

ORGANIZATIONAL AUDIT AS A TOOL FOR INCREASING COMPANY PERFORMANCE: A QUALITATIVE SURVEY OF ORGANIZATIONAL AUDITS' RESULTS AND RECOMMENDATIONS IN MID-SIZE CZECH COMPANIES

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Abstract: The main objectives of organizational audits include critical and independent evaluations of the appropriateness/purposefulness of the companies' organizational layout and personnel organization with regard to their function and strategy, as well as identifying and eliminating possible performance weaknesses, mainly bottlenecks and overemployment, related to its organizational structure and work-flows. Their purpose, at the same time, is to provide an objective recommendation concerning the possibilities of a better alignment of company structure and strategy, simplifying the flow of main company processes, increasing the effectiveness of its management, and thus promote the overall company performance. The goal of the article is to survey the criteria and methods that organizational audits use for company structure evaluation and, using the method of a qualitative survey, conducted in mid-sized companies in the Czech Republic, analyse the results and recommendations of organizational audits carried out in these companies including their contribution to their performance and management efficiency. Also, the article seeks to identify the main preconditions for a successful organizational audit as well as the main requirements concerning the use of its results.

Keywords: organization audit, HR audit, organizational structure, organizational strategy, methods of organizational audit, organization audits recommendations

1 Introduction

Audits dealing with personnel aspects of organizations most often have three basic forms (Nerantzidis, et al., 2020; Olalla & Castillo, 2002). These cover the human resources audit, the audit of the company's personnel management processes, or some of them (for example, the processes, criteria, and methods of performance remuneration) and the organizational audit (Samagaio & Felício 2023; Turetken, et al., 2019). Other specialized and less commonly used forms of audits dealing with personnel issues include the audit of personnel risks of the organization and the audit of internal communication within the company (Urban, 2017; Urban, 2018). The common goal of all personnel audits is to increase the company performance, increase the quality of its products and services and/or reduce the personnel costs of the organization (Bieliaieva, 2019; Parker, et al., 2020).

The main objectives of organizational audits include critical evaluation of the appropriateness/purposefulness of the overall organizational structure including its parts, e.g., divisions, department etc., as well as evaluation of the appropriateness of individual job descriptions, given the function and the strategy¹ of the organization, aiming at the optimization of the organization structure (Painoli & Losarwar, 2011). Another important objective of the organizational audit is the identification and elimination of company performance problems and weaknesses related to its organizational structure and personnel organization. Examples of these shortcomings can cover process bottlenecks, extending the duration of the main company processes, or, conversely, overemployment, i.e., possibilities for reducing personnel costs without a substantial impact on company performance and/or quality of its production (Eulerich & Eulerich, 2020; Johnsen, 2019).

An important task of the organizational audit in this regard is also the analysis and evaluation of the division of tasks and activities between individual company departments and their organizational coordination, the division of decision making powers and responsibilities among company managers, as well as the analysis of the company quantitative personnel ratios, e.g. the ratios between the numbers of individual categories of employees, for example the ratio of production, maintenance and administrative personnel, the number of managers and executives with regard to the overall number of company employees etc. (Abu Salma, et al., 2021).

Optimization of the organizational structure can be achieved also by simplifying an overly complex organizational structure, both vertical and horizontal, by strengthening the decision-making powers of lower managers that do not correspond their responsibilities, by limiting a too high specialization of jobs, increasing demands for both headcount and internal communication etc. (Khan, & Subhan, 2019).

The organizational audit should not, therefore, be confused neither with an audit focusing on individual skills of company employees and/or managers, nor with the audit of the effectiveness and efficiency of personnel management processes, i.e., the human resources audit and human resource management audit, mentioned above even though organization shortcomings associated with a dysfunctional organizational structure and management skills of its crucial executives can be interrelated (Khashman, 2019; Muhammad & Shamsi, 2019).

An important goal of the organizational audit is usually the evaluation of the expediency of the company departments and personnel capacities in relation to their tasks. Overemployment, increasing its personnel costs, however, may not always be a result of a low personal performance of employees, as sometimes assumed. Indeed, even if the organization audit identifies overemployment as a problem of the company or its parts, it can be the result of an inappropriate, e.g., unnecessarily complex organizational structure, as well as its internal activities duplications, low decision-making powers, excessive specialization of jobs, etc., all of which usually increase demands on human resource capacities (Kuzmin, et al., 2019).

In terms of methods, the organizational audit relies on several information sources, analytical methods as well as criteria used for companies' structure evaluation. Ideally, it should, therefore, be conducted as a joint project combining independent external and internal forces. i.e., it should be conducted in by external auditors in cooperation with the company internal audit and human resource management function department and have a full support of the company top management (Bitkowska, 2020).

The results of the organizational audit should cover proposals for organizational optimization measures leading to increasing the performance of the company or its sections, i.e., increasing its productivity, lowering its costs, increasing the quality of its products or services, promoting the satisfactions of its customers and employees, and reducing the time required by its main processes. These measures can be both short term which can be realized more or less immediately, and long term which require certain time and preparations (Kumar & Harshitha, 2019; Mattei, et al., 2021).

These proposals for changes of the organizational structure of the company or its parts should, more specifically, be aimed at the contents, goals and relationships between/among individual organizational units, recommendations regarding the optimal (limit) personnel capacities of the main organizational units (creation of a new organigram), proposals for a new definition of management powers and responsibilities (e.g. strengthening the flexibility of decision-making by increasing signature

¹ This goal comprises usually checking whether the company applies the principle coined by A.D. Chandler (Chandler, 1969; Chandler, 1984) in 1969 that states that "structure follows the strategy". This means that organizational structure of a company including its divisions, departments, teams, processes, and positions should be designed to support the achievement of the firm's strategy.

authorizations at individual levels of management), changes in the content of activities and performance criteria of key (mainly managerial and specialized) job positions, etc. (Cordery & Hay, 2022, Jurásek et al. 2021).

Contents wise, important tools of these proposal and measures cover the simplification of the management and communication structure, reduction of headcount and elimination of organizational and work duplication (Lavouras, 2020, Ližbetin & Čaha). However, the recommendations of an organizational audit can also lead to the strengthening of employee motivation (for example, through higher decision-making powers, the introduction of teamwork, etc.), the removal of certain organizational barriers preventing higher performance (e.g., communication problems) and the completion of the company's structure, e.g., by introducing of departments and jobs strengthening the customer orientation of the company (Torres, et al., 2016).

2 Theoretical backgrounds: literary research

Criteria of organizational audit

The criteria for the organizational structure evaluation are an important starting point of its execution (Rani & Singla, 2015). The audit is usually based on several criteria which can differ in terms of their importance. These criteria can be regarded as requirements the company structure should fulfil, due to the company strategy, functions, processes etc. (Aydiner, et al., 2019; Christ, et al., 2021).

The evaluation of the appropriateness/expediency of an organization's structure can thus be based on the following needs and/or criteria (Shiri, 2012, Vadasi, et al., 2019):

- the company strategy and its changes (Chandler, 1969),
- strengthening the company client orientation including the need to acquire new customers,
- changes of work or technological processes,
- introduction of new activities/products/services,
- penetration into new markets,
- strengthening the company process/project focus
- creation of process-homogeneous units/management lines
- introduction of clear responsibility for processes
- coordination, or lack of coordination of important activities, simplicity or, on the contrary, unnecessary complexity of their coordination,
- clarity of goals and duties of organizational unit definition,
- reduction of the number of organizational interfaces, i.e., places where a process flow continues in another department,
- creating a leaner and more flexible organization
- shortening and simplifying communication and decision making,
- increasing performance/reducing costs, i.e., increase in performance requirements (work pace, work intensity, use of working time, etc., use of internal synergies
- overlapping of jobs' as well as organizational units' activities,
- reduction of the number of the company's external units,
- outplacement of the "non-core activities", i.e., concentration of the company on its key processes and outsourcing the support processes in which the company cannot keep pace in terms of productivity.

Other criteria that an organizational audit may focus on cover the productivity of the organization and its development, the number of employees, the amount of personnel costs and their development, customer satisfaction, the number of customer complaints and their causes, number of senior employees and its development, the duration of important activities, the running times of the organization's main processes and their development, fluency of the main processes (Górski & Woźniak, 2021).

Information sources, aims and methods of organization audit

The information sources of organization audits cover both the organization's written documents, especially its strategy, organizational charts, job descriptions, existing and/or planned personnel capacities, and qualitative questionnaire surveys, conducted among employees and/or managers, focused on the clarity of work tasks, compliance of their deadlines, control of their fulfilment, changes in work tasks, occasional execution of unnecessary work, work intensity and its development, workload, work duplication, work motivation and management skills of superiors, use of synergies etc. (Roussy, et al., 2020; Erasmus, et al., 2020).

The aim of these methods is to analyse the effectiveness of jobs and company departments in terms of their duties, capacities, and mutual relationships as well as to collect information from company employees concerning eventual weak points in the company structure and its activities coordination. (Lateef & Omatayo, 2019).

Further, mainly quantitative analytical methods of the organizational audit, cover the analysis of selected performance indicators of organizational units, their development and their comparison with comparable companies, real time analyses of the work and work time of company employees (time-sheets, daily time snapshots etc.), mapping of the main processes of the organization, based on the creation of their process diagrams, analysing their efficiency and possibilities of optimizing process flows, calculation of selected indicators characterizing the organizational structure and personnel-organizational benchmarking etc. (Hilkevics & Semakina, 2019).

The above-mentioned methods, both quantitative and qualitative, focus primarily on (Shrestha, et al., 2019):

- the expediency of the company's organizational structure, i.e., the effectiveness of its both vertical (hierarchical) and horizontal structures with regard to company strategy, goals, main activities, performance problems, savings needs, etc.,
- the effectiveness of individual departments of the company and their personnel capacities based on their objectives, the effectiveness of individual jobs and identifications of staff reduction possibilities based on scope of work tasks and workload of individual departments and jobs,
- powers and responsibilities of senior employees and managers including the distribution of powers and responsibilities between the main management positions and organizational units,
- relationships between the organizational structure of the company and the course (flow) of its main processes, i.e., the extend in which (sub)processes are/can be managed within one company department,
- the number of management levels and average spans of control (numbers of subordinates per manager) and their comparison with comparable companies,
- relationships between the number of employees in individual sections of the company,
- selected characteristics of the organizational structure of the company, e.g., the degree of centralization of corporate decision-making, the average management margin, i.e., the ratio of senior employees to the total number of company employees, ratios between individual categories of employees, for example operational and administrative, etc.
- specialization levels of individual jobs,
- organizational bottlenecks demanding an increase in personnel capacities.
- work and management duplicities or multiplicities,
- personnel capacities of administrative and support processes and assessment of the possibilities of their centralization,
- the possibility of outsourcing secondary activities of the company, etc.

Mapping and effectiveness analysis of organization processes: promoting a process-based management

An important goal of an organizational audit is the analysis of company processes looking at the possibilities of increasing the effectiveness of their management (Zaini & Saad, 2019). This goal can be regarded as a first step towards the introduction of process based/oriented management (Harmon, 2019).

The main objective the process-oriented management is to support the customer orientation of the company, both externally and internally, i.e., within the organization, introduce a clear responsibility for processes management including their results. This requires the management based on performance goals, i.e., goals set for individual processes (Groß, et al., 2019; Groß, et al., 2021).

Additional goals of a process-oriented management cover reduction of the number of management levels and organizational interfaces, shortening and simplification of decision-making and communication paths (decentralization of decision-making), shortening the duration of processes and reduction of errors arising from imperfect coordination of activities belonging to a process (Andreev, et al., 2020; Wang, et al., 2019).

The introduction of process management is an opportunity for analysis and overall streamlining of processes, i.e. change or clarification of process goals better adaptation of the process to customer requirements (specification of the outputs of individual processes) defining indicators measuring the results of the process delineation of weak points of processes, making the process more transparent and changing the content, i.e. strengthening some activities, possibly introducing new activities, removing unnecessary activities, new setting of optimal (limit) work capacities of processes determination of a more appropriate method of measuring results, or performance of processes/definition of their efficiency criteria reduction of process costs, better use of resources and capacities tied to the process as well and process standardization (Kumar & Harshitha, 2019; Zaini & Saad, 2019).

This analysis should thus identify the weak points of processes, especially missing and redundant activities, preventing the smooth running of processes or weakening the results of the organization (Suša Vugec, et al., 2020). By creating and analysis of the process map, the organization audit can help in outlining a new course of company processes including their performance indicators as well as a new course of sub-processes designed in an analogous way (Duchek, 2020; Zaini & Saad, 2019).

3 Methodology and Data

The main purpose of the analytical part of this article, based on a qualitative analysis using management questionnaires and semi-structured interviews, mainly with top and/or human resource managers of mid-sized and bigger businesses as well as several mid-sized public organizations which have undergone an organizational audit, was to find out the benefits/value-added of this procedure.

The research thus was focused on the findings and recommendations of organization audits as well as on the companies' evaluation of their results. i.e., their contributions to organizations' effectiveness and performance.

More specifically, the research questions covered the following issues:

- (i) did the organizational audit in the subjects researched found possibilities of substantial organizational structure improvements?
- (ii) what were the typical/most common findings and recommendations of organization audits?
- (iii) did the organizations surveyed accept and apply the findings and recommendations of organizational audits?

- (iv) did the application of organization audits recommendations, according to companies' managers, improve the effectiveness of their organizations?

Data collection was conducted in the second and third quarter of 2023, the organizations surveyed operated in Bohemia and Moravia. A total of thirty-four organisations were surveyed all of which had recently decided to undergo the organization audit to optimize its organizational structure, to increase the internal coordination of its activities, improve the cooperation between/among its units, find possibilities of personnel reductions and increase its customer orientation.

The number of employees in these organizations ranged from 234 to 587 persons, out of the total number of thirty-four organizations thirty were private companies operating in manufacturing, logistics, trade, finance and personal services, the remaining 4 organization operated in the public sector.

4 Results

The research, concerning the outcomes and benefits of organizational audits, based on the analyses of the questionnaires' answers and semi-structured interviews statements, came to the following findings.

- (i) in most subjects researched (in more than 85 percent of them) the organization audit did indeed, as their managers admitted, found substantial possibilities of structural improvements,
- (ii) as for the most common organization deficiencies identified by organizational audits in both private companies and public organizations, in more than two thirds of subjects researched the audits found:
 - too high hierarchy of the organization, i.e., a relatively large number of management layers as well as management positions in relation to the number of employees, and thus a small average span of control.
 - Also, the tendency towards hierarchy was often motivated by personnel and not organizational requirements, i.e., by trying to create positions with higher salary evaluation or higher prestige for certain employees, regardless of the interests or goals of the organization. The result was not only higher costs, but also unnecessarily long decision-making and lower organizational flexibility.
 - excessive degree of job specialization. Excessive specialization leads to the fact that the work capacities of the people who perform these functions are not fully utilized, and causes a higher burden on intra-company communication. The consequence is also a lower degree of mutual substitutability of workers, adversely affecting the flexibility and customer orientation of companies. The audits showed that these problems were quite common,
 - unclear or inappropriately defined goals and responsibilities of both jobs and departments. More specifically, the goals/expected results of departments and jobs were not projected into specific indicators, and their leaders often confused the goals of their departments with their main activities),
 - the managers or other employees could not influence the goals that have been set for them. Similar problems included overlapping responsibilities or situations when the line (executive) and staff (advisory or methodical) nature of positions and their tasks were not clearly distinguished,
 - high numbers of employees of support and administrative departments. It occurred mainly when the numbers of these workers were determined without a closer relationship to the actual need for administrative and methodical support of the main organizational units. As a rule, those methodical departments lacked any direct contact with customers,
 - low centralization of support functions (e.g., purchasing), leading to the fact that practically the same activities are performed simultaneously in different organizational units,

and the organizations in question suffered from low use of synergies,

- uneven distribution of controlled areas between the main leadership positions.

In more than half of companies surveyed the organization deficiencies found by the audit were:

- long decision-making processes and low decision-making competences (decision-making is unnecessarily long because decision-making competences do not correspond to the management positions which reduces the flexibility of the organization),
- uneven distribution of managed areas between managers,
- areas of work duplications.

As for the organization audits recommendations (specific organizational changes and management steps suggestions to be taken to improve organizations' effectiveness), the typical recommendations (which occurred in more than three quarters of the organizations surveyed) following the deficiencies mentioned above were:

- reduction in the number of management positions,
- changes in the activities, goals and/or performance criteria of individual departments,
- changes in relationships between/among departments,
- changes in the scope of personnel capacities of the main organizational units as well as individual departments, e.g., setting maximum number of positions in individual departments,
- integration of organizational units within the company structure facilitating their cooperation with related departments,
- changes in job descriptions in terms of job purpose (goal), main powers and responsibilities, activities, and performance criteria of key job positions,
- increasing signature authorizations at individual management levels,
- introduction of clear personal responsibilities for processes
- streamlining of company processes and better alignment of company processes and its structure,
- outsourcing of too costly supporting or ancillary activities outside the company.

(iii) Most managements of the organizations surveyed (72 percent of them) claimed that organizational audit was a useful and thus recommendable procedure. More than half of them stated that these findings can be regarded as areas on which their organization should concentrate more in the future. More than half of the subject admitted that the results of the organization audit exceeded their expectations. About two thirds of them were ready to introduce their recommendations, even though sometimes rather in the long run.

The main reasons why organizational audit is a useful tool of company management, the surveyed companies claimed, is the fact that both employees and managers of companies suffer from organizational blindness and tend to keep organizational processes for a prolonged period without major changes. Also, concerning headcount, companies tend to have "built in" tendency of personnel growth, not related to their activities and tasks.

At the same time, however, more than half of the organizations surveyed claimed that, according to their experience, organizational audit, to be effective:

- should be conducted as an external and independent assessment of the organizational structure of the company or an assessment combining the expertise of internal and external personnel. External help is usually necessary both as a guarantee of independency and impartiality of the audit and the professionalism of its methods.

The research found that organization audits carried out either by external companies or with external methodical guidance and guarantee used on average more data gathering and analytical methods the audits conducted purely by internal forces (the average number of methods was 8 compared to 4). Also, their recommendations covered both long term and short term (immediate) measures while, on the contrary, recommendations of audits conducted by purely internal forces only, suggested usually mainly long-term measures.

- the audit should have a clear support of the highest company management and its essential information source should cover anonymous employees questioning needed to gather unbiased information concerning the real organizations' practices,
- companies which decide to undergo an organizational audit should, consider the danger of various, sometimes hidden, forms of resistance against organization audit suggestions. Therefore, it is usually recommendable to motivate employees to support organizational changes as well as to react in advance on their fear of change (44).

(iv) To summarize these results, it can be stated that the research, based on analysis of managers' questionnaire answers and personal statements, thus came to the conclusion that organizational audit can be a helpful management tool improving organizational effectiveness mainly through reducing personnel costs by critical evaluation of the usefulness and expediency of individual jobs as well as overall personnel capacities of company departments, simplification of organizational structure, and setting clear goals of positions and departments. organizations?

5 Conclusion

An organizational audit is an external and independent assessment of the organizational structure of a company. Its main task is to assess the effectiveness of the organizational and personnel structure regarding how much it contributes to the achievement of the company's goals, facilitates internal cooperation, does not increase personnel costs, does not hinder flexible decision-making, customer orientation, etc.

The main goal of an organizational audit does not have to be personnel reduction. Even in the case when the audit finds overemployment, it may not be a consequence of the low personal performance of employees, but also the result of an unnecessarily complex organizational structure, internal duplication, low decision-making powers, excessive specialization of jobs, etc.

The result of the organizational audit are proposals for organizational measures leading to the strengthening of the performance of the company or its departments. It can be proposals for changes in organizational integration, changes in the content, goals and relationships of individual organizational units, recommendations for optimal personnel capacities, proposals for a new definition of management powers or the content of the activities of key positions.

The main benefits of an organizational audit include the simplification of the management and communication structure, the reduction of personnel costs and the elimination of organizational and work duplication. However, the recommendations of an organizational audit can also lead to the strengthening of employee motivation (for example, through higher decision-making powers, the introduction of teamwork, etc.), the removal of certain organizational barriers preventing higher performance (e.g., communication problems) and the completion of the company's structure (e.g., the introduction of departments and jobs enabling strengthening the customer orientation of the company) etc.

Given that the goals and functions of the organization always change over time, the organizational audit can be understood as an important part of "preventive management", i.e., the timely elimination of deficiencies in the organizational structure and processes flows that no longer meet the organization's requirements.

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Primary Paper Section: A

Secondary Paper Section: EA, AH