CHAPTER 2

REVIEW OF LITERATURE

2.1  REVIEW OF LITERATURE ON CONCEPTUALIZATION OF HR AUDITING

Auditing has evolved, becoming increasingly specific, until the term functional audit has emerged. The objective of a functional audit is to diagnose, analyze, control, and advise within the boundaries of each functional area of the company. The HR audit is a type of functional audit. Thus, as a first approach, one could say that HR auditing consists of diagnosing, analyzing, evaluating, and assessing future lines of action within the framework of HRM.

HR auditing is a basic tool for the management of a company. Its objective is not only the control and quantifying of results, but also the adoption of a wider perspective that will aid in defining future lines of action in the HRM field. Thus, HR auditing must perform two basic functions (Cantera, 1995)[45]. First, it must be a management information system whose feedback provides information about the situation in order to facilitate the development of managing processes or the development of HR. On the other hand, it must be a way of controlling and evaluating the policies that are being applied, as well as the established processes.

It can be understood that in order to secure the operative efficiency and user or client satisfaction, an appraisal of the results of the HR function is necessary. According to this approach, the results obtained can be valued from certain HR policies (an external type of measurement), or from the results of the policies or the policies themselves. The results can be valued through their cost (a measurement internal to the function) [Walker, 1998]. This would lead the company to consider some basic questions. Are adequate HR policies being developed? Are the desired results being obtained? To what extent do they add value to the company?
HR auditing has evolved in recent years to the point that it has ceased to be a mere instrument of control and has become a necessary decision making tool in personnel related matters according to the global objectives of the company. As a result, all of the functions and competencies of HR auditing are being progressively expanded. This is creating a distinction between its component elements and the different types of HR audits. In this way, Walker [1998] differentiates between two approaches relative to HR auditing: those centered in the functions internal aspect, and those centered on the external aspect. From an internal perspective, as in any staff function, there is a trend of valuing its actions as a result of the activities undertaken and its costs. In this way, the department’s capability would be judged on its ability to supply certain services to the organization at the lowest possible cost. Under this approach, the operational measurements traditionally used are those which refer to quantity, quality and reliability, or cost and speed, therefore placing the focus on activities, costs, or productivity ratios.

From an external perspective, if it is understood that the ultimate appraisal of the effectiveness of HR is based on their impact on the company’s results, then the measurements should include results obtained outside the function. Another well-known classification of HR audit approaches, which is used to structure the present work, is the difference between three focuses, which are the legal audit of performance or conformity, the operative or efficacy-based audit, and the strategical audit.

2.2 REVIEW OF LITERATURE ON THE LEGAL APPROACH IN HR AUDITING

This first concept of HR auditing is based on a legal outlook. According to Antona [1993, p. 2], the audit of performance or conformity consists of making an inventory of the social situation of the company, considering the labor law norms and regularly verifying the company’s compliance with the applicable regulations. Thus, this concept is centered on the verification that the current labor laws are being fulfilled. The audit should verify if the firm’s policies, practices, and documents regarding employee hiring, retention, discipline, termination, and post-
employment are both fair and legal [Higgins, 1997]. These practices and policies must: prohibit discrimination by offering equal employment opportunities; protect the employment seeker from being discriminated against on the basis of age; carry out minimum wages; and contain provisions regarding mental disabilities and reasonable accommodations for disabled workers.

According to Nevado [1998, p. 49], the basic functions of the audit of conformity or of performance as an element of HR auditing are threefold. The first function is examining to see if the firm is fulfilling all its administrative social obligations, as well as those relative to the collective rights of its personnel. The second is to study the relationship between the employees and the firm based on the legal statutes. The final function is verifying if the firm fulfills its financial obligations (for example, social security payments), as well as its informative ones. Concern about labor risks has created a function within HRM with the purpose of altering working conditions by identifying the risks that could stem from them and implementing necessary preventive measures. Such preventive activity could fit perfectly into the legal approach of HR, although the effort that the company can make in this sense can go beyond the application of the existing risk prevention laws. The requirement for labor security and hygiene is a part of the search for quality of life in the workplace, which is becoming increasingly demanded from companies.

2.3 REVIEW OF LITERATURE ON FOCUS OF THE FUNCTION AUDIT

The function audit centers on observing if the procedures applied are the adequate ones and if they function correctly. That is, checking to see if the relationship between objectives and procedures is a satisfactory one and if this has been achieved in the most cost effective manner. [Nevado, 1998, p. 50].
The function of this level of the HR audit is to study and analyze each one of the specific areas of HRM. The analysis should center on the planned measures, the method of implementation, and the results obtained. In order to carry this out, the areas that are to be studied must first be identified. Afterwards, a list of the indicators that will serve to analyze each of them must be made. These indicators can be either quantitatively (absolute numbers or ratios) or qualitatively derived from the responses given by the people involved (management, employees, or external experts). A list of the indicators corresponding to the different areas of the HR function could contain some of the following.

1) **Description of the Company’s Staff:** The complete staff can be described by: hierarchic levels, years of service, qualification, sex, and nationality; the number of permanent and temporary employees, interns, and physically or mentally challenged employees; and indexes of personnel rotation and absenteeism.

2) **Job Analysis:** Job analysis can include: the number of described posts and occupants per post; the degree to which the job description cards have been updated; the degree of detail in the job description cards; and the methods used to analyze and describe the jobs.

3) **HR Planning:** Planning includes the methods employed to plan personnel needs, the measures adopted to cover future personnel needs, and the temporary planning horizon.

4) **Recruiting and Personnel Selection:** This includes: the number of days needed to fill a vacant post; the number of applications received by workplace categories; the average amount of days between the reception of the application and the final answer; the average cost of recruitment and selection per job post; the degree to which internal and external sources of recruitment are used; the average number of candidates that do not pass the selective tests; a study of the reliability and validity of the selection tests; and the degree to which the recruiting efforts fit the company’s business plan.
5) **Training:** The training indicators are: the procedures followed and the frequency with which personnel training needs are analyzed; the criteria followed to define the content of the training programs; the evaluation criteria of the efficacy of the training programs; the percentage of the HR budget dedicated to training; the average number of hours of training per employee; and the percentage of employees that participate in training programs by workplace categories.

6) **Development of Professional Careers:** These indicators include: the percentage of people promoted per number of employees; the percentage of vacancies covered internally and externally; and the average time per employee it takes to receive a promotion.

7) **Retribution:** Retribution can be measured by: the average wage per employee and wage difference among employees; the fixed and variable components of retribution; the percentage of remuneration linked to the employee’s yield; and the internal equity and external competitiveness of the retribution system.

8) **Performance Evaluation:** Evaluation indicators include: the level of usage for promotion or career; the level of feedback of results to the company’s personnel; and the degree to which poorly performing employees are assisted in improving their performance.

9) **Work Conditions:** Work conditions can be assessed by the frequency and index of the graveness of work related accidents and by the labor accident and sickness prevention policies that are in place.

In searching for adequate measurements, the use of financial references to evaluate the costs and benefits of HR programs has become commonplace [Parsons, 1997]. Financial analysis models applied to HR development programs are
increasingly being seen in the literature [Head, 1995; Swanson and Gradous, 1998[46]; Mosier, 1990[47] and in cases that document their use (Prifrel, 1985)[48]; Jacobs et al., 1992[49]; Sleezer et al., 1992[50].

**Grossman** [2000] proposes a three-pronged approach for the measurement of the HR function. First, according to this model, there should be efficiency measurements that help to determine the way in which the resources are being used. Within this group are the measurements of turnover, quits, and discharges as a percentage of total employees, average tenure of employees in various jobs, absenteeism, employee productivity, and intellectual capital. After calculating the measurements of efficiency, they must be compared to the results obtained in previous periods. Nevertheless, this is not sufficient, and it is critical to benchmark against others in the same industry or profession. When inefficiencies are revealed, careful analysis of the problem should follow before expenditures are slashed. These cover the efficiency side, but one must also look at the value-creation side. Thus, it is necessary to develop a new set of strategic measurements that connect directly with the mission and strategies of the company.

The creation and selection of these ratios is more difficult, given that they depend greatly on the specific company of which one is talking about. **Fitz-enz** [1999] proposes a measurement that includes quality, efficiency, and service. He suggests using a ratio constructed around five factors that can be applied to anything that one chooses to measure. These five factors are cost, completion time, quantity, quality, and the human reaction. This system concludes with the calculation of measurements of the HR activities, which try to demonstrate their financial viability. These measurements are based on the idea of the ROI ratio, which is calculated by dividing the monetary value of a HR program by its costs. For this, the cost of the program that is being measured must first be determined, then it must be translated into monetary terms.
The Strategic Audit Approach

Nevado [1998] considers that the audit should also analyze if the personnel policies are in alignment with the general objectives and the global strategy of the company. It must also translate the HR strategy into plans and programs. Thus appears a new element of the audit of HR, the strategical audit. Dolan, Schuler, and Valle [1999, p. 390] define it as the evaluation of the adaptation of the HR policies and practices in their support of the company’s general strategy.

The strategical audit of HR helps assure that the HR programs are aligned with the company’s long-term objectives. In this way, the HR function is becoming a source of competitive advantage and is ceasing to be considered as a specialized and unrelated function that incurs high costs to the company. When performing this evaluation, the auditor must identify the company’s global strategy before designing the HR policies that will contribute to its achievement. These policies are then compared to the HR practices that are currently being applied, which leads to the modification of some policies to better conform to the firm’s strategy.

The employee-client-benefit model that was developed and applied at Sears and other companies illustrates this complete alignment of the business and HR measures. This alignment approach presents greater challenges, since the impact of certain actions on the results is frequently not clear. Many HR professionals find it easier to look inside than to connect their results to organizational measures. Yet, with relatively little effort, HR leaders can identify the keys to their business and the actions to apply on the people related to them as well as their results. The main change involved for those responsible for HR is to leave behind their comfort zone and dedicate more time to finding ways of integrating HR into the business.

With this approach, the measurements applied must be useful in identifying if the HR activities are being developed adequately, if the correct results are being obtained, and if such actions add value to the business. As Welbourne and Andrews [1996] highlight, the importance that management gives to its human
capital is one of the most important factors that investors look for when assessing the attractiveness of a company.

Recognizing the strategical importance of HR for any organization, the measurements of results can lead to measuring the impact on business through the extraordinary benefits generated as a result of a better trained and motivated workforce. Brown [2000] considers that the measurements used to evaluate the company’s personnel reflect neither its value nor its performance. This is why he proposes an alternate procedure that consists of creating a human capital index based on four elements that must be carefully studied considering their relative importance to the company: the number of years in the business or field, the level in the company (by job grade or organizational chart level), the number and variety of positions or assignments held, and the performance rating, which is subjective. It is the result of an evaluation of an employee’s performance, which should include an evaluation by a superior and another of objective aspects such as sales, benefits, or other factors. Through the use of this index, the value that each employee has for the company would be obtained over a total of 100 points. This index is easy to calculate and interpret, and it is fair since it is based on a larger number of objective factors. Yet, it is very simple and does not supply information about the knowledge, abilities, values, managing experience, or other factors of each employee. To overcome this inconvenience, Brown has created a second index that attempts to measure the employee’s level of experience and aptitudes.

Some companies, on the other hand, have developed and applied a balanced scorecard approach to the HR function and treat it as a business unit in and of itself. HR leaders must use four different techniques to measure client attitudes, financial impacts, operative efficiency, and strategic capability. Given that the human factor is a prime strategical element, which explains a company’s differentiation capacity, it is logical that a measurement effort of the way this function is undertaken in the company is made. That is the content of the HR audit, which goes beyond the simple investigative function, and is an extension of the traditional concept of the accounts audit.
The existing literature describes different approaches to HR auditing, including the legal approach, the function-based approach, and the strategic approach. All of them have been analyzed in this work.

The legal approach centers on finding out if the company is complying with the current labor laws. Presently, it focuses mainly on the evaluation of the company’s efforts in the prevention of work-related risks. The function approach analyzes the application of different HR policies. Several measurement systems have been presented with the same basic ideas, which include the study of planned measures, the method of implementation, and the results obtained. Yet, these two approaches are limited to the operational and tactical fields, and do not evaluate if HRM supports or aids in the achievement of the company’s strategy. This is why the strategical approach has been developed as a means of determining if the HR function is a source of competitive advantage for the company. This third approach, through the use of several systems such as the client-employee-benefit model or Brown’s human capital index, can make the company’s management aware of the true importance of its employees by identifying them as a key resource worth optimizing. This idea can lead to mistakes when the employees come to be considered as property of the company. The correct interpretation would be to think of personnel not as human capital, but as the owners and investors of human capital [Davenport, 2000].

Human Resource Management (HRM) has evolved over the years 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)[51]. The changing nature demands the HR professionals to participate and contribute fully to their companies as true strategic business partners. In today’s competitive climate, companies operate within the confines of a heavily-regulated employee environment. The scope of the HR function includes establishing and administering a host of policies and practices—many of which involve compliance implications—that significantly influence the productivity and profitability of the enterprise. Sometimes HR department are not sure whether they are doing everything they
should be doing so as to perform at the highest possible level to provide effective
delivery (Amy, 2010).

Increased emphasis on the need to improve the efficiency of HR services is leading to innovative approaches to redesign HR delivery systems. Today, it becomes necessary to focus instead, on the opportunities to develop competitive advantages within an organization to increase its capacities. HR’s challenge is to help the organization realize success. At the same time, it is also necessary to protect and leverage the investment in human capital by way of training and development in order that organizations benefit from employees’ efforts and contributions (Byham & Riddle, 1999)[52]. Evolving roles of HR necessitate HR professionals be responsible first and foremost for understanding and furthering business needs. In order to provide useful information to managers, it is necessary to evaluate the results generated by the design and implementation of personnel policies. The diagnosis of HR functions can be done through one essential tool – HR Audit.

In general, any audit seeks to identify who is responsible for each activity, determine the objectives of each activity, review the policies and procedures used, sample the available records to find if the policies and procedures are being followed, prepare an audit report commending proper objectives, policies and procedures, develop an action plan to correct errors in objectives, policies and procedures, and follow up on the action plan at a later stage, to see if it solved the problems found through the audit (Berry, 1967)[53].

HR audit is a type of functional audit. Thus, as a first approach, one could say that HR auditing consists of diagnosing, analysing, evaluating, and assessing future lines of action within the framework of HRM. It is a systematic assessment of the strengths, limitations, and developmental needs of its existing human resources in the context of organizational performance (Flamholtz, 1987). The key to an audit is to remember that it is a learning or discovery tool, not a test. Whenever the HR audit is taken up, the scope is decided. Audit need not be exhaustive, but should be focused on particular function of HRM such as Training and Development, Performance Appraisal, Compensation, etc. The audit should investigate the breadth
and meaningfulness of the processes and support materials in place that ensure the skill sets needed, so it becomes important for the HR department to understand why those practices are carried on. In such situation HR audit helps to build on essential areas and eliminate those areas that are not important.

HR audit must perform two basic functions. First, it must be a management information system whose feedback provides information about the situation in order to facilitate the development of managing processes or the development of HR. On the other hand, it must be a way of controlling and evaluating the policies that are being applied, as well as the established processes. The results can be valued through their cost (Walker, 1998). The Things that get measured get managed (Kaplan & Norton 2008)[54]. HR Audit is very much helpful to face the challenges and to increase the potentiality of the HR personnel in the organization. It involves a company’s strategic actions to take an intensely objective look at its HR policies, procedures and practices.

The fundamental performance questions addressed in a strategic audit of HR are “Does the department align human resources and management practices, policies and procedures with the organization’s strategic objectives. The basic functions of the audit of conformity or of performance as an element of HR auditing are threefold. The first function is examining to see if the firm is fulfilling all its administrative social obligations, as well as those relative to the collective rights of its personnel. The second is to study the relationship between the employees and the firm based on the legal statutes. The final function is verifying if the firm fulfils its financial obligation as well as its informative ones.

According to Flamholtz (1987) HR audit is a systematic assessment of the strengths, limitations and developmental needs of its existing human resource in the context of organizational performance. 91% of the respondents agree that the evaluation of HR audit has helped the organization to have a clear understanding of the lacunae and align the HR processes with business goals. The competencies may deal with technical aspects, managerial aspects, and people. It has helped in identifying the required competencies for future business goals not only as increased
quality of work but as also stock of things to improve HR for expanding, diversifying and entering into a fast growth phase.

2.4 REVIEW OF LITERATURE ON AUDIT AS A TOOL FOR IMPROVING HR FUNCTIONS

Human resource management (HRM) has experienced a strong evolution over the years. As the progression of development in HR field continues from the reputation of administrative managers to strategic consultants, this transition has been a challenge for many practitioners (Laabs, 1997). The changing nature demands the HR professionals to participate and contribute fully to their companies as true strategic business partners. In today’s competitive climate, companies operate within the confines of a heavily-regulated employee environment. The scope of the HR function includes establishing and administering a host of policies and practices—many of which involve compliance implications—that significantly influence the productivity and profitability of the enterprise. Sometimes HR department are not sure whether they are doing everything they should be doing so as to perform at the highest possible level to provide effective delivery (Amy letke, 2010)[55].

The business of HR is changing. Increased emphasis on the need to improve the efficiency of HR services is leading to innovative approaches to redesigning HR delivery systems. Today, it becomes necessary to focus instead, on the opportunities to develop competitive advantages within an organizational to increase its capacities. HR’s challenge is to help the organization realize success at the same time, it is also necessary to protect and leverage the investment in human capital by the way of training and development in order for organizations to benefit from employee’s efforts and contributions (Byham & Riddle, 1999).

In order to provide useful information to managers, it is necessary to evaluate the results generated by the design and implementation of personnel policies the diagnosis of improvement areas can be done through one essential tool the HR Audit. The HR audit is a type of functional audit. Thus, as a first approach,
one could say that HR auditing consists of diagnosing, analyzing, evaluating, and assessing future lines of action within the framework of HRM. It is a systematic assessment of the strengths, limitations, and developmental needs of its existing human resources in the context of organizational performance (Flamholtz, 1987).

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According to (Flamholtz 1987) HR audit is a systematic assessment of the strengths, limitations and developmental needs of its existing human resource in the context of organizational performance. The research also shows that HR audit has helped in identifying good and bad performers, and by doing this it has improved work environment by which it has forced the HR department to think on better methods of compensation and benefits and thus helped in developing skills and competencies of HR Department.

Safety and legal aspects is another area where in there has been drastic improvement the participants agree that the safety aspects and legal compliance has improved which has led to better transparency in HR department the participants today are aware of not only their area of work but are also able to understand other functions and process of the HR department.

The audit brings about improvement in recruitment, professional development, performance appraisal, employee recognition and internal communication (spring 2008). The study shows that there has been a great improvement in interview process which has led to selecting the right candidate to the right job which has not only identified broadly the competencies required but
also Promoted professionalism among employees and brought about a change in the appraisal system.

The audit seeks to identify who is responsible for each activity, determine the objectives of each activity, review the policies and procedures used, sample the available records to find if the policies and procedures are being followed, prepare an audit report commending proper objectives, policies and procedures, develop an action plan to correct errors in objectives, policies and procedures, and follow up on the action plan at a later stage, to see if it solved the problems found through the audit. (Berry, 1967).

According to Nevado [1998, p. 49], the basic functions of the audit of conformity or of performance as an element of HR auditing are threefold. The first function is examining to see if the firm is fulfilling all its administrative social obligations, as well as those relative to the collective rights of its personnel. The second is to study the relationship between the employees and the firm based on the legal statutes. The final function is verifying if the firm fulfils its financial obligations (for example, social security payments), as well as its informative ones. The research clearly highlights on all the three fold requirement of HR audit.


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) (2).

**Anne Cannings, Trevor Hills (2012)**[56] The purpose of the paper is to propose that a new approach to human resource (HR) audit is needed. It also aims to explain the new approach and introduce a range of tools to support it. It analyses that traditional and existing common approaches, identifies the shortcomings of these, and proposes a new framework based on business contribution. And – Existing approaches to HR audit do not reflect the current aspirations and rhetoric on HR practices as promoted by Holbeche, and Ulrich et al.

**Shammy Shiri (2012)**[57], The study indicates that HR audit increases the efficiency of Human Resource function, gives opportunity to align the HR practices with the organizational strategy, identify improvement areas, and fine-tune the HR current practices in sync with organizational strategies.

**P.Krishnakumar & B.Elakiya (2014)**[58] The authors with main objectives to explain how Human resource auditing is necessary to protect the employee’s interest, to motivate employees, to meet the challenges of trade unions, to improve the performance of human resources in the organization. An HR audit often involves gathering employee feedback and employees often find it easier to talk openly and share their opinions when talking to an external third party.

According to Gary, “the primary purpose of personnel audit is to know how the various units are functioning and how they have been able to meet the policies and guidelines which were agreed upon; and to assist the rest of the organization by identifying the gap between objectives and results for the end-product of an evaluation should be to formulate plans for corrections or adjustment.” An HR audit will provide a detailed analysis of the existing HR policies, procedures and activities against the current and future needs of the business. The findings of an audit can be used to benchmark HR policies and practices against any legal requirements and against regional and international best practices. Benchmarking in this way is
important for an organization to mitigate any risks of non-compliance to legal requirements and develop a prioritized plan to implement best practices across HR.

**Judith Brown (2012)** The purpose of the study is to theoretically and empirically develop a better understanding of Conducting an HR Audit, How HR Can Better Measure the Effectiveness of its Functions and Programs. The study finds out the fact that HR strategic planning has become an integral part of doing business and it is important that human resource professionals be both professionals in the field and competent business persons. In order to walk the talk of being a “business partner,” HR managers have to provide real evidence that they are having a strategic business impact. Management is often asking, “How are we doing?” However, this is not always an easy question to answer. This is especially so, when it is difficult to obtain some type of objective measuring tool to determine how well a certain HR function is performing. To legitimize the claim of being “business partners”, HR managers must clearly demonstrate how HR services can accomplish the business objectives set forth by the organization. The HR function is often overlooked for audits/measurement tools, to assess its effectiveness and legal regulatory compliance. However, the HR Audit is a process that sets the stage for a true transformation in HR strategy and services. It links HR systems and services to organizational objectives while focusing on the business needs of internal customers.

**F.R. Alexxander pravin Durai, I.Adaikalasamy,(2014)**[59] the study identified the existing HR Audit practices and perception of Operating Engineers in Mando Automotive India Ltd., The study sates that HR Audit is a periodic review to measure the efficiency and effectiveness of Human Resource Management. Although there is no legal obligation to conduct HR Audit, it is considered important for improving the performance of human resource, controlling the cost of labor and meeting the challenges of the trade union. It is clear that study in the HR Audit sector is very limited. So it is necessary to find out the organizations that have HR Audit practices and to study on HR Audit practices perception of employees.

**Joan (2004)**[60] The objective of this paper is to review that the human resource (HR) audit is broken into areas of evaluation that include what is needed
before a company hires any employees all the way through the process of recruiting new employees, bringing them aboard, enrolling them in benefits programs, safeguarding their confidential information, managing and supporting them, and participating in their exit from the company, if necessary, either voluntarily or otherwise. This evaluation is conducted with the use of a Human Resources Audit Checklist. The checklist includes the major visible, tangible areas of HR that can be evaluated for compliance. The items included in each area are checked off as being in compliance with what is legally required or not up to standard. It is then the company's decision to take the appropriate actions or recommendations included in the report.

**Vito, Kelli (2008)** the article discusses issues concerning human resource (HR) management such as high health-care expenditures, employee fraud and HR outsourcing. The author cites employment risks which include racial discrimination, harassment, poor hiring practices and negligent retention. It is suggested that internal auditors should make the HR department be aware of encompassing policies and procedures, maintaining pertinent files for each employee and conducting attitude surveys. An area where a clear audit trail is necessary is the way an organization handles employee complaints and grievances.

**Pająk, Wojciech (2012)[61]** this article notes Audit is one of the basic issues in organization and management. It consists of a number of constituent problems. One of them is the problem of research methodology. On the other hand, internal audit plays an increasingly important role in improvement of the functioning of an organisation. An attempt to apply the concept of internal audit for the purposes of diagnosing human resource management is the subject matter of this paper. Apart from the problems strictly related to the essence of methodology of personnel audit, an attempt was made to determine the problem range determined by this audit.

**Silverman, Leslie Sandhu, Ravinder S. (2013)[62]** The article addresses the issues focusing on the privileges of human resource (HR) or employment audits conducted by an employer. It explores three evidentiary privileges including attorney-client privilege, work-product doctrine, and self-
evaluation privilege and informs that be protected from disclosure. It discusses common forms various HR audits including Equal Employment Opportunity (EEO) audits, pay equity audits, and wage and hour classification audits.

**Florida Employment Law (2009)**[63] the article offers suggestions for employers to review their personnel policies. It reports on the rise in the number of complaints being filed by employees in the Equal Employment Opportunity Commission of the U.S. and stresses on the need for employers to conduct a comprehensive audit of their labor and employment policies. It mentions that employers must maintain records for pay and work hours and also presents a list of topics that should be reviewed in the audit.

**Beckmerhagen, H.P. Berg, S.V. Karapetrovic, W.O. Willborn (2004)**[64] this articles aims to focus on an "effective audit" cannot be taken for granted, even though it is performed by trained professionals using proven techniques and in accordance with internationally accepted standards. Recent highly publicized cases in both financial and quality auditing point to the need to further examine the meaning of audit effectiveness, as well as the methods to improve it. Specifically, audit reliability and risk as two related components of audit effectiveness are focused on.

**HR Focus. (2007)**[65] The article presents an outline on how to start a human resources (HR) audit. Two reasons for conducting an HR audit are to identify and control various kinds of risks. These risks tend to relate to financials and the reputation of the organization, among others. Some of the areas being audited are HR strategies and objectives and human capital management.

**Shiri, Shammy (2012)** This research seeks to empirically evaluate the HR function has emerged as a key factor in organizational performance and business success. HR audit helps in taking stock and refining HR policies, procedures and practices aimed at organizational effectiveness. The study indicates that HR audit increases the efficiency of Human Resource function, gives opportunity to align the
HR practices with the organizational strategy, identify improvement areas, and fine-tune the HR current practices in sync with organizational strategies.

Costel, Marin (2008)[66] this article explores that Human resources audit is an expertise which is carried out periodically to the administration system of human resources, including monitoring and collecting information, their analysis and assessment on this basis of the efficiency the organization uses human resources with. The main goal is to improve the employees' performance and job satisfaction. The purpose of human resources audit is to emphasize the strengths and weaknesses in the nonprofit system of human resources and managing the possible issues and the auditor is the landmark in the correct and legal carrying out of the audit. The human resources audit domain is much more comprehensive than the mere personal activity control. Human resources audit requires the study of the human resources system within the organization on different hierarchical levels.

Henríquez, Jorge Sánchez, Calderón, Viviana Calderón (2012)[67] This article presents a detailed analysis of the various stages of a performance evaluation process and the main human resource trends and those generic trends that are related to the performance evaluation, which directly affect the conduct of an audit. The methodology is based mainly on literature and article reviews which were published in specialized publications. The results of this research are presented with a broad definition of performance evaluation, referencing mainly contemporary authors, and we continue with a theoretical and a graphic presentation of the evaluation process. Subsequently, the major trends affecting human resource management are described, as well as performance evaluation, making a comparison between past and future visions of a series of concepts related to the evaluation, and concluding with contemporary references to concepts related with audits of performance evaluation.

The existing literature describes different approaches to HR auditing, including the legal approach, the function-based approach, and the strategic approach. All of them have been analyzed in this work. The legal approach centers on finding out if the company is complying with the current labor laws. Presently, it
focuses mainly on the evaluation of the company’s efforts in the prevention of work-related risks. The function approach analyzes the application of different HR policies. [Davenport, 2000].

A number of studies picturised the issues in health care sector like Lebows.D.E (1974) who suggested that in addition to measuring the patients subjective perceptions of care, the process, the structure, the outcome, the impact on patient should also be assessed in order to evaluate the quality of interaction between doctor and patient.


Jha.S.K (2013)[68] suggested that the management has to recognize the important role of Human Resource Department in order to successfully steer organizations towards profitability. The various findings of the past studies paves way for better understandability in the concept of Human resource in Healthcare sector. This would enrich the present study with a unique perspective, clear thought and dimension.

Traditional approaches to HR audit

An HR audit can be described as “a systematic, formal evaluation of all human resource policies and programmes in an organization” (Hercus and Oades, 1983)[69], which is an internally focused review of the HR activity. Rothwell and Kazanas (1994)[70] take a wider view, suggesting that the audit concerns itself with the extent to which the HR activity supports, and is consistent with, the purpose of the organisation it serves – a more external approach. Yet our experience, the many documented models, and the approaches offered by those who promote HR audit, do not bear this out.

Traditionally, the approach has been internally focused – assessing the compliance of the HR function to regulatory requirements, efficiency of processes and staff, the effectiveness of processes when measured against ratios eg staff
turnover, and the service levels to the organisation. The models proposed by Weisbord (1978 (Six Box Model)[71]; Hornstein and Tichy (1973)[72], and Lawrence and Lorsch (1967)[73] all follow this approach. Some early models do look beyond the internal operations of the HR function, for example Levinson’s (1972) [74] Clinical Approach, the Nadler and Tushman (1977) mode[(75] , and Kotter’s (1978)[76] Seven Circle Model; yet the extent to which they focus on how the HR function interacts with the external environment is limited to measuring the response to or support for change, and the quality of relationships with service users.

Moving into the twenty-first century, Holbeche (2001)[77] claims that “What chief executives require is someone who can translate the organisational needs back into business language and help executives with what must be done to people if the business strategies are to be achieved.” Ulrich and Brockbank (2005)[78] go further: “The HR value proposition means that HR practices, departments, and professionals produce positive outcomes for key stakeholders – employees, line managers, customers, and investors.” In other words, a successful HR activity produces contribution to the organization’s goals, and within the prevailing culture.

- Yet even the audit process proposed by Sacht (2001)[79] based on Ulrich’s four key principles of HR (line management friendly systems, line management legal compliance, implementing HR strategy to increase workforce value, and effective procedures) is still internally focused on the HR environment, auditing:
  - The functional role – systems, HR management and provision of information.
  - The service role – customer service and responsiveness.
  - Compliance – legal.
  - Strategic – workforce development and increasing value.
To assess if modern audit practice has changed to meet these wider definitions of successful HR, we recently reviewed 12 providers of specialist HR audit services, and found that the audit offered covered the areas. So professionally offered audit is primarily:

- An internally oriented activity, focusing on best practice and compliance.
- Carried out in isolation from the organisation in which it operates
- A problem or problem avoidance approach, not an improvement /benefits approach

Whilst most of the providers surveyed above produced results or reports, only row offered an action/improvement plan.

Indeed, the latest publication on HR auditing by McConnell (2011)[80] proposes an entirely ‘‘practices and compliance checklist’’ process with little regard for the contribution HR may actually make, or even undermine, to the success of the organisation in which it operates. We must therefore conclude that current audit practices fall short of the aspirations for successful HR in the twenty-first century as proposed by Holbeche, Ulrich and Brockbank by ignoring the organisational context such as goals and culture.

**IAQ effectiveness and Organizational Performance**

IAQ is an essential part of an effective internal audit (IA) process. On January 1, 2002, the Institute of Internal Auditors (IIA)[81] has revised standards for the internal audit practices that included two key provisions related to quality assurance. First, the internal audit department should implement a quality assurance (refer to IAQ) and improvement program, and second, they should secure an external quality assurance review of their internal audit operations.
IAQ also is one of the techniques required by ISO 9001 standard. The main purpose of conducting an internal audit quality is to examine for compliance with requirements of the ISO 9001 standard and to report any non-conformities identified as a basis for further corrective actions in order to eliminate them (ISO 9001:2008, Ch. 8.2.2). By eliminating finding in audit report such as non-conformities, the company formally meets requirements for managing or maintaining ISO 9001 certificate.

When discussing pertaining IAQ, ISO 9000 (2000) has defined internal audit effectiveness as “the extent to which planned activities are realized and planned results achieved”, and efficiency as “the relationship between the result achieved and the resources used”. By performing IAQ, the system can be effectively monitored for conformity to the internationally recognized standards and create a cycle of continuous quality improvement (CQI). Furthermore, not only should the outcomes of audit be measured against the planned objectives, but the audit process should include planning, reporting, follow-up and resource requirements, including auditor skill and competency.

According to Mihret and Yismaw 2007[82], internal audit (IA) effectiveness is defined as the extent to which an IAQ is debatably a result of the interchange among four factors: internal audit; management support; organizational setting; and attributes of the auditee. The main IA function’s capability is to provide useful audit findings and recommendations would help raise management’s interest in implementing improvement activity on quality. The management support such as providing the resources and commitment to implement the IA recommendations is essential in determining audit effectiveness. Also, the organizational setting in which IA operates, for instance the organizational status of the office, its internal organization and the policies and procedures applying to each auditee, should enable smooth audits that lead to reaching useful audit findings that can be presented in the form of report.

In addition, with strong management support it is possible to improve the IA from solely monitoring for compliance to searching for any possible
improvements. Such audits are considered as internal audits that add value (Liebesman, 2002[83]; Hutchins, 2002[84]; Piskar, 2004[85]; Pivka, 2004)[86]. Benefits of implemented IA depend on management’s understanding of IA, on management’s attitude to IA, and on how management responds to IA findings (Razzetti, 2003[87]; Bauer, 2005; Mihret and Yismaw, 2007)[88] and stimulates the auditors (Hutchins, 2002).

**Hutchins (2002)** looks at IAQ as a problem solving tool and an independent unbiased advising activity which is intended to improve and add value to company’s business by improving the effectiveness of controls as well as decreasing risks. Results of previous empirical study support the claim that IAQ should be used as a management tool for stimulating improvements in QMS resulting in processes effectiveness and efficiency (Piskar, 2004). Some other surveys and case studies have confirmed IAQ’s contribution to business improvement (Kaye and Anderson, 1999)[89].

When QMS becomes more mature, the management’s expectation of the IAQ effects are changing, so the purpose and orientation of the IAQ can be changed from a compliance assessment (compliance audit) to an assessment of continuous improvement (continuous improvement audit) and management system (management audit) (Karapetrovic and Willborn, 2000; ISO 9004, 2002, Ch. 8.2.1.3)[90]. Accordingly, the objectives of the IAQ have changed and should be related to business objectives the basic characteristic of such an internal audit that would be the audit objectives connected or related to the business objectives of the company (Karapetrovic and Willborn, 2000; Pivka and Mulej, 2004).

**Audit Resources**

The resource-based view of strategy with regards to strategic perspective (rather than economic) resources as firm specific and difficult for rivals to buy or imitate (Nelson and Winter, 1982)[91] and it gives value to managers to influences the direction and growth of a company. This view explains strategic resources as tangible and intangible assets that when both it combined, it will help to constitute a
company’s competitive advantage (Teece, 2007)[92]. The softer components of organizational resources, such as staff and skills, and how these are managed in operational teamwork against top-level targets and longer-term strategy, are central to the management of strategic resources.

The importance of organizational audits has been recognised in the performance management and organizational studies literatures, and that employee participation is a strong predictor of organizational performance (Alice and Rusjan, 2011)[93]. However, despite the thoroughness and ability for ensuring quality improvements, they are not designed to facilitate the review of the management of strategic capabilities at the operational level. Therefore, in perspective of IAQ, a preliminary condition for IAQ in order to be able to fulfill its duties is the availability of a sufficiently large number of skilled professionals or resources (Arenna and Azzonne, 2009)[94].

Auditor Competencies

The resource-based view regards the company as a cognitive system, which is characterized by particular and context-dependent competences that are core to strategic purpose. Competences typically involve the development of specialist expertise. From audit perspectives; the auditors’ competencies can also increase the effectiveness of the IAQ team by improving the recognition of their role within the organization. Previous studies underlined that line managers often believe that internal auditors do not have enough knowledge to provide useful help (Griffiths, 1999[95]; Van Peursem, 2004, 2005)[96] and, if this is the case, they do not take into account their advice, hence reducing the effectiveness of IAQ (Van Peursem, 2004, 2005).

Audit Report

Further the importance effect of IAQ is also largely dependent on the management’s understanding of audit reports (as user of the audit results), on management’s attitude to audits, and on how management responds to audit findings
Audit report has been seen as one of the tools to measure the impact of IAQ. It’s requires a clear definition, understanding and acceptance of the term “effective audit report”. Related terms, such as the “reliability of findings”, “added value”, and “client satisfaction”, point in the right direction. But these are merely findings of an audit report. A typical evaluation of audit performance or findings includes the measurement of the achieved effectiveness and efficiency, and a subsequent comparison of the actual performance with the expected goals. In ISO 9000 (2000), effectiveness is defined as the extent to which planned activities are realized and planned outcomes achieved compare with number of resources used. Therefore, in order to adequately measure IAQ as a whole, one should evaluate not only the audit process but also the results (outcomes) or extending from the planning and execution to the audit reporting, follow-up and resources (including the auditor independence and competence) (Karapetrovic and Willborn, 2000).

HR auditing must perform two basic functions (Cantera, 1995). First, it must be a management information system whose feedback provides information about the situation in order to facilitate the development of managing processes or the development of HR. On the other hand, it must be a way of controlling and evaluating the policies that are being applied, as well as the established processes. The results can be valued through their cost (a measurement internal to the function) (Walker, 1998). The Things that get measured get managed (Kaplan and Norton. 2008).

HR Audit is very much helpful to face the challenges and to increase the potentiality of the HR personnel in the organization (2008). It involves a company’s strategic actions to take an intensely objective look at its HR policies, procedures and practices. The fundamental performance questions addressed in a strategic audit of HR are “Does the department align human resources and management practices, policies and procedures with the organization’s strategic objectives.

According to Nevado [1998, p. 49], the basic functions of the audit of conformity or of performance as an element of HR auditing are threefold. The first function is examining to see if the firm is fulfilling all its administrative social
obligations, as well as those relative to the collective rights of its personnel. The second is to study the relationship between the employees and the firm based on the legal statutes. The final function is verifying if the firm fulfils its financial obligations (for example, social security payments), as well as its informative ones. The research clearly highlights on all the three fold requirement of HR audit.

2.5 REVIEW OF LITERATURE ON HR METRICS AND ANALYTICS

Interest in HR metrics and workforce analysis is not new. Systematic work on the development of measures to capture the effectiveness of an organization’s employees can be traced as far back as the days of scientific management (Taylor, 1911) and industrial and organizational psychology (Munsterberg, 1913)[97]. Methods of quantitative analysis and its use in decision making were developed during the build-up of both men and materiel occasioned by World War II. Further study and development occurred during the great post-war industrial expansion in the United States that continued into the 1970s. In fact, many of the most common HR metrics in existence today were first considered and developed during this period (Hawk, 1967)[98].

Many of the HR metrics most frequently used in organizations can be traced to the pioneering work of Dr. Jac Fitz-enz and the early benchmarking work he conducted through the Saratoga Institute. In 1984, Fitzenz published How to Measure Human Resources Management, currently in its third edition (Fitzenz & Davidson, 2002), which is still a highly valued overview of many HR metrics and the formulas used to calculate them. These metrics were developed through the joint efforts of the Saratoga Institute and the American Society for Personnel Administration (ASPA), the forerunner of the current Society for Human Resource Management (SHRM).

Kaplan and Norton’s (1996) introduction of the balanced scorecard further refined managers’ thinking about metrics. The balanced scorecard recognizes the limitations of organizations’ heavy reliance on financial indicators of performance. Such measures focus on what has already happened rather than
providing managers information about what will happen. Balanced scorecards focus on developing leading indicators of performance from several important perspectives, including customer satisfaction, process effectiveness, and employee development, as well as financial performance.

About the same time, Huselid’s (1995) work on high performance work systems demonstrated that the systematic management of human resources was associated with significant differences in organizational effectiveness. This work provided evidence that human resource management did indeed have strategic potential. Becker, Huselid, and Ulrich (2001) helped bring these ideas together in the HR scorecard, which highlights how the alignment of HR activities with both corporate strategy and activity improve organizational outcomes.

2.6 REVIEW OF LITERATURE ON CONTEMPORARY HR METRICS AND WORKFORCE ANALYTICS

The field of HR metrics and workforce analytics is currently in transition. During the previous 30 years, most medium to large organizations did engage in some HR assessment and analytics. But these efforts were not systematic. Due in part to the expense involved, they were conducted on only a sample of activities, and often for only a limited set of metrics. More recently, because of the development of strong computer-based communications infrastructures and greater access to data through the adoption of integrated human resource information systems, organizations are engaging in more consistent and systematic reporting of HR metrics.

Increased interest in human capital metrics and analytics work has resulted in more organizations reporting a larger number of metrics more consistently. It is important to recognize that many organizations use metrics to measure or audit their HR programs and activities. Historically, the use of such audit metrics to measure the effectiveness of HR was identified by Cascio (1987) and Fitz-enz and Davidson (2002). The Society for Human Resource Management
has identified a number of metrics that organizations can use to measure their HR effectiveness (SHRM, 2010).

There are also more detailed approaches for the measuring and benchmarking of employees’ behaviors, such as absenteeism (Hollmann, 2002)[101] and turnover (Cascio, 2000), as well as for creating HR metrics for programs such as employee assistance and work-life programs (Cascio, 2000).

Unfortunately, while the infrastructure supporting HR metrics and analytics has undergone dramatic change in the last 20 years, the metrics themselves have not. Current computing operations are capable of capturing data on a wide range of electronically supported HR processes, extracting, analyzing, and then distributing that information in real time to managers throughout the organization. Current popular HR metrics, however, were not developed with our current computing infrastructure in mind. The Saratoga Institute’s early efforts in benchmarking were primarily conducted using paper-and-pencil processes. As a consequence, recognizing what data most organizations could easily and inexpensively gather played an important role in identifying which metrics could reasonably be included in benchmark studies.

2.7 REVIEW OF LITERATURE ON HR AUDIT IN GLOBAL BUSINESS ENVIRONMENT

As the world economy becomes more competitive, dynamic, uncertain and volatile, more firms must compete globally because the costs associated with the development and marketing of new products are too great to be amortized over a single market, even one as large as the United States or Europe. Yet, many products and services demand accommodation to local customs, tastes, habits and regulations. Consequently, there is a growing need to manage globally, as if the world were one vast market, and simultaneously to manage locally, as if the world were a vast number of separate and loosely connected markets (Bartlett and Ghoshal, 1991)[102]. These opposing forces are creating a great deal of challenge and opportunity in understanding and conceptualizing exactly how multinational
enterprises can compete effectively (Sundaram and Black, 1992). This is especially true with respect to international human resource management (IHRM).

Regrettably, the home-country HRM function is not evaluated on a regular basis in the United States or abroad. While US firms often conduct internal financial and operational audits, human resource activities typically receive limited auditing attention. Payroll audits are the most common focus therein, examining the legitimacy of recorded pay levels and recipients as well as conformity with prescribed disbursement procedures (Arens and Loebbecke, 1984; Fonorow, 1989).

At times, supplemental reviews may consider the congruence between HRM programmes and home-country employment standards. Although such analyses may reduce fraud and legal liability, they offer no insight into the performance of most HRM subsystems (e.g., training), let alone the HRM function's overall impact on specific operating limits or the entire MNE. Corporate annual reports also fail to document the organizational contributions of HRM processes or outcomes. These documents tend to be meagre sources of employment-related information notwithstanding the common practice of touting human resources as critical assets. An international study of reporting practices attests to this problem. Non-European companies normally offered vague policy statements on employee/industrial relations without meaningful quantitative data to substantiate their existence or effects (cited in Gray and Roberts, 1991). European firms, particularly those in Germany and Italy, were more likely to convey industrial relations, training and safety statistics. Even here though, extensive details were lacking in most instances.

Arguments for extensive human resource management audits are not new to the literature; however, considerable variation exists in the assessment criteria which are advocated. Mahler (1979) placed emphasis on the extent to which HR staff and line management correctly perceive and adhere to the formal partitioning of employment roles and responsibilities. While role clarity and conformity are relevant issues, they offer very limited perspectives on organizational
performance and the role that HRM plays in it. Jennings, McCarthy and Undy (1990)[108] focused on managerial and employee reactions to select human resource activities. Survey respondents were asked about the frequency or regularity of occurrence, the source of information or decision making and personal satisfaction or agreement with these patterns. While useful, these perceptual and attitudinal reports from organizational members need to be merged with more objective indicators (Dyer, 1991)[109]. Other schemes have utilized outcome measures in the auditing process.

Heiser (1968)[110] reviewed plant-level statistics before developing an interview-guide for local management. One study combined values from attitude surveys, executive rankings and archival records to generate composite personnel-audit scores (Gomez-Mejia, 1985)[111]. A factor analysis of thirty-seven measures supported the existence of nine audit dimensions - managerial behaviour; policies and procedures; manpower flows; staffing/equal employment opportunity (EEO); compensation and rewards; labour relations; health and safety; career, training and development; and performance appraisal. Certain factor scores also were significant predictors of organizational performance and personnel's overall contribution as perceived by executives, employees' overall satisfaction with personnel and net profit per capita. Although detailed descriptions are unavailable, the United Kingdom's National Audit Office purportedly uses value-added analyses to judge the efficiency and effectiveness of public-sector HRM practices (Easteal, 1992)[112].

All of these auditing perspectives exhibit two fundamental limitations. First, none of the approaches examines the strategic appropriateness of HRM systems. It is necessary, but not sufficient, to profile HRM in terms of staff characteristics, structure and policies. Audits must also critique how well those traits fit the business' environment, structure and strategy, and map the technical, political and cultural changes fostering better alignment (Fombrun, Tichy and Devanna, 1984)[113].

Biles and Schuler (1986)[114] partially bridged this gap by adding strategically oriented survey items to those with a managerial and operational
orientation. Action-plan statements also were provided for each level in the event that discrepancy scores (i.e., difference between how true and how desirable) were unacceptably high. Second, with the exception of Biles and Schuler, the analyses are confined to domestic operations. The inherent reliance on a single cultural, regulatory and structural context for HRM becomes increasingly dubious as the number of overseas exists grows. International HRM generally entails more diverse activities, greater involvement in employees' personal lives, greater risk exposure and more external influences than does its domestic counterpart.

These administrative challenges are exacerbated by international joint ventures, where the ongoing staff may be comprised of as many as ten different employee groups (Zeira and Shenkar, 1990)[115]. Available evidence suggests that MNEs will encounter greater difficulty remaining globally competitive if these evaluative deficiencies are not corrected. A recent survey of effective firms in highly competitive environments found that Latin American, European, North American and Asian companies all assigned a relatively high priority to strengthening the linkage between HR and business strategies by decade's end (Towers Perrin, 1992)[116]. A majority of the respondents in eleven out of twelve nations also felt that issue identification/strategic studies would be a high-priority human resource activity by the year 2000. Progress towards both goals is dependent upon an MNE's ability to evaluate and properly integrate the mission, strategy, programmes and configuration of its HRM function on a worldwide basis.

2.8 REVIEW OF LITERATURE ON STRATEGIC INTERNATIONAL HUMAN RESOURCE MANAGEMENT

Strategic IHRM encompasses the human resource issues, functions, policies and practices that result from the strategic activities of MNEs, as well as those that impact on the international concerns and goals of these organizations (Schuler, Dowling and De Cieri, 1993)[117]. Inter unit linkages and internal operations are the central considerations giving rise to and influencing strategic IHRM (Hennart, 1982[118]; Phatak, 1992)[119]. Numerous exogenous and
endogenous factors in turn influence how difficult it will be to balance and satisfy both needs. Each component is examined further below.

As noted earlier, MNEs are firms that are driven to be global and local (multi domestic) at the same time. There are, however, varying levels of globalness and localness that MNEs need to achieve, and numerous ways of attaining similar levels on these dimensions (Bartlett, 1992). Even within particular industries, worldwide companies have evolved very different strategic and organizational responses to changes in their environment. Differentiation and integration questions are important not only because they influence firm effectiveness (Lawrence and Lorsch, 1967), but also because of the challenge inherent in selecting from among the many choices and alternatives that exist along these two dimensions (Phatak, 1992; Prahalad and Doz, 1987)[120]. Therefore, general questions about differentiating and integrating the units of a firm are regarded as strategic ones (Hambrick and Snow, 1989)[121]. They are also strategic for international human resource management. In fact, the issues associated with differentiating and integrating MNE units represent a major influence on IHRM issues, functions and policies and practices (Schuler, Fulkerson and Dowling, 1991; Fulkerson and Schuler, 1992).

In addition to working together, each unit has to work within the confines of its local environment, its laws, politics, culture, economy and society. Isomorphic pressures must be managed in such a way that they do not impede each unit's ability to execute local and companywide competitive strategy. For these reasons, concerns regarding the internal operations of units are strategic as well (Prahalad and Doz, 1987). Schuler et al. (1993) provides a more detailed account of how internal operations and inter unit linkages are expected to influence strategic IHRM.

2.9 REVIEW OF LITERATURE ON AUDITING FOR STRATEGIC IHRM: EXTERNAL BENCHMARKING

Similar to what is done in other management areas, the best practices of competitors should be systematically identified and internalized to reduce any competitive edge that may have accrued. Product-market rivals need to be profiled
in terms of their organizational culture, leadership base, demographic composition, skill mix, HR policies, HR systems' strategic fit and recent personnel changes (Craft, Fleisher and Schoenfeld, 1990)[122]. Such information conveys what industry competitors are capable of doing, as well as what they are likely to do, given their work-force, decision-making tendencies and environmental positioning. Labour-market rivals and HRM practice leaders also can be targeted to ensure access to the requisite talent pool for strategic goal attainment. This framework has been extended to multinational settings with reporting recommended at the host, regional and global levels (Fleisher and Schoenfeld, 1991).

At a minimum, competitors' internal labour-market structures must be documented. To illustrate, what is the nationality mix of their boards of directors? US and Japanese MNEs have been extremely ethnocentric, contrasting sharply with European firms like Unilever that has a half-dozen countries represented on its board. How much direct international experience do home-country officers have, what was the nature of their assignment(s) and what region(s) did they serve in?

How extensive are their repatriation policies and host manager rotations through home operations? What is the present mix of PCNs and TCNs on foreign assignment, and is that percentage relatively constant across regions? How are strategic business units configured, and

What is the employment distribution among them? How long have these patterns been in effect?

Questions also must be asked about the local operations of competing MNEs. What is their nationality mix, and where are International assignees typically placed (e.g., technical specialists, functional heads, CEO)? Have expatriate failure rates been more or less problematic in those units than we have experienced? What kind of HR information and appraisal systems connect their units with headquarters? More generic inquiries for all host competitors include skill/experience levels, demographics, turnover rates and consistency between HRM systems and stated/observable strategies. External labour-market initiatives should be a vital
component of each profile as well. How active are foreign-owned and indigenous firms in employer associations at the industry and national levels? Sizeable involvement may signal efforts to influence lobbying priorities or industry bargaining objectives where labour negotiations are highly centralized. Which unions have representational rights, and what is the overall labour-relations climate in rival facilities? Have competitors established special links with host-country institutions.

**Internal auditing**

However it is structured, auditing must go beyond activity verification - IHRM’s strategic contributions must be assessed. Because the standards for evaluation are likely to vary across assessment methodologies, auditing is typically a very complex process. Moreover, the complexities of MNE operations necessitate a multi-faceted HR-audit process. Best suited would be an approach that incorporates the multi-constituent (Tsui and Gomez-Mejia, 1988)[123], strategic fit (Ulrich, 1989) and effectiveness-efficiency (Mercer, 1989[124]; Walker and Bechet, 1991)[125] perspectives. Each is reviewed below and described in the context of strategic IHRM.

**Pucik (1988)[126]** articulates numerous ways that ill-conceived HR policies can frustrate organizational learning in strategic alliances. These nm the gamut from insufficient planning and lead-time for staffing and development programmes through disincentives for knowledge assimilation to fragmented corporate responsibility for learning and its internal diffusion.

### 2.10 REVIEW OF LITERATURE ON PERFORMANCE APPRAISAL

In the literature, the effect of national culture on performance appraisal is usually discussed from two perspectives: performance criteria and method of performance (Aycan,2005)[127]. According to Myloni et al. (2004)[128], performance appraisal is usually a tough process in Greek firms. It is mainly subjective since employees are usually closely related and the results of the appraisal
can be hardly revealed. **Myloni et al. (2004)** states: “HR practices in Greek firms, such as planning, recruitment and performance appraisal are to a great extent in accordance with the cultural values of Greek society”. In another study, the authors state: “It is evident that Greek firms show a high level of embeddedness in their cultural environment. Practices such as the use of recommendations in recruiting employees, the limited long-term HR planning, as well as a reduced use of several performance appraisal practices are still quite widespread even in larger Greek companies” (Myloni et al. 2003). Other studies used Hofstede’s cultural dimensions to explain variations in performance appraisals across countries. In high power distance countries, which is the extent to which inequality in distributing power is tolerated (Hofstede et al., 1990)[129], performance appraisal only concerns employees but not managers. In such countries, only managers are the source of evaluating employees (Aycan, 2005). In low power distance countries, performance appraisal concerns employees from all ranks and multiple source evaluation techniques are widely used like for example the 360 ° system which uses a variety of raters. This method requires low power distance and high levels of participation (Fletcher & Perry, 2001)[130].

**Davis (1998)**[131] consider that the 360 degree system is not appealing in high power distance countries because seeking feedback from subordinates might weaken the supervisor's authority (Gregersen et al.,1996)[132]. This appraisal method is also not appreciated in highly collectivist countries because it is believed to harm group harmony (Aycan,2005). Even self-appraisal in collectivist countries is not appreciated. The emphasis on self and personal achievement might be contradictory with the values of collectivist cultures which emphasize humility in self-presentation (Wiersma and van der Berg, 1999)[133]. In high power distance and collectivist cultures, there is usually a reluctance to seek feedback. Feedback is usually initiated by the superior who is considered to be trustworthy (Huo & Von Glinow,1995)[134], it is indirect, non-confrontational, subtle and private (Fletcher & Perry,2001). It is extremely rare to conduct face to face performance interviews in collectivist cultures (Elenkov, 1998)[135]. If the feedback is negative, it is usually not easy to give or receive (Aycan,2005).
Trompenaars (1993) considers that in cultures where the distinction between life and work space is blurred (i.e. diffuse cultures) negative feedback on one's job performance is perceived as attacking the person's personality. For this reason, Seddon (1987)[136] considers that there is a tendency to avoid giving negative feedback to save the employee from losing face. Even positive feedback is not well received in collectivist countries since it may also disturb group harmony and cause jealousy (Aycan, 2005) and should come from outside the organization because when managers praise their employees, it could be perceived as self-serving (Triandis, 1994)[137]. Moreover, the perception of performance could differ between countries. For example, in Middle Eastern countries, loyalty to a superior takes precedence over effective performance as measured by Western criteria (Mellahi, 2003)[138]. In collectivist cultures, loyalty to the in-group is more important than productivity. High-performing employees within a group might be disliked by the group and thus might be perceived as disturbing the group harmony and/or might invoke jealousy (Kovach, 1995[139]; Tung, 1984)[140].

2.11 REVIEW OF LITERATURE ON COMPENSATION AND BENEFITS

Segalla (1998)[141] studied 100 European managers aiming at identifying differences among countries with regard to promotion and remuneration. A main difference was found between German managers who favor promotion based on objective performance criteria and remuneration based on measurable individual performance factors and French managers who promote based on seniority and group loyalty and where remuneration is based on group performance rather than individual performance.

A study by Lowe et al. (2002)[142] revealed that employees in the USA, Taiwan, Mexico and Latin America prefer variable pay incentives while their counterparts in Australia and Japan emphasize less this kind of pay. Other studies tried to explain differences among countries in terms of compensation and benefits either from a cultural or institutional perspective. In high power distance cultures, wages and salaries are determined in a subjective way by managers who might
assign different salaries for different employees recruited for the same position (Mendonca & Kanungo, 1994). In high power distance cultures, reward is given based on criteria other than performance. These criteria might be seniority or having good relations with managers (Hui and Luk, 1997; Leung, 1997; Smith & Bond, 1997).

According to Schuler & Rogovsky (1998)[143], seniority-base pay is found mainly in countries with high levels of uncertainty avoidance which is the extent to which people are risk averse or are prepared to take risks (Hofstede et al., 1990). The authors further explain that risk taking managers privilege more performance-base pay whereas risk adverse managers would prefer seniority-based pay.

In brief, HRM is "national" in the sense that HR practices are embedded in their national context (cultural and institutional context) and thus differ across cultures and countries. As Tayeb (2005)[144] has pointed out earlier in this section, HRM might be universal regarding "what" practices are used but is contextual regarding "how" practices are implemented and "why" they are implemented as such. The next section will explore what are the context-related factors that shape the HRM policies and practices of an organization operating in a specific country.

2.12 REVIEW OF LITERATURE ON CONTEXTUAL MODEL OF FACTORS DETERMINING HRM POLICIES

Through theoretical evidence, it is clear that HR policies and practices are embedded in their national context and differ across countries. From here, a framework that would explain the different factors that shape national HRM policies and practices becomes crucial. Based on several models developed earlier (Begin, 1992[145]; Miles & Snow, 1984[146]; Gronhaug and Nordhaug, 1992[147]; Hiltrop, 1996[148]; Jackson & Schuler, 1995[149]; Murray et al., 1976[150]; Negandhi, 1975; 1983[151]; Schuler et al., 1993; Tayeb, 1995; Welch 1994)[152] and considering the context specific nature of HRM (Lock and Thelen, 1995; Jackson & Schuler, 1995), Budwar and Debrah (2001) developed a comprehensive list of factors that determine HRM policies and practices in countries.
Brewster (1995), Hofstede (1993), Laurent (1993), Sparrow (1995) and Tayeb (1995) have focused on the influence of national factors on human resources policies and practices including the national culture and institutions.

Different aspects of national culture have been identified by researchers:

- The socialization process through which managers are made (Hofstede, 1983; 1993; Schein, 1985; Terpstra and David, 1985; Van Maanen and Schein, 1979)
- The assumptions shaping managers behavior (Hofstede, 1983, 1993; Van Maanen & Schein, 1979)
- Their common values, norms of behavior and customs (Hofstede, 1983, 1993; Keesing, 1974; Tayeb, 1995)
- The influence of social élites or pressure groups unique to a country (Keesing, 1974)

According to Budhwar & Debrah (2001)[154] several studies have shown that organizational strategies determine a range of HRM policies and practices:

- Staffing (Guthrie & Olian, 1991)
- Compensation and benefits (Veliyath et al., 1994)
- Employment relationships (Peck, 1994)
- Integration of HRM in the corporate strategy (Budhwar & Sparrow, 1997)
- Type of training and development (Peck, 1994)
- Levels of performance (Guest, 1997)
In conclusion, it could be said that this framework is helpful in identifying the main determinants of HRM and facilitates the cross-national comparison of HRM. In parallel to the factors that determine national HRM discussed above, the next section discusses the various approaches to HRM in MNCs: strategic, cultural and institutional. However, a definition of HRM in MNCs or IHRM (International human resource management) is necessary at this stage. When human resource management is applied to the international setting, the HRM functions become international human resource management (IHRM). The HRM functions remain the same but their complexity increases. Firstly because the multinational manager has to deal with workers from different nationalities and second he/she has to decide how many of the company’s HRM policies should be adapted within the host country’s environment. The field of IHRM is about understanding, researching, applying and revising all human resource activities in their internal and external contexts as they impact the process of managing human resources in enterprises throughout the global environment to enhance the experience of multiple stakeholders, including investors, customers, employees, partners, suppliers, environment and society (Briscoe & Schuler, 2004). According to Dowling et al. (1994), “IHRM consists of a collection of policies and practices that a multinational enterprise uses to manage the local and non-local employees it has in countries other than their home countries”.

Many researches and authors have confirmed that the international human resource management differs from the domestic human resource management (Dowling, 1988)

This first difference is related to the international human resource department’s responsibilities in an MNC:

- Responsible for a greater number of activities including the management of international assignees.
- Having to know the employment laws of different foreign countries.
- Closely involved in the lives of expatriates and their families.
• Having to deal with a diversified workforce.

• Having to cope with many external influences such as culture.

• Exposed to more problems and difficulties and thus the probability of making mistakes is higher.

The second difference comes for the competency and sensitivity needed from the firm because it becomes geographically dispersed and involved in a multicultural environment. From here comes the need for a skilled HR manager that can handle multiple countries and cultures.

The third difference is related to the HR function itself which becomes more complex. The main function becomes the support of the activities of the firm in each domestic market.

A major dilemma occurs which is the tension between centralization and decentralization of HR practices. This dilemma is not found in the domestic HRM. This issue is discussed later in this thesis but at this stage, it is useful to quote the following statement which illustrates the dilemma of IHRM: “In order to build, maintain and develop their corporate identity, multinational organizations need to strive for consistency in their ways of managing people on a worldwide basis. Yet, in order to be effective locally, they also need to adapt those ways to the specific cultural requirements of different societies. While the global nature of the business may call for increased consistency, the variety of cultural environments may be calling for the differentiation” (Laurent, 1986)[155].

2.13 REVIEW OF LITERATURE ON CONTINGENCY FACTORS AND IHRM

Several conceptual models of factors were developed to explain and predict how MNCs might conduct IHRM on an abstract level from a macro, strategic level (Adler & Ghadar 1990; Evans & Lorange 1989; Evans et al. 2002; Milliman et al. 1991; Nankervis et al. 2002; Schuler et al. 1993; Taylor at al.1996;
Authors who developed early conceptual IHRM models have argued that an MNC should find a harmony between its overall strategy and its IHRM policy rather than identifying the best overall IHRM policy (Adler & Ghadar 1990; Milliman et al. 1991). Later models have identified several internal and external factors that influence an MNC’s choice of IHRM system. Specified factors include:

- The industry in which an MNC is operating (Schuler et al. 1993, 2002).
- The organizational structure (Schuler et al. 1993, 2002).
- The headquarters’ international orientation (Schuler et al. 1993, 2002; Taylor et al. 1996).
- The resources or strategic role of affiliates and certain employee groups (Taylor et al. 1996; Naverkis et al. 2002).

Schuler et al. (2002) assume that there is a need to consider multiple levels of analysis to study IHRM, including the external environment, the industry, the firm and the individual. Their study focuses on the headquarters’ international orientation, the home and host country’s cultural and legal environments and the roles of the headquarters and subsidiary staff in the transfer process.

Pucik (1984) considered that HRM practices are a critical factor in the success of international operations of an MNC. MNC’s global strategy must be carefully translated into specific IHRM objectives and goals. He linked the corporate
strategy to IHRM. According to Pucik (1984), IHRM objectives vary across the different phases of the product-life cycle (explained earlier in this chapter). Pucik (1984) has given several recommendations to American MNCs as they become more internationalized. For example, he considered that U.S. MNCs should improve their staffing practices as competition and change increase. MNCs should take greater advantage of their competitive advantage of having access to a large number of foreign students in U.S. universities. Second, U.S. firms can benefit by more carefully evaluating their longer term staffing needs and seek to fill future positions in the corporation rather than always hiring for a particular position which is needed immediately. Third, greater consideration may be given in recruiting geographic area specialists and nationals rather than focusing first on technical specialties (e.g. finance, accounting, etc.) as often is the case.

According to Pucik (1984), appraisal systems play an important role in determining compensation in U.S. international firms and should ensure that performance is linked to corporate strategy so that employees receive appropriate levels of rewards. The role of senior management and the personnel department is then to translate the MNC business strategy to strategic IHRM objectives. Dowling and Welch (1988) consider that IHRM operates in a more complex environment and therefore it involves a greater diversity in activities and population. They consider that awareness about the importance of HRM variable in international operations should be increased. HR managers should be involved in decision-making so that HR activities become aligned with the overall strategy of international growth. IHRM should be linked to long-term strategic planning.

Porter (1985)[156] argued that human resource management can help a firm obtain competitive advantage by lowering costs, by increasing sources of product and service differentiation, or by both. Lengnick-Hall & Lengnick-Hall (1988) proposed a typology that stresses on the reciprocal interdependence between a firm's business strategy and its human resources strategy. They state: “Both human resource strategy and business strategy are seen as composite outcomes because in each, many functions, events, and relationships influence organizational results. If a strategic human resource management perspective is adopted, then human resource
considerations must be intimately linked with strategic choices. This view assumes that the human resources are critical to achieving competitive success”.

Stopford & Wells (1972)[157] linked structure to IHRM strategies. They consider that companies may adopt a variety of structural forms when they implement an international strategy. In the initial stage of the international expansion, foreign sales are an extension of domestic sales. As product diversity increases, companies move from the simplest structures to world-wide product division structure. On the other hand, when foreign market involvement (measured by the percentage of foreign sales) increases, firms tend to adopt worldwide area division structure. Finally, when both product diversity and foreign sales were high, an MNE would follow a matrix/mixed structure. With greater international experience, the parent company of an MNC may develop a more cosmopolitan and less parochial relation with its subsidiaries. These different structures have implications on IHRM especially on staffing practices in subsidiaries.

As for Perlmutter (1969) and later Perlmutter & Heenan (1974, 1979)[158], they linked the senior management attitude towards internationalization to IHRM strategies. The EPG (Ethnocentric, polycentric, geocentric) model was developed to explain how senior management can take one of the three SIHIRM orientations based on the perceptions they have regarding internationalization. If the general attitude of senior management is that nationals from the organization’s home country are more capable to drive international activities forward than non-native employees working at its headquarters or subsidiaries. The practices and policies of headquarters and of the operating company in the home country become the default standard to which all subsidiaries need to comply. The MNC is therefore choosing an ethnocentric IHRM orientation. If senior management believes that local people know what is best for their operation and should be given maximum freedom to run their affairs as they see fit. The MNC in this case is choosing a polycentric IHRM orientation. Finally, if senior management believes that nationality is not an important variable. Within legal and political limits, executives try to seek the best men, regardless of nationality, to solve the company’s problems wherever in the
world they occur. Other authors related the stage of internationalization of an MNC to IHRM strategies.

The best known research is that of Bartlett & Ghoshal (1989). The authors conducted an in-depth study of nine companies from three countries operating in three industries with worldwide interests. Both personal interviews and survey questionnaires of key personnel were employed to develop a typology of organizations operating in the international business environment. Based on their results, these scholars identified four forms of organizations used to manage international businesses. They labeled these the multinational, global, international, and transnational corporation. The main contribution of Bartlett & Ghoshal (1989) outlined that multinational corporations (MNCs) should aim for local responsiveness, global efficiency and worldwide innovation and suggested that there are four international configurations of MNCs. The authors argued that transnational human resource management (HRM) is the key to achieve the above aims simultaneously. This typology was explained earlier in this chapter.

Milliman et al. (1991) linked the organizational cycle to IHRM strategies. The authors used the organizational life cycle to assess what various units will need in terms of IHRM. The four organizational life cycle stages are organization initiation, functional growth, controlled growth, and strategic integration. In the initiation stage, most personnel practices are handled by line managers, and the major IHRM emphasis is on basic recruitment and compensation programs. During the next stage, the functional growth, the firm develops a formal personnel department. MNCs at this stage are still likely to value short term cost savings over long-term career development of expatriates. At the third stage, the controlled growth, the MNC is likely to emphasize IHRM practices that will achieve tight integration and control of its overseas operations. At this point, human resource practices are characterized by professional management and the use of advanced analytical tools. During the fourth stage, the strategic integration, MNC start to face an increasing worldwide competition to survive, it must have a long-term view and develop a cadre of expatriates who can guide it with a global vision at both the subsidiary and corporate levels. At this stage, the human resource management
function must be integrated with other functions such as accounting, marketing and operations. At this stage, the MNC should develop a global strategy but at the same time should become sensitive to the host countries of its subsidiaries.

Later, scholars began to build on the previously cited single factor models and identified multiple factors that included external environmental factors and organizational characteristics linking these factors to MNCs choice of IHRM orientation. Researchers advocated that generic IHRM models that explore IHRM policies and practices and their relation to multiple intervening factors could be built. (Schuler et al. 1993; Taylor et al.1996; Schuler at al. 2002).

Evans & Lorange (1989)[161] investigated the following research question: “How can a corporation operating in different product markets and diverse socio-cultural environments effectively establish HR policies? To answer this question, they developed two logics for shaping HRM policy: product-market and socio-cultural logic. Under the product-market logic, the different stages of the product life cycle require different types of managers. Under the socio-cultural logic, the authors propose two strategies for dealing with cultural and social diversity basing their work on Perlmutter (1969). The first strategy, called global, the company’s culture predominates and human resource practices are centralized and standardized. The second strategy, called polycentric, decentralizes the responsibility for human resource management and leaves it for subsidiaries.

Schuler et al. (1993) differentiated between two sets of factors that affect IHRM: exogenous (growing by successive additions to the outside) and endogenous (increased by internal growth and formed within). These factors are found to influence IHRM strategies and policies. Exogenous factors include factors such as industry characteristics, country/regional characteristics and country culture whereas endogenous factors include the organizational structure of the MNC, the international entry mode, the headquarters international orientations and the experience in managing international operations.
Taylor et al. (1996) developed the work of Schuler et al. (1993) by defining factors that influence IHRM strategies at three different organizational levels: corporate level, affiliate level, employees group level. At each level, different independent variables influence IHRM policies and practices. They go further by explaining that the MNC can choose to diffuse its HR practices if it believes these to be generalisable across subsidiaries. They argue that different levels of integration and responsiveness within a MNCs IHRM policies and practices are affected by the overall strategic IHRM system orientation and the degree of similarity of subsidiaries HRM systems to the parent company’s HRM system at the corporate level as well as at the subsidiary level. It is important to note that Taylor et al. (1996) believe in an integrative approach to HRM in MNCs meaning that MNC should share best practices from all parts of the organization to create a world-wide system.

As for Dowling et al. (1999), they considered IHRM activities in MNCs are influenced by both endogeneous and exogenous factors. Multinational structure refers to both the structure of international operations and to intra-organizational networks and mechanisms of co-ordination. The life cycle stage of the firm and the industry in which it operates are important influences for SHRM in multinationals as are international entry modes and levels of firm strategy. The most intangible endogeneous factors are experience in international business and headquarters international orientation.

The above integrative IHRM models indicate a strong consensus on the “best fit” approach to IHRM policies and practices. IHRM policies and practices are considered effective only when coordination, responsiveness and organizational learning are reached simultaneously. In order to reach this three dimensional goal, the MNC needs to take into consideration various factors including the subsidiary’s characteristics and the environment in which it operates.

According to Pucik (1984), going “international” and operating in several countries has affected deeply the corporate human resource management activities. Internationalization and globalization have two implications on IHRM. The first implication is to build, sustain and learn through transnational networks to urge
managers in acquiring new skills. This also imposes new challenges on the firm’s HRM strategies and systems (Adler & Bartholomew 1992). IHRM makes a multinational organization efficient and effective because it enables the MNC to deal with and control cross-cultural issues that are both internal and external to the organization (Adler & Ghadar 1990). Second, internationalization raises a set of issues related to the management of workforce across the borders, the degree of centralization and the degree of managerial autonomy (Schuler et al. 1993; Taylor et al. 1996).

The dilemma of integration versus differentiation is of growing importance in the debate on strategic IHRM. An effective MNC tends to keep its operations across the world differentiated but at the same time integrated, controlled and coordinated (Milliman et al. 1991; Bartlett & Ghoshal 1992; Schuler et al. 1993).

Brewster (2002) argues that simultaneous concerns for being global, transferring learning and being multi-domestic generate important issues relevant to IHRM. Ohmae (1990) described the same concept as “global localization”. Phatak (1992) created a new terminology “glocalization” which means thinking globally and acting locally or “strategic fit” and “flexibility” (Milliman et al. 1991; Schuler et al. 1993).

Welch (1994) considers that if an MNC wants to retain its overall identity and strategies could benefit from a global, geocentric orientation in personnel policies and practices. In order to remain responsive to local variations, it should have a polycentric IHRM orientation. It is important to recall the statement of Schuler et al. (2002): “The purpose of IHRM is to enable the MNC to be successfully global. This entails being: (a) competitive through the world; (b) efficient; (c) locally responsive; (d) flexible and adaptable within the shortest of time periods; and (e) capable of transferring knowledge and learning across their globally dispersed units. This dilemma of choosing between global integration and local responsiveness is expressed in Heenan & Perlmutter’s (1979) language in terms of four possible strategies: (1) ethnocentric, (2) polycentric, (3) regiocentric and (4) geocentric. This dilemma is also expressed using the three different orientations to
Satisfaction with existing HR practices

The extent to which the subsidiary is satisfied with their existing HR practices influences their perception and interpretation of new HR practices proposed by MNC headquarters management. The more they are satisfied, the less they will accept new practices and the more resistance they will show to any new practices.

According to Katz & Ellen (1982) and Szulanski (1996), the resistance is stronger especially if the existing practices were conceived by the subsidiary management and therefore an attitude of “not invented here” may hinder the transfer of new HR practices. This attitude of resistance becomes stronger if the new practices are perceived as being forced by the headquarters on the subsidiary and thus replacing by force their already functioning practices by new enforced practices. “By force” implemented practices are less likely to be integrated by subsidiaries management which view them as unimportant to the performance of their unit.

HR Capabilities

Cohen & Levinthal (1990) considered that the capabilities held by the receiving organization are important in the successful receipt of practices. As a matter of fact, subsidiaries having high-level HR capabilities will implement and integrate the transferred HR practices effectively. Line managers will support the integration of HR practices especially if HR capabilities are perceived by the top management of the subsidiary to be high (Truss et al., 2002). The internalization of HR practices is believed to be higher in subsidiaries with strong beliefs in the organization’s HR capabilities.

As for Martin & Beaumont (1999), they explain that within the political relations between the subsidiary and the Headquarters that there are
“several forms of resistance, conformity and negotiation.” The authors classify the different manners in which managers of subsidiaries respond ranging from a measured cooperation to an open opposition or deliberate sabotage of the practices.

Myloni et al. (2004), using one framework may not be adequate to identify the multiple influences on the transfer of HRM. According to Clark et al. (1999), only 10.5% of the articles reviewed in comparative and international HRM used both institutional and cultural theories to explain their research findings. To capture a wide range of host-country factors, both frameworks should be studied (Myloni et al., 2004). The institutional theory is highlighted by those factors within the local subsidiary environment that constrain the transfer of standard practices. The institutional theory considers that companies that share the same institutional environment will become isomorphic to each other (DiMaggio & Powell, 1983). The application of the institutional theory to the practices within the subsidiaries of MNCs studied is interesting since it shows how the subsidiary in Lebanon faces a dilemma between institutional pressures and competing isomorphic pulls to achieve legitimacy to both insiders and outsiders. The subsidiary will experience the pull to adapt local practices that are legitimate in the local institutional environment of the host country and at the same time, it will experience the pull to achieve internal consistency in the company by adopting practices from the headquarters (Rosenzweig & Singh, 1991).

Sorge (1995)[165] considers that the cultural approach is based on the actor, who is individuals or a collection of individuals, who are formed by the programming of the mind, from the socialization process, such as childhood, schooling and working careers that are different from one country to another. The socialization process forms the individual identity. Started by the work of Hofstede (1980), the cultural theory argues that culture affects the individual mind and extends to the characteristics of management practices. The cultural theory adopts a contingency perspective that argues that the effectiveness of a particular HR practice is contingent on how well it matches a national value system. Given the existence of different national value systems, this approach argues against the use of transfer of standard practices by MNCs. Instead, this approach prescribes that MNC should
match each HR practice to the different national value system or cultural environment in which they operate (Newman & Nollen, 1996; Adler & Jelinek, 1986; Schneider, 1988). The importance of this theory for this study is that it generates an understanding of socio-cultural factors behind the adaptation of certain HR practices in the Lebanese subsidiaries.

The cultural approach and the institutional approach were always shown as opposed in the literature. However, Maurice et al. (1980)[166] initiated the “societal analysis” to end the debate between the cultural and the institutional approaches. The authors consider that the societal effect approach for studying organizations is a “systematic analysis of social action which emphasizes the reciprocal interaction of people at work. Work characters of jobs, systems of HRM practices, industrial relations, which can only be explored by considering historical, economical and political factors. The interactive relationship between system and actors is synchronicity. The property of a system tends to load the individual choices from which actors can choose a specific way”. Sorge (2004) considers that the actor develops a specific program of mind and the interdependence between system and actor links to culture.

2.14 REVIEW OF LITERATURE ON HR IN CUSTOMER SATISFACTION

The human being is the most important asset for organizations. In the age of competitiveness, organization cannot be able to bear the loss of prospective human resource. It is realistic challenge for Human Resource professionals to make it possible by exploiting the human potential in a mode to make them educated employee and creative for business and society as well. Organizations devote considerable resources to attract, develop, and inspire capable individuals. These firms do not want their proficient employees to leave (Cascio 2000; Glebbeek & Bax, 2004).

Much concern has been exposed for the deliberate participation of the Human Resource and its impact on organizational effectiveness (Lahteenmaki et al,
1998; Rangone, 1999; Analoui, 2002). The contest has directed to the establishment of a resource-based model of human resource management (Boxall, 1996), recognizing human resource as being accountable for increasing organizational effectiveness (Kakabadse & Kakabadse, 2000) and a rational cursor for the improved organizational success (Analoui, 2002). The resource-based shift toward strategic management regards human resource as a matchless source of competitive benefits of the organization (Baird & Meshoulan, 1998; Lahteenmaki et al, 1998). It has been recommended that there is a relation between an organizational effectiveness and the utilization of its human resources (Lorange & Murphy, 1984; Boxall, 1991; Lundy, 1994; Storey, 1998; Guest, 2002; Hansson & Jensen, 2004; Caliskan, 2010).

Customer and their expectation are important subject to organizations and businesses. To survive in highly viable marketplace, businesses require offering goods and services that need extremely satisfied and loyal customers. The satisfied customers are probable to return to those who facilitated them, whereas dissatisfied customers are expected to exit in a different place. The retention of satisfied customers is vital to the survival of an organization (Jones & Sasser, 1995). Accordingly, firms have challenges to produce demand for their goods or services through excellent customer support. To conquer persistent excellence, external customer support needs internal structures, which are lined up to serve the external customer, with each internal subsystem through adding value to others in the firm because the other subsystems were its customers (Deming, 1986; Pransky et al., 2005; Urbano & Yordanove, 2008).

The concept of an in internal customer advocates that every employee is both a seller and a buyer to other people within the organization (Money & Foreman, 1995)[167]. The value of service distributed to external customer is often established by the value of service that internal customer – employees – provide each other (Cook, 2000). If any business desires to improve the quality of its service, it desires to conquer the “them and us” attitude established in several organizations among administration and employees. The value of service provided to employees in
a company often establishes how well the external customer is served up (Osman, et al, 2004).

The appropriate use of human resource develops the performance of an organization. Without employee assistance, it is not possible to find out whether human resource practices are constructive to workforce, or whether these merely append to workload of workforce and anxiety intensity (Pass, 2002)[168]. Organizations contribute major resources to create a center of attention, and motivate capable groups that may not leave them later, particularly in a rigid marketplace (Cascio 2000; Glebbeek & Bax 2004). If these capable people leave the organization soon, the result will be interruption to the regular functions and lesser performance of an organization (Huselid 1995; Kacmar et al. 2006; Morrow & McElroy 2007).

Organizational departments provide services to their customers, such as management information system, HRs and purchase section, maintain the workforce (Marshall et al., 1998)[169]. There are two thoughts, which have been discussed in relationship to internal customer satisfaction. These thoughts are from total quality management and from marketing. Comparison between these thoughts showed that service of internal customer is different from internal marketing, because the earlier spotlights on how the people serve up the business, while the second emphasizes how a business serves the people.

Human resource practices on their behalf attempt to transfer organizational routine and traditional practices into the shape and need of current scenario. Human resource practices and internal customer satisfaction strongly influence different problems of the organizations. These problems consist of turnover, safety, productivity, effectiveness, and product and service quality. By satisfying and empowering workforce, organizations would be capable to resolve these problems (Appelbaum et al. 2000; Connor & Becker, 2003; Singh, 2004; Haines, Jalette, & Larose, 2010)[170]
Practice is the process of an organization by which available resources are developed, combined, and transformed into value offerings (Teece, Pisano & Shuen 1997). Practice is a talent of an organization to set up its real or insubstantial assets, to execute the duty, and a commotion to advance productivity (Amit & Schoemaker, 1993). HR practice is supported going on carrying, increasing or replacing knowledge in the organization (Saa-Perez & Garcia-Falcon, 2002). The HR Practices are deep-rooted in the skill to recombine and reconstitute the resources of the organization. Background specificity, tacitness and temporality are their solution possessions (Bhatt, 2000)[171].

For an organization to sustain in competitive environment effectively, the researchers have exclaimed that human resource practices repeatedly perform comparative activities (Arthur, 1994; Delery & Doty, 1996). If it is the holder, a set of appropriately extended human resource practices may offer a significant basis of sustained aggressive improvement. Prior investigations have revealed numerous human resource practices, for instance, Huselid (1995) observed how persons selection, performance evaluation, inducement reward, job design, complaint actions, information sharing, behavior judgment and labor-management participation influence performance of a company.

Likewise, Delery and Doty (1996)[172] observed that the mainly significant human resource practices consist of the usage of internal career path, formal training and development system, result-oriented evaluation, performance based reward, job safety, worker voice and extensive job description. Moreover, Pfeffer (1998)[173] recognized seven human resource practices, involving job protection, selective employment, self-managed groups, provision of high salary contingent on firm performance, widespread training, decline of position dissimilarity, and information sharing.

Moreover, several diverse categorizations of human resource practices have been devised into more common human resource magnitude.
Cunningham and Rowley (2010)[174] clustered human resource practices into organization planning, recruitment, compensation, development, performance evaluation and communication. In the meantime, Schuler and Jackson (1996) analyzed five elements: performance appraisal, recruitment and selection, planning, compensation and development. Ulrich and his classmates (1989) established a model comprising of selection, strategic planning, training and development, organization development and transform, performance appraisal, a compensation system, and organizational behavior and theory. Human resource practices have been progressively more controlled through the prospects of stakeholder incorporating recruitment and selection, training and development, performance management, employee participation, and compensation that are adopted as elements of human resource practices in this research. The existence of these best practices reveals the rank of human resource expert knowledge and resource allocation competence.

Recruitment and Selection

Recruitment is the process to identify and attract a group of prospective individuals from outside and within the company to assess for employment. When these individuals are acknowledged, the procedure of selecting suitable individuals for job can commence. This means gathering, quantifying, and estimating information about the qualifications of individuals for particular positions. Companies utilize these approaches to enhance the probability of appointing persons who possess the right expertise and capabilities to be winning in the target post. Selection is a procedure of selecting such applicants who have the exact and necessary qualification to realize the requirement of the leaving jobs and prospect job opportunities. Selection is the main and foremost aspect, which plays a significant part in the excellence, survives. Administration must be more vigilant while hiring new candidates for specific work selection.

The major purpose of recruitment and selection is to select the right individual for the right post (Dale, 1999)[175]. The penalties of bad selection may very disastrous for the organization. The individual, who is unable to understand the
aims and philosophy of the firm, may cause to have bad impact on customer satisfaction, relationship with suppliers and production. Maslow’s need hierarchy theory describes the importance of financial rewards (Maslow, 1943). The wrong compensation would demotivate. Good compensation would maintain performance levels, not increase them. The available rewards must be in a ‘currency’ that the individual values, and if this were money, so be it (Herzberg, Mausner & Snyderman, 1959; Peters, 2005).

Training and development

Training and development formulates a significant role in organization. Training and development can advance the level of self-awareness of a person, enhance talent of an individual and enhance the motivation of an employee (Wexley & Latham, 2002)[176]. Because the activity of an organization turns into more knowledge-driven, training and development performs an eternally supplementary significant function to meet the education desires of persons as well as tactical essentials of the organization (Harrison & Kessels, 2004)[177]. Training and development smooth the progress of superior altitudes of inspiration and inventiveness in support of workforce (Marchington & Wilkinson, 2002). From the viewpoint of an organization, training and development is the key relationship involving the human resource policy of an organization and in general company policy (Mabey, Salaman & Storey, 1998). Cast-off in a planned way, training and development can provide organization a viable circumference in the comfortable and release of goods and services (Mabey et al, 1998)[178].

Performance appraisal

Performance appraisal is important in the organizational setting. According to Jennifer and Jones (1996)[179], it gives two major functions; it enhances high level of job satisfaction and organizational performance, and it provides accurate information to be used in decision-making. The primary goal of performance appraisal is to assist business in executing administrative decisions pertaining to promotions, dismissals, layoffs and salary increases. For instance, the
current job performance of a worker is often the most important reflection for determining whether to promote the individual. Managers must identify that a worker’s development is a continuous series of defining performance objectives, presenting training essential to accomplish the objectives, appraising performance as to the achievement of the objectives and then setting new, and higher objectives.

**Compensation benefits**

**Milkovich and Newman (1999)**[180] defined compensation as all types of monetary incomes and substantial remunerations that a worker receives as a component of employ agreement. A more precise meaning is given by Flippo (1984 p. 281), who has described compensation as the satisfactory and reasonable compensation of employees for their contribution to organizational goals. The writer has recognized three components of compensation as base pay (to attract eligible entrants); variable pay (to stimulate work performance) and additional extreme benefits (to retain capable employees).

**Steven, Appelbaum and Mackenzie (2000)** also gave explanation that other results are more positive, on the other hand the challenge of aligning a company’s inducement compensation essentials to generate the behaviors that assist the accomplishment aspect in improving a firm’s strategic effectiveness. A satisfied internal customer would be an efficient and effective service giver who would chase a customer centric pattern (Comm & Mathaisel, 2003). Founded on these results, scholars have started to highlight internal customer satisfaction with intend of achieving an organizational perception of what comprises quality in the business. Compensation (Wages, rewards, medical and transport facility) is a key concern in HR administration. These are basic requirements and provide workforce remuneration for working (Bohlander, Snell & Sherman, 2001). It is exposed that recompense remuneration stimulate as well as direct manners in the direction of accomplishment of an exacting task (Milkovich & Newman, 2002).
Employee Participation

Participation by various names includes collective management, worker empowerment, worker involvement, participatory decision-making, discrete management, open-book administration, or industrialized equality (Steinheider, Bayerl, & Wuestewald, 2006)[181]. The fundamental conception entails any power-sharing arrangements in which place of work manipulate is allocated among persons whose are not equal in hierarchical levels. Such types of Power-sharing arrangement might involve several worker participation designs consequential in co-determination of running circumstances, problem resolving, and decision-making (Locke & Schweiger, 1979)[182].

Participation also involves, Information sharing with workers, employee suggestion program, Self-directed work groups, Problem-solving teams and flexible job design (Haines, Jalette, & Larose, 2010)[183]. An employee suggestion program comprises worker analysis feedback. Information sharing contains, for instance, with respect to company’s effectiveness, colleagues’ salary, technical or managerial transformation etc. This means that workers have some feedback on strategies. Problem-solving teams are teams whose tasks are restricted to definite parts, for example quality or workflow. Self-directed work groups are semi autonomous work teams or mini-enterprise work teams that have an elevated altitude of liability for an extensive series of decisions. Flexible job design comprises job rotation, job enrichment/redesign (broadened job definitions), and job enrichment (increased proficiency diversity or autonomy of work).

Firms gain from the supposed inspirational influences of workers in Participatory decision-making. When workforce involves themselves in the process of decision making, they enhance appreciative and awareness among social groups and seniors, and improve employees value in the firm (Probst, 2005)[184]. When every person in a business involves in the process of decision-making, business communication is supplementary efficient and each generates more well organized outcomes (Walker, 2007). If employees are involved in the process of decision-making, then they ultimately attain organizational goals that influence them. In this
procedure, participation may be exercised as a device that develop business relations, discover motivation of workforce and enhance the pace of information transmission across the company.

Work Environment

Several studies have tried to explicate work environment in different areas for instance employee turnover, job satisfaction, employee turnover, job involvement and organizational commitment (Jong & Hartog, 2010)[185]. In the study of Zeytinoglu and Denton (2005)[186], it has been revealed that work environment is one of the aspects that influence employees’ choice to stay with the business. Fay, Bjorkman and Pavlouskaya (2000) exclaimed that it is very essential to identify the rising wants of people to keep them dedicated and provide the work atmosphere when needed. Individuals like working, and attempt to work in those companies that present constructive work atmosphere where they consider they are making diversity and where most individuals in the company are capable and pulling together to move the business forward (Milory, 2004). Workplace design has a deep influence on employees and tends to stay with work as long as satisfied (Brown & Metz, 2009). To retain employees, the workplace design should generate atmosphere that is supportive for employees of poor eyesight, supply tools that require less strength and appropriate position for old employees (Samantha & Dahling,2009)[187].

Internal Customer Satisfaction

The value of service conveyed to external customer is often identified by the value of service that internal customers give each other, (Connor, 2003)[188]. It is very essential to keep in mind that, every person within a firm offers a service. There are internal as well as external customers. Internal customer is the employee in a company who is responsible to manufacture products. Every employee obtains materials or services from other employee in the procedure of manufacturing their own products. It is essential that, in order to satisfy external customers, internal
customers be delighted first. Customer service guides to customer satisfaction whereas internal customer service guides to employee satisfaction.

In Total Quality Management systems, all employees are persuaded to observe each other like vital customers during the manufacture and service delivery procedures (Marshall & Miller, 1991). In an organization, all employees are both the receivers and providers of products or services. George (1994) exclaims that as several workers do not make contact with external customers directly, so what they act or do not manipulates the excellence of service rendered. In order to deal with this matter, the employees of such types want to acknowledge value and treat other workers as internal customers. On the other hand, it is essential to recognize that internal customers are as diverse and varied in their personnel distinctiveness as external customers.

While the common people may be a confusing generalization, similarly it is significant to recognize and react optimistically to diversity in the interior customer foundation (Joanna, Riordan, Peter & Humphreys, 2003). It is also declared that it is essential to recognize diverse forms of internal customer service associations, some of which might be very vital and work important in their disposition rather than others. Moreover, it is essential not to suppose that internal and external consumer service associations are openly comparable in nature. For instance, internal customers are compensated customers of the services they utilize. Because they are generally more knowledgeable and educated about the services offered than external customers. Consequently, they might be added challenging consumers than normal customers (Joanna et al., 2003).

Organizational effectiveness

Organizational effectiveness capture organizational performance advantage the countless internal performance results generally linked with more
effective or efficient processes and other external measures that transmit to deliberations that are broader than those merely linked with economic evaluation (either by managers, shareholders, and customers), for example corporate social responsibility (Richard et al., 2009)[191]. Organizational effectiveness is an intangible notion and is principally not possible to measure. Rather than measuring organizational effectiveness, the firms tend to determine proxy measure that will be utilized to signify effectiveness. Proxy measures utilized might involve such matters like number of individuals served, kinds and sizes of population fragments served, and the demand within those fragments for the services of the firm provides.

Organizational effectiveness refers to how a business accomplishes its tasks effectively. Organizational effectiveness procedures are apprehensive with considering the inimitable potentials that firms build up to guarantee the achievement. This contains determining the worth of human resources of organization (Jamrog & Overholt, 2004)[192]. In the past, researchers had a tendency to employ the phrase ‘organizational performance’ to signify monetary and economic measures for example, revisit on investment, earnings per share, profitability, and almost immediately (Harel et al., 2003)[193]. Accordingly, company performance might be evaluated in conditions of their involvement to biased psychosomatic well being (commitment, attachment and happiness), relatively in provisions of purposive criterion (Jansen et al., 2001), because the company utilizes not just one element of a an individual but moderately the entire individual, as well as professional, personal and societal traits (Harnesk, 2004)[194].

Arthur (1990, 1992, and 1994)[195] says Firms with a high commitment strategy had significantly higher levels of both productivity and quality than those with a control strategy. Huselid (1995) noted Productivity is influenced by employee motivation; financial performance is influenced by employee skills, motivation and organizational structures. Huselid and Becker (1996) gave that Firms
with high values on the index had economically and statistically higher levels of performance.

2.15 RESEARCH GAP IDENTIFIED

In all the above said literature, it is noted that, HR audit Practice, methods, process, issues and success factors and the benefits and limitations are studied. There is no concrete study measuring the impact of HR Audit on the performance of individual employees and the organization. Hence, the current study is relevant and contemporary for the study. The study is titled as “Impact of HR Audit Practices on the Performance of Employees in IT Firms, Chennai”.