



ISSN Print: 2394-7500
ISSN Online: 2394-5869
Impact Factor: 3.4
IJAR 2015; 1(3): 41-43
www.allresearchjournal.com
Received: 24-01-2015
Accepted: 11-02-2015

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A study on the relationship between human resource practices and company performance

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Abstract

A turbulent business environment, highly demanding customers, formidable competitors, technological innovations, shortening product life cycles and low barriers to entry, have forced organizations to put a higher emphasis on learning. Organizations are becoming more fluid, facilitating networks of customers, suppliers and business partners. Boundaries of organizations are becoming blurred and departmental barriers are fading. Corporations are becoming flatter and leaner. Empowerment is replacing power and revolutionary change is swapping with incremental change. The companies now have to find and retain their positions not only in local or national market but also have to explore markets worldwide. To survive, prosper and succeed in current business environment, the organizations have to be proactive instead of being reactive. The need of the hour is to think the unthinkable, try what seems to be impossible, put your best to bring forth novel ideas and then implement them to revolutionize the world.

Keywords: Human resource, performance, company.

Introduction

Business people are now increasingly realizing that those having strong intangible asset base can dominate the sky. Reputation is usually built through the use of superior competencies over the years, but can be damaged easily. Management should make sure that every employee is disposed to be both promoter and a custodian of the reputation of organization which employs him. Today, firms compete less on the basis of products and markets and more on competencies, relationships and new ideas. Barney's seminal work on 'Resource Based View' of firms, the concept of 'core competencies' propounded by Hamel and Prahalad and the 'Knowledge Based Theory' of firm given by Grant provides a strong theoretical base for strategic importance of human resources.

Every research study has a limited scope and the present study is not an exception. The present study provides insights about new areas where more research studies can be carried out. Future research should attempt to conduct longitudinal analysis, to explore and examine other strings of relationship HR practices and Employees' Attitudes and Behaviour, to examine the relationship among business strategy of an organization, HR practices adopted and Organizational Performance and look into whether any of the employee attitudes act as moderator in this relationship.

The present study has covered the widely researched Human Resource practices, such as Selection and Staffing, Training and Development, Compensation and Performance Appraisal, Career Development, Supervisory Support and Work Life Balance. Further, the relationship between the selected HR practices and employee attitudes, viz., Perceived Organizational Support, Trust, Employee Commitment, Discretionary Behaviour and Corporate Performance measured in terms of sales per employee (productivity), sales growth, profit per employee and profit growth were also investigated.

Objectives

The present study hence endeavored to examine the relationship between Human Resource Practices, HR system and Company Performance. In order to accomplish this broad objective, it had the following sub-objectives:

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1. To examine the prevalence of selected HR practices in selected Indian companies.
2. To study the role of selected HR practices and HR system in affecting performance of the companies.

Review of Literature

Moorman examined the relationship between perception of fairness (organizational justice) and organizational citizenship behavior (OCB) in a sample of 225 employees and their managers drawn from two firms in the mid-western U.S. Two sources of organizational justice, that is distributive justice and procedural justice were taken into consideration. Distributive justice describes the fairness of the outcomes an employer receives and procedural justice describes the fairness of the procedures used to determine those outcomes. Support has been found for a causal relationship between perceptions of organizational justice and OCB. Even though a general relation was found but an analysis of one to one relationship between the three dimensions of fairness and OCB resulted in differential effects attributable to distributive justice, formal procedures and interactional justice. In this case interactional justice was the only dimension of fairness which has been found significantly related to organizational citizenship. Thus employees who believed that their supervisor personally treated them fairly appeared to be more likely to exhibit citizenship behaviors.

Arthur carried out an empirical analysis of the 'Control HR systems' (cost reducers) versus 'Commitment HR systems' (commitment maximisers) dichotomy in 54 US steel mini-mills. Control oriented human resource systems aimed at reducing direct labor costs or improve efficiency by enforcing employee compliance with specified rules and procedures. On the other hand, commitment oriented human resource systems aimed at shaping desired employee behaviors and attitudes by forging psychological links between organizational and employee goals. It was found that the mills with commitment oriented HR systems had better manufacturing performance (high productivity and low scrap rates) and lower employee turnover than those with control oriented HR systems.

Huselid undertook a system level research in order to find out the impact of HRM practices on turnover, productivity and corporate financial performance. It was hypothesized that firm performance will be enhanced to the degree a firm adopts HRM practices that complement and support each another (internal fit) and a firm's high performance work system is aligned with its competitive strategy. Results indicated that the high performance work practices significantly affected both intermediate employee outcomes (turnover and productivity) and short as well as long term measures of corporate financial performance (market value and profits). One standard deviation increase in high performance lead to 7.05 percent decrease in turnover, increase in sales per employee by \$27,044, increase in market value by \$18641, and increase in profits by \$3814. Modest evidence was found for internal fit that is between HR practices and little evidence for external fit that is between HR system and corporate strategy. The simple adoption of high performance work practices were concluded to be more important than any efforts to ensure internal consistency or alignment of these policies with firm strategy. MacDuffie studied the relationship between interrelated and internally consistent HR practices and economic

performance. He opined that bundles of HR practices create multiple mutually reinforcing conditions that support employee motivation and skill acquisition. He used a unique international data set from the MIT Future of the Auto Industry Project based on a survey of 62 automotive assembly plants. He argued for HR bundle to be integrated with firm's overall business strategy to make it effective. The results of the study strongly supported the use of HR practices bundle in improving performance and also suggested that the integration of the bundle of HR practices with production/business strategy could further enhance the performance in terms of both productivity and quality.

Delery and Doty proposed two employment systems; the market type and the internal system, each of which was described in terms of seven employment practices. The market type system consisted of HR practices like, hiring from outside an organization, providing little training, broadly defined jobs, very little employment security and voice, performance measured by quantifiable output and extensive use of profit sharing. The internal system was characterized by the existence of an internal labor market, extensive socialization and training, tightly defined jobs, high degree of employment security and voice, performance assessment through behavior and very little use of profit sharing. The middle-of-the-road system that is the hybrid employment system would stand half-the-way between market system and internal system. These systems were then aligned with the ideal strategic types - the prospector (market system), the analyzer (middle of the road system), and the defender (internal system). These strategic types were propounded by Miles and Snow where the defender emphasizes on better and more efficient ways to produce a given product or service instead of experimenting with new product. When a defender pursues new product they import technology from outside the organization rather than engaging himself in research and development. On the other end, prospectors are characterized by their constant search for new products and markets. They continually experiment with new product lines and ventures into new markets. Analyzers have characteristics of both defenders and prospectors. They usually operate in both stable product markets like defenders and new changing product domains like prospectors. They do not initiate change unlike prospectors but follow it more rapidly than defenders. Senior HR managers and presidents of 1050 banks were surveyed separately. All the three approaches were studied, where relatively strong support was found for universalistic perspective and some support for both the contingency and configuration perspective. Three individual HR Practices – profit sharing, result oriented appraisals and employment security have demonstrated relatively strong universalistic relationships with important accounting measures of performance including; return on assets (ROA) and return on equity (ROE).

Limitations of the Study

The present study is primarily a survey based study, conducted with the help of a questionnaire. Such a study suffers from the basic limitation of the possibility of difference between what is recorded and what is truth because there are bound to be differences owing to well-known problem of filters in communication process. Some other limitations of the study are lack of willingness of organizations to share employee related information due to

high volatility in the Indian labour market.

Therefore, there may be some problem with the sample truly being representative of the population. Further, the study suffers from the common method bias, use of cross sectional data which may cause a problem of causality, use of profit as the measure of corporate Performance which is quite problematic as financial indicators are being influenced by a whole range of factors (both internal and external). The results of the study need to be interpreted cautiously as the study not being longitudinal in nature cannot confirm the direction of causality implied in our research model. Due to these limitations the findings of the study cannot be generalized for other organizations. These issues need to be controlled in future research.

Results

In order to determine the extent of adoption of HR practices by the selected organizations, the mean scores were converted into percentage scores by using the formula proposed by Rao and Abraham as given below.

Percentage Score = (Mean score-1) X 25

Selection and Staffing

The results revealed a very higher level of adoption (75.62 percent) of Selection and Staffing practice with mean 4.025 and SD 0.69 by the organizations surveyed. Selection and Staffing practice was observed to be adopted at very high level by 39 percent of the organizations, at high level in 54 percent of the organizations while at moderate level by only 7 percent of the organizations surveyed.

Supervisory Support

70.63 percent of the organizations surveyed were found to have adopted the Supervisory Support practice at higher level with mean score 3.825 and SD 0.58. Further, the adoption of this practice was observed at very high level in 29 percent, at high level in 46 percent while at moderate level in 25 percent of the organizations.

Career Development

The respondents of the present study have also rated Career Development practices also as a highly adopted HR practice (69.34 percent) with mean 3.773 and SD 0.63. The results have shown the adoption of this practice at very high level, high level, moderate level, and low level of adoption by 21 percent, 50 percent, 25 percent, and 4 percent of the organizations respectively.

Compensation

An overall moderate focus on Compensation practices by surveyed organizations (62.23 percent) with mean 3.489 and SD 0.699 has been observed. 18 percent organizations were found to have adopted Compensation practice at very high level followed by 25 percent at high level, 28 percent at moderate level and 29 percent at low level.

Conclusion

This study revealed that Indian employer is increasingly making extensive use of Performance Appraisal practice with adoption score of 66.61 percent which is above average with a mean score of 3.665 percent. Fourteen percent of organizations exhibited very high level of adoption of Performance Appraisal practices and the same percent of organizations showing low level of adoption as well. An

equal percentage (36 percent) of organizations has high level as well as moderate level of adoption of these practices.

Training and Development

An adequate level of adoption (66.45 percent) with mean value 3.658 and SD 0.66 of Training and Development practice was shown by the companies. This practice had been shown to be adopted at a very high level by 14 percent of the organizations, at high level by 39 percent of the organizations, at a moderate level by 36 percent and at a low level by 11 percent of the organizations.

Work-Life Balance

As per the findings of the study Work-Life Balance practice with mean 3.003 and SD 0.77 has been highlighted as less adopted (50.08 percent) practice in the selected organizations. The very high level, high level, moderate level and low level adoption of this practice was exhibited by 4, 7, 18 and 71 percent of the organizations, respectively.

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