

# HR audit: Bridge towards healthy capitalism

**LEARNING LESSONS** A comprehensive 'Human Resource Audit' is a must for any organisation, opine experts.

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The global recession was an outcome of a vicious circle of greed, short term strategies and lack of systems and controls. The Satyam fiasco was a product of corporate greed in collusion with management and the audit team, and severely dented the Indian corporate pride. All this happened at the height of capitalism when the ascent of money was the only focus.

The lessons of the massive recession have shown us the direction ahead. Scholars and economists are bringing new ideas and concepts to the corporate world for discussion and implementation. The brutality of capitalism perhaps is giving way, albeit slowly to 'healthy capitalism' which is the new buzz word. Eminent business professor, author and thinker, Raj Sisodia, who is also Chairman and Co-Founder of 'Conscious Capitalism Institute' [CCI] says: "A Conscious Business has a higher purpose that transcends profit maximisation. It is clear about and focused on fulfilling that higher purpose, which evolves dynamically over time. It looks to align the inter-

ests of all stakeholders and is characterised by conscious leadership, which emphasises mentoring and motivating, developing and inspiring rather than command and control or motivating through fear or greed." A comprehensive 'Human Resource Audit' is a step in the direction of establishing healthy or conscious capitalism and is a must for any organisation.

## Model of HR audit

The HR audit should focus on personnel functions of the organisation, review of corporate strategies, managerial compliance of policies and procedures and the impact of these on employees, community and environment. Conceptually, HR audit works on a broader canvass and hence the following can be a model.

■ **Corporate strategy:** Organisations should not be only profit-oriented and social responsibility of business should be an integral part of corporate strategy. We have seen widespread global recession caused by irresponsible and greedy business practices. Corporate fraud is a serious issue too and HR audit can act as a preventive measure to safeguard the inter-



est of all stakeholders.

■ **Qualitative assessment of human resources, structure, systems:** The challenge is to assess human resource quality, and organisational structure and systems for current and future needs. Essentially, this is an important corporate tool, to keep the organisation alert and

ready for any eventuality.

■ **HR efficiency:** Some common factors to quantitatively evaluate HR efficiency are:

a. **Manpower productivity:** The best indicator is looking at revenue and manpower cost trends and, by measuring 'revenue per manpower rupee'.  
b. **Recruitment cost/employ-**

ee: This can indicate the efficiency of the recruitment process.

c. **Training cost/employee:** The emphasis on training is indicated by this factor.

d. **Employee turnover cost:** This should take into account opportunity loss due to non-availability of manpower.

e. **Absenteeism:** Cost of absenteeism including loss of business.

f. **Opportunity cost:** Loss of business opportunities due to other visible and invisible reasons.

■ **Managerial compliance and operational style:** Organisations have policies and set

procedures for its implementation. Further, while implementing the policies, a human touch is required, preserving the spirit of the policy. The style of management should have a balance of task and people orientation.

■ **Health, safety and environment:** Organisations are responsible to provide general health and medical facilities for employees, apart from ensuring safety in work environment. Organisations are also responsible for external environment and hence must show concern and act accordingly, irrespective of the existence of a law or otherwise.

■ **Statutory compliances:** Even though this is an important aspect, often this becomes routine and relegated into the background.

## The audit process

HR audit is a process and must deploy different methods such as interviews, surveys, questionnaires, focus group discussions, benchmarking, records verification, observations and so on. This process must involve employees, management team, shareholders, customers and trade union. The size of an organisation and the scope of the

audit, determines the infrastructure required to conduct the audit. The final design of the audit depends on organisational priorities and resources available. There are also clear advantages in outsourcing the audit, such as affordability and facilitating an objective assessment. Content of the audit report together with an action taken report, should be available to all stakeholders. It is ideal to conduct the audit yearly and the report considered by the board of directors. Like a finance audit, similar process of variance analysis and explanations from concerned departments should be included.

## Advantages of HR audit

■ HR audit examines all aspects of human resources and hence, can trigger dramatic improvements. The most visible benefit would be improved productivity more than offsetting the cost of the audit.

■ Changes in ownership, leadership, business strategy or model, can make an HR audit critical. In such circumstances, HR audit is a comprehensive guideline, for major decisions.

Continued on page 3

# HR Audit bridge towards healthy capitalism

Continued from page 1

- The most important group to benefit from an HR audit is the board room. Even though not legally binding like finance, HR audit is as helpful and necessary at the board level.

- HR audit is a tool for corporate governance and especially helpful for marketing and human resources function.

- HR audit when designed on a comprehensive basis, leads to improvement in quality of products

and services marketed by the organisation, with long term benefits.

- Importantly, HR audit can analyse failures and fix responsibilities logically. It frees the organisation from politics, blame-game and excuses for non performance, bringing in a new culture of professionalism.

HR audit therefore is a comprehensive review of all human aspects of an organisation such as quality and numbers, structure and systems, skills and attitudes, and how appropriate are they, for short

term and long term goals of the organisation.

This review should endorse that all aspects of HR is in line with the vision and mission statements of the organisation.

Unfortunately, today's work environment focuses more on getting things done without working on the inner problems of individuals.

The significance of a HR audit is that it recognises the importance of creating the right environment and thereby facilitating long term productivity improvement.

In business, as American investor, industrialist and philanthropist, Warren Buffet says: "The rear view mirror is always clearer than the windshield."

The best way to predict the future is to create it and HR audit is one such tool, helping organizations to create its future.

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