The Human Resource Audit as an Improvement Tool

Regardless of the type of company or the size of your HR department, the HR Audit is a simple, yet comprehensive tool to analyze and improve your effectiveness as a function.

The audit is made up of four main steps:

1) Define desired HR practices for your organization
2) Assess current practices against the criterion that you have established
3) Analyze the results
4) Establish improvement goals and take action

This simple four-step approach can be repeated as the annual planning and goal setting process occurs within your company. Progress can be measured against goals and a continuous improvement cycle naturally unfolds.

Purpose(s) of an Audit

The audit can serve any of the following purposes:

- To clarify desired practices of HR work and roles within the organization (HR Department, Line Managers).
- To establish a baseline for future improvement.
- To evaluate current effectiveness.
- To standardize practices across multiple sites within a division or company.
- To assess current knowledge and skills required of HR practitioners.
- To improve performance levels to key customers within the organization.

The Audit Process

Step One--Defining Audit Statements

Definition of desired HR practices can occur through in a variety of ways. A good starting point is to take some time and reflect on the legal requirements and programs that the department must administer. Simply listing them is a good first step. Next, consider your areas of responsibility and traditional HR practices covered by your function: They may include HR Planning, Staffing, Performance Management, Employee Relations, Compensation and Benefits, Training and Development, Safety and Wellness, Employee Surveys, and Communications. Finally, other areas to consider are company initiatives that the HR function may be required to support, i.e. internal customer requirements. Specifics are unique to your company, but examples could include supporting a Total Quality Management initiative, Team Based Work System, etc.
With this list in hand, a statement can be written about each major practice that you want to define. Typically, they are stated in the present tense and in a positive manner. The following examples illustrate these traits:

- The staffing process is documented so that the responsibility of each person in the process is clear and understood.
- Performance appraisals are completed for each employee in the organization.
- There is a train-the-trainer program for each major training program within the company.
- New employees complete a new hire orientation program of key company policies and procedures within the first 30 days of work.
- There is an issue resolution process that is well understood and used by employees.

As you may notice, definitions can be as complete or detailed, as the developer desires. In starting out, it is better to make more general statements and improve from year to year in those areas that you choose to raise the level of performance.

In summary, you may as many as 60-70 statements depending upon size of your company and the level of detail that you prefer to measure. Regardless of the number, you are developing a description of the level and quality of performance you desire for the Human Resource function.

Step Two--Assessing Current Practices

With the list of statements completed, the assessing current practices requires you to be objective. A good approach is to look for evidence that supports or refutes each statement made. Evidence may take the form of policies and procedures, output from employee surveys, interviews with key customers, data collection from a Human Resource Information System, reports issued to regulatory departments, statistics, etc.

The first time the assessment is made, it may become apparent that the definition in step one needs improvement or modification. These changes should be noted and made a part of the next "improvement cycle."

As you review the summary of statements and your assessment, there are several analysis that can help.

Step Three--Analyze the Results

It is important to recognize strengths and opportunities for improvement. As results are reviewed, themes will emerge around specific HR areas. For example, one company may be very strong in administration and managing legal requirements. On the other hand, it may need improvement in developing higher-level systems definition. Another company may be very strong in areas Safety, Security, and Training, but need improvement in Communication practices that run across the company.
Reviewing the data in a variety of perspectives is helpful to formulate a picture of overall HR performance against the audit. It can reflect the positive effect of actions taken in previous years as well as provide information for future actions.

It may become apparent that all definitions are 'not equal in importance' The effort required to meet the definition is one factor to consider. For example, having performance appraisals for all employees may require significant effort. On the other hand, if you already have a good new hire orientation program in place, that definition is more easily met.

The contribution that meeting a definition may have to the organization is another factor to consider. For example, supporting a company initiative like Total Quality Management may be more meaningful to the organization at this point in time than other statements.

In summary, the purpose of analysis is to sort through the areas of strength and opportunities for improvement in order to take positive action steps to improve the effectiveness of the HR function.

Step Four--Establish Improvement Goals and Take Action

The ideal time to complete an audit is just prior to the annual planning process. With audit information in hand, you can be poised to take advantage of your insights into setting next year's goals.

There are two aspects of setting goals: maintenance of current good practices and development of improved practices. Knowing the capacity and capability of the HR department and system is critical in developing a realistic plan. Good practices need to become a part of the HR system and 'baked in', so that they occur in a reliable, predictable fashion. Once a process or program has reached that level, then future development can occur more effectively.

With little discretionary time available, it is prudent to review the analysis of step three and decide which one or two areas will provide the greatest overall improvement for the HR function, its customers and the organization. These need to be the areas that goals are established for the next year.

This is the point in the audit process, where definitions are reviewed and modified to create a new and improved vision of the HR system as you wish it to be. Doing this on an annual basis allows practices to be improved and benefits shared.
Examples of improved HR measures using the Audit Process:

- OSHA incident rates
- Development and sharing of Total Compensation Philosophy
- Reduction in throughput time of filling open positions
- Employee turnover rate
- HR customer survey results
- % of training time/employee
- Reduction in throughput time of administrative requests
- Self funding variable compensation strategies
- Employee survey results
- Succession/replacement planning
- Business results

Summary

The HR Audit can be a powerful lever of change in your department and organization. In one sense it is simple, in that each step can be completed fairly quickly and with ease. Also, the degree of detail and definition of performance is within the control of the audit developer.

At time passes, the Audit enriches itself through better definition development and higher levels of performance expectations. It takes on a systems approach because it is comprehensive, inclusive of all traditional HR practices, yet accommodating to the uniqueness of company cultures and business initiatives.

Finally, it moves HR professionals into an active state of defining their direction, making sense of their choices, and contributing to the business in a more definitive way.