

Measuring the efficiency of HR system through HR audit in Kochi refineries Ltd

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Abstract

Human resource is the most important asset of an organization, which helps in achieving the competitive advantage. Success of an organization depends upon the quality of human resources. Human resource audit supports an organization to review and critically analyze the effective performance of employees and human resource functions. A human resource audit is a methodical process that aims to investigate the underlying policies, strategies, systems, techniques, documents, functions, and practices of an organization with respect to its human resource management. Thus this study analyzes the efficiency of Human Resource Systems of Kochi Refineries Ltd through HR Audit and assessed the impact of HR Audit in Kochi Refineries Ltd. For the purpose of the study, data were collected among the 250 employees of Kochi Refineries Ltd targeted at the staff of human resource department, accounting section and audit control department. Hence the study identifies the efficiency of HR system through Radar Graph with the respective Mean values and tested the impact of HR Audit on HR Effectiveness, HR Cost, HR Motivation, HR Development, HR Competency with the help of Structural Equation Modelling. Thus the study found that conducting the HR Audit would enrich the organizational effectiveness through the improvement in the HR systems of Kochi Refineries Ltd.

Keywords: HR System, HR Audit, Kochi Refineries Ltd

1. Introduction

Human Resource Management has emerged as a strategic partner in organizational success. As the HR functions have undergone a paradigmatic shift, graduating from administrative managers to strategic consultants, the transition has been quite challenging for many practitioners (Laabs, 1997) ^[1]. The changing nature demands the HR professionals to participate and contribute fully to their companies as true strategic business partners. Increased emphasis on the need to improve the efficiency of HR services is leading to innovative approaches to redesign HR systems (Byham & Riddle, 1999) ^[2]. In order to provide useful information to managers, it is necessary to evaluate the results of HR system generated by the Human Resource Department. The diagnosis of effectiveness of HR functions performed by the HR systems can be evaluated through HR Audit (Berry, 1967) ^[3].

Human resource audit is a logical review of the working of human resource department which involves the review of all major areas such as human resource planning, job analysis, recruitment of workers, compensation, selection and training, orientation, benefits, compliance and human resource information systems. A human resource audit is a means by which an organization can measure where it currently stands and determine what it has accomplished to improve its human resource function (Jha, 2013) ^[4]. Human resource audit intends to motivate executives and managers for the best suited diagnostic techniques of assessing the performance against target and objectives established from the needs and experience of their own unit, section or department (Werther & Davis, 1996) ^[5]. The basic objectives of a human resource audit is to measure how efficiently human resource functions are

implemented by the HR department (Durai, 2010) ^[6], to uncover the strengths and weaknesses of the human resource systems (Richman, 2013) ^[7], and to gain competitive advantage by rocketing effectiveness and efficiency of an organization (Saiyadain, 2009)⁸. Thus HR audit is very much useful to achieve the organizational goal and also is a vital tool which helps to assess the effectiveness of HR functions of an organization.

Kochi Refineries Ltd is a Kerala based company and a subsidiary of Bharat Petroleum Corporation Ltd that belongs to the manufacturing and distribution in oil sector, with a very wide employee and marketing base. Kochi Refineries Ltd follows Human Resource Accounting Valuation and reports in the annual report of the company. It also measures the Various HR systems in the organization through HR audit. Thus the HR Audit is an effective tool to be adopted in the organization for analysing the better performance of HR functions and its impact towards the organizational effectiveness.

1.1 Objectives of the study

1. To measure the efficiency of HR Systems of Kochi Refineries Ltd through HR Audit.
2. To study the impact of HR Audit on HR Effectiveness, HR Cost, HR Motivation, HR Development and HR Competency of Kochi Refineries Ltd.

1.2 Methodology of the study

The present study examines the efficiency of Human Resource Systems of Kochi Refineries Ltd through HR Audit and assessed the impact of HR Audit in Kochi Refineries Ltd. The researcher conducted an empirical

and descriptive study. For the purpose of the study, data were collected among the 250 employees of Kochi Refineries Ltd targeted at the staff of human resource department, accounting section and audit control department through simple random sampling method. Hence the study identifies the efficiency of HR system through Radar Graph with the respective Mean values and tested the impact of HR Audit on HR Effectiveness, HR Cost, HR Motivation, HR Development, HR Competency with the help of Structural Equation Modelling.

2. Results and discussion

2.1 Efficiency of HR Systems of Kochi Refineries Ltd through HR Audit

Human Resource Audit means the systematic verification of job analysis and design, recruitment and selection, orientation and placement, training and development, performance appraisal and job evaluation, employee and executive remuneration, motivation and morale, participative management, communication, welfare and social security, safety and health, industrial relations, trade unionism, and disputes and their resolution. HR audit is very much useful to achieve the organizational goal and also is a vital tool which helps to assess the

effectiveness of HR functions of an organization. Kochi Refineries Ltd maintains the HR systems such as manpower planning, recruitment and selection, training and development, performance evaluation, job rotation and transfers, promotion, compensation and rewards, records management, human resource information system, industrial relations and trade unions, welfare management, human resource accounting, corporate social responsibility.

Table 1: Efficiency of HR Systems of Kochi Refineries Ltd

Human Resource Systems	Mean
Manpower Planning	6.85
Recruitment and Selection	7.21
Training and Development	6.98
Performance Evaluation	5.78
Job Rotation and Transfers	6.63
Promotion	6.17
Compensation and Rewards	5.26
Record Management	7.89
Human Resource Information System	6.21
Industrial Relations and Trade Unions	5.44
Welfare Management	5.96
Human Resource Accounting System	4.87
Corporate Social Responsibility	6.71

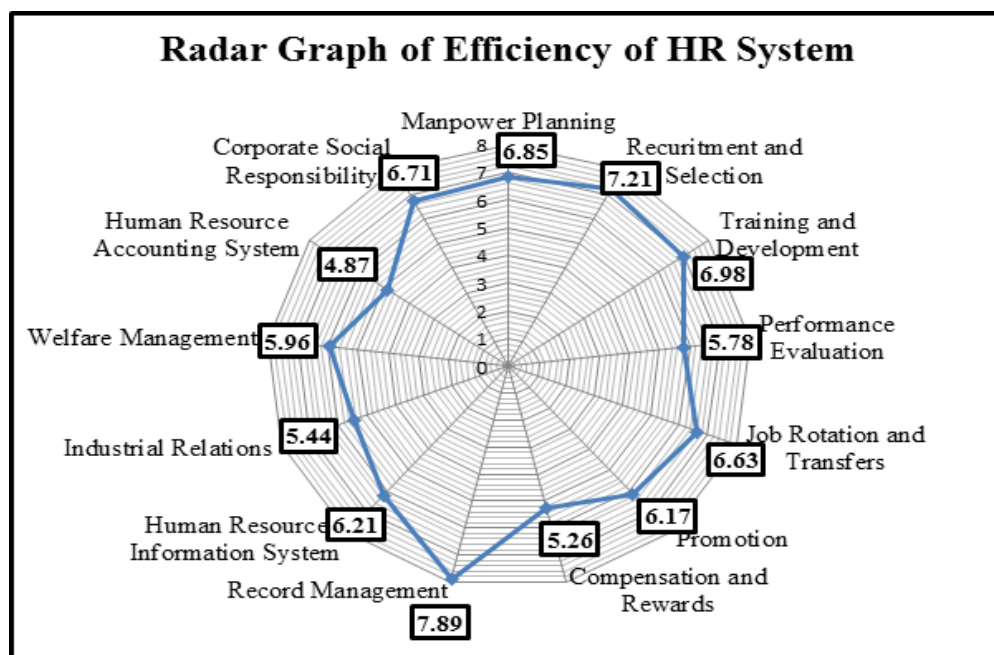


Fig 1: Radar Graph of Efficiency of HR System of Kochi Refineries Ltd

The table 1 and the Radar Graph depict the efficiency of the HR System of Kochi Refineries Ltd through HR Audit with the respective mean values. The analysis is done with the help of the HRD score card on a range 0-10 point scale, which is given to 250 employees and the mean values were aggregated towards the total of 10 points for each HR System in Kochi Refineries Ltd. This revealed that out of 13 HR System in Kochi Refineries Ltd, Records Management System have highest efficiency of about 7.89 followed by the Recruitment and Selection System (7.21) and Training and Development

System (6.98). It is found that Manpower planning System (6.85), Corporate Social Responsibility System (6.71), Job Rotation and Transfer System (6.63) Human Resource Information System (6.21) and Promotion System (6.17) have moderate efficiency of performance. It also helps to identify the low performing HR system in Kochi Refineries Ltd through HR Audit such as Welfare Management System (5.96), Performance Evaluation System (5.78), Industrial Relations and Trade Union System (5.44), Compensation and Rewards System (5.26) and Human Resource Accounting System (4.87).

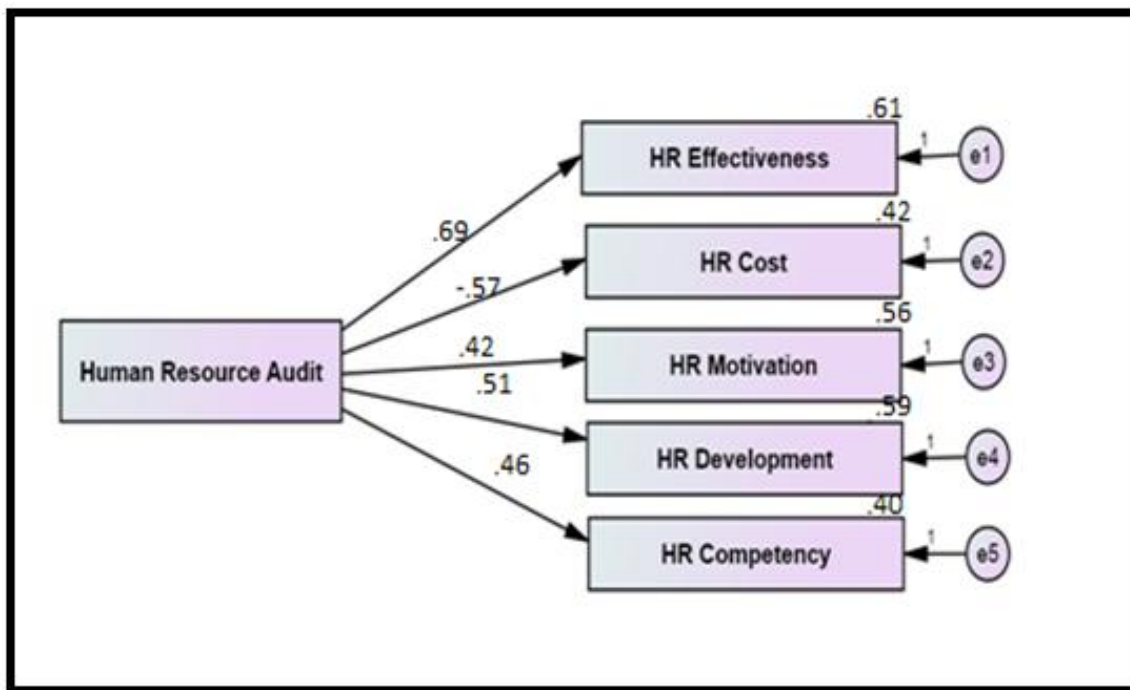


Fig 2: Structural Equation Model showing the Impact of HR Audit

Table 2: Results of Goodness of Fit for Structural Equation Model

Indices	CMIN/df	P	GFI	AGFI	NFI	TLI	CFI	RMSEA	RMR
Model Value	1.214	.302	.998	.983	.997	.998	.962	.019	.006
Recommended Value	<3.0	>0.05	>0.90	>0.90	>0.90	>0.90	>0.95	<0.05	<0.05

SEM model yielded a good fit of CMIN/df are 1.214, P value is 0.302, GFI is 0.998, AGFI is 0.983, NFI is .997, TLI is 0.988, CFI is .962, RMESA is 0.019 and RMR is 0.006 (Anderson and Gerbing, 1988⁹; Hair *et al.*, 1995¹⁰; Kline, 2005) ^[11]. These values indicate that the results in respect of validity of the proposed model fall well within the generally accepted limits. This confirms that the collected data set fits into the proposed structural model. The Structural Equation Model revealed the following results of Impact of HR Audit:

- HR Audit found to have significant positive impact on HR Effectiveness ($\beta = .69$, p-value <.01) and it is influenced by 61 percent.
- HR Audit found to have significant negative impact on HR Cost ($\beta = -.59$, p-value <.01) and it is influenced by 42 percent.
- HR Audit found to have significant positive impact on HR Motivation ($\beta = .42$, p-value <.01) and it is influenced by 56 percent.
- HR Audit found to have significant positive impact on HR Development ($\beta = .51$, p-value <.01) and it is influenced by 59 percent.
- HR Audit found to have significant positive impact on HR Competency ($\beta = .46$, p-value <.01) and it is influenced by 40 percent.

From this it is understood that the Human Resource Audit improves the HR effectiveness, HR motivation, HR development and HR Competency and it will reduce the HR Cost.

3. Conclusion

HR Audit is very much helpful to face the challenges and to increase the potentiality of the HR personnel in the organization. The auditors always prepare and submit an audit report to authority of the organization, which may be clean or qualified. The clean report indicates the appreciative of the department's function, but the latter one represents the gaps in performance and therefore contains remarks and remedial measures. The audit itself is a diagnostic tool, not a prescriptive instrument. It will help to identify what organization is missing or need to improve. Organizations with a high competent HR staff will be able to derive much greater benefit from the audit process, resulting in a higher impact on the effectiveness of the HR functions.

It is concluded that the Records Management System is the efficient HR system and the Human Resource Accounting System is the lowest efficient System in Kochi Refineries Ltd because the Human Resource Accounting system was not fully implemented in Kochi Refineries Ltd. Hence the Kochi Refineries Ltd should properly implement the Human Resource Accounting System for taking various decisions for achieving their organizational goals by accurate estimation of the human resources. This study suggests the Kochi Refineries Ltd must focus more on conducting fair and transparent evaluation with the trained and skilled person. Human Resource Audit must not be considered as a one-time activity; rather it must be conducted on a regular basis and conducting a HR audit regularly and routinely can

ensure employee discipline, commitment and increase efficiency. Thus Human Resource Audit improves the HR effectiveness, HR motivation, HR development and HR Competency and it will reduce the HR Cost. HR Audit gives opportunity to align the HR practices with the organizational strategy, identify improvement areas, and keep abreast with the current practices. It allows an organization to assess and evaluate any gaps or potential risks and increase the commitment of HR professionals towards continuous improvement.

4. References

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