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HR audit is a tool for employee retention and organisational citizenship behaviour: a mediating role of effective HR strategies in services sector of emerging economies

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Abstract: The aim of this study is to examine the role of HR audit in employee retention and organisational citizenship behaviour. HR effectiveness used as a mediator in this research. Data were collected from 122 HR professionals working in service sector of Karachi, Pakistan who conduct HR audit by using 5-point Likert scale questionnaire. Process v 3.5 given by Hayes was used to test the mediation in SPSS. Results revealed that HR audit has significant impact on HR effectiveness and employee retention while HR audit does not have any significant impact on organisational citizenship behaviour. Results also indicate that HR effectiveness has positive impact on employee retention and organisational citizenship behaviour. Finally, result found no significant mediation of HR effectiveness between the relationship of HR audit with organisational citizenship behaviour and employee retention. This study has provided new insights to HR by using HR effectiveness as a mediator between HR audit with employee retention and OCBs.

Keywords: human resource audit; human resource effectiveness; employee retention; organisational citizenship behaviour.

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Biographical notes: Ghulam Muhammad has more than 15 years of experience in research, training, teaching and HR. He has completed his PhD in Human Resource Management. He is a Gold Medallist in MS. He won two research grants from the Higher Education Commission of Pakistan. He has visited six countries like Saudi Arabia, Turkey, Spain, France, Switzerland and Italy. He has written a book on employee morale. He has presented or published 35 research papers in national and international journals, conferences, and newspapers. He organised four national and international conferences. He has worked as the Director Business Research Center and as Head of HR. He has been involved in social work since 2004. Currently, he is an Assistant Professor at the Mohammad Ali Jinnah University, Karachi.

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1 Introduction

Organisations are struggling to transform HR department since many decades because human resource is the important asset of an organisation which helps to get the competitive edge (Richman, 2013). Effective HR has power to gain and sustain competitive advantage (Muhammad and Shamsi, 2021). HR audit is one of the tool to analyse HR strategies, policies and systems in order to improve human resource management effectiveness (Pandita and Mahato, 2016; Sharma, 2000). Many other researchers also suggested HR audit for the transformation of HR functions (Amarakoon et al., 2018; Ulrich and Grochowski, 2018; Bargerstock, 2000). Previously, most of the organisations do not implement HR audit practices to improve HR department effectiveness (Maijoor and Vanstraelen, 2012). But now a days, companies believe that it is the better tools to analyse the performance of HR function, system and tools for its improvement (Zakirova et al., 2019). HR effectiveness can overcome the turnover of employee and increase the retention in the corporation (Haider et al., 2015; Thompson, 2011). Effective HR strategies also help to improve organisational citizenship behaviour among employee in the organisations (Chang et al., 2011; Tinti et al., 2017).

Many studies have been conducted on HR audit. Mainly the studies focused on strategic HR audit and organisational effectiveness (Shiri, 2012), HR audit scale development (Muhammad and Shamsi, 2019), HR audit implementation and cognitive and motivational aspects of employees (Kulchitskaya et al., 2016) and building a world class HR by using HR audit (Ulrich and Grochowski, 2018). But very few studies have been found on the mediating role of HR effectiveness between relationship of HR audit with employee retention and organisational citizenship behaviour. Ping (2017) discussed the need of HR audit research in developing countries. This forced us to conduct research in the area of HR audit. So, this is one of the attempts to conduct study on HR audit by using HR effectiveness as a mediator with employee retention and organisational citizenship behaviour. This study contributes in the literature of HR audit, HR effectiveness, employee retention and organisational citizenship behaviour.

2 Theory and hypothesis development

2.1 HR effectiveness

HR effectiveness may be explained in different perspective such as it is used as substitute of organisational performance, measures related to workforce including absence and labour recantation, goals achievement like achieving targets related to employee development and political perspective that emphasis effectiveness of stakeholder judgements (Guest and Peccei, 1994). HR effectiveness is defined as the accomplishment of activities of high quality related to technical and strategic human resource (Huselid

et al., 1997). HR effectiveness refers to the measurement of perception towards the accomplishment of traditional HR functions including training and development, recruitment and selection, compensation management, and performance appraisal (Huselid et al., 1997; Rimi, 2015). Similarly, strategic human resource effectiveness is defined as how well the activities of human resource improve the employees of the organisation by increasing involvement, enhancing communication and involvement, improving talent, developing team work and improving the capabilities of attaining future demands of the organisation (Huselid et al., 1997; Rimi, 2015).

2.2 HR audit and HR effectiveness

Innovation in work processes is significant for any company (Tajeddini et al., 2020) and HR audit helps in refining process such as human resource policies, practices and procedures that focuses to achieve organisational effectiveness. HR audit enhances the HR effectiveness of HR functions and help in aligning the HR practices with strategies in order to achieve strategic objective of any organisation (Shreya, 2020; Shiri, 2012; Sinha, 2012; Osama, 2010). HR audit is a tool to measure the HR effectiveness; it is concerned with the evaluation and examination of practices, policies and procedures of HR of any organisation. HR audit is used to measure the effectiveness and efficiency of human resource management (Olalla and Castillo, 2002; Adaikalasamy, 2017).

HR audit strengthen the role of HR in the organisation (Cannings and Hills, 2012). HR audit is used to examine the HR effectiveness to highlight the problems and also review the current practices, policies, procedure that may include bench mark against the organisation size (Brown, 2002). Through HR audit HR specialists or auditors give feedback about performance of HR functions that helps top management to achieve strategic goals (Shaban, 2012). In order to do this, HR audit should have a set of quality practices which focus on HR activities, departments and units to evaluate HR functions for the improvement of organisational strategy. It is also important to update and modify the HR audit procedure that becomes the effective tool for organisation to improve HR effectiveness within the organisations. If the firms are enough sensible to evaluate and analyse of HR department effectiveness, it will improve efficiency of its functions and add value in the productivity of workforce for organisational effectiveness (Saleem and Akbar, 2015).

H1 Human resource audit improves HR effectiveness.

2.3 HR effectiveness and employee retention

In today's era, the major challenge faced by organisations is retaining human resource along with their development and proper HR practices reduce the turnover (Zeffane and Melhem, 2018). Human resource development adds advantage in having HR effectiveness and retaining skilled workforce plays a major role in the performance of any organisation. Skilled and knowledge employees are considered as the backbone of nay organisation that help organisation to become economically competitive in sustainability and growth (Azeez, 2017). HR effectiveness and retention has a link, i.e., career opportunities, training and development, that assess as the better tool to increase the retention of employee and performance. The employee retention is adjusting and affecting by employee practices or by a human capital views, whereby HR effectiveness

seem to contribute by workforce skills and capability which can be conceptualised as important resources to the firms (Das and Baruah, 2013; Rombaut and Guerry, 2020). Other studies indicated that employees retention in the organisation also depends upon good working relationship among human resource of the organisation and that may ultimately reflect on the HR effectiveness (Collins and Clark, 2003). Kamalaveni et al. (2019) discussed that HR department making the efficient work for employees which makes them interesting and providing opportunities by training and for their bright career. So, HR effectiveness can help employees for deciding whether to stay in this firm or not (Chew and Chan, 2008). In the organisation, the auditing teams have to make the effective policies, system, procedure which retain the potential candidates in the firm and create the constructive relation between HR audit and employee retention (Chew et al., 2005). Based on the above discussions following hypothesis is developed.

H2 HR effectiveness has positive association with employee retention.

2.4 HR effectiveness and organisational citizenship behaviour

HRM practices have a major impact on employee OCB and firm's performance, OCB has significant positive impact on firm's HR performance. Moreover, partial mediation of OCB is also observed between the relationship of HRM practices and organisational performance (Taamneh et al., 2018; Koys, 2001). HR effectiveness is a tool to improve the self-confidence and flexibility of employees and contribute to increase morale, motivation and organisational citizenship behaviour turn into individuals and business performance (Becker, 1994). The organisational citizenship behaviour concept was introduced by Organ and Ryan (1995) that organisational citizenship behaviour are voluntary contribution that includes the altruistic helping behaviour, compliance with work norms, courtesy to others working relationship, that arise in the workplace. Organisational citizenship behaviour comes with the human resource's behaviour who are loyal and shows the significant attitude to achieve the organisational goals. It indicates the individual's attitude towards the organisation values and goals and have highly enact with HR effectiveness of the organisation (Paré and Lalonde, 2000; Motowidlo, 2000; Kumari and Thapliyal, 2017)

H3 HR effectiveness has positive effect on organisational citizenship behaviour.

2.5 HR audit, HR effectiveness and employee retention

The studies have confirmed the connection between HR audit and HR effectiveness (Ulrich and Grochowski, 2018; Olalla and Castillo, 2002; Curtice, 2004) and researchers also recommended the linked between HR effectiveness and employee retention (Bryant and Allen, 2013; Azeez, 2017; Likhitar and Verma, 2017; Aleem and Bowra, 2020). This provides theoretical support to the mediation of HR effectiveness in the relationship of HR audit and employee retention. Similarly other studies discussed that HR audit is comprehensive evaluation of HR system, strategies, culture and competencies, and its impact of the short-term and long-term on business goals (Durai and Adaikalasamy, 2014). A comprehensive audit of HR includes main functional area that is employee development, compensation and benefits, employee labour relations, work planning that improve HR performance (Ukil, 2015). HR audit gives the organisation itself a chance to

periodic review the system as well as motivate the employees. It allows increasing the employee retention by using the productive HR strategies (Jha, 2013). HR audit influence on HR effectiveness (Ulrich, 1997) and finally effective HR practices leads to employee retention (Malik et al., 2020).

H4 HR effectiveness mediates between HR audit and employee retention.

H5 HR audit has significant relationship with employee retention in the organisation.

2.6 *HR audit, HR effectiveness and organisational citizenship behaviour*

Many studies confirm the links between HR audit and HR effectiveness (Ulrich, 1996; Pareek and Rao, 2015; Shiri, 2012) and studies also confirmed the linked between HR effectiveness and organisational citizenship behaviour (Turek and Wojtczuk-Turek, 2015; MacKenzie et al., 2011; Robbins and Judge, 2011; Bateman and Organ, 1983). This confirmed the theoretical foundation for mediation of HR effectiveness between HR audit and organisational citizenship behaviour. Similarly researchers discussed that HR effectiveness includes process that developed and executed specifically by department and HR professionals to perceive performance and competitive basis for better progress of organisation (Raymond et al., 2015). In past research the researcher investigated the effect of HR effectiveness on employee behaviour such as employee satisfaction, productivity, employee efficiency, commitment toward organisation which results in high performance (MacKenzie et al., 2011). Freund and Carmeli (2004) suggested that OCBs are “behaviors of a discretionary nature that are not part of employee’s formal role requirements”. Nevertheless, these behaviours contribute to effective functioning of an organisation (Robbins and Judge, 2011). The HR effectiveness is ongoing efforts to increase the capacity of individuals or employees and directly link with constituents of OCBs. The ongoing processes of OCB show the relationship of its effectiveness and employee commitment toward the accomplishment of tasks led by challenging HR practices. Various studies demonstrated to analyse the strategic role of OCBs with individuals perspective and within organisation context (Turek and Wojtczuk-Turek, 2015; Budur and Poturak, 2021).

H6 HR effectiveness mediates the relationship between HR audit and organisational citizenship behaviour.

H7 HR audit has significant relationship with organisational citizenship behaviour.

3 Research methodology

Quantitative research design was followed in this research. Primary data was gathered through questionnaire. Theoretical framework designed for this research was supported from past studies. The target population of this research paper was male and female HR Professionals working in service sector of Karachi. Banking sector is selected as the service industry and only those firms were chosen who were practicing HR audit. Data was collected through a questionnaire; the questionnaire was adapted from different studies (items can be seen in Appendix) and it was designed on five-point Likert scale from strongly disagree to strongly agree. HR audit scale is adopted from the study of Ambuso (2017), HR effectiveness adopted from Han et al. (2006), employee retention is

adopted from Lewis and Sequeira (2016) and organisational citizenship behaviour scale adopted from Podsakoff et al. (2000). To collect the data convenience sampling technique is used and 130 questionnaires were distributed among HR professionals from which 128 filled responses were received. Only 122 questionnaires were included in the research process after removing the incomplete and wrongly filled questionnaire. The present study ensured assumptions pertaining to analysis of reliability, discriminant validity, and convergent validity of the data before performing test related to direct and indirect relationship. Upon successful achievement of these assumptions, we employed SPSS software with Process v 3.5 given by Hayes to test the mediation. This statistical software is used to perform only for quantitative approach and it is used for statistical operation.

5 Results

5.1 Measurement model assessment

In Table 1, there are Cronbach's alpha values and average variance extracted score to evaluate the scales in this study. Therein, internal consistency, and AVE are examined. Furthermore, Cronbach's alpha was evaluated to ascertain internal consistency of given variables. Bagozzi and Yi (1988) was considered that Cronbach's alpha values should not be less than 0.70 since in Table 1 the values of Cronbach's alpha is higher than 0.70 therefore, it can assume that construct used in the study have good level of internal consistency. As Cronbach's alpha values are ranged in between 0.70 and 0.78. Moreover, for average variance extracted score should be 0.50 or above confirmed the requirement of convergent validity. Table 1 outline that each of the construct's AVE has sufficiently achieved the required threshold and the values ranging in between 0.50 and 0.78. This sufficiently meets the required threshold.

Table 1 Reliability and AVE

	<i>Cronbach's alpha</i>	<i>AVE</i>
HR audit	.70	.66
HR effectiveness	.78	.50
Org. citizenship behaviour	.70	.68
Employee retention	.73	.78

Table 2 Discriminant validity

<i>Variables</i>	<i>HRA</i>	<i>HRE</i>	<i>OCB</i>	<i>ER</i>
HR audit	.81			
HR effectiveness	.40	.70		
Org. citizenship behaviour	.14	.26	.82	
Employee retention	.23	.29	.28	.88

5.2 Discriminant validity

Table 2 shows the value for discriminant validity which was discovered by Fornell and Larcker (1981). The authors have suggested that the square root of AVE should be greater than the correlation with other latent constructs. The results in Table 2 show that the AVE values of all the constructs are between 0.81 and 0.88 which is greater than the correlation of other constructs. This confirmed the requirement of discriminant validity.

5.3 Hypothesis testing

In Table 3, results related to direct and mediating effect have been shown. We examined the direct and indirect relationship between the variables. Table 3 show that HR audit has positively influence on HR effectiveness ($\beta = 0.35$, $p = 0.000$), thus statement supported the first relationship. Likewise, other hypothesis theorised that HR effectiveness has significant relationship with organisational citizenship behaviour ($\beta = 0.22$, $p = 0.004$), thus it also supports the statement. Moreover, results have outlined that HR effectiveness improves employee retention ($\beta = 0.37$, $p = 0.001$). The results have found that there is no significant relationship between HR audit and organisational citizenship behaviour ($\beta = 0.10$, $p = 0.121$), thus it is not supported this statement. Other hypothesised was theorised that HR audit and employee retention has significant relationship ($\beta = 0.25$, $p = 0.011$). The results have sketched no mediating effect of HR effectiveness between HR audit and organisational citizenship behaviour ($\beta = 0.03$, $p = 0.651$). Similarly, the results found that no mediating effect of HR effectiveness between HR audit and employee retention ($\beta = 0.15$, $p = 0.16$), therefore, it conclusively rejecting this theorisation statement.

Table 3 Direct and mediating effect

<i>Relationship</i>	<i>Beta</i>	<i>Std. error</i>	<i>T-value</i>	<i>P-value</i>	<i>Decision</i>
HRA → HRE	.35	.073	4.82	0.00	Supported
HRE → OCB	.22	.075	2.94	.004	Supported
HRE → ER	.37	.112	3.29	.001	Supported
HRA → OCB	.10	.067	1.56	.121	Not supported
HRA → ER	.25	.099	2.58	.011	Supported
HRA → HRE → OCB	.03	.072	0.45	.651	Not supported
HRA → HRE → ER	.15	.106	1.44	.016	Not supported

6 Discussion and conclusions

The current study aimed to investigate; HR audit has significantly impact on organisational citizenship behaviour and employee retention. Research theoretical contribution has different ways. First, the study attempted to examine the HR audit relationship with HR effectiveness. Numerous studies are available on this relationship and this research also adds value in the domain of human resource management and auditing. The results have indicated that HR audit has positive impact on HR effectiveness. Effective HR audit improve the performance of HR department. Results are similar with the study of Salanova et al. (2005) and Panda and Reddy (2016). They

found that HR audit improve the HR effectiveness in the organisations which add value to HR department performance. This relationship is also addressed by some other researchers, i.e., Shaban (2012) and Saleem and Akber (2015), and they confirm the positive relations between HR audit and HR effectiveness.

Relationship of HR effectiveness and employee retention also indicates positive relationship and this result also supported by Das and Baruah (2013) and Kamalaveni et al. (2019). They found that efficient and effective services of HR department motivate the employees to stay long-term. Another finding concluded that HR effectiveness improves the organisational citizenship behaviour in services sector organisations. The results are similar with the study of Becker (1994) and Paré and Lalonde (2000). They supported that the HR effectiveness results in employee loyalty and improvement in organisational citizenship behaviour of employees in the organisation. Another finding is added through this research is that HR effectiveness does not have mediating impact between HR audit and employee retention. Few literatures are available on this mediation and HR effectiveness as a mediator between HR audit and employee retention. This is also adding value in HR literature specifically for employee retention. Podsakoff et al. (2000) also confirm the same. While few researches, including Ukil (2015) and Durai and Adaikalasamy (2014), confirm the mediating role of HR effectiveness between HR audit and employee retention.

HR audit has a direct relationship with employee retention and not supported with the relationship of organisational citizenship behaviour. These research findings were also confirmed by different researchers, i.e., Saleem and Akber (2015), Kamalaveni et al. (2019) and Johennesse and Chou (2017). HR effectiveness is a mediating variable with HR audit and organisational citizenship behaviour. It is hard to find studies that discuss the mediating role of HR effectiveness between HR audit and organisational citizenship behaviour. Suliman and Al Obaidli (2013) also discussed similar interpretation that support the result of the study as no mediating effect of HR effectiveness is found between HR audit and organisational citizenship behaviour. HR audit concept is new for employee related organisational citizenship behaviour in emerging economies. So, this is one of the reasons of not supporting HR audit to improve organisational citizenship behaviour. Therefore, employees think this can contribute to improve the employee retention. Results do not support the significant mediation of HR effectiveness between HR audit and employee retention. HR audit concept is not new for employees related to employee retention. HR audit directly predict the employee retention as shown the results. Organisations can conduct HR audit for the improvement of employee retention in financial institutions of Karachi, Pakistan. Results also supported by many other researches including Freund and Carmeli (2004) and Raymond et al. (2015).

7 Managerial implication

Results lead to the implication of this research. The management of service sector should focus on effective Human resource audit strategies and make a mandatory requirement to assess the future needs and evaluate the HR effectiveness in an organisation. HR professionals should have an expertise in HR auditing techniques and fundamental knowledge related to auditing for the improvement of HR performance. This needs training of HR professionals. Management should encourage and invest on HR

professionals and HR auditors to improve the auditing skills. Implementation and feedback on auditing report have to share with all workforces and review after implementation of recommendations given by HR audit committee. HR auditors should develop or review HR audit process and methodology on regular basis. Management must understand the thought, perception and employee's mobility and gives the attention properly that has to be reduce turnover of employee by using several retention strategies. HR professionals must do properly audit in HR department and use effective auditing instruments which retain the potential employees. HR audit should be designed to evaluate the organisational citizenship behaviour in the organisation for its contribution in the organisation. Organisations are accountable for understanding what motive of employee retention, organisation citizenship behaviour and creating better work environment. The effective HR can help to create and improve work environment that ultimately leads to retention and organisation citizenship behaviour of employees. Many researchers recommend HR audit as a tool for the improvement of HR effectiveness. So, Management make sure the proper HR audit activities on a regular basis.

8 Limitation and future research direction

Although research has several contributions to the practical and literature but few limitations are observed. First, this study is conducted on service sector, future research can be conducted on manufacturing sector. Future research can also be conducted by using multi-group analysis to compare the results between different industries within the services sector. Second, we have used HR audit as only one variable, future research may be conducted by identifying and using the sub-dimensions of HR audit. Third, this research is conducted based on small sample, future research can be conducted by using large sample size. In this research data is analysed by using SPSS, future research can be conducted by using smart PLS or AMOS. We have collected data by using convenient sampling technique, future research may be conducted by using techniques from probability sampling.

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Appendix

Questionnaire items

S. no.	Variable	Items	Source
1	HR audit	Human resource audits are often carried out in our organisation.	Ambuso (2017)
2		Employees are always informed of the recommendations of the HR audit reports	
3		Recommendations of the HR audits are availed on boards and counties websites	
4		Managers use human resource audit report to help improve performance	
5		Our organisation use specific HR audit approaches to help workers improve their performance	

Questionnaire items (continued)

<i>S. no.</i>	<i>Variable</i>	<i>Items</i>	<i>Source</i>
1	HR effectiveness	Overall, employees are satisfied with the service and support provided by the HR professionals in our company.	Han et al. (2006)
2		The HR professionals in our company are efficient (i.e., timely, cost-efficient) when recruiting candidates needed for business development.	
3		The HR department is performing its job the way I would like it to be performed.	
4		The HR department is very responsive to meeting line managers' and employees' needs.	
5		The HR department provides useful and timely information regarding HR issues	
6		The HR department has helped to enhance the firm's competitive position.	
7		The HR department provides value-added contributions to the firm's bottom line.	
8		The HR department contributes to building the firm's human capital as a source of competitive advantage.	
9		The policies, practices, and procedures coming from the HR department help line managers and employees perform their jobs well.	
10		The HR policies, practices, and procedures help support the firm's business plan.	
1	Employee retention	Our organisation hires the right people in the first place.	Lewis and Sequeira (2016)
2		Our organisation empowers the employees: give the employees the authority to get things done.	
3		Our organisation makes employees realise that they are the most valuable asset of the organisation.	
4		Our management has faith in employees, trust and respect them	
5		Our organisation provides information and knowledge to employees.	
6		Our organisation keeps providing feedback to the employees on their performance.	
7		Our organisation recognises and appreciates employees' achievements.	
8		Our organisation tries to keep employees' morale high.	
9		Our organisation create an environment where the employees want to work and have fun	

Questionnaire items (continued)

<i>S. no.</i>	<i>Variable</i>	<i>Items</i>	<i>Source</i>
1	Organisational citizenship behaviour	Does not take extra breaks	Podsakoff et al. (2000)
2		Obeys company rules and regulations even when no one is watching	
3		Is one of my most conscientious employees	
4		Believes in giving an honest day's work for an honest day's pay	
5		Consumes a lot of time complaining about trivial matters	
6		Always focuses on the positive side	
7		Attends meetings that are not mandatory, but are considered important	
8		Attends functions that are not required, but help the company image	
9		Keeps abreast of changes in the organisation	
10		Reads and keeps up with organisation announcements, memos, and so on	
11		Takes steps to try to prevent problems with other workers	
12		Does not abuse the rights of others	
13		Tries to avoid creating problems for coworkers	
14		Helps others who have heavy workloads	
15		Helps orient new people even though it is not required	
16		Willingly helps others who have work related problems	
17		Is always ready to lend a helping hand to those around him/her	