CHAPTER – 3

LITERATURE REVIEW & RESEARCH METHODOLOGY
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3.1 INTRODUCTION

This chapter has three major sections. The first section covers HR Audit from historical perspective. It is a journey that talks about the contribution made by different thinkers and researchers at different points of time in history. The second section deals with the hard-core research that has gone into the field of HR Audit since the time the concept gained significance and acceptance. Various research studies that have happened in different parts of the globe are presented in a chronological order here. The last section deals with the research methodology adopted for this study. Everything in minute details about the methodology used is presented in this section.

3.2 HUMAN RESOURCE AUDIT IN HISTORICAL PERSPECTIVE

Why human resource management always remained distinct and isolated and could not get the prominence and recognition that within the management gamut? Why human resource management has never been successfully integrated with other aspects of management. A historical review and analysis would reveal that there has been no consistent methodology for defining, analyzing, measuring and benchmarking the human capital of business enterprises M.G.Jomon (1998).

The commodity concept and the economic theory of human capital transformed into human resource school had number of debatable issues over the years. A number of studies were undertaken in this area to address these of which a few of them attempted to develop models and methodologies to measure human resource contribution and value in the business process. An interesting debate was the outcome of such intellectual dynamism and efforts. Is labour an asset or cost/expenditure? Assets are that portion of a firm’s cost that provide further service potential and hence, can be considered as an investment and capital. Costs classified as expenditure are not expected to provide benefits beyond a defined accounting period. An overview of the various phases of history may throw some light into the understanding of the concept in perspectives.
Fisher Irving (1906) for the first time brought human resource capital into the analytical framework of capital theory and Schutz (1961) applied the concept of human capital in the organizational context. Likert (1961) developed a methodology to assess the current value of human assets through the “interaction influence system” adopting the following pattern. Loyalty to own work group, skills in the respective roles, identification of goals, Overlapping structure, Co-operative motivation system, Absence of an society resulting from hierarchical pressure, effective communication system and sharpening relevant information among all members. Further the conceptual framework and its applicability was worked out by Likert (1967), and Brummet et.al (1969).

Likert (1966) defined human audit as the activity devolved to attaching dollar estimates to the value of a firm’s human organization and its customer good will. In 1966 the R.G Barry Corporation, a leisure footwear manufacturers (Ohio) started a human auditing system by involving the monitoring of human resource costs. Since 1968 many corporation in America, Europe and Japan have experimented using highly varied approaches.

Eric Flamholtz (1971) has defined HRA as ‘accounting for people as organizational resources’. That HRA is the measurement of cost and value of people for the organizations. His definition is restricted to people who form organizational (man power) resources. Her external human resources like customers, creditors, shareholders etc. do not form part on HRA. This view is also supported by Nabil Elias (1971). For Foley (1977) human resource accounting is the measurement of the cost and value of people for organization.

Chatterjee (1977) considers HRA as a discipline which enables the organization to evaluate human resources following an acceptable set of concepts and techniques and use these valuations in accounting systems in order to present in both static and dynamic forms, the appreciation or depreciation in the value of such assets relating such changes in value to the changes in operating results, to the extent feasible. For him HRA is a valuation technique Appreciation as well as depreciation in the value of human resources will be disclosed in the process.
According to R L Woodruff, HRA is an attempt to identify and report investment made in resources of the organization that are not presently accounted for under conventional accounting practice. It is an information system that tells management what changes over time are occurring to the human resources of the business (Khandelwal 1979, 2). The American Association of Accountants (AAA) sees HRA as a process of identifying and measuring data about human resources and communicating the information to interested parties. A number of methods and models of ascertaining value of human resources have been developed during the last two decades. They are:

1) Likert Pyle Brummet Acquisition Cost Model
2) Flamholtz’s Replacement Cost Model
3) Lev & Schwartz’s Discounted Value Of Salaries Model
4) Economic Value Model Of Frantzred
5) Adjusted Present Value Model of Hermanson
6) Socio-Physiological Model Of Likert
7) Attitude Serve Model of Scott Myers and Vineent Flowers

However, following are the four methods of valuation which are normally applied and referred (Narang 1984)

**Historical or actual cost method:** Here the amount spent on recruitment, training, development etc. of employees are calculated as the opening value of the cost of employees. Very often they are also seen as capital useful for further production.

**The multiplier method:** The basic assumption in this method is based on the belief that there is no real relationship between costs incurred on an individual and the value to the organization at any particular time. By dividing the employees into four categories, senior management, middle management, super visors, clerical and operative grades, it collects salary and wages totals for each of the groups. Then it applies appropriate multipliers to the totals obtained to get a total figure for the asset value of the employees. Here the multiplier is a means which relates to the personal values of the employees to the total assets value of the company. The employee’s multiplier factor attempts to reflect qualification and technical expertise, experience required for the job, personal qualities and attitudes, promotion capability, replacement scarcity; and loyalty and expectation of future service.

**The replacement cost method:** It is calculated in terms of the cost that would incur if the organizations existing human resource is replaced. Here the cost includes cost incurred in the process of recruitment, training etc.
**Economic value method:** In this method first of all the future earnings direction attributable to the human resources is identified. Then it is discounted to the present value of the same in the company.

Keith Bradley (1993) in his paper on ‘Measuring Return on Human Assets, outlines technique and methodology to measure the human assets. It can be done at three stages by measuring the: a) human assets value, b) performance indicators, and c) return of human asset investment. Stages (a) and (b) provides management with a measured outcome or indices which can be reported at regular intervals. They can in turn be utilized as a basis for management action to improve and sustain competitive advantage. By relating the human asset value to the performance indicators (benefits) one can deduce a return on investment for human assets. If we consider the indices of performance as a kind of benefit, and we know the human assets value of the delivery system, we can set the benefit against the costs to estimate the return we are achieving from our human asset value.

For Bradley (1996) the further profits in organizations will be increasingly delivered from ‘intellectual capital’ replacing natural resources, finance and production processes as company’s key strategic factors. Everything else other than intellectual capital will be available in market on an equal basis and it is this resource that will give a competitive advantages to business organization. To quote him “the change in competitive condition will not only require new corporate information structures but will also require new accounting grammar and vocabulary” (HCA Conference Bangalore, 1996).

In short, HR audit is essentially an assessment of the skills, capabilities and potentials possessed by the employees in the light of such skills and capabilities an employee is expected to possess to ensure successful attainment of corporate goals and objectives. It also points out the required areas of improvement and how to develop the same. In other words HR audit is a future oriented, independent and systematic evaluation of the activities of all levels of employee performance, by the auditor for the purpose of improving organizational profitability and attainment of other organizational objectives through improvements in the performance of the all
the functions, achievement of the organizational goals and purposes, social objectives; and employee development. (Rao & Nigam, 1979, 19-20).

An attempt is made here to track the actual research that was done focussing on evaluation of HR function using HR Audit and other tools. The purpose is to examine in detail the contributions made by various researchers at different points of time and figure out the actual research gap which would become the basis for the current study.

3.3 REVIEW OF LITERATURE

Research conducted in the area of HR Audit since the time it has emerged as an effective HR tool has been surveyed going through various journals, reports, theses and unpublished documents. These studies are presented in a chronological order down below.

Yeung and Berman (1997) stated that the conceptual linkages between HR and business are not well developed. The existing HR measures are not formulated to assess it and to capture the impact it has on business performance. However, in their survey of 65 senior human resource (HR) executives in 1997 conducted in California, measurement of HR effectiveness and impact was ranked as the number one topic that they were interested exploring.

Ulrich, D. (1997) stated that one of the most common weaknesses of HR professionals is fear of quantitative, measurable results. Such fears may come from lack of knowledge or experience with empirical assessments of HR work. It is clearly time to replace fear with resolve. HR measurement is complex, difficult, and at times confusing, but it can and must be done. When HR professionals start with a clear understanding of business goals (often measured in financial terms), they can turn those business goals into measurable HR practices. Such efforts focus attention on what HR practices, professionals, and departments must deliver to the business. Conceptualizing, defining, and operationalizing these deliverables are critical steps toward HR measurement.

Jomon, M.G. (1998) conducted a comprehensive research studying effectiveness of HR Audit as an intervention. In his study he covered four companies
from four different industries which include; 1) A Metal Manufacturing Company, 2) A Gas Distribution Company, 3) A Glass Manufacturing Company and 4). A Fertiliser and a Chemical Company. This is a first of its kind study, where he conducted the HR Audit first and then examined the effectiveness of this intervention by looking at the utilisation of inputs provided to these organisations. The results of this are highly revealing. Most of the organisations have got benefitted immensely after the HR Audit was carried out. Organisations that could not take advantage of this owing to poor utilisation have not been benefitted. The study lasted close to four years (1995 -1998) and through this a clear cut relationship was established between six independent variables and the effectiveness of HR variables. As part of the study, he used a set of structured questionnaires, in-depth interviews and observation as tools to conduct the audit and as well to oversee the utilisation of the inputs by the respective organisations.

Galieh (2003) in his work “Work Life Quality” used a structured Questionnaire as a tool of investigation. Based on the outcomes of this investigation, evaluated the programs and activities. Then, assessed efficiency and proficiency of these programs in employees’ participation area to enhance other criterion of work quality including staffs participation in decision- makings, providing opportunity for staffs to participate in work, providing security as a benefit to staff, providing suitable educational activities, providing opportunities for excellence and thereby causing progress at work.

Purcell (2003) suggested that the values and human resource policies of an organization constitute significant non-imitable resources which will be accomplished by ensuring that the organization has top quality people with unique intellectual capital. Possessed by the business acumen these are well developed and nurtured. Organization learning is encouraged and organization-specific values and a culture is built which binds the organization together and more focused. Resource Based View Theory highlights the significance of Human Capital Management and provides justification for buying people through resourcing, talent management and learning and development programs as a way of enhancing organization capabilities.
Mathis & Jackson (2006) insisted that Human Resource performance must be quantifiable or measurable – justifying cost by defining the worth added, or else the fee should not be incurred. Human Resources Audit evaluates Human Resource systems effectiveness in quantifiable terms to justify the relevance of the Human Resource function in organizations. Finding out what is insufficient and inadequate is just a first step toward improvement, next is to attempt to address these gaps, and organizations should take that first step only if they are willing to act. The application and usefulness of Human Resource Audit is dependent upon the long run efforts and experiments to be made from its findings and supported by management, only then can the full benefits of Human Resource Audit be felt. Organizations undertake Human Resource Audits for many reasons: to make sure effective using of human resources, to examine compliance with a lot of laws and regulations, to instil a feeling of confidence in the Human Resource department that it's well-managed and prepared to meet up potential challenges and opportunities and to keep or enhance the organization's reputation in a community.

Philip (2006) has conducted a survey on HR practices for building performance excellence of twenty high order performance organizations including both MNC’s and Indian based organizations. According to his survey, he identified various key factors that contribute to superior performance excellence. It consists of recruitment and selection, awards and rewards, communication patterns, career management system, HR process, organizational culture and HR process.

Andrews, C.J. (2007) as part of his case study in an Australian university has stated that Human resource auditing crosses the boundaries between human resources management and auditing. The main message from this study is that a human resource management performance audit can be a suitable method for evaluating the contribution of human resource activities to organisational objectives, assessed on the basis of value for money. The case study demonstrated that a human resource management performance audit can identify areas where additional value can be obtained from an already valued, well regarded and award winning human resource department. The human resource management performance auditing methodology is set down in the Australian auditing standards (Australian Auditing Standards 806 & 808) and assumes a professional practice framework for auditors. A human resource
management performance audit is future orientated and can identify areas for organisational improvement.

K. Vijayaragavan & Y. P. Singh (2007) stated in his article that the findings reported from element of Managing human resources within extension that describes the HR Audit is Proper planning and management of human resources within extension organizations is important to improve the capabilities, motivation, and overall effectiveness of extension personnel. Keeping this in view, emphasis was laid on the different dimensions of human resource management as applicable to extension organizations: human resource planning for extension, job analysis, recruitment and training of extension personnel, performance appraisal, supervision, management of rewards and incentives, improvement of the quality of work life, and organizational development for extension. Extension organizations have to manage with changes within and outside the business, such as for example changes in farm technology, communication methods, needs of farmers, rural situations, export and import of farm produce, and market economy. Organizational development provides for planned changes in the organization's tasks, techniques, structure, and people. Attitudes, values, and practices of the business are changed such that it can cope with changing situations. The employees also gain greater skills to cope with new problems. The appropriate planning and implementation of the human resource system will result in overall development of extension personnel. This can also enable extension organizations to conform to the rapid changes occurring in the extension environment of developing countries.

Kelli W. Vito (2008) stated in his article that the findings reported in this article form part of the HR Audit: adding HR to the standard audit cycle can help ensure major risks that describes the HR audit includes the key functional areas of workforce planning, employee development, compensation and benefits, employee and labour relations, and risk management. Risk associated with employee counselling and discipline. Auditors should verify that management documents performance problems and take action, including acknowledgement that the employee was aware of the problem. An incentive system should help support the organization's strategic mission, motivate employees, and reward performance. The HR administration relates to the processes related to managing employees throughout
their careers with the organisation. Auditors’ review of the organization’s safety and health program should give attention to whether the work-site analyses to identify hazards and potential hazards, stringent prevention and controls measures and thorough training are given to minimize risk, including succession planning, adequate severance and outplacement services and internal employee surveys.

Agata Borowska-Pietrzak (2009) conducted a research on Employee Satisfaction Survey on HRM Audit. The article discusses and makes an analysis of employee survey results in the context of the objectives of the personnel function in the organisation. Findings suggested that compared to 2008, Poland has shown a minor decrease in the share of answers (87% in the 2010 survey compared to 88.8% in the 2008 survey). The satisfaction level in Poland has decreased dramatically since 2008, while Poland again has the lowest satisfaction level in all European structure of X. It could be found out that Store Operation in Poland also scores much lower than in 2008 (significant), but the Head Office in Poland is showing results almost similar to 2008, in terms of satisfaction. In Poland, the distribution centre has increased the satisfaction level – even though the level is low, the increase is significant (very good). The loyalty level in Poland is very poor. The level in the share of ambassadors has decreased since 2008 – this is also the case concerning the level of scouts (increasing – negative development). In Poland the negative development concerns both managers and staff in general. The main conclusions (priorities for managers) of such an audit include actions to improve efficiency in terms of: working conditions, leadership, and promoted values, and job content and development.

Mariam Ahmad (2012) conducted a study 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 analysing the documents of the company regarding policies and procedures. The sample size 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 turnover rate 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 better HR practices and policies.

Osama Shaban (2012) examined the effectiveness of human resources functions and to control quality check on Human resource Activities through human resource auditing. The HR audit will keep as an evidence for effective management function. The study covered functions of Human resource department, Managerial compliances, Human resource culture and Human resource climate. The study used both primary and secondary data, primary was used to collect data from respondents and secondary data was collected from Journals and books. A well-structured questionnaire was designed with five point Likert scale with score of strongly agree 5, agree 4, neither agree nor disagree 3, disagree 2, strongly disagree 1. The study used Cronbach’s Alpha technique to test the reliability of the scale and it was record as (0.855) which is good because it is more than the accepted percentage (0.60). Simple Random sampling technique was used to collect data from respondents. A sample of 90 Auditors were taken for the study with above 10years of experience. Mean, Standard deviation and T-test were used to analysed the data. Results of the study reveals that Human resource audit can be used to evaluate the HR functions, Policies, Legal aspects, Duties and Responsibilities. Study concludes that Human resource audit increases effectiveness, good organisation climate, culture and improves Job satisfaction.

Ghazala Ishrat and Javed Habib (2012) conducted a study to gain an in-depth knowledge of the Human Resource and the effectiveness of HR functions. The HR audit in University was planned to have a better understanding about the overall status of most faculties/ departments and to find out whether existing systems and procedures are yielding desired results. They considered these inputs as highly critical for making strategic decisions. Scope of the HR Audit study was confined to;
1. Functional Role of each department and faculty. 2. Service Role of the department/faculty or unit. 3. Compliance to established benchmarks. 4. Strategic effectiveness of the department/faculty/unit. 5. Financial Management of the department/faculty/unit. The process involved examining current policies, practices and strategies of all the departments/faculties to verify the effectiveness and helping university to improve its productivity, transparency and efficiency. Primary data were collected using different methods like interviews, observation and structured questionnaire. The target group of respondents included, teaching staff at various levels, non-teaching staff, students and scholars. The first-hand experience has given wonderful insights into many aspects of HR activities in a service organisation.

**Rajesh K.Yadav & Nishant Dabhade (2013)** demonstrates in their research work “Human Resource Planning and Audit – a case study of HEG Limited” that HR audit is a function of HR management that deals with how an organization engages in developing and reviewing of HR practices, policies and procedures, benchmarking against organizations of similar size and / or industry. The current study aims at identifying the practices and measures employed by HEG limited for HR planning and audit. Questionnaire was distributed to 110 employees; among them 100 were employees and 10 were HR officials and the survey is conducted through self-structured questionnaire. Chi-square test was used at (.05 or 5%) level of significance to inspect the validity of the data provided by the respondents. The research suggests that it is harder to identify the best practice suitable for organizations since practices and procedures itself do not yield the better working environment in business firms unless employees are flexible enough to engage in HR activities and the organization as a whole.

**Mahalingam.S (2014)** examined the impact of HR Audit System in IT Industries in Tamilnadu in order to gain insight into the present scenario. The researcher conducted a research to identify the effectiveness of HR audit system, employees’ opinion towards HR audit system, and employees’ expectations over HR audit system. The current study used descriptive research design to examine the state of affairs. Judgement sampling technique was employed in order to gain access to the employees who have handful information at site. The survey was conducted covering 200 respondents working in top IT companies in Tamilnadu. Cronbach’s alpha was
used as part of pilot study to test the scale reliability and figured out a value of 0.631 which was acceptable.

**Ponmalar. S & Dr. R. Punitha (2014)** conducted a research titled “HR Audit – A Route to Success in Healthcare Sector”. Their research work is an attempt to study the areas of HR audit, the objectives of HR audit at hospitals, and define the process of HR audit in hospitals. Conducting an audit involves a critical review of related areas like hiring/staffing/recruiting, talent benchmarking/assessment/selection, compensation design and management, benefits management and administration, policy creation, maintenance and governance, communication and education, retention and terminate analysis, workforce and succession planning, employee relations, legal compliance, record-keeping, health safety and security. These aspects may have to be strictly compared for improving performance against other established hospitals of similar nature. The study has come out with interesting findings. In short, human resources in health care sector has to assess the dynamics of health care sector and accordingly the employees need to be trained and flexible enough to meet the market changing requirements.

**S.Suresh Kumar et al., (2014)** The present study deals with manpower planning and HR audit practices in SMEs of SIPCOT industries in Perundurai. Manpower planning aims at the optimal use of the present and future workforce of the organization, thus it is required for getting maximum results from the investment in human resources. Manpower planning involves both quantitative and qualitative aspects. While the quantitative aspects deal with the right number of people at a job, the qualitative aspect involves the search for the right kind of people for a particular job. This research is descriptive type and cross sectional study has been made. The size of the sample used for the collection of primary data is from 17 organizations in SIPCOT, Perundurai. Random sampling method has been followed in this research. Both primary and secondary data have been used. The primary data were collected from the organizations using questionnaire. The secondary data relating to the HR audit have been gathered from various journal, books, and website. The observation of the present research shows that there is definite positive relationship between manpower planning and HR audit practices in SMEs. It also enables the higher officials to know how well the employees know about their work and where they
It enables them to identify their real position and make them involve in training which helps them to learn new aspects to perform better and improve their work performance and HR audit practices.

Zohreh Aghababaei Dehaghani et.al., (2014) conducted a study to investigate the Effect of human resources management audit on improving key outputs of organization in Mobarakhe steel company. It is an applied-descriptive research. Statistical population includes some managers of Mobarakhe steel company. Questionnaire was used to collect data. Results of this research showed that human resources management audit impacts positively on improving key outputs of organization. The study used primary data by using questionnaire and secondary data by using documents and books. A sample of 159 responses was recorded by classifying respondents into three classes which include top level, middle level and operational level. A pre-constructed questionnaire was used to collect data from respondents. The questions were framed with 5 point Likert scale ranging from strongly disagree, disagree, neither agree nor disagree, agree strongly agree. The questions were validated by using Cronbach’s alpha with a scale of 8 points. The statistical tools used for the purpose of study were mean, standard deviation, correlation and t-test. The results of the study pointed out that the HR audit Practices improves the outputs of an organisation.

Dr. Alexander Pravin Durai F.R. et.al., (2014) in their study used Recruitment, Induction, Training, Appraisal, Retention, Recognition, online, Mando Redressal Forum and Women’s Grievances’ Committee as independent variables and efficiency and effectiveness of Human Resource Management as a dependent variable. Both primary and secondary sources of data were used for the purpose of study. A sample of 652 respondents was taken for the study consisting of 200 members of staff and 452 operating engineers. Simple random sampling technique was used to pick the respondents. Data analysis was done using cluster analysis. A structured questionnaire was designed to collect data from the respondents. The study reveals that the perfect and rational HR audit practices will lead to Human resources effectiveness.
LiviuIlies et al., (2014) attempted in their study on “Human Resources Internal Audit in Romanian Textiles Industry” tried to explore the best ways to develop a frame work of analysis and conduct internal audit of human resources for the purpose of improving human resource management in Romanian Textile industries. Their research work comprises of four variables: “strategic human resource management”, “quality management”, “human resource planning” and “human resource motivation”. For their survey, they have identified a sample of 22 textile companies out of which they have distributed 220 questionnaires to 62 managers and 158 workers. Through this experimental study the complex issues faced by the Romanian Textiles industry were identified and ways to improve HR practices were suggested.

Datar Akshay Prasad (2014) conducted a study on HR Audit in University of Pune to understand the status of various faculty members and departments. The study was primarily aimed at finding out whether the existing systems and procedures are yielding the expected result or desired outcomes. This information was considered essential to make strategic decisions for the betterment of the university. The scope of the study was restricted to the a) Audit of the Functional Role of each department and faculty, b) Audit of the Service Role of the department or section, c) Audit of the Compliance to established benchmarks, d) Audit of the Strategic effectiveness of the department or sections and e) Audit of the Financial Management of the department or section. All the existing policies and strategies were examined with a view to help the university to improve its productivity, transparency and efficiency. After a thorough analysis, the insights into the HR activities in the university proved useful to bring in the changes for the better. In the context of the university, it was considered to be an eye opening study indeed.

Jothilakshmi. M (2015) in her research work “HR Audit: Auditing HR practices of Public and Private Companies” audited the HR system in BSNL and Reliance Communication. The study concludes that both public and private sector companies perform in a similar way in carrying out the HR activities. However there exists a few set of discrepancies in public sector (BSNL) than in private sector (Reliance) due to the reasons like number of labour associations and unions, accountability of officers and other executives.
Praveen Kumar et.al., (2015) examined the maturity level of HR Systems and Strategies in BHEL. The study used the following as independent variables; Man Power Planning, Recruitment, Potential Appraisal, Career Planning, Promotion Performance Planning and Management, Training and Development, Performance coaching and feedback, Job Rotation/Transfers, OD and self-renewal systems and dependent variable as efficiency and effectiveness of Human Resource Management. A sample of 150 respondents was taken for the study comprising of HR executives, medical executives, civil executives and social and welfare executives. Stratified random sampling technique was used to pick respondents. Data analysis was done using simple percentages, Radar graph and averages. A structured questionnaire was designed to collect data from the respondents. The study found that the HR subsystems in BHEL were at an average maturity level and pointed out the very lengthy recruitment process as one stumbling block.

Farah Saleem & Waqar Akbar (2015), investigated the role of HR audit in organization effectiveness. The research focuses on the role of HR audit in organization effectiveness and how well HR managers adopt the HR functions align with the HR strategy, the research is qualitative in nature and 4 in depth interviews were conducted with the HR Managers who currently deals the HR functions under the umbrella of HR current practices with compliance and legal requirements, the case study method is selected with Template analysis. Qualitative research design was used for the study. For this study, 4 banks were chosen namely, Bank of China, Soneri Bank, Kasb Bank and City Bank. 4 respondents from each bank were selected for this study, since qualitative research required an in depth study therefore limited sample was selected. The sampling unit for the study were HR managers and HR Audit was found to help organizations to assess and evaluate any gaps or potential risk and increase the commitment of HR professionals towards continues improvement.
3.4 RESEARCH GAP

- Most of the studies have examined the HRM practices and systems and tried to determine their impact on the organizational performance.

- By and large research activity in the area of HR Audit is sparse and no significant research has taken place in this ever growing industry. Barring independent assessment of HR Processes, Systems, Structures, Competencies and Methods, a comprehensive assessment of the whole of HR Function using HR Audit has not taken place especially in Indian context.

- Majority of the past studies were carried out in various other industries, while there were a few studies in IT industry in India but there is no study so far conducted specifically in this sector which covered a host of independent variables such as the commitment of the top management & head of HR, the profile of HR and the competencies of HR professionals. These have been proved to be decisive ones having a positive influence on HR Function.

- In most of the studies, much of the focus is being laid on a particular group of employees and as such a comprehensive coverage of various other groups of employees are found missing. In this study, CEO, Head – HR, Software Professionals, HR Professionals and Senior Functionaries were considered to make it a meaningful exercise.

3.5 RESEARCH METHODOLOGY

Human Resource Audit itself is a methodology to not only assesses the function of HRM, but also to measure the support of top management to the HRM activities as well. HR Audit is widely regarded as a developmental tool as it suggests the needed interventions to better the performance of organizations. A pioneering effort in this direction was made by Dr.T.V. Rao and Udaip Pareek in 1980’s and the first programme was conducted in the year 1991. Since then HR Audit was conducted in a number of organizations across the country. Today it is regarded widely as an important organizational development tool (Business Today, January 7-21, 1996). By mid-1990’s studies to measure the effectiveness of HR Audit had started and this points to the significant role of HR Audit in transforming organizations.
3.5.1 Need for the study

- The long term sustainability of an organization depends largely on the effective functioning of the Human Resources. Since, IT industry is a human capital intensive one with full of knowledge workers, it is becoming a huge challenge to keep the bunch of people satisfied. The industry is plagued with severe employee turnover and other pressing problems in the domain of Human Resources. Hence through this study, a humble attempt is made to contribute some inputs which would help this important industry to surmount some of the challenges it is encountering on HR front.

- In general, organizations continuously look for innovative and best practices to stay ahead of the competitors and at times to remain in the race as well. Effective Human Resource Management Practices linked to the strategic business goals hold the key for the success and sustenance. An appropriate assessment of HRM practices through HR Audit would yield useful outcomes that would show a new direction and a way forward.

- Review of literature in the area of HR Audit has indicated in clear terms the lack of adequate research effort in IT industry in India. There were studies conducted in other industries and in other countries, but a comprehensive effort covering IT industry was missing. Considering the significant role the industry is playing in shaping the Indian Economy, this study was considered needy, apt and appropriate.

3.5.2 Statement of the problem

In a literally tough competitive world, there are many issues encountered by the organizations on a day to day basis. The booming IT sector has been experiencing a host of HR related problems since the inception. Talent management has become the key factor for success and many an organization finds it difficult to do this effectively. Regular evaluation of HR function provides the leads as to where the improvements have to be brought about. Since HR Audit in a comprehensive manner has not been attempted in this sector, there is a dire need to identify various independent variables
which have a direct influence on the HR Function so that all HR activities could be undertaken effectively.

3.5.3 Objectives of the study

The study has the following as its key objectives:

1. To examine and assess HRD Profile and HR Competencies in IT companies
2. To assess the HR Systems in IT companies using HR Audit tools.
3. To find out the Commitment levels of Top Management and Head – HR to HR Function in IT companies.
4. To list out the current HR Challenges faced by the IT companies.
5. To suggest suitable HR interventions for addressing the challenges faced by the Indian IT companies.

3.5.4 Hypotheses

Based on an extensive review of literature, the following research hypotheses have been formulated for this study:

H1: Top Management’s Commitment has a significant influence on the HR Function Effectiveness.

H2: HR Head’s Commitment has a significant influence on the HR Function Effectiveness.

H3: HR Department Profile has a significant influence on the HR Function Effectiveness.

H4: HR Competencies have a significant influence on the HR Function Effectiveness.

3.5.5 The Research Model

The model for this research study has four independent variables in the form of a) Top Management's Commitment, b) HR Head’s Commitment, c) HRD Profile...
and d) HR Competencies. The dependent variable is Effectiveness of HR Function. Figure 3.1 depicts the model.

### Figure 3.1 Research Model

The model suggests that the effectiveness of the HR function is dependent on the four independent variables. Each one of them is equally important and the absence of any of these or any deficiencies in them will derail the HR effectiveness.

### 3.5.6 Definition of Variables

1. Independent Variables:

   A. Top Management’s Commitment: It refers to the commitment of MD/CEO or a representative of the CEO towards HR Function.

   B. HR Head’s Commitment: It refers to the commitment of HR Chief Functionary towards HR Function in the organization.

   C. HRD Profile: It refers to the Human Resource Department structure, no of positions, personal profile of human resource functionaries working in the organization.

   D. HR Competencies: It refers to the knowledge, skill and attitudes of human resource functionaries in the organization.
2. Dependent Variable:

HR Function Effectiveness: It includes various HR Systems, Sub Systems and cover whole range of human resource activities including policies, strategies, methods, procedures and programs.

3.5.7 Pilot Study

A pilot study was conducted soon after the research model was developed and questionnaires were finalized. It was conducted in one of the three companies which were identified for the purpose of this study, basically to get a feedback from management on the variables considered for the study and as well the data collection tools. CEO, HR Head, two senior functionaries, one HR official and five software professionals were covered as part of the pilot study.

3.5.8 Instruments

All in all six sets of questionnaires were used for the purpose of this study. All these were the proven ones developed by the pioneers of HR Audit research.

A. *HR Audit questionnaire* (slightly modified) to assess the effectiveness of HR Systems developed by T V Rao & Uday Pareek. This is a detailed one literally covering every aspect of human resource function. It envelops exhaustively five HR Systems and the details of which include:

1. Career System: It further contains three sub systems such as;
   a) Manpower Planning and Recruitment
   b) Potential Appraisal and Promotions
   c) Career Planning and Development
2. Work Planning System: It has the following three sub systems;
   a) Role Analysis
   b) Contextual Analysis
   c) Performance Appraisal System
3. Development System: It contains four sub systems;
   a) Learning Systems / Training
b) Performance Guidance and Development

c) Other Mechanisms

d) Worker Development

4. Self – Renewal System: It has three sub systems that include;

a) Role Efficacy

b) Organisation Development

c) Action Oriented Research

5. HRD Systems: It includes a total of seven sub systems;

a) HRD Climate

b) Values in the Organisation

c) Quality Orientation

d) Rewards and Recognition

e) Information

f) Communication

g) Empowerment

B. HRD Profile questionnaire (slightly modified) developed by T V Rao & Uday Pareek.

It covers the following aspects;

1. Significance given to HR function by the top management

2. HRD Structure

3. Adequate Staffing

4. Qualified and Experienced Professionals

5. Competent and Well trained Professionals

6. Aiding Performance

7. Organisational Culture

8. Positive Climate

C. HR Competencies questionnaire (slightly modified) developed by T V Rao & Uday Pareek.

It covers among other things the following key competencies of HR Professionals;
1. Knowledge of HR philosophy, policies and practices
2. Knowledge of Potential and Performance Appraisal Techniques
3. Knowledge of Career Planning and Development Techniques
4. Knowledge of Job Analysis and Job Enrichment
5. Knowledge of Personality Theories and Conflict Management
6. Knowledge of Group Dynamics and OD Interventions
7. Communication and influencing skills
8. Counselling and Problem Solving skills
9. Stress Management skills
10. Values driven
11. Inner drive to excel

D. A modified questionnaire on Top Management’s commitment to HR Function
   (Others perception) developed by MG Jomon.
   Some of the aspects that are covered in this include;
   1. Adequate Funding to HR Function
   2. Time and Attention to HR Department
   3. Continuous Support to HR Department
   4. Creates Congenial Work Atmosphere
   5. Focus on Employee Development
   6. Shares Vision, Mission and Values
   7. Humane and Values Driven
   8. Autonomy to Employees
   9. Shares the Business Goals
   10. Have Sound Knowledge of HR Systems and Business Linkages

E. A modified questionnaire on Top Management’s commitment to HR Function
   (Self-perception) developed by MG Jomon.
   It contains all those aspects mentioned in the above questionnaire.

F. A modified questionnaire on HR Head’s commitment to HR Function (Self – perception) developed by MG Jomon.
   It contains some of the things mentioned in the top management’s commitment questionnaire. The additional ones are;
1. Leads from the front
2. Takes appropriate HR Decisions
3. Takes initiative in structuring and strengthening the department
4. Delegates the tasks to subordinates
5. Works as an effective Team Member.

3.5.9 Selection of the organisations

Hyderabad was chosen for conducting this study as IT industry concentration is more and the city being the fastest growing IT hub in the country. Three organisations were considered for the purpose of this study. Due to the highly confidential nature of the data, the names of the organisations were not disclosed at any stage of the thesis or during synopsis presentation. Criteria used for picking them were the employee strength. Organisations employing software professionals in the region of 500 – 1000 were considered for this study.

3.5.10 Sampling Decisions

Organisation A has on roll 590 software professionals, organisation B has 685 and organisation C has 820. A Systematic sampling method was used to pick 70 respondents each from these three organisations. The total sample size consists of 210 software professionals. The other respondents include 3 CEO’s, 3 HR Head’s, 12 senior management personnel and 18 HR professionals.

3.5.11 Data Sources

The secondary data was taken from journals, research publications, business magazines, reports, newspapers, websites, books, company manuals and other industry and government sources. The research is basically a causal one in nature as an attempt is made to find out the effect of various independent variables on the effectiveness of HR Function which is taken as the dependent variable.

A few structured questionnaires which were developed by the pioneers in HR Audit research like TV Rao, Uday Pareek and MG Jomon were used after a slight modification to get the primary data from CEO, HR Head, Senior Management Personnel, HR Functionaries and Software Professionals. In-depth interviews were conducted to identify HR issues in IT industry and as well to find out the commitment
levels of Top Management to HR Function. The data were collected during August and December, 2016, with the help of the CEOs.

3.5.12 Statistical Analysis

The analysis of data started with coding which was done by using Microsoft Excel 2010, and transferred to SPSS 20.0 after checking for gaps and errors. The data were primarily analyzed by using statistical tools like Percentages, Mean, Standard Deviation, and ANOVA. The research model is being tested using Regression.

3.5.13 Limitations of the Study

- The independent variables covered for the study are not comprehensive enough as variables like management styles, organisation characteristics were left out.
- Owing to certain difficulties a small sample was picked for the study which could perhaps be a limiting factor as it defies the popular perception that a large sample is expected to yield better results.
- An element of personal bias in filling of the questionnaires cannot be ruled out.
- Since the questionnaire used is an elaborate one there could be some inconsistencies in responses in different sections.
- The study was limited to only a three leading IT companies in Hyderabad city.

3.5.14 Organisation of the Thesis

The entire study is grouped into six chapters.

- **Chapter 1: HR Audit – An Overview**
  It provides a comprehensive overview of HR Audit.

- **Chapter 2: IT Industry & HR Challenges**
  This provides a brief profile of Indian IT industry and HR Challenges faced by this sector.
Chapter 3: Literature Review & Research Methodology
This chapter covers various research contributions made by earlier researchers in the field of HR Audit and outlines the research methodology adopted in this study.

Chapter 4: Commitment, HRD Profile & Competencies
This deals with descriptive statistics which covers the Commitment of Top Management and HR Head to HR Function. It also covers HR departments profile in IT companies and the competencies of HR professionals.

Chapter 5: Effectiveness of HR Systems
There are two parts in this and the first part deals with descriptive statistics which covers the effectiveness of HR Systems in IT companies, while the second part deals with hypotheses testing.

Chapter 6: Summary of Findings & Suggestions
The contribution of this study is highlighted. How the research gap addressed and the directions for future research are shared here.

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Appendices
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