potential candidates have to wait too long for interview. In this way it is very hectic for the candidates to wait too much. It is because of the burden on HR department because this department hires too much employees during a month like a summary of hiring of one month of Descon shows that it hires forty employees in that particular month.

During this research, It is found that the HR Staff rate the effectiveness of recruitment and selection process as five (5) – more than adequate but the other department would rate it as four (4) – adequate because other departments consider that this activity can be handled by HR department so there is no need to develop an independent unit for this activity which is a cost for the company.

FIGURE 1.2: WORKFORCE REQUIREMENT IDENTIFICATION PROCESS AT DESCON LTD



Source: Author Survey, 2009

COMPENSATION SYSTEM AT DESCON

The content analysis of the information collected through the interview shows that Descon offers a healthy and attractive compensation package competitive to the market which enables the organization to attract talented candidate and retain potential employees. The market study is conducted to develop the competitive compensation package if data is not available on it.

For different levels of job, there exists different pay grades / pay slots in the pay plan of Descon. The HR department periodically ensures that the pay plan is in agreement and consistency with the organization's philosophy. If not, then corrective action is taken and for that, survey is conducted that includes the exist interviews of the left employees and feedback forms filled by the existing employees. The information gathered is validated and accordingly pay plans are designed or updated. All comparable jobs are reviewed for possible evidence of uneven treatment for females or minorities. Discriminatory practices are avoided as much as possible.

During our research, we come to know that all the Staff rate the effectiveness of the compensation system as five (5) - more than adequate which highlights the satisfaction of employees with the compensation plans of this organization for different jobs.

PERFORMANCE APPRAISAL SYSTEM AT DESCON

The performance appraisal system of Descon is very well-defined and proper. The proper appraisal form has been designed for the performance appraisal of the employees of Descon. The appraisal is well-aligned with the compensation policy of Descon but the biases can be added in the appraisal system because appraisal is only done by the immediate supervisor of the employee.

Objective setting for each job is given very high priority by the company. In appraisal interview, *the objective, interactive and meaningful feedback on performance* is provided to the employee. An individual's performance objectives are actually one part of departmental and organizational objectives. When individual fulfills those objectives, a part of departmental objectives is fulfilled and in turn organizational objectives are achieved. In short, performance objectives clearly support departmental and organizational objectives. These objectives and measurement criteria are clearly discussed with the individual being appraised. The individual is properly guided by the time as well.

The employees are informed two months before their appraisal is conducted. Usually it is appraised in Nov-Dec. When the appraisal of the employees has been conducted then there are appraisal interviews for giving feedback to the employees regarding their performance.

There are different methods used for the performance appraisal of the employees such as MBO, Universal Statements that are open-ended statements and Behavioral Assessments that includes Critical Incident technique and BARS. Mostly, MBO technique is used for the top-level employees. Sometimes, combination of methods is used to avoid errors.

The company has a pay-for-performance system for group as well as individual's performance and it is usually merit-based. Variable incentives are also used in some cases (mostly for labor) in order to reward the individual's performance. An outstanding performance is rewarded outstandingly in the form of increments, additional leaves and bonuses. Compensation increase is budgeted throughout the organization and there are guidelines for distribution that are clearly communicated. Management ensures the internal as well as external equity and fairness in rewards.

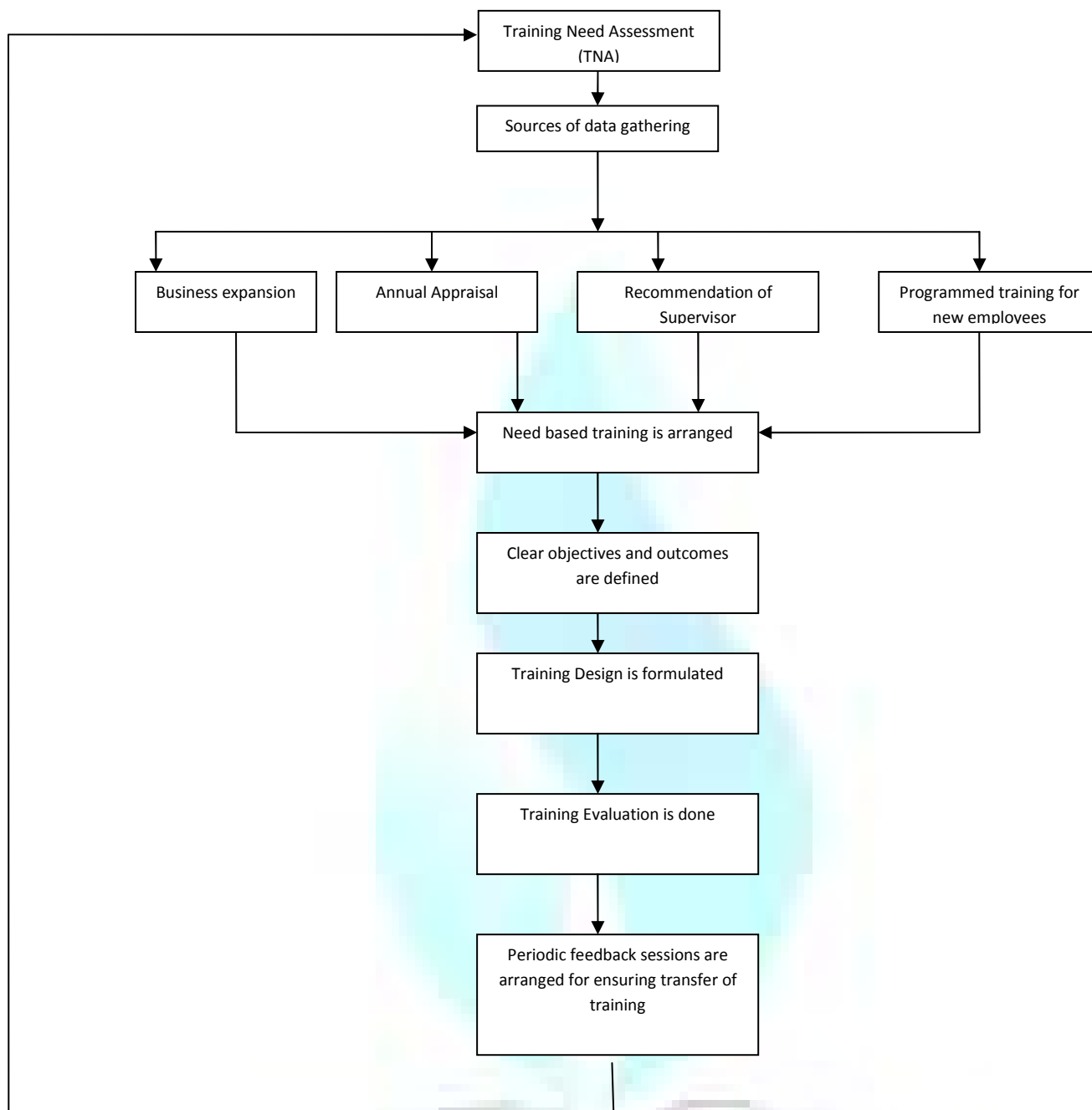
During this research, it is found that HR Staff rate the effectiveness of the appraisal system as five (5) - more than adequate but the other department would rate it as four (4) - adequate because they think that evaluation is only done by immediate supervisor which can include biases in the rating and it can damage the evaluation of person and finally it can affect their compensation plan as performance is linked with the compensation in this organization.

TRAINING & DEVELOPMENT AT DESCON

The interviews conducted with the employees of Descon show that Training & Development is very strong part of the company. It is a strategic advantage for the company to train its employees according to the latest needs and trends of the market. The company has given much importance to the training and development of the employees. The company also takes care of the transfer of training on the job and proper periodic feedback sessions are arranged for ensuring the transfer of training of employees on the job. The content analysis of interviews shows that there is proper Training Need Assessment (TNA) form designed for training need assessment but it is not used properly and the company only depends on the performance appraisal report of the employee and recommendation of the supervisor for training need assessment.

During this research, it is revealed that HR Staff rate the organization's training and development activities as six (6) - well developed but the other department would rate it as five (5) - more than adequate. This rating supports this claim that this company has strong Training & Development system. Overall, the employees and Training & Development team of Descon are highly satisfied with the training and development activities conducted for the employees in this organization. The following diagram shows the training module of this organization.

FIGURE 1.3: TRAINING MODULE OF DESCON LTD.



Source: Author Survey, 2009

LABOR RELATIONS AT DESCON LTD.

Descon Ltd is project-based company so there is no labor union in the company. All the labor which is used in the projects is contract-based so there is no labor relation department or manager in the company. But during the running project all the labor laws of Pakistan is applicable on the labor which is working in the project. These laws are related to leaves, pay scale, benefits and working hours.

DISCUSSION

The analysis of the information gathered through interviews with the sample of this study regarding the HR practices of the organization infers that overall the company is very successful in the engineering and construction sector. The profitability and company as a whole is on the trend of growth and the company has major construction projects like dams and others in both public and private sector. The company is also operating in different countries. There is a proper procedure for the identification of the job vacancies in the organization which is named as "workforce requirement identification process". Discrimination on any basis i-e gender, majority or minority in hiring and other HR practices, is avoided in Descon. The company has proper Training Need assessment procedure and TNA forms are devised in the company for the training need assessment of the employees. Developmental needs of the employees are also addressed formally as there is a section of "Recommended Trainings" in the appraisals form for this purpose. The investigation of HR practices and procedures followed in this organization reveals this fact that the formulated policies of HR in Descon are not implemented fully as they are devised and documented in the policy manuals. There is proper policy for using the training need assessment (TNA) form but in actual state of affairs TNA form is not used in the company. The training need assessment of employees is only done through performance appraisal of the employees and on the recommendation of the supervisors. Only paper-pencil test of employees are taken for selection. This is a weakness because you can not judge the capabilities of a person on the basis of single one test. Test for selection is only taken of the fresh graduates. It should be taken of all the potential applicants.

The company has a pay-for-performance system and it is usually merit-based. There is also profit sharing rewards for employees on the basis of organizational profitability. The turn over rate of HR, finance and marketing departments of the company is very low which is equal to 1%. This means that the employees of

these departments of the company are very much committed with the company and they are satisfied with the policies and practices of the organization. The turn-over rate of other departments of the company like construction, engineering and manufacturing is very high which is 10-20%. This is due to the project based nature of the company and when projects are completed these employees switch over to other companies on high salary and benefits.

All the details regarding HR functions and practices show that there is well developed, formal and networked HR department in Descon along with the HR units in each department of the company. There are formal HR policies and procedures devised in Descon. These policies and procedures are well aligned with the requirements of the organizations. The employees of other departments of Descon rate the working of HR department less than adequate because they think that HR department is only a cost for the company not a profitable department like them. It is because of the less knowledge of all the employees about the significance of HR department in this organization and due to the general perception about this subject.

The working environment of Descon is very supportive and conducive for the employees for their learning, growth and development. Overall Descon follows the policies and procedures of HR which are well aligned with business strategy and these policies are beneficial for the company and it is shown through its growth trend. The capacity of attracting the potential candidates is high in Descon. The company is on the way of achieving its vision and mission as shown by all the above mentioned parameters.

CONCLUSION

Descon is multi-dimensional engineering and Construction Company. It is successful and profitable company of the engineering and construction sector of Pakistan. It has formal and well-established HR department and practices. These practices are well-aligned with the needs of the organization and very supportive in achieving the goals of the organization. The company is on the growth trend in terms of profit and the company as a whole which shows the success of the HR policies and procedures of the company. Descon has low turn-over rate of employees in HR, finance and marketing departments but in other departments the turn-over rate of employees is very high and this is a severe issues for the company and it should take measures for solving this problem. There are some weaknesses in HR practices which we have identified but overall company has strong alignment of HR practices and business strategy which is shown through its high attracting and hiring rate, growth and high profitability.

RECOMMENDATION & IMPLICATIONS

On the basis of analysis of the HR practices and policies followed at Descon Ltd, some recommendations have been made for its development and expansion. Only paper-pencil test is used for the recruitment of entry level positions along with the interview but some other type of tests should be used like personality test or general aptitude test for enhancing the credibility of the selection tool. It is mentioned that for applicants who are not in the city telephonic interviews are conducted, it should be avoided and there should be proper face to face interview conducted with the applicant. As operating in Middle-East, Descon should align their policies and strategies with that country's market and culture to gain strategic advantage in foreign market. The company should take measure to avoid high turn-over rate of manufacturing units by revising their compensation plans, by switching them to other projects to get them engaged in the company. This study has implications for all the stakeholders as it explains the importance given to Human Resource Management in the engineering and construction business of Pakistan. It also elaborates the role and support of HR practices in the growth and profitability of chosen organization i-e Descon Ltd. It will open the avenues for other researchers to evaluate and appraise the performance of HR department of other organizations operating in different business sectors for the improvement and development purpose and due to these type of studies researchers can create awareness among the business community of Pakistan about the significance of HR department in the organizations.

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