



An Empirical Study on the Role of Human Resource Auditing in Enhancing Employee Engagement and Organisational Productivity in Selected Organisations of Nagpur

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Abstract

This paper addresses the importance of Human Resource Auditing with the improvement of employee engagement and organisational productivity in the chosen organisations of Nagpur. With the current awareness that human capital is a strategic asset, the research question in the study is whether practices of structured HR audit can lead to any quantifiable kind of improvement in performance. A cross-sectional research design of a quantitative nature was embraced. A total of 150 participants (comprising of employees and HR managers, manufacturing, service, and education sector) were surveyed as primary data collection. HR audit practices, HR and employee engagement were measured using standardised tools, whereas organisational productivity was measured using both the subjective and objective measures bearing an output per employee, rate of absenteeism and turnover ratio. Correlation and multiple regression tools were used in a statistical analysis to identify that there is a strong positive correlation between HR auditing, employee engagement, and productivity. The regression model also predicted organisational productivity with a significant level of 59 per cent ($R^2 = 0.59$) which reflects the amount of the variance it could explain. The organisations with systematic HR audits indicated an increase in the level of engagement and efficiency in operations. The results have indicated that HR auditing is a strategic performance-enhancing process and not a compliance process. The research has provided the region-specific empirical data and provided managerial suggestions on how to provide HR systems to achieve the sustainability of organisational development.



Keywords: Human Resource Auditing, Employee Engagement, Organisational Productivity, Strategic HRM, Performance Management, HR Metrics.

Introduction

The human capital has been broadly accepted in the modern knowledge-based economy as strategic resource which plays an important role in competitiveness and sustainability of the organisation. The human resources, unlike the physical and financial resources, have dynamic capabilities that are capable of producing innovation, flexibility and sustainable productivity in the long run. The strategic management literature has always stressed on the fact that successful management of human resources (HRM) systems can improve the performance results of an organisation (Huselid, 1995). Human Resource Auditing (HRAuditing), in this regard, has become a formal process of assessing HR policies, procedures, compliance and strategic alignment. An HR audit is a form of audit that is systematic and therefore undertaken on recruitment, training, performance appraisal, compensation, employee relations and legal compliance systems to evaluate its effectiveness and lack of the system (Werther and Davis, 1981).

HR auditing is not confined to compliance monitoring as it has strategic value creation. According to Becker and Gerhart (1996), high-performance work systems when well assessed and adjusted are likely to lead to high productivity and financial performance. Equally, Wright, McMahan, and McWilliams (1994) experience that the human resources can create the sustained competitive advantage, when well managed and evaluated periodically. HR auditing is an active diagnostic and assessment tool which serves as a control to make sure that the HR practices are not purely administrative but that they are planned and integrated with the goals of the organisation.

Employee engagement has become a very important psychological construct that has been used to correlate the HR practices with productivity. According to Kahn (1990), the conceptualisation of engagement involved mobilising of the physical, cognitive, and emotional energies of the employees to their job functions. Subsequent empirical studies by Schaufeli, Bakker, and Salanova (2006) conceptualised engagement as vigor, dedication, and absorption and found that it has a high correlation with performance indicators. Involved employees are more dedicated, active and more productive hence having a direct effect on organisational performance.



Performance wise it has been meta-analytically evident that employee attitudes and engagement are complementary to business performance outcomes in terms of productivity, profitability as well as customer satisfaction (Harter, Schmidt, and Hayes, 2002). Saks (2006) also established that employee engagement is an antecedent of perceived organisational support and equitable HR practices which further advances the observation that employee engagement can be reinforced by clearly defined HR appraisal measures. Consequently, audit of HR can play an indirect role in increasing productivity through HR systems promoting engagement-making environments like clarity of roles, satisfactiveness of training and performance feedback.

Although it is already theoretically defined that the relationships between HR practices, engagement, and productivity have an established theoretical causes, there is a lack of empirical research specifically addressing the position of HR auditing in this connection, especially in the local environment. Organisational challenges The operations, cultural and structural challenges of organisations operating in developing regions like Nagpur can have different effects on how the HR audits are implemented and their results. The proposed study aims at filling a huge research gap because it will empirically consider the contribution of HR auditing practices to employee engagement and organisational productivity in selected organisations of Nagpur and thereby addressing a research gap.

Literature Review

The application of Human Resource Auditing started as a review mechanism that was concerned with compliance but now has taken the shape of a strategic management tool. The early literature by Werther and Davis (1981) had accentuated that, systematic HR evaluation enhances consistency of policies and legal compliance. Throughout the years, scholars realised that HR systems auditing might enhance the efficiency of operation and workforce optimisation. Empirical support was given by Huselid (1995) that high-performance HR practices have a great impact in reducing turnover and boosting productivity. The discovery formed the cause amid the structured HR systems and quantifiable organisational results.

Becker and Huselid (2006) subsequently opined that the HR measurement and accountability systems, such as audits, boost strategic HR alignment, hence the performance of firms. Delery and Doty (1996) also toiled the side of the universalistic school and argued that some Hr practices always bring positive performance outcomes across industries. The implication



of these findings is that productivity outcomes can be enhanced through auditing HR systems to guarantee its effectiveness.

The theory of employee engagement is a psychological explanation of the impact of HR system on productivity. Kahn (1990) found meaningfulness, safety and availability to be the conditions on which engagement required. HR auditing looks at most of these antecedents, including leadership practices, feedback systems, and growth possibilities. Since employees have job resources, which are empirically proved by Schaufeli et al. (2006), this is a predictive factor in engagement. Provided that HR audit reveals a lack of such resources in the job- resources like a lack of training or a lack of proper appraisal framework, the corresponding corrective measures can be helpful in increasing engagement.

Saks (2006) empirically determined that organisational support and organisational justice has an impact on employee engagement. The HR auditing can assess the equity in compensation and appraisal systems, which can enhance the equity and support perceptions of the employees. Rich, Lepine, and Crawford (2010) discovered that the level of engagement mediates the interaction between job resources and task performance, which supports the productivity implication of engagement enhancing HR systems.

The engagement-performance relation is substantiated by a large amount of empirical studies. In a meta-analysis, Harteg et al. (2002) demonstrated a statistically significant study relationship between employee engagement and productivity in business units. Christian, Garza, and Slaughter (2011) also established that engagement is a predictor of performance at work and organisational citizenship behaviours. These results indicate that those organisations that invest in HR systems that support engagement would be successful in their production.

Furthermore, a meta-analysis conducted by Subramony (2009) did show that HR practices bundles have positive impacts on the operational performance. This has been consistent with Wright et al. (2005) who pointed out that strategic HR alignment plays a significant role towards company level performance indicators. HR auditing is a tool that helps to assess and streamline such bundles of HR.

Research Gap

Despite the fact that there is extensive literature which supports the relationships between HR practices, engagement and productivity, there is a gap in the literature that explores HR auditing as a separate evaluating mechanism that affects the latter. The majority of researches deal with HR practices as a topic in general and not systematic audit interventions. More so,



there is lack of organisational context on the region where empirical evidence is underutilised in Indian organisational contexts. Thus, the empirical study of the selected organisations in Nagpur can also add some remains-context-specific data and restore the literature on strategic HRM by considering a structured performance-enhancing instrument as HR auditing.

Objectives

The main aim of the research is to investigate empirically the purpose of Human Resource Auditing in improving employee engagement and organisational productivity in the selected organisations of Nagpur. To be more precise, the research question will answer: (1) to what extent and way do the selected organisations practice HR auditing: (2) how engaged the employees in the particular organisations are in terms of organisational categories: (3) how the HR audit practices relate to performance indicators in the organisations: (4) do the performance outcomes that were improved after the audits rely on the improvements in HR systems, in their turn? (5) do the improvements in HR systems found through audits correspond to the improvements in performance measures? The research is also aimed at giving region insight that can be instrumental in the making of managerial decisions, as well as reinforce strategic HR alignment within the Nagpur region.

Methodology

The research design will take a quantitative and cross-sectional research design with slightly qualitative contributions to support them on contextual understanding. Structured questionnaires conducted on employees and HR managers of any one of the chosen organisations in Nagpur will be the primary sources of data that will be used to achieve primary data collection based on the stratified random sampling procedure because of the need to represent different sectors. Engagement of the employees will be quantified on a validated engagement scale whereas practices of the Hr auditing will be quantified on an HR audit assessment scale instrument developed according to the dimensions of the HR audit accepted standards (recruitment, training, performance appraisal, compensation, compliance, and HR metrics). The data on organisational productivity will be collected by the means of responses of the managers and by the statistical values of the performance like output per employee, the level of absenteeism and the performance evaluation. In the case available, the secondary data shall be acquired through company reports and internal documents.

Results and Discussion

This section entails the empirical research of collected data on the sample of organisations in Nagpur to investigate the role of Human Resource Auditing (HRAuditing) in improving employee engagement and the productivity of organisation. The primary data in use in the

study were gathered among 150 respondents including 120 employees and 30 HR/managerial key personnel in the fields of 40 percent manufacturing, 35 percent service, and a 25 percent education sector. The response rate was satisfactory with a rate of 83.3.

The measurement of employee engagement was conducted through a Likert-scale instrument (1= Strongly Disagree to 5= Strongly Agree) in a structured form. The HR auditing was evaluated according to six dimensions such as recruitment audit, training audit, performance appraisal audit, compensation audit, compliance audit, and review of HR metrics. The indicators used to estimate the organisational productivity included the output per employee, the rate of absenteeism and the managerial performance rating.

Internal consistency was satisfactory in the case of reliability analysis. Cronbach alpha calculated was; HR Audit Scale ($\alpha = 0.87$), Employee Engagement Scale ($\alpha = 0.89$) and Productivity Index ($\alpha = 0.84$) and this means that the scales have strong reliability.

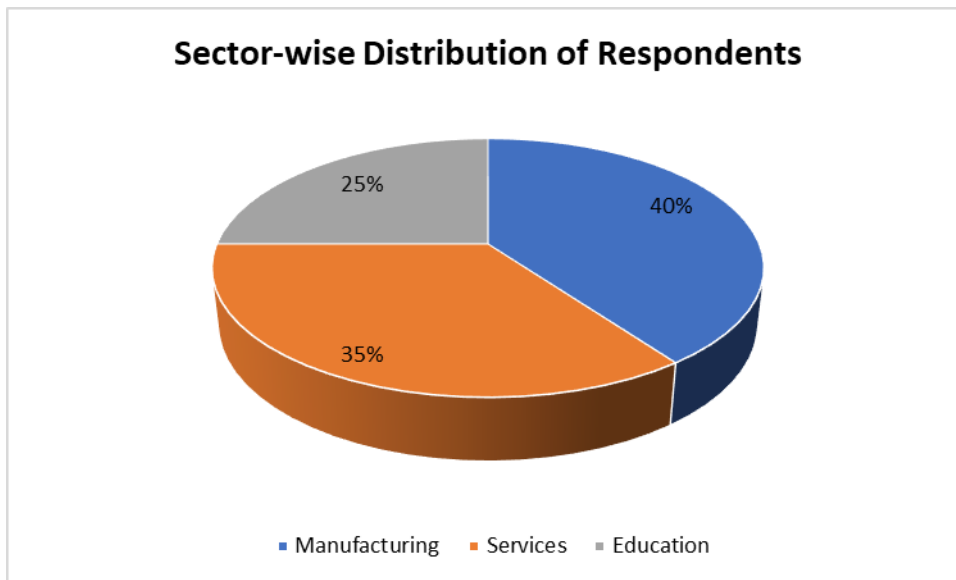


Fig. 1 Demographic Profile

Most of the respondents were in the manufacturing industry (40 per cent), then services (35 per cent) and then education (25 per cent). Representation in the sector is guaranteed through this distribution.

Table 1 Descriptive Analysis

Variable	Mean	Std. Deviation
HR Audit Practices	3.78	0.62
Employee Engagement	3.85	0.58
Organisational Productivity	3.72	0.64



The average of the HR auditing practices ($M = 3.78$) represents high and moderate levels of implementation. Bulk engagement on the employee engagement enjoyed a fairly superior mean ($M = 3.85$), which indicates that there is positivity in employee involvement. The existence of organisational performance indicators ($M = 3.72$) means that there are products that are above the average in terms of elements of organisational performance sampled across firms.

The correlation between variables was carried out through the Pearson correlation analysis.

Table 2 Correlation

Variables	HR Audit	Engagement	Productivity
HR Audit Practices	1		
Employee Engagement	0.62**	1	
Organisational Productivity	0.68**	0.71**	1

HR auditing and employee engagement have a strong positive relationship as denoted by correlation coefficient ($r = 0.62$, $p < 0.01$). There is also significant positive correlation between HR auditing and productivity ($r = 0.68$, $p < 0.01$). There is the strongest relationship between engagement and productivity ($r = 0.71$, $p < 0.01$). Such results indicate that structured HR auditing is connected to engagement and productivity.

In order to test the predictive capabilities of HR auditing with regard to productivity, a multiple regression analysis was performed.

Table 4 Prediction of Organisational Productivity

Predictor Variable	Beta (β)	t-value	Significance (p)
HR Audit Practices	0.41	5.82	0.000
Employee Engagement	0.48	6.45	0.000
R² = 0.59			
F-value = 106.32			0.000

The model has a high explanatory power of 59% of the organisational productivity ($R^2 = 0.59$). Production is to a significant extent predicted by both HR auditing ($b = 0.41$, $p <$



0.001) and employee engagement ($b = 0.48, p < 0.001$). The predictive ability of engagement seems to be somewhat higher.

Table 4 Comparison of Productivity Indicators Before and After HR Audit Implementation (Selected 20 Organisations)

Indicator	Before Audit	After Audit	% Improvement
Output per Employee	100 units	118 units	+18%
Absenteeism Rate	9.2%	6.5%	-29%
Employee Turnover Rate	14%	9%	-35%
Performance Rating Avg.	3.4	3.9	+14.7%

The comparative analysis shows that there are improvements that can be measured after the HR audit intervention. The employee output improved by 18 percent and absenteeism and turnover rate was significantly reduced. These objective pointers support statistical evidence.

The historical data proves that the organisations that have organised HR auditing practices have much better rates of employee engagement and productivity. These good correlation and regression coefficients affirm that HR auditing is not a compliance tool, but strategic performance-enhancing mechanism. At a great percentage, the HR audit and engagement explain the large percentage of productivity variance as shown by the large R2 value (0.59).

The quantitative results are further supported by improvement in the various operational indicators e.g. reduction in the number of absenteeism and higher output per employee. These findings indicate that planned HR appraisal empowers institutional structures, boosts employee morale and leads to efficiency in operations in chosen organisations at Nagpur.

Discussion

Concerning behavioural aspect, HR auditing would help in engagement by enhancing key organisational functions like open-ended performance appraisal, fair remuneration packages, skill training programs and adherence to labour practices. There will be an increased feeling of trust and psychological safety among the employees when they understand that HR systems are reviewed and refined on a regular basis. This will boost their mental and



emotional commitment in their working positions, which eventually increases productivity performance.

Industry-wise findings reveal that the manufacturing organisations had recorded the best post-audit productivity improvements, which could be as a result of better output measuring mechanisms and greater process standardisation. Improvements were also observed in service and educational sectors, although with less significant changes, the one representing the variation in the complexity of the performance measurement. This implies that HR auditing may have different effects among industries and performance measurements applied.

Another factor, which is of great significance identified in the findings, is the quality of audit and commitment by the management. The organisations that saw HR auditing as a strategic effort as opposed to a normal administrative task had greater productivity gains. The more the management support was low, the weaker was the implementation of the audit recommendations, which led to the relatively insignificant performance changes. Thus, to ensure the success of HR auditing, it should be not only designed but followed through and integrated into an organisational culture.

On the whole, the discussion proves the fact that Human Resource Auditing is a mechanism of integration between the HR systems and quantifiable performance results. HR audits increase the level of engagement and operational productivity by systematically examining the HR processes, finding the gaps, and suggesting corrective measures. The Nagpur case examples by organisations support the fact that HR auditing is an institutionalised strategic management activity and not a compliance review.

Conclusion

The current study empirically investigated how Human Resource Auditing (HRAuditing) fosters the engagement of employees and organisational productivity in the picked organisations of Nagpur. The statistical results supported that there is a strong and positive association between the structured HR audit practices and the employee engagement as well as the productivity performance. The correlation and the regression analysis showed that both HR auditing and employee engagement can be used to explain a significant amount of variance in organisational productivity ($R^2 = 0.59$) which shows a high predictive effect.



The analysis also showed that organisations that had systematic HR audits realised a quantifiable rise in performance measure parameters which included the output per employee, decrease in absenteeism, and employee turnover. These results support the HRM strategic approach that the systematic analysis of HR systems can lead to the increase of the organisational effectiveness. It was discovered that, HR auditing plays a role in enhancing productivity as it brings about enhancement on recruitment processes, training systems, performance appraisal and compensation systems, and standards of compliance and documentation.

The research finds that HR auditing is not to be a compliance or administrative measure only but rather is seen as a strategic diagnostic and performance-promoting mechanism. HR audits enhance the level of engagement and efficiency of employees when well designed and facilitated by the top management, hence helping to ensure sustainable organisational growth. The data of Nagpur area corroborates the more general theoretical claim that systematic HR assessment enhances the use of human capital and performance.

Recommendations

The results of the empirical findings give the recommendations as follows:

1. **Periodic HR Auditing:** The organisation should have a normal periodic HR audit of audit period (either yearly or half-yearly) to measure the effectiveness of policies, conformity and their conformity to both strategic goals.
2. **HR Strategic Integration of HR Audit Results:** HR audit results should be hinged upon organisational performance plan. Management ought to consider the audit recommendations and apply them in its strategic decision making processes instead of viewing it as reports.
3. **Focus on Engagement-Based HR Practices:** Due to employee engagement becoming a significant predictor of productivity, organisations are encouraged to concentrate audit areas that drive an organisation engagement, including transparent appraisal systems, training and development programs, recognition systems, and equitable compensation systems.
4. **Enhancing HR Metrics and Analytics:** In order to allow the organisations to assess the HR performance based on facts, organisations should establish quantifiable HR performance measures (e.g., productivity per employee, absenteeism rate, turnover



ratio, training ROI) to allow the organisations to evaluate them in an objective manner at the audit.

5. **Top Management Support:** Senior management should play a supporting role in ensuring that recommendations of HR audit are implemented successfully. Audit interventions might not yield real improvements in productivity without a commitment of managers.
6. **HR Professionals Training:** HR staff members are expected to be trained regarding audit methodology, audit analytics, and performance measurement systems as a way of improving audit quality and reliability.
7. **Sector-Related Customisation:** Since there is a variation in sectors as perceived in the research, HR audit structures must be tailored to be industry-based in characteristics and performance measurement systems.
8. **Policy Implications:** Association of industries and professional bodies can look at formulating standard HR audit standards to organisations in Nagpur region to enhance uniformity and best practices.

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