

The Strategic HR Audit:

Attain HR Efficiency & Deliver Results

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Introduction

Human Resources (HR) departments face risk every day. They are forced to balance proactive activity around recruiting, retention and employee coaching against litigation avoidance and regulatory compliance. A frequent scapegoat, regulatory compliance is only part of the problem. Most HR teams could benefit from operational efficiency as well, addressing both compliance and general service delivery at the same time. HR audits identify gaps in compliance and risk exposures before they are exploited by lawsuits to result in government intervention. Further, they identify opportunities for performance enhancement, cost containment and contribution to the company's overall strategy.

HR audits do more than prevent problems. These diagnostic tools represent the first step in creating an efficient and effective internal service delivery platform.

The Six Disciplines of HR Management

1. Strategic management
2. Workforce planning and development
3. HR development
4. Total rewards
5. Employee and labor relations
6. Risk management

HR audits integrate tightly with the six core disciplines of HR management, not only removing compliance roadblocks but fueling growth and performance improvement.

In addition to ensuring that HR practices align with pertinent regulations, the HR audit process can be used to align the HR practice with the overall company strategy, the development and planning of HR and workforce initiatives and the implementation of total rewards programs. Further, the audit process can be used to mitigate risk and address employee relations issue.

The audit is a unifying factor, integrating regulatory, core management and growth-oriented elements to ensure that the same efforts to comply with the law also advance the company's growth plans.

Many business units use audit techniques to improve operations and mitigate compliance risk. The use of audits by the finance department is established and clear, but there are other applications. Information Technology (IT) departments, for example, have used this practice for more than a decade. As a highly regulated and sensitive aspect of business operation, HR can benefit substantially from audit techniques as well. The return on investment (ROI) case is salient. A third-party audit off-loads the need for an HR department to keep up with evolving litigation while still offering the opportunity to remain both compliant and efficient.

HR Audits for More than Compliance

The dual purpose of HR audits is to identify risk exposure and non-compliance while providing a starting point for more successful and efficient service delivery. Many companies, particularly small- and medium-sized businesses, simply cannot remain compliant without outside guidance. Lean HR staffs are mired in daily operations. They answer frequent calls about benefits and struggle with open enrollment. Depending on business cycles, HR departments either on-ramp new employees or conduct exit interviews (with both processes carrying significant administrative burdens). Overhead-intensive and routine tasks take over the team's capabilities, preventing process improvement and innovative thinking.

While managing the day-to-day obligations of the HR department, it is easy for even seasoned professionals to lose sight of the details. 401(k) censuses may not be completed. Diversity training is perpetually rescheduled, and new openings are not posted internally. Reviewing positions for exempt status does not happen as often as it should. Generally, smaller businesses can operate for years in a non-compliant state without being noticed. Until there is a reason for an investigation, many of these problems persist unnoticed.

An HR audit purposefully exposes the risks about which company leaders are either ignorant or complacent. An outside party reviews HR operations relative to current law and generally accepted procedures in order to find problems that could become costly later. The outcome is a detailed report specifying areas of non-compliance and exposure risk that can be resolved before a disgruntled employee's lawsuit results in a large settlement, bad press and a government inquiry.

Among the topics addressed by an HR audit are:

- Minimum wage and timekeeping
- Family Medical Leave Act (FMLA)
- 401(k)
- Equal Employment Opportunity (EEO)
- Records maintenance
- Policies and procedures (including employee handbook)
- Corporate HR communications
- Training

Of course, the HR audit process is designed to address regulatory compliance, as this is among the most common operating gaps, particularly for smaller and medium-sized businesses. With checklists, regulatory guidelines and other tools, an HR audit team will examine the operation from a regulatory standpoint. While this is undoubtedly important, it is but one component of the HR audit. A total review of the HR operation covers more than the mandatory; it also includes the practices that could free internal resources, reduces the time needed to handle employee requests and generally increases productivity through the company.

Delivering the Six Disciplines of HR

To deliver the expected ROI, an HR audit must be deployed as a strategic management tool, evaluating and contributing to the achievement of the company's overall objectives—from mission and values to specific financial targets. In some cases, the connection is natural. For example, an HR audit can help ascertain areas where organizational structure and policies can be improved. Tying the benefits of an HR audit to financial goals, on the other hand, is more nuanced. In addition to cost containment, though, process improvement and organizational design can lead to operational efficiencies that pay the dividend of increased time for employees in revenue-producing business units.

Integrating the HR audit with the six core disciplines of HR management enhance the value of the investment in HR diligence. Compliance becomes a side-effect of greater operational efficiency and control, turning HR from a pure cost center into a strategic contributor to the organization. The HR audit generates returns through every aspect of the HR management operation, encapsulating the six disciplines:

The Six Disciplines of HR Management

1. Strategic management
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6. Risk management

1. Strategic Management

HR audits carry a strategic component, supporting workforce planning and deployment. The HR audit examines processes, policies and objectives pertaining to recruiting, retention, orientation and exit programs and succession planning. As a result, the process fuses the compliance issues associated with workforce management with strategic and tactical needs. Ultimately, an HR audit can contribute to lower turnover, faster recruiting, lower workforce management costs and increased employee productivity. While workforce planning may appear to be difficult to quantify, the headhunter fees from turnover demonstrate the ROI with clarity.

2. Workforce Planning and Development

Often, workforce planning and employee development is dominated by business units, with HR playing little more than a procedural role. Used properly, an HR audit can highlight the consultative role that HR can play in the planning and execution of an optimal organizational design. Further, the audit's suggestions can help business unit leaders to cultivate their employees. Not only is productivity likely to increase; the company will be able to invest in existing resources with little capital commitment, magnifying the ROI of the HR audit.

3. HR Development

In addition to strategic management and workforce planning, other specific human resource development programs can be derived from the HR audit as well, including:

- Training and development
- Performance management and appraisal
- Talent management
- Competency modeling
- Career path architecture

This aspect of the HR audit—identifying specific program gaps from which the organization may benefit—is both near-term and forward-looking. The immediate plan, for example, could be to improve the performance appraisal process. But, it could evolve into a long-term talent management initiative with a competency model that contributes to a new career path structure.

4. Total Rewards

Total rewards program may emerge from an HR audit, as well. The compensation aspect of the process should be comprehensive. Many HR departments limit total rewards evaluation to compensation analysis, possibly salary banding. The consideration of the “total rewards” approach—including benefits programs, incentive-based compensation and other career-enhancing opportunities—may highlight ways to increase a company’s competitive position in the battle for talent while ensuring that contributions (and contributors) are effectively aligned with the prevailing strategic objectives.

5. Employee and Labor Relations

HR audits, even as part of the compliance process, can identify opportunities to improve employee and labor relations—from identifying issues to be addressed through resolution, tracking and post-issue communication of policy. Further, the HR audit can help both the employer and employee base maximize the value they derive from the relationship. Beyond rights in the workplace, an HR audit can indicate areas where the employer can prevent the problems (e.g. sexual harassment) that can drain company resources and distract employees from their core responsibilities. Typically, HR departments perceive employee relations as a risk category to be managed. Effective HR teams, though, see it as an opportunity for increased productivity.

6. Risk Management

Risk management is where one would expect to find the impact of an HR audit, as the process mitigates the likelihood of non-compliance and should lessen company exposure to lawsuits. But, the HR audit can contribute to a reduction of risks related to the business cycle. Efficient recruiting, on-ramping, workforce management and reduction strategies (when the tide turns) ensure that costs can be minimized when the organization has to respond to changing market conditions. Further, a well structured organizational strategy will help attract and retain talent and measure contributions when tough decisions around reductions are necessary.

The advantages of HR audits are not limited to reduced exposure to lawsuits and government action. While mitigating these risks can lead to substantial future cost savings, the more immediate benefit is that the company can identify HR practices that need to be improved. Implementation of more effective practices can lead to increased operational efficiency and a lower cost of HR services. Thus, there is both a near-term opportunity to generate a return on investment (ROI) in an HR audit and a long-term risk mitigation ROI that can include lowering the cost of employment law compliance.

The HR Audit Process and Its Advantages

The HR audit process involves records examinations and interviews with key employees and executives, relative to the prevailing regulatory environment. The HR audit team puts together a plan, often involving a series of checklists, and reviews the appropriate areas of the HR department. Missing or incomplete records, flawed processes and inefficient practices are identified and documented. The interviews that follow are used to add context to specific findings. HR employees may be asked how specific practices have evolved, why operations are conducted in the existing manner and what they feel is missing from how business is currently conducted. All information is gathered by the HR audit team in order to form a snapshot of how HR is practiced and to ascertain any weaknesses in the operation.

After the information has been collected, the HR audit team reviews the findings in order to create a set of recommendations for the employer. Recommendations should be specific and sufficient not only to bring the employer into compliance but also to improve HR operations in general. Each recommendation should be clear, succinct and actionable. Thus, the conclusion of the HR audit should translate to a road map for execution. The employer should know exactly what is required for compliance and what specifically can be enacted in order to resolve existing problems.

HR audits thus deliver value across multiple cost categories. The compliance benefit is evident, reducing regulatory risks and operating costs. But, HR audits also offer near-term advantages around process improvement and cost containment. As a result, it is possible to resolve the most important challenges that HR professionals face while still deriving a cost benefit in the near-term and on an ongoing basis. HR audits can be used as broad operational diagnostic tools that lower the cost of supporting the employee population and improve the quality of service provided.

The benefits of an HR audit range from the basics of regulatory compliance to the strategic. The focus tends to be on the process gaps that can increase operating costs and the risk of litigation, as handbook revisions are suggested and offer letters reviewed. The mitigation of legal exposure alone justifies the HR audit investment. Compliance is unavoidable, but it can take a while to realize a return. In fact, some of the benefits may not be readily apparent until the employer is faced with a lawsuit or an investigation by a government agency. Fortunately, this is only one aspect of the return to be garnered from an HR audit.

Exposing operational inefficiencies offers a platform for direct and relatively immediate operating cost reduction. Through the HR audit, procedural enhancements may be recommended, yielding salient cost advantages. For example, devising a new hire schedule on which to base orientation and training may be less expensive than an ad hoc approach, particularly for fast-growing companies. Consider the difference between one four-hour orientation every two weeks (four multiple new hires) versus four four-hour sessions to address one or only a few new employees at a time. In effect, 12 hours of productivity are lost. This benefit can be increased by identifying other inefficient practices; the HR audit thus can deliver a substantial cost savings that can be realized quickly.

Focus on the Future of the Company

Many HR departments worry that conducting an HR audit is tantamount to accepting that a problem exists. Many companies thus are reluctant to submit to the process. But, denial can become expensive. When faced with an employee complaint, the employer may feel compelled to settle for a higher amount than necessary in order to avoid scrutiny. A case that goes to trial may result in both a high judgment and the exposure of a company's insufficient HR practices. The risk is evident. Many employers may see an HR audit as accepting a higher cost of business, but the reality is that the cost of avoidance is much higher.

But, the returns can be compelling. An HR audit really identifies opportunities to improve the services delivered to the employee population, increasing productivity and elevating financial performance while simultaneously mitigating risk. The HR audit's true purpose is to take a snapshot of the current state of the HR department and develop a road map for the future. Implementing the suggestions from the HR audit findings will position the organization for outsized growth in the future. The net result is usually a smoother and compliant operation.

Once the HR audit's recommendations are implemented, an employer's HR professionals likely will find that they have more time to invest in sensitive, high-risk or high-value HR activities, increasing the contributions of the HR department to the company's bottom line. To view an HR audit as a compliance exercise is correct only in part. The total impact is much broader, enabling an efficiency that will cascade through the company and allow revenue-generating business units to focus more time on their core responsibilities.

The return is compelling, and the results can be realized almost immediately. For high-growth companies that need to adapt to an increasing employee population and firms that are struggling with tough market conditions, an HR audit can tighten the operation and enhance service delivery. As HR investments go, HR audits deliver a fast track to realization and result in a road map that can be implemented to make returns perpetual. Facing flaws can be challenging, but doing so with an HR audit is productive.

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