The HRM Effectiveness Audit: A Tool for Managing Accountability in HRM

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Both public sector and not-for-profit organizations continue to wrestle with the challenges of defining and managing organizational effectiveness. Human resource management teams are drawn increasingly into new strategic and operational initiatives proceeding under a variety of labels, e.g., downsizing, reinvention and business process improvement. Over the past ten years, a significant number of HR executives joined their organizations’ strategic planning teams. Twisting between the realities of fewer resources and expanded accountability, HRM strategic planning often flounders. This is due to the lack of simple, yet compelling management tools for demonstrating how HRM services contribute to the accomplishment of broader organizational objectives. The author offers a proven model, the HRM Effectiveness Audit, as a guide for establishing a measurement-based, value-added service improvement system. Through partnering and training, the author has helped implement HRM reviews in a variety of organizations, including the U.S. Patent and Trademark Office, Virginia Department of Social Services, and South Carolina Budget and Control Board — Office of Human Resources.

As we move into the 21st century, public sector and not-for-profit organizations continue to wrestle with the challenges of defining and managing their effectiveness. On the federal level, initiatives have been largely driven by Congressional oversight arising from the Government Performance and Results Act of 1993 (GPRA). GPRA requires federal agencies to demonstrate contributions to organizational results through performance measurements and strategic planning. In 1998, the Office of Personnel Management published the HRM Accountability System Development Guide to provide guidelines to human resource management (HRM) teams. On the state level, executive and legislative mandates to downsize and reduce operating costs continue to force HRM teams to re-examine their internal business methods.

Not-for-profits also face strong pressures. For example, to qualify for Medicare payments, health care systems are subject to regular reviews by the Joint Commission on Accreditation of Health Care Organizations (JCAHCO). HRM teams in these organizations must demonstrate their contribution to enhancing the quality of organization-wide services.

Yet, with all these initiatives, HRM teams continue to struggle with the challenge of how best to maneuver in the new arena of higher accountability and expectations. In some organizations, the power of the customer has been harnessed. HRM teams take “a partnership approach” with the agencies they serve. There is a cry for new tools to equip the HRM adequately to participate as a “strategic business partner.”

This article offers a practical procedural model for auditing, measuring and improving HRM services. The generic model springs from Ray Borbidge’s The HRM Effectiveness Audit written during Borbidge’s association with the author. Over time, this model has been shaped and refined as the result of numerous audits conducted in a variety of public and private sector organizations.
The audit unfolds through four phases (Figure 1):

- Phase I: Ranking Importance of the HRM Service Portfolio
- Phase II: HRM Team Self-Evaluation
- Phase III: Measuring Current Service Levels
- Phase IV: Developing Action Plans

Figure 1. Four Audit Phases
Following an overview of the core audit principle and tips about initiating the audit, we will lay the foundations for implementation of the four phases. The author concludes with encouragements and advice about pitfalls.

Core Principle: High Involvement of Internal Customers

The audit pivots around the core principle of high participation of internal customers. Many business improvement efforts fail by neglecting to involve customers in the definition of what “effectiveness” means for delivery of a product or service. Private sector organizations learned this lesson years ago. In particular, the automotive industry improved its competitive position by more actively engaging customers in product design. Consequently, the industry now effectively challenges international competitors who previously cut deeply into their market share.

In recent years, governmental agencies and not-for-profits also have enlisted their customers to improve organizational effectiveness. The Internal Revenue Service is a prime example. In particular, the automotive industry improved its competitive position by more actively engaging customers in product design. Consequently, the industry now effectively challenges international competitors who previously cut deeply into their market share.

The audit model described in this article provides a means for engaging customers of HRM services. The various HRM functions (employment, employee relations, training, etc.) are treated as inter-related processes with three specific elements: inputs, outputs, and customers. This systems model keeps people focused on customer satisfaction.

To illustrate, inputs for the employment function can be defined in terms of the knowledge and skills of the employment staff, capital resources, and budgetary capabilities. Newly hired employees are the outputs. And, the primary customers are those who request the service and ultimately receive the output. In this case, the primary customers are the hiring managers.

Throughout the audit, internal customers are heavily involved in driving the process. In Phase I, internal customers rank the relative importance of the HRM service portfolio. In Phase III, they participate in focus groups to define effectiveness metrics for each HRM service area. And finally, in Phase III they also provide regular feedback on service levels when they complete their satisfaction surveys.

The audit team receives benefits from high customer participation leading to a well-executed review that radiates credibility.

Pre-Audit Issues: naming, sampling, demographics, base-lining

**The naming issue:** The word “audit” suggests a comprehensive review of practices, procedures and results. Audits are associated frequently with financial reviews and may create a sense of apprehension. Each organization undertaking an audit must decide the appropriate name to fit its culture. Alternative names invoking less emotional impact include: “review,” “assessment” or “service improvement system.” For simplicity, here, we will use the “audit” label throughout.

**The sampling issue:** Teams initiating the audit process ask the question: How widely throughout the organization should we collect data? The answer depends on organizational size. The prime consideration is: How many managers are there in the midlevel and one level higher? If the task of engaging the entire target population is logistically not feasible, then a sampling plan should be considered.

Here’s a real case example of how a sampling plan can work. In an audit with a 10,000-employee health care organization, there were approximately 600 midlevel managers across five
business units and three management levels (supervisor, manager, director). The audit team decided to use a stratified random sampling plan to select 120 participants. The 600 managers were placed into a five-by-three matrix. Then, every fifth manager was selected from an alphabetical list of names within each cell of the matrix. This plan ensured representative participation across the organization. Groups were scheduled for 75-minute meetings over a two-day period.

The demographic issue: Audit teams must also determine what demographic characteristics are most important. Surveys normally start with a profile of demographic data. Typical characteristics might include: business unit, functional group, management level, and location. The team must anticipate the various ways for “cutting and slicing” the data to identify unique needs of various sub-groups.

The baseline issue: The first time an audit is performed, a few extra steps are necessary. Specifically, the team must investigate what is most important to measure. Through focus groups, managers articulate their criteria for measuring HRM effectiveness. From these measurements, the audit team creates a valid customer satisfaction survey. In a first-year audit, such focus groups provide the data necessary for completing Phase I and the first part of Phase III of the audit.

With these caveats about sampling, demographics, and baselining, let’s walk through the four phases of the audit process.

Phase I: Ranking Importance of HRM Service Portfolio

The purpose of Phase I of the audit is to establish the relative importance of the various HRM services in relation to the accomplishment of organizational objectives. As internal customers, midlevel line and staff managers rank a list of HRM services according to the importance of each service toward meeting their business objectives over the coming year.

Figure 2 shows a typical list of HRM services. Each HRM management team decides the appropriate comprehensive list that reflects the scope of HRM services.

The eleven service categories in Figure 2 span the range of work done by most HRM departments. The first category on the list, HR Department Organization, draws special attention. Although not a direct service per se, HRM department organization does affect how all employees interface with the personnel function. For example, do managers have a single point of contact, or is the department decentralized by specialization? Note that the way the department is organized can dramatically affect how internal customers view the effectiveness of HRM services.

Figure 2. Typical HRM Service Portfolio

- HR Department Organization
- HR Planning/Organizational Development
- Recruitment and Selection
- Compensation Administration
- Employee Benefits Administration
- Employee Relations and Communications
- Personnel Policies and Workplace Rules
- EEO/AA and Other Regulatory Compliance
- Training and Development
- Labor Relations
The work product from Phase I is a spreadsheet that leads to a rank order of importance for all HRM services. To create the spreadsheet, eleven functions are listed down the sheet. Names of participating managers are listed across the top columns. Each column of data represents the rankings of the eleven services. A mean score is calculated for each of the eleven. Finally, the aggregate rank order of importance for the entire portfolio emerges.

At this point, an important decision must be made: How deeply down the rank of important HRM services does the audit team wish to explore? With first-year audits, the author recommends selection of the top four or five ranked HRM services. Through this decision, the audit team limits the scope of its assessment to the most critical.

Accordingly, a more narrowly defined focus emerges. Now, the stage is set for Phases II and III.

**Phase II: HRM Team Self-Evaluation**

The purpose of the self-evaluation phase is to stimulate discussion and challenge the status quo. This phase can be completed anytime before the analysis of survey results in Phase III. Each specialized group completes a “best practices” questionnaire. The best source for this is How to Conduct a Human Resources Effectiveness Audit with questionnaires for all of the eleven service areas shown in Figure 2.

Each of the questionnaires contains 25-40 items. Groups completing the questionnaire compare current practices with a set of standards based on reputable sources, including the Baldrige Quality Award criteria.

Each HRM group completes their section of the questionnaire. Through the last two items in each section, the HRM functional subgroup develops two consensus ratings: one that reflects the group’s own perspective about how well their service is delivered, and one that speculates on how the customers of the service will later rate it in the customer satisfaction survey. The consensus ratings are scaled on a five- or seven-point continuum with the midpoint representing a rating of “adequate.”

Of the two ratings for each category, the speculative responses carry the most weight. When compared to the “overall” satisfaction survey mean for a particular HRM service, the speculative ratings show how closely attuned the HRM subgroup is to the needs of its customers. An illustration will illumine this point later. Concurrently, with the implementation of Phase II, the audit team can begin Phase III.

**Phase III: Measuring Current Service Levels**

The purpose of Phase III of the audit is to develop performance metrics for the various HRM services and to measure current satisfaction levels.

In the first year of an Audit, the baselining portion of Phase III is part of the focus group activities. Focus groups move from rating the HRM portfolio to defining what effectiveness means for the top four or five services. An open dialogue ensues from the facilitating question, “In your quiet moments, you evaluate the recruitment and selection (e.g.) services provided to you. What are the criteria you use to evaluate how well these services are provided?”

For recruitment and selection, customers may cite a variety of factors: elapsed time from
posting position to delivery of the candidate certification list, the quality of candidates, or recruiter response time for communications with hiring managers. There are many possibilities.

Figure 3 (next page), Sample Satisfaction Survey, shows a sample of a portion of an actual survey created from four focus group sessions in a private sector organization. The demographic portion has been omitted. Notice that respondents are asked to comment on all items rated below “adequate.” Such comments provide a wealth of feedback for process improvement work. When the data is entered into a spreadsheet, not only are the seven-point ratings recorded, but also the comments are categorized. Thus, one quickly gets an overview of the range of comments, rich fuel for subsequent improvement efforts.

In the second year audit and beyond, focus groups verify the validity of the survey before it is circulated again. Does it continue to address the major performance issues for that HRM service? If so, then the survey is distributed to collect another set of data points. With a new set of data points, the audit team gauges its progress toward closing performance gaps.

Imagine the power of a report that can make statements like this: “The recruitment and team reduced the average time to fill vacancies by 24 per cent and boosted its customer satisfaction rating from 3.5 to 5.0 within one year.”
Figure 3. Sample Satisfaction Survey

Recruitment Services

Instructions: Please answer each of the following statements according to your general experience over the past six months. For items not relevant to your experience, indicate “NA.” Important: For items rated “3” or lower, please indicate the reason for dissatisfaction and any suggestions for improvement.

Rating Scale: 7 6 5 4 3 2 1

Excellent Adequate Poor

First, rate your experience with the recruitment team:

1. _____ Responsiveness: Rate the tendency of recruitment staff to respond to your calls, emails, etc. within 24 hours.
   Comments:

2. _____ Feedback: Rate the regularity of feedback you receive about the progress of the recruitment process.
   Comments:

3. _____ Knowledge: Rate how well your recruitment associate understands the business needs, work environment, and labor market for your vacancies.
   Comments:

4. _____ Judgment: Rate your recruitment associate’s eye for good talent, i.e., how well they can identify skills and fit.
   Comments:

5. _____ Sourcing: Rate the recruiter’s ability, when needed, to engage creative alternative candidate sourcing (beyond running advertisements).
   Comments:

6. _____ Enthusiasm: Rate the recruiter’s demonstrated level of engagement and enthusiasm toward fulfilling your needs.
   Comments:

Now, rate the recruiting process:

7. _____ Candidate Quality: What percentage of resumes provided by the recruitment team are reasonable matches to position requirements? (Insert % answer)
   Comments:

8. _____ Candidate Volume: Rate the adequacy of the number of qualified candidates provided for most vacancies.
   Comments:

9. _____ Cycle Time: Rate your general experience with the time it takes from posting date to job acceptance.
   Comments:

10. _____ Interview Time: Rate your general experience with the time it takes from posting date to first interview.
    Comments:

Now, rate the overall process effectiveness:

11. _____ Overall Rating: Rate the overall effectiveness of recruitment services.
    Comments:
Phase IV: Developing Action Plans

The purpose of Phase IV of the audit is to develop an HRM business plan based on the priorities emerging from the audit. An Evaluation Grid (Figure 4) persuasively displays the audit data.

<table>
<thead>
<tr>
<th>Top HR services</th>
<th>Importance Rank (Phase I)</th>
<th>Self Evaluation (Phase II)*</th>
<th>Satisfaction Rating (Phase III)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recruitment &amp; Selection</td>
<td>1</td>
<td>5</td>
<td>3.2</td>
</tr>
<tr>
<td>Employee Relations</td>
<td>3</td>
<td>4</td>
<td>3.8</td>
</tr>
<tr>
<td>Compensation</td>
<td>2</td>
<td>4</td>
<td>4.3</td>
</tr>
<tr>
<td>Training &amp; Development</td>
<td>4</td>
<td>5</td>
<td>4.8</td>
</tr>
</tbody>
</table>

Comments: Importance rankings come from the Phase I exercise with internal customers. Self-evaluation scores come from the consensus ratings that each HRM subcategory team produced in Phase II. The satisfaction ratings emerge from the Phase III spreadsheet. * assumes a 7-point rating scale where "4" represents an adequate rating, "7" represents excellent, and "1" represents poor.

In this example, the audit focused only on the top four most important HRM services: recruitment and selection, employee relations, compensation, and training and development.

The grid has been sorted in ascending order according to the arithmetical mean of the "overall" satisfaction rating. For example, if the recruitment and selection data in the Phase III column came from the Figure 3 survey, then the “3.2” shown in the grid represents the calculated average of all responses to Question No. 11. A “3.2” rating indicates that the majority of respondents are dissatisfied with the service level. Note: Even a mean slightly above “adequate” should generate some concern, because it suggests that a significant number of managers are dissatisfied.

The audit team also pays special attention to comparisons of the second and third columns, which indicate how attuned the HRM team is to the needs and expectations of their internal customers. In the Figure 4 example, the recruitment and selection category offers a striking comparison. The recruitment team expected an above-adequate “5” rating. Instead, the internal customers rated this service at “3.2,” which is significantly below adequate. The question remains, “Why did the recruitment team not know about the pervasive dissatisfaction?” The gap between expectations and reality suggests a need for improved feedback mechanisms.

The grid leads the way for exploration. When the audit team wants to dig deeper, it can isolate specific issues within the survey, i.e., the underlying source of broader dissatisfaction. The audit team drill down to uncover the sources of overall performance problems. They examine the pattern of responses the underlying questions within each section. Then, they drill deeper by reviewing the comment categories associated with unsatisfactory ratings.

The beauty of the audit blossoms from the story told by internal customers. Rather than being armed with only anecdotes, the audit team has the ammunition from a powerful round of data collection. On this foundation, the HRM team crafts a persuasive plan of attack for improving its services. Figure 5 (Final Audit Report: Sample Outline) illustrates the table of contents for such a report.
Encouragements and Pitfalls

Every audit team confronts controversial issues such as: group apprehension, backsliding, and report positioning.

Group Apprehensions

At first, HRM teams may reluctantly embrace the audit procedure. Concerns about negative feedback and job security are typical. HRM team leaders should lay the foundation for positive collaboration by explaining the positive benefits of the audit. Here are two likely benefits that show how the entire HRM team benefits. First, the audit identifies “low-hanging fruit,” i.e., easily implemented, low-cost improvements that can dramatically enhance satisfaction ratings. Second, by engaging internal customers throughout the process, many people throughout the organization see the HRM department as responsive, attentive, and business-focused. These points begin to paint the upside picture in favor of the audit.

Backsliding

Maximum value of the audit comes from periodic repetition. With the second and third data points, trends begin to emerge. Performance gaps begin to close. Some widen. New issues arise. Priorities are refocused. The second-year hump is the biggest obstacle. If the audit is forgotten or deliberately avoided in the second year, a golden opportunity passes. And there is a penalty, too. All the goodwill generated by the first-year audit is squandered. Internal customers become jaded thinking that the first-year exercise was mere lip service.

Report Positioning

Float a draft of the final report to upper management before organization-wide release. This assures that the proposed HRM action plans conform to broader strategic directions. Feedback alters tactics and priorities for service improvements. To illustrate, assume midlevel managers do not rate “regulatory compliance” as a high priority for meeting their business goals. However, if regulatory agencies are threatening their own audit reviews, top management may insist that this area become a top priority.
Conclusion

Regularly administered, the HRM Effectiveness Audit places the HRM team firmly at the table with other strategic business partners. The resulting business plan demonstrates how the HRM team will meet the business needs of its internal customers. The entire process effectively engages customers in a dialogue defining a measurement system for tracking progress in HRM service improvement. If public sector HRM teams expect to clearly show that they deserve the label of a strategic business partner, they will need to adopt methodologies similar to those described herein.

Notes:


3 (reference pending)


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