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Implications of HR outsourcing on performance of employees in manufacturing industries

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Abstract

Human Resource Management is the pattern of planned human resource deployments and activities intended to enable an organization to achieve its goals. HRM appears to be significantly linked with the overall effectiveness of the organizational performance. Quality HR strategies, policies and procedures are required for the organizations to address various practices like compensation management, industrial relations, performance management, training and development, talent acquisition and retaining, employee engagement etc. Implementing the best human resource practices is the preferred approach for improving quality and productivity in organizations and managing the risk aspects associated with it. It is necessary to understand the growing importance of risk management which is associated with the human resource practices like Outsourcing, Corporate Culture, Non-Monetary Rewards, Strategic Change, Performance Management, Organization's Performance, Organization's Ability to Pay, Personnel Management, IT Governance etc., which will have an impact on the production, financial and marketing decisions. This paper concentrates on the study of compensation management and the risk associated with it.

Keywords: Human resource management, risk management, compensation management, outsourcing corporate culture, non-monetary rewards, strategic change, performance management, organization's performance, organization's ability to pay, personnel management, IT governance

1. Introduction

1.1 Compensation Management

compensation management is a general policy, designed and implemented to help an organization maximize the returns on available talent. The ultimate goal is to reward the right people to the greatest extent for the most relevant reasons. The so-called salary means the payment that a corporation offers to the staff. Based on the clear explanation of Labor Standards Act Article 2, salary is the payment of labors for their work. There are some definitions for salary based on different scholars. That salary is the award corporation used as the incentive to the staff. There are lots of researches on the relevance between compensation management and the operation performances. The above shows that either financial factors or non-financial factors, compensation management has close relevance with Risk Management. Compared to other human resources management method, compensation management is more effective in influencing corporation performance. In 1964 Vroom's expectancy theory highlights the mandatory combination of compensation management and operation performance. That is, good compensation management system motivates hard work so that good performance is shown and good salary is obtained in return. Compensation management can efficiently motivate staff and combine improved staff performances and corporation advantages. Human resource should use compensation management to attract and retaining talent so that unique human resources advantages can be maintained.

1.2 Human Resource Management

➤ Human resource management is the management of human resources. It is a function in organizations designed to maximize employee performance in service of an employer's strategic objectives. HR is primarily concerned with the management of people within organizations, focusing on policies and on systems. HR departments and units in organizations typically undertake a number of activities, including employee benefits design, employee recruitment, "training and development", performance appraisal, and

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rewarding HR also concerns itself with organizational change and industrial relations, that is, the balancing of organizational practices with requirements arising from collective bargaining and from governmental laws.

- Human resource management core functions Staffing
- Human resource development
- Compensation and benefits
- Safety and health
- Employee and labor relations

2. Need for the Study

Human resources have two roles in risk management. First, people are a source of risk, e.g., shortage of employees, people doing sloppy work, an employee refusing to take on additional responsibility or a key employee leaving two months after completion of a one-year training program. Second, people are important in handling risk, e.g., people using their ingenuity to solve unexpected problems, employees going the extra mile for the good of the organization, a key employee redesigning her own job to avoid unnecessary delays in getting work done, or an employee persuading a talented friend to apply for a position in the business.

Human resources include more than regular full-time employees. They include: all management and labor personnel, family and non-family members, full-time and part-time people, and seasonal and year around employees. Human resources play important roles in farm businesses of all sizes. Orientation and training matter as much for one employee as for 20 employees. A business with just two people can have serious conflicts that jeopardize the business' continuity and success. No team of people is so small as to avoid the need for leadership or so large as to make leadership impossible. Risk specialists have traditionally focused mostly on important causes of risk such as weather, disease and natural calamities, and ways to deal with the risk. Risk management has paid little attention to human resources and human resource calamities such as divorce, chronic illness, accidental death or the impact of interpersonal relations on businesses and families. Including human resources in risk management reflects the fact that people are fundamental to accomplishing farm goals. Human resources affect most production, financial and marketing decisions. People can help or get in the way of accomplishing what managers have planned. The study includes some of the Human resource factors and Risk management factors that make an impact on Compensation management of employees and there by helps to manage the risk associated with Compensation management.

3. Operational Definitions

3.1 Outsourcing

In business, outsourcing involves the contracting out of a business process and operational, and/or non-core functions to another party. Outsourcing sometimes involves transferring employees and assets from one firm to another, but not always, Outsourcing is also the practice of handing over control of public services to for-profit corporations. Outsourcing includes both foreign and domestic contracting, and sometimes includes off shoring or near shoring.

3.2 Corporate Culture

Corporate culture refers to the beliefs and behaviors that determine how a company's employees and management interact and handle outside business transactions

3.3 Non-Monetary Rewards

As the name implies, a monetary incentive is a money-based reward given when an employee meets or exceeds expectations. Monetary incentives can include cash bonuses, stock options, profit-sharing and any other type of reward that increases an employee's compensation.

3.4 Strategic Change

A restructuring of an organization's business or marketing plan that is typically performed in order to achieve an important objective. For example, a strategic change might include shifts in a corporation's policies, target market, mission or organizational structure. 3.5 PERFORMANCE MANAGEMENT Performance management is an ongoing process of communication between a supervisor and an employee that occurs throughout the year, in support of accomplishing the strategic objectives of the organization.

3.6 Organization's Performance

Organizational performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives)... Specialists in many fields are concerned with organizational performance including strategic planners, operations, finance, legal, and organizational development.

3.7 Personnel Management

Personnel Management Defined. Peter works for a company in personnel management. Personnel management is an administrative function of an organization that exists to provide the personnel needed for organizational activities and to manage the general employee-employer relationship.

3.8 IT Governance

IT governance (ITG) is defined as the processes that ensure the effective and efficient use of IT in enabling an organization to achieve its goals... ITDG is a business investment decision-making and oversight process, and it is a business management responsibility

3.9 Risk Management

Risk management Comprehensive process adopted by an organization that seeks to minimize the adverse effects it is exposed to due to various factors -- economic, political or environmental, some of them inherent to the business, others unforeseen and unexpected.

3.10 Compensation Management

Compensation management is a general policy, designed and implemented to help an organization maximize the returns on available talent. The ultimate goal is to reward the right people to the greatest extent for the most relevant reasons.

3.11 Human Resource Management

Human Resource Management (HRM) is the term used to describe formal systems devised for the management of people within an organization. The responsibilities of a human resource manager fall into three major areas: staffing, employee compensation and benefits, and defining/designing work.

3.12 Organization's Ability to Pay

It is defined as the pay policy of the particular organization according to which the salary will be fixed to the Employees

based on their designations. It differs from one company to another company.

4. Objectives of the Study

Study Objectives is summarized as, 1. To study the various risk factors associated with Compensation Management at the selected IT Companies. 2. To study the various HR factors associated with Compensation Management at the selected IT Companies.

5. Scope of Study

The study is carried out at selected IT industries at Mysore City and Bangalore City. The respondent’s opinions are considered as honest and unbiased.

6. Research Design of the Study

The Methodology involves following steps. Data Collection Sample Size Determination Establishing the sample frame work Data classification, tabulation and statistical analysis Findings and Interpretation Results and Conclusions

6.1 Data Collection

The primary data is collected from the fieldwork. A structured questionnaire has been used as an instrument to collect the data. The data, thus collected is classified based on homogeneous factors and tabulated to enable it for statistical analysis.

6.2 Sample Size and Selection

The samples are selected by giving due weight age to the employees performing and compensation management at various functions of the IT Company. Statistically, it is desired to have the standard error not more than 10 % and 95 % of confidence level which is considered to determine

the sample size. The sample size for the survey is determined as indicated below. $N = Z^2 [\pi (1 - \pi)] / E^2$ Where, N = Sample size to be determined π = The proportion of sample considered Z = The confidence coefficient (1.64 for 90 % confidence level) Accordingly, $N = Z^2 [\pi (1 - \pi)] / E^2 = (1.96)^2 [0.3 \times 0.7] / [0.1]^2 = 80.67 \sim 80$ Respondents However, to make the computations simpler the sample size is taken as 80.

6.3 The Selection of Parameters

In reference to various literature reviews including below following parameters are considered for further study and hence to know the relationship between the Risk Management, Compensation Management and Human Resource Management. Parameters selected for study based on the objectives are, 1. Outsourcing 2. Corporate Culture 3. Non-Monetary Rewards 4. Strategic Change 5. Performance Management 6. Organization’s Performance 7. Organization’s Ability to Pay 8. Personnel Management 9. IT Governance

7. Hypothesis Constructed For The Purpose Of Study

H1: There is a significant difference in the opinion about the risks factors associated with Compensation Management on the selected factors.

H2: There is a significant difference in the opinion about the Human Resource factors associated with Compensation Management on the selected factors.

8. Data Analysis

8.1 Chi Square Test

Data Analysis for Sampling Framework are summarized and presented in below Tables.

Respondents and Distribution	IT Services	IT Production	IT Development	IT Management	Total
Outsourcing	23	24	25	24	96
Corporate Culture	24	20	24	27	95
Non-Monetary Rewards	25	24	23	22	94
Strategic Change	20	21	23	21	85
Performance Management	17	24	26	21	88
Organization Performance	26	22	30	26	104
Organizations Ability To Pay	19	20	24	22	85
Personnel Management	26	27	25	23	101
IT governance	20	19	26	22	87
Total	200	201	226	208	835

Table 1: Chi Square Test

Sl. No	Observed Frequency (O)	Expected Frequency(E)	(O – E)	(O - E) ²	(O - E) ² / E
1	23	22.9940	0.0060	0.0000	0.0000
2	24	23.1090	0.8910	0.7939	0.0344
3	25	25.9832	-0.9832	0.9667	0.0372
4	24	23.9138	0.0862	0.0074	0.0003
5	24	22.8683	1.1317	1.2808	0.0560
6	20	22.8683	-2.8683	8.2269	0.3598
7	24	25.7126	-1.7126	2.9329	0.1141
8	27	23.6647	3.3353	11.1244	0.4701
9	25	22.5150	2.4850	6.1754	0.2743
10	24	22.6275	1.3725	1.8836	0.0832
11	23	25.4419	-2.4419	5.9630	0.2344
12	22	23.4156	-1.4156	2.0038	0.0856
13	20	20.3593	-0.3593	0.1291	0.0063
14	21	20.4611	0.5389	0.2904	0.0142
15	23	23.0060	-0.0060	0.0000	0.0000
16	21	21.1737	-0.1737	0.0302	0.0014

17	17	21.0778	-4.0778	16.6288	0.7889
18	24	21.1832	2.8168	7.9342	0.3745
19	26	23.8180	2.1820	4.7613	0.1999
20	21	21.9210	-0.9210	0.8482	0.0387
21	26	24.9102	1.0898	1.1877	0.0477
22	22	25.0347	-3.0347	9.2096	0.3679
23	30	28.1485	1.8515	3.4280	0.1218
24	26	25.9066	0.0934	0.0087	0.0003
25	19	20.3593	-1.3593	1.8476	0.0908
26	20	20.4611	-0.4611	0.2126	0.0104
27	24	23.0060	0.9940	0.9881	0.0429
28	22	21.1737	0.8263	0.6828	0.0322
29	26	24.1916	1.8084	3.2702	0.1352
30	27	24.3126	2.6874	7.2223	0.2971
31	25	27.3365	-2.3365	5.4594	0.1997
32	23	25.1593	-2.1593	4.6625	0.1853
33	20	20.8383	-0.8383	0.7028	0.0337
34	19	20.9425	-1.9425	3.7734	0.1802
35	26	23.5473	2.4527	6.0157	0.2555
36	22	21.6719	0.3281	0.1077	0.0050
$\Sigma(O - E)^2 / E =$					5.1789

The calculated value of Chi-Square Test for Sampling Framework is 5.1789.

Data Analysis for Hypothesis - 1 are summarized and presented in below Tables

H1: There is a significant difference in the opinion about the risks factors associated with Compensation Management on the selected factors.

Variables	V1	V2	V3	Total
Risk Management	85	88	87	260
Compensation Management	104	85	94	283
Total	189	173	181	543

Table 2: Chi Square Test

Sl. No	Observed frequency (O)	Expected frequency (E)	(O - E)	(O - E) ²	(O - E) ² / E
1	85	90.4972	-5.4972	30.2196	0.3339
2	104	98.5028	5.4972	30.2196	0.3068
3	88	82.8361	5.1639	26.6659	0.3219
4	85	90.1639	-5.1639	26.6659	0.2957
5	87	86.6667	0.3333	0.1111	0.0013
6	94	94.3333	-0.3333	0.1111	0.0012
$\Sigma(O - E)^2 / E =$					1.2608

The calculated value of Chi-Square Test for Hypothesis 1 is 1.2608.

Data Analysis for Hypothesis - 2 are summarized and presented in below Tables.

H2: There is a significant difference in the opinion about the Human Resource factors associated with Compensation Management on the selected factors.

Variables	V1	V2	V3	TOTAL
Human Resource Management	96	101	95	292
Compensation Management	104	85	94	293
Total	200	186	189	575

Table 3: Chi Square Test

Sl. No	Observed frequency (O)	Expected frequency (E)	(O - E)	(O - E) ²	(O - E) ² / E
1	96	101.5652	-5.5652	30.9716	0.3049
2	104	98.4348	5.5652	30.9716	0.3146
3	101	94.4557	6.5443	42.8285	0.4534
4	85	91.5443	-6.5443	42.8285	0.4678
5	95	95.9791	-0.9791	0.9587	0.0100
6	94	93.0209	0.9791	0.9587	0.0103
$\Sigma(O - E)^2 / E =$					1.5611

9. Findings and Interpretation

Hypothesis 1: The obtained value of Chi-Square Test is 1.2608 for the 2 degrees of freedom and Critical value of the test is at 95% of the confidence level is 5.99. Since the obtained value of Chi-Square Test is less than its critical value, the null hypothesis is accepted. It may be concluded there is no significant difference in the opinion about the

risks factors associated with Compensation Management on the selected factors and hence it indicates the influence of selected factors on risks associated with Compensation Management.

The result obtained from Correlation Analysis is Positive, hence the Compensation management factors have a direct positive relationship with both Risk management Factors.

That means when the effect of variables increases, the effect of Factors also increases.

Hypothesis 2: The obtained value of Chi-Square Test is 1.5611 for the 2 degrees of freedom and critical value of the test is at 95% of the confidence level is 5.99. Since the obtained value of Chi-Square Test is less than its critical value, the null hypothesis is accepted and hence it may be concluded there is no significant difference in the opinion about the Human Resource factors associated with Compensation Management on the selected factors and hence it indicates the influence of selected factors on Human Resource associated with Compensation Management.

The result obtained from Correlation Analysis is Positive, hence the Compensation management factors have a direct positive relationship with Human resource factors. That means when the effect of variables increases, the effect of Factors also increases.

10. Conclusion

The significant selected factors of risk associates of Compensation Management like Outsourcing, Corporate Culture, Non-Monetary Rewards, Strategic Change, Performance Management, Organization's Performance, Organization's Ability to Pay, Personnel Management, IT Governance have strong influence on the overall effectiveness of the organization. The best policies and procedures have to be laid down by the HR Professionals involving in the strategic decisions of the organizations to prevent the risks associated with the Compensation Management. The study reveals that, there is a strong relationship between risk management Human Resource Management and Compensation Management in the selected IT organizations.

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