CHAPTER-I

INTRODUCTION TO THE STUDY

1.1 INTRODUCTION TO HUMAN RESOURCE MANAGEMENT

Human resource is considered as an important asset of an organization. Human Resource Management plays a vital role to gain competitive advantage for organizations. It is concerned with the structure of work in an organization as well as with all the related employment practices, needed to perform the work. Human Resource Management is not about people or HR practices but the management of work and people in an organization.

Human Resource Management (HRM) 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 rewarding (e.g., managing pay and benefit systems). 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.

The practice of HRM must be viewed through the prism of overall strategic goals for the organization instead of a standalone tint that takes a unit based or a micro approach. The idea here is to adopt a holistic perspective towards HRM that ensures that there are no piecemeal strategies and the HRM policy enmeshes itself fully with those of the organizational goals. For instance, if the training needs of the employees are simply met with perfunctory trainings on omnibus topics, the firm stands to lose not only from the time that the employees spend in training but also a loss of direction. Hence, the organization that takes its HRM policies seriously will ensure that training is based on focused and contemporary methods.
In short, the practice of HRM needs to be integrated with the overall strategy to ensure effective use of people and provide better returns to the organizations in terms of ROI (Return on Investment) for every rupee or dollar spent on them. Unless the HRM practice is designed in this way, the firms stand to lose from not utilizing people fully. And this does not bode well for the success of the organization.

1.2 HUMAN RESOURCE MANAGEMENT: MEANING AND DEFINITIONS

Human resource strategies have been derived from the overall business strategy in the same way as investment or marketing strategies. Decisions related to employees, need to be integrated and made consistent with other decisions of the organization. However organizations are not mere structural entities but ‘social units’ which comprises not just bricks, mortars, machineries or inventories, but also people. It has been observed by many scholars that an organization is not a complex of matter but rather a complex of humanity. Human Resource management deals with the effective control and use of manpower as distinguished from other sources of power.

HRM differs from Personnel Management in treating people as ‘resource’. People are human capital and are treated as resource, in that tangible and intangible benefits flow from their utilization. Organizations have to effectively harness this resource in order to be productive. Thus, an organization must make appropriate use of ‘human capital’ for the achievement of both individual goals as well as collective organizational. Coincidence and compatibility of the two is specially focused for the sake of ‘organizational equilibrium’. Though their interests come across as competing forces, they are not always mutually contradictory and can be reconciled in the interest of ‘organizational purpose.’ The aim of Human Resource Management is to balance the equation and bring about the required synergy to reinforce mutuality of effort towards the ‘common purpose.’ Organizational Equilibrium can be achieved by matching ‘inducements’ (positive balance’) to ‘contributions’ (negative balance on the part of workers (Barnard, 1938)1.

Since every organization consist of people to acquire their services, develop their skills, motivate them to higher levels of performance and ensure that they continue at the same
level of commitment and loyalty to the organisation to achieve the organisational goal effectively. This is true, in every type of organisation: viz. government, business, education, health, recreation, or social action. (Decenzo & Robbins, 1989)\(^2\). Flippo (1980)\(^3\) defines HRM as the planning, organizing, directing and controlling of the procurement, development, compensation, integration, and maintenance of human resource to the end those individual, organizational, and social objectives are accomplished. However, Tracey (1994)\(^4\) defines HRM as the organization function that focuses on the effective management, direction, and utilization of people in the organization; both the people who manage produce and market and sell the products and services of an organization and those who support organizational activities. It deals with the human element in the organization, people as individuals and groups, their recruitment, selection, assignment, motivation, empowerment, compensation, utilization, services, training, development, promotion, termination and retirement.

From the above definitions, certain new HRM aspects emerged could be stated as:

- There is a link between managing human resource and success of administrative or management strategy. Competition forces management to alter the latter with implications for the former.
- Sector strategies cannot be appreciated in isolation but only as parts of the integral whole.
- Senior line managers are required to assume more responsibility with regard to managing human resource. There is a stress on interpersonal relations as a determinant of performance.

Healthfield (2000)\(^5\) also defines HRM as the organizational function that deals with certain issues related to people such as hiring, remuneration, performance management, organizational development, safety, wellness, benefits, employee motivation, communication, administration and employee training and development. In a nut shell, HRM is the function within an organization that focuses on recruitment, management, development and providing guidance or direction to the people who work in the organization.
1.3 HRM PRACTICES

Several studies have revealed that Human resource practices have an impact on the performance and competitive strategies of an organization. Human resource management has a strategic role for organizations. Keeping this into consideration, it is possible to say that the design of HR functions and practices should also be aligned with the expectations of employees.

Human Resource Management activities and practices are considered the infrastructure elements of strategic Human Resource Management process. Thus, Organizations should strategically utilize these infrastructure requirements to gain competitive advantage, particularly through their human resources and human resource management practices. Infrastructure requirements include those functions and activities, necessary for effective management of an organization’s human resources.

The major purposes of these activities traditionally have been to attract, retain, and motivate employees. The key HRM practices include; human resource planning, staffing including recruitment, selection and socialization, compensation, performance Appraisal, training and development. The outcome of effectively managing human resources is an enhanced ability to attract and retain qualified people who are motivated to perform, and the results of having the right motivated employees to perform include greater profitability, low employee turnover, high product quality, lower production costs, and more rapid acceptance and implementation of corporate strategy (Schuler & MacMillan, 1984)⁶. As supported by Lee and Lee (2007)⁷, HRM practices on business performance, namely training and development, teamwork, compensation/incentive, HR planning, performance appraisal, and employee security help improve firms’ business performance including employee’s productivity, product quality and firm’s flexibility.

It is found that human resource management (HRM) policies and practices have emerged as an essential topic in the field of human resource management, industrial relations, industrial and organizational psychology. According to Jones & Wright, (1992)⁸, The work on HRM practices and its relationship with employee motivation and job satisfaction argument that the use of High Performance Work Practices, such as
comprehensive employee recruitment and selection procedures, compensation and performance management systems and extensive employee participation and employee training and development can improve the knowledge, skills and abilities of an organization’s current as well as potential employees. Thus increasing their motivation, reducing shirking, and enhancing retention of quality employees while encouraging non-performers to leave the firm.

According to Bratton and Gold (2007), strategic human resource management is “the process of linking the human resource function with the strategic objectives of the organization in order to improve performance. Also, as stated by Baird and Meshoulam (1988) that business objectives are accomplished when human resource practices, procedures and systems are developed and implemented based on organizational needs, that is, when a strategic perspective to human resource management is adopted.

1.4 NATURE OF HUMAN RESOURCE MANAGEMENT

1.4.1 Human resource management is concerned with people at work. It consists of organization, motivation, guidance and direction of people for the achievement of goals of the organization. Its main objective is maintaining better human relations in the organization through development, application, and evaluation of policies and procedures related to individuals in the organization to make the best or most effective use of their contribution towards the accomplishment of organizational goals.

1.4.2 Human Resource Management is an integral part of management. Every manager is concerned with the performance of personnel functions such as employee training and development, communication system, performance appraisal and guidance. If a manager is not able to deal with people in the organization, the goals of the organization cannot be achieved. Thus, every manager must possess human relation skills to get maximum cooperation of the workers.

1.4.3 Human Resource Management involves wide range of activities concerned with the management of workforce such as Human Resource planning, employment, placement, training and development, appraisal and compensation of employees.

1.4.4 Human Resource Management is concerned with the motivation of employees in the organization. The human beings can’t be dealt with like physical factors of
production. Every person has different needs, perception and expectations. Keeping this into consideration, managers must pay attention to these factors to motivate human resource at work. They must possess required skills in training, performance appraisal, and counseling of subordinates.

**1.4.5 Human Resource Management** aims at development of employees’ potentialities to the maximum possible extent so that they can put their best efforts to give maximum contribution to their organization and gain maximum satisfaction from their job. For this purpose, it takes into account the personality, attitude, interests, opportunities and capabilities of employees and helps them in realizing their full potential.

**1.4.6 People are the necessary element in any organization. Thus, Human Resource Management is inherent in all enterprises. Human Resource Management is a basic management function permeating through all levels of management in any organization.**

**1.4.7 Organizations need to manage human resources on a continuous basis. Organizations need to adapt to changing environment, i.e. changes in employees expectations, changes in consumer behavior, changes in competitors strategies etc.**

**1.4.8 Human Resource Management is dynamic and multidisciplinary in nature. Effective management of workforce involves application of knowledge and inputs drawn from various disciplines like sociology, psychology, organization behaviour, anthropology, philosophy, economics etc.**

**1.4.9 HRM may bring many long-term benefits to the individuals, organizations and the society as well. Employees gain long-term benefits by the way of better monetary and non-monetary incentives. The organization can gain by the way of higher returns on investment and better corporate image. The society can gain by the way of getting regular supply of quality goods and services at reasonable prices.**

**1.5 HRM OBJECTIVES**

Organizational objective determines the character of an organization and serves as the basis of coordination among employees. Objective also provides the benchmarks or standards of evaluating the performance of employees. Thus, the following objectives of human resource management are derived from the basic objectives of the organization:-
1.5.1 Societal Objectives: It ensures that the organization becomes socially responsible towards the needs, demands and challenges of the society while minimizing the negative impact of such demands upon the organization. The failure of the organizations to use their resources for the benefit of society in ethical ways may lead to restriction.

1.5.2 Organizational Objectives: It recognizes the role of HRM in bringing about organizational effectiveness. It ensures that HRM is not a standalone department, but rather a means to assist the organization with its primary objectives. The HR department exists to serve the whole organization.

1.5.3 Functional Objectives: It maintains the department’s contribution at a level appropriate to the organization’s needs. Human resources are to be adjusted to suit the organization’s demands. The department’s value should not become too expensive at the cost of the organization it serves.

1.5.4 Personnel Objectives: It assists employees in achieving their personal goals. In order to maintain, retain and motivate the employees of organization, personal objectives of employees must be met. Otherwise employee performance and satisfaction towards job may decline and it may lead to lower employee commitment and high employee turnover.

1.6 SCOPE OF HRM

From the time, an employee enters into an organization until he or she leaves the organizations comes under the purview of HRM. The major HRM activities include HR planning, job analysis, job design, employee hiring, employee and executive remuneration, employee motivation, employee maintenance, industrial relations and prospects of HRM. The scope of Human Resources Management is discussed below:-

1.6.1 Human Resource Planning: The main objective of Human Resource Planning is to estimate the manpower demand and supply of the organization and identify the various sources of selection. Human Resource Planning develops long-term and short-term strategies to meet the manpower requirement of the organization. If the manpower is surplus then it results in voluntary retirements, lay-off etc. to some employees. If there is manpower shortage then employees are hired from outside the organization.
1.6.2 Design of Organization and Job: This is the task of laying down organization structure, authority, relationship and responsibilities. This also refers to definition of work contents for each position in the organization. This is done by “Job description” and “Job specification”. Job description identifies the duties, responsibilities and scope of various jobs in the organization. Job specification identifies the attributes of persons who will be most suitable for each job which is defined by job description.

1.6.3 Selection and Staffing: This is the process of recruitment and selection of staff. This involves matching people and their expectations with which the job specifications and career path available within the organization.

1.6.4 Training and Development: This involves an organized attempt to analyse the training needs of the individuals and improving their skills and knowledge to perform their current job effectively and also fulfill the future needs of the organization.

1.6.5 Organizational Development: Organizational Development focuses on aligning organizations with their rapidly changing and complex environments through organizational learning, knowledge management and transformation of organizational norms and values.

1.6.6 Compensation and Benefits: This includes wage and salary administration where wages and compensations are fixed scientifically to establish a fair and equitable compensation structure. It is paid in the form of wages, salaries and employee benefits such as paid vacations, insurance maternity leave, free travel facility, retirement benefits etc.

1.6.7 Employee Assistance: Each employee is unique in character, attitude, personality, perception, expectation and temperament. By and large each one of them faces problems every day. Some are personal some are official. In their case he or she remains worried. Such worries must be removed to make him or her more productive and happy.

1.6.8 Union-Labour Relations: This is one of the important areas of HRM. Healthy Industrial and Labour relations are necessary for enhancing peace and productivity in an organization.
1.6.9 Personnel Research and Information System: Knowledge on behavioral science and industrial psychology throws better insight into the workers expectations, aspirations and behaviour. Working environment is much different from the past due to advancement of technology of product and production methods. Globalization of economy has increased competition. Science of ergonomics gives better ideas of doing a work more conveniently and efficiently by an employee. Thus, continuous research in HR areas is an unavoidable requirement. It must also take special care for improving exchange of information through effective communication systems on a continuous basis especially on moral and motivation.

Cummings (1973)\(^\text{11}\) advocated that recruitment, selection, and performance evaluation, training and development, career management, and rewards turned out to be strongly correlated to status enhancement in the private sector. Selection based on planning along with proper recruitment leads to status enhancement. Rewards (monetary and non-monetary) were strongly related to status enhancement. Performance evaluation (one of the HRM practices) was strong related to status enhancement. Performance evaluation served as a key input for administering formal organizational rewards, career growth and a tool of punishment.

Human resources are defined as firm's knowledge, experience, skill and commitment of the employees to the firm; their relations with each other and with others outside the firm. They are the most important firm asset, the ones that research, design, project and differentiate the firm from other firms. Porter (1985)\(^\text{12}\) emphasized the role of Human resources as creator of competitive advantages at any firm. In recent years, management schools have begun to appreciate the importance of human resources as a source of competitive advantage. According to this perspective, which is known as resource-based view, firms recruit critical HR and then establish HR systems that increase their potential. People and developed systems are difficult to be copied by competitors, so they provide a source of sustainable competitive advantage. HR researchers and managers for a long time have emphasized that the HR function plays an important role in the performance of the firm. In reality, most firms in their annual reports stress that people are the main asset of their firm.
Despite these widely held beliefs and all-too-frequent statements, however, many organizational decisions suggest a relatively low priority on both the human resources of the firm and HR department. Barney and Clark (2007) emphasized that when organizations require cost cutting, they often look first to investments in the firm’s people such as training, wages, and headcounts. From a historical perspective, the human resource department is not considered one of the main departments in the organization. Even nowadays, due to many reasons, most HR functions are seen as less important than the departments of finance, information technology, marketing etc.

According to Lawler (2008) most firms in the world have a bureaucratic system and are managed so for decades. In these firms managers often talk about the importance of HR, but their concrete actions do not follow such an approach. He believed that such firms are not designed to make their human capital a competitive advantage. He also emphasized that according to a recent survey of senior executives from all over the world, the two most important management challenges are:

a) Recruitment of high quality people across multiple territories, particularly as competition for top talent grows more intense.

b) Improving the appeal of the company culture and work environment.

Today, knowledge as an intangible asset is considered as the most valuable asset. Consequently, if we manage to integrate it in the learning and organizational culture, it will undoubtedly increase the success of the firms.

THEORETICAL INSIGHTS

The founder of modern management, well-known Peter Drucker (1973) has strongly said that business firm or any other institution has only one real resource – people. As supported by Kutlovc (2004), Human resources have always been critical to the success of an organization, their importance has been always grown and this fact is recognized from within and outside organizations.” According to Armstrong (2008) the overall purpose of human resource management is to ensure that the organization is able to achieve success through people. A full explanation of HRM philosophy by Legge (1989) stated that HRM consists of the following propositions: “That human resource
policies should be integrated with strategic business planning and used to reinforce an appropriate (or change an inappropriate) organizational culture, that human resources are valuable and a source of competitive advantage, that they may be tapped most effectively by mutually consistent policies that promote commitment and which, as a consequence, foster a willingness in employees to act flexibly in the interests of the “adaptive organization’s’ pursuit of excellence” (Armstrong, 2010)\textsuperscript{19}.

Merk and Büttgen (2012)\textsuperscript{20} regarding the scarcity of highly qualified and motivated employees provided a conceptual basis for linking sustainable HRM to employer branding as a means to attract and retain a high-quality workforce.

Strategic Human Resource Management (SHRM) focuses on actions that differentiate the firm from its competitors (Purcell, 1999)\textsuperscript{21}. Boxall et al. (2007)\textsuperscript{22} summarize the definition of strategic management of human resource with a short sentence: “the management of work and people towards desired ends”. He also believed that “The major focus of Strategic Human Resource Management should be aligning HR with firm strategies.”

In contemporary Strategic Management of Human Resource human capital concept is more often encountered. This concept was first developed by Beer et al. (1984)\textsuperscript{23}. The new concept of HRM sees people as the most important resource in the firm and represents the human factor in the organization, combined skills, intelligence and experiences that gives the organization its unique character. According to Barney and Clark (2007)\textsuperscript{24}, “Human capital resources include the training, experience, judgment, intelligence, relationships, and insight of individual manages and workers in firms”.

It is very important the system to operate as a whole and not just in HR practices. Researches on HR practices and firm performance indicate that HR practices are more effective when they function as an interactive system. Wright and Snell (1991)\textsuperscript{25} argued that the Strategic Management of HR requires HR activities coordinated through various sub-functions. Similarly, the definition of Wright and Mcmahan (1992)\textsuperscript{26} for SHRM requires horizontal integration of different practices of HR and not seeing them as
isolated. Lado and Wilson (1994) submitted the hypothesis that the more complex HR system is more likely to serve as a source of sustainable competitive advantages.

Effectively managing human resources for knowledge-based competition requires adopting a strategic approach. A strategic approach to managing human resources recognizes that an organization’s competitive environment and strategic imperatives should be reflected in its HR practices” (Jackson et al., 2003).

In recent publications concerning HRM, we encounter a new concept of High-Performance Work Practices, according to which effective organizations include some work practices that use the potential of human capital. Many practices of high performance work recently have been studied. McShane and Gilnow (2010) underlined four practices with strong research support and they are employee involvement, job autonomy, employee competence, and performance- and/or skill-based rewards.

It should be noted that firms are paying more attention to measuring of employees’ performance, business units and performance of the firm in general. According to them, “Firms that apply performance-based rewards, employee communication, work–life balance, and other organizational behaviour practices have three times the level of financial success that companies have where these practices are absent”.

Today, the main goal of most businesses is to achieve competitive advantage. Competitive advantage is defined in different ways by different authors. But Michael Porter (1985) was the first author who used the concept of competitive advantage. He identified two main types of strategic advantages: cost advantage and differentiation advantage. Competitive advantage exists when a firm is able to offer the same products as competitors but with lower prices or differentiated products. The resource-based view states that firm uses resources and its ability to create competitive advantage which in the end results in the creation of superior value.

The key to resource based approach to strategy formulation understands the relationship between resources, capabilities, competitive advantage, and profitability – in particular an understanding of the mechanisms through which competitive advantage can be sustained over time (Gant 1991).
A group of authors (Marimuthu et al., 2009) concluded that firms should therefore, come up with some effective plans especially in investing the various aspects of human capital as not only does it direct firms to attain greater performance but also it ensures firms to remain competitive for their long term survival. As it was noted by Pietersen (2010) “It’s harder than ever to find a competitive advantage; even harder to sustain it”. Successful competitive strategies usually involve the creation of distinct and unique characteristics to use as a competitive advantage against their rivals. Some examples of distinctive features are superior technologies, special products, special skills, great sales, distribution capabilities, the best services to customers etc. But can we create competitive advantages without people? Certainly not.

Lawler (2009) in his paper provides many useful recommendations on how to handle HR in a firm and how to transform them into a source of competitive advantage. Whereas, David Wicks (2005) in article propounded that the Strategic Competitive Advantage of Small Firms highlights that competitive advantages of small firms have a better chance to be sustainable. This is proved by facts- 1) development and implementation of strategy for closer field, 2) preparing capacity for renewal and change and 3) resistance to temptation for growth or expansion as a strategic priority.

In a competitive environment, with rapid technological changes and other firms’ competitive advantages, for many firms it is difficult to enter. Any firm which wants to enter the market with products or services should formulate sustainable strategies. In their frameworks the HR and competitive strategy should also be established.

However, that a firm has a sustained competitive advantage does not mean that its competitive advantage will last forever. Changes in technology, demand, and the broader institutional context within which a firm operates can all make what used to be a source of sustained competitive advantage no longer valuable (Barney & Clark, 2007). These types of changes in an industry are called “Schumpeterian Shocks” by several authors.

Managers must search for resources to help build their firm’s human capital and then use the human capital (e.g., assign to jobs) in ways that facilitate effective implementation of the strategy. (Sirmon et al. 2011). Unlike others, Campbell et al. (2012) stated that
overvalued firm-specific human capital may actually degrade a firm’s competitiveness for two reasons: (1) the focal firm may have to share more rents with workers to persuade them to stay, and (2) workers with firm-specific human capital will have greater outside options, making it more likely that they will leave and take their valuable knowledge and skills with them.

Recently, one of the topics of academic research is the trust between members of the organization as one of the determinants of firms’ performance (Gambetta, 198839; Barney & Hansen, 199440; Mishra, 199441). Trust and good relations between members of the organization are firm specific assets that provide value, are rare and very difficult to imitate by competitors.

According to Jackson et al. (2003)42, Many knowledge (and other) resources may be acquired by hiring new individuals, and these resources may improve performance of a job or even the performance of a team or work unit. In order to become sources of competitive advantage, however, such individual resources must increase performance at the organizational level. Coff and Kryscynski (2011)43 emphasized that where organizational norms support investments in firm-specific human capital, some individuals will choose to conform to expectations. These norms may be reinforced both by HR policies to integrate new hires and by specific individuals who espouse the norms.

Various authors have written about the resources, competencies and capabilities of organizations that help firms to create and implement strategy for value creation. According to Guzzo and Shea (1992)44 competitive advantage will be gained only when the organization selects and develops human resources and structure job duties and reward system in order to motivate the team to perform well and this contributes to organizational effectiveness. Also Becker and Gerhart (1996)45 think that HR function may provide sustainable competitive advantage to organizations and this affects their performance improvement. They pointed out that traditional method of differentiation offer fewer chances to achieve competitive advantage. They suggest that organizations seeking competitive advantages should focus on the development of the strategic role of HR systems. Also HR practices should be related: (1) to each other, (2) to HR strategy and (3) to strategy of the organization.
As seen in recent decades in the literature the importance of human capital in creating competitive advantage has been emphasized. Results from a study point out that 52 percent of the respondents to that survey reported that they expect to spend more time on people management than on technology in the next three years. More than 85 percent of the respondents said that people are vital to all aspects of their firm’s performance particularly their top strategic challenges: increased competition, innovation, and technology (Lawler III, 2008). Even Brennan and Connell (2000) have argued that intellectual capital (or intangible resources) is likely more than tangible resources to be a key source of competitive advantage for many firms.

Barney and Clark (2007) pointed out that “The HR function can also adopt a strategic focus, applying the VRIO (Value, Rarity, Imitability and Organization) framework to identify specific HR resources that provide sources of temporary and/or sustainable competitive advantage.”

1.7 FUNCTIONS OF HUMAN RESOURCE MANAGEMENT

The functions of Human Resource Management are human resource planning, recruitment and selection, training and development, performance appraisal, compensation and providing employee benefits and satisfaction.

1.7.1 Human Resource Planning: Human Resource Planning starts with job analysis and forecasting the demand and supply of people. Job analysis is the process of collecting and recording information about jobs. In demand and supply analysis, forecasting of internal supply, external supply, current available employees, future plans, economic environment etc. are considered.

1.7.2 Recruitment and Selection: Recruitment and selection has an important role to play in ensuring worker performance and positive organisational outcomes. Recruitment is the process of generating a pool of capable people to apply for employment to an organisation. Selection is the process by which managers and others use specific instruments to choose from a pool of applicants a person or persons more likely to succeed in the jobs. It is often claimed that selection of workers occurs not just to replace
departing employees or add to a workforce but rather aims to put in place workers who can perform at a high level and demonstrate commitment.

1.7.3 Socialization: When a new employee enters an organization, he or she may feel out of place because of the new surroundings, new boss and new co-workers. Thus, it is the responsibility of the management to familiarize the employees and to make the process of socialization smooth to ensure that the new employees adapt to the organizational culture as soon as possible. This process of adaptation is termed as induction or socialization. The socialization process is not confined to employees entering new organizations but also important for employees moving within the organization as a result of lateral transfers and promotions. Orientation is only a small part of the overall socialization program and it includes introduction of the new employee to the organization and to his work unit and supplementing the information given to him during recruitment and selection.

1.7.4 Performance Appraisal: It is a formal process by which the job relevant strengths and weaknesses of employees are identified, observed, measured, recorded and developed. Performance appraisal system is used in the organizations to measure the effectiveness and efficiency of their employees. Performance Appraisal system is needed because every employee has a different attitude to handle the work. Performance Appraisal tends to improve the work performance, communication expectations, determining employee potential and aiding employee counseling.

1.7.5 Safety: Workplace safety is an important factor. Under the Occupational Health and Safety Act, 1970 employers have an obligation to bring about and maintain a work environment that is safe and without risk to the health of workers. In addition, HR safety and risk specialists often work closely with HR benefits specialists to manage the company's workers compensation issues.

1.7.6 Employee Relations: Employee relations refer to the relationship shared among the employees in an organization. Employee relations is the HR discipline concerned with strengthening the employer-employee relationship through measuring job satisfaction, employee engagement and resolving workplace conflict. Employee relations programs
are typically part of a human resource strategy designed to ensure the most effective use of people to accomplish the organization's mission.

1.7.7 Compensation and Benefits: The compensation and benefits is about managing the personnel expenses budget, setting the performance standards, setting the transparent compensation policies and introducing the competitive benefits for employees. The organization with effective compensation and benefits drives its personnel costs, manages the performance of employees and rewards the extraordinary performance.

1.7.8 Compliance: Compliance with labour and employment laws is a critical HR function. Noncompliance can result in workplace complaints based on unfair employment practices, unsafe working conditions and general dissatisfaction with working conditions that can affect productivity and ultimately, profitability. HR staff must be aware of federal and state employment laws and many other rules and regulations.

1.7.9 Training and Development: Human resource management considers training and development as a function concerned with organizational activity aimed at bettering the job performance of individuals and groups in organizational settings. Training and development is an educational process which involves the sharpening of skills, concepts, changing of attitude and gaining more knowledge to enhance the performance of employees.

1.8 ISSUES INFLUENCING HUMAN RESOURCE MANAGEMENT

HR managers are facing many challenges in present business scenario like Talent management, managing diversity, leadership development, globalization, changes in political and legal environment change in information technology, changes in political and legal environment, and changes in the economic environment, technological advances, and compensation and rewards All these challenges increase the pressure on HR managers to attract, retain and nurture talented employee. HR professional can’t ignore these challenges rather they ought to be line to design and execute innovative mechanisms of developing skills and competencies of human resources to prepare them to accept the emerging challenges.
1.8.1 Talent Management

Drucker (1979)\textsuperscript{49} explains that a knowledge worker expects satisfaction and stimulation from work whereas manual worker whether skilled or unskilled, do not expect the work to challenge, stimulate or develops him. The manual worker expects only a living from a work. Thus knowledge workers are likely to find themselves in spiritual crises, when their work stop satisfying them. Thus it is necessary for HRM to find new challenges, new opportunities and new contributions in doing something different or effective in different surroundings. The challenge before companies is not only to attract talent but also foster an environment in which talented people are inspired to achieve their fullest potential.

1.8.2 Managing Diversity

According to Wheeler & Hunger (2006)\textsuperscript{50}, Human diversity refers to the mix in the workplace of people from different races, cultures and background. The composition of workforce has changed in context of gender, religion, nationality and population in last twenty years. According to Thomas (1992)\textsuperscript{51}, the dimensions of workplace diversity includes: age, ethnicity, gender, physical abilities or qualities, race, sexual orientation, ancestry, educational qualification, income, marital status, geographic location, military experience, religious beliefs, parental status, and work experience. In context of India, the composition of young force is increasing. The every segment of this workforce has its distinct lifestyles, expectations and moral values and working styles. Attitude and aspirations of today’s employees are far different from those held by earlier people.

Today’s workers are better educated, more efficient, ambitious and more desirous of self-fulfillment through good performance. Thus managers have to focus on updating and integrating their goals with the organizational objectives and bring out synergy between individuals and team efforts towards organization’s excellence. Increase in number of human employees has created a need of formulating women specific policies in the organizations.
1.8.3 Leadership Development

Top management continues to wrestle with understanding the best ways to keep people in the pipeline and develop leaders for future succession planning. Across the globe leadership development has been identified as a critical strategic initiative in ensuring that right employees are retained, organization culture supports performance from within to gain market position and that managers are equipped to take on leadership roles of the future so that organization can achieve sustained competitive advantage. Thus, there is an urgent need to develop supervisors into people managers and not just technical specialists.

Another challenge is selection of most appropriate tool for leadership development suitable to organizational needs and business goals and developing leaders with specific skills at various levels.

The increasing diversity with business organization and growing interdependence of various stakeholders within a business ecosystem demands for a more inclusive and collaborative leadership style. In today’s business environment a team approach to a problem solving is required. This requires a leader who is able to see extraordinary potential in ordinary people. The challenge is how to provide the required leadership development tools that can prepare the invisible talented people for position of authority and influence.

1.8.4 Globalization

Globalization is a term in business that refers to the integration of an organization's operations, processes and strategies into diverse cultures, products, services and ideas. Because of its emphasis on diversity, globalization also has a deep impact on the way companies manage their employees. Growing internationalization of business has its impact on HRM in terms of problems of unfamiliar laws, languages, practices, competitions, attitudes, management styles, work ethics etc. HR managers have a challenge to deal with more functions, more heterogeneous functions and more involvement in employee’s personal life.
1.8.5 Changes in Political and Legal Environment

Changes in political and legal environment means changes in political parties and rules regulation due to which new laws are come and you have to follow all laws while doing business. Many changes taking place in the legal and political framework within which the industrial relation system in the country is now functioning. It is the duty of human resource and industrial relations executives to fully examine the implication, of these changes and brings about necessary adjustment within the organization so that later utilization of human resource can be achieved. It is the responsibility of Human Resource manager to anticipate the changes and prepare organization to face them without any breakdown in its normal functioning.

1.8.6 Changes in the Economic Environment

This includes examination of the impact of a number of factors on production. Some of the key factors are the scarcity of raw materials and other inputs including power and electricity, encouragement of the culture of consumerism, increasing consumer awareness and demand for quality products, continuing upward trend in the inflationary pressures with decrease in the purchasing power of rupee and its spiraling effects in the ever increasing aspirations of workers for higher wages and other material benefits and mounting costs on the employee welfare and other benefits. In an inflationary economy, the resources tend to become scarce and the costs of machine, materials and labour multiply. These push up the capital and running costs.

1.8.7 Technological Advances

There is a challenging task of adapting workplace to rapid technological changes which influence the nature of work and generate obsolescence. Advanced technology has tended to reduce the number of jobs that require little skill and to increase the number of jobs that require considerable skill. In this situation organizations have to change its technology. New technology creates unemployment and in other hand, there comes scarcity of skilled manpower. Like this, technological change brings difficulties and challenges in organization.

1.8.8 Compensation and Rewards

Compensation and rewards have emerged as one of the top challenges because of factors including mergers and acquisitions (pay equity among new divisions), the invention of
new system for human capital management (including stock option plans) and global competition.

HR professionals face a big challenge in identification and implementation of Compensation and rewards programs. Total rewards encompass everything that employees value in their employment relationship—compensation, benefits, development and work environment. In today’s business environment, it is imperative for firms to go beyond just offering competitive compensation and benefits programs to compete for talent. Learning and development programs and a flexible and fun work environment however, provides an opportunity for employers to better differentiate themselves from their competitors and enhance employee commitment to their organization.

1.9 SMEs IN UTTARAKHAND: AN OVERVIEW

Over the last few decades, SMEs in India has witnessed a phenomenal growth and contributed significantly to Indian economy. In the Indian context, Small and Medium scale Enterprises (SMEs) are understood as enterprises where the investment in plant and machinery or equipment is between Rs 25 lakhs to Rs. 10 crores in case of a manufacturing industry and between Rs. 10 lakh to Rs 5 Crore in case of a service sector enterprise. As per MSMED Act, enterprises are classified into two categories - manufacturing enterprises and service enterprises. According to the Micro, Small and Medium Enterprise Development Act (MSMEDA), 2006, the micro, small and medium enterprises in India are defined as follows:

<table>
<thead>
<tr>
<th>Enterprises</th>
<th>Investment in Plant &amp; Machinery (Manufacturing)</th>
<th>Investment in Equipment (Services)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>Upto Rs.25 lakh</td>
<td>Upto Rs.10 lakh</td>
</tr>
<tr>
<td>Small</td>
<td>Above Rs. 25 lakh upto Rs.5 Crore</td>
<td>Above Rs. 10 lakh upto Rs.2 Crore</td>
</tr>
</tbody>
</table>
In spite of their limitations, the SMEs have made a significant contribution in achieving the economic objectives of the country. Small and Medium Enterprises (SMEs) contribute to economic development in various ways such as creating employment opportunities for rural and urban population, providing goods & services at affordable costs by offering innovative solutions and sustainable development to the economy as a whole. They are established in almost all-major sectors in the Indian industry such as: Food Processing, Textiles and Garments, Agricultural Inputs, Leather and leather goods, Chemicals & Pharmaceuticals, Bio-engineering, Engineering, Electricals, Sports goods, Electronics, Plastics products, Electro-medical equipment, Computer Software, etc. They produce a diverse range of products (about 8000) including consumer items, and capital and intermediate goods. The year wise growth of SMEs, in terms of number and employment can be seen in the following table 1.2

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Year</th>
<th>Total Working Enterprises (in lakhs)</th>
<th>Year wise Growth in Numbers</th>
<th>Employment (in lakhs)</th>
<th>Year wise Growth in Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2006-07</td>
<td>361.76</td>
<td></td>
<td>805.23</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>2007-08</td>
<td>377.36</td>
<td>4.3122512216</td>
<td>842</td>
<td>4.566397178</td>
</tr>
<tr>
<td>3</td>
<td>2008-09</td>
<td>393.7</td>
<td>4.33008268</td>
<td>880.84</td>
<td>4.612826603</td>
</tr>
<tr>
<td>4</td>
<td>2009-10</td>
<td>410.8</td>
<td>4.343408687</td>
<td>921.79</td>
<td>4.648971436</td>
</tr>
<tr>
<td>5</td>
<td>2010-11</td>
<td>428.73</td>
<td>4.364654333</td>
<td>965.15</td>
<td>4.703891342</td>
</tr>
<tr>
<td>6</td>
<td>2011-12</td>
<td>447.64</td>
<td>4.410701374</td>
<td>1,011.69</td>
<td>4.822048386</td>
</tr>
<tr>
<td>7</td>
<td>2012-13</td>
<td>467.54</td>
<td>4.445536592</td>
<td>1,061.40</td>
<td>4.913560478</td>
</tr>
<tr>
<td>8</td>
<td>2013-14</td>
<td>488.46</td>
<td>4.474483467</td>
<td>1,114.29</td>
<td>4.983041266</td>
</tr>
<tr>
<td>9</td>
<td>2014-15</td>
<td>510.57</td>
<td>4.52647095</td>
<td>1,171.32</td>
<td>5.118057238</td>
</tr>
</tbody>
</table>

Source (District Industry Centers (DIC), MSME, Government of India.)

India has more than 4 million SMEs, which account for almost 50 percent industrial output and 42 percent of India’s total export. They constitute the most important employment generating sector and an effective tool for balanced regional development.
They account for 50 percent of private sector employment and 30-40 percent of value addition in manufacturing. In spite of rich contribution of SMEs into economic development of country as well as state, it is observed that over the last decade there is a small growth in the MSMEs in terms of number and employment.

1.9.1 PROBLEMS AND CHALLENGES

SMEs in India face a number of problems. In spite of making significant contribution towards global economy, this sector is suffering from number of problems and facing stiff challenges from private as well as public sector organization (Organized). Some of the important problems and challenges faced by SMEs can be concluded as:

- Low capital base
- Low utilization of installed capacity
- Problem of specialized training and skilled management
- Unavailability of high quality of inputs
- Less innovation actions
- Lack of proper market information
- Low level of research & development
- Lack of awareness of global trade laws
- Inadequate accession to the monetary institutions
- Less exposure to international environment
- Lack of Professionalism

Chadha Vikram (1995) found that the use of outdated technology by SSI Units is the critical obstacle in the way of growth and modernization of the small industries. Small Industries can be modernized by improving productivity, enhancing quality, reducing cost and restructuring product mix through up-gradation of technology and enlarging the skill of the workers. For many years, Performance of SMEs has been the main focus of many researchers. It has been considered one of the most important critical factors behind economic success of both developed and developing countries due to their multiple contributions in economic growth, employment generation and innovations. These SMEs
have difficulty in influencing global pricing as they rely on a small customer base, and are limited in expansion due to minimal access to financial resources.

1.10 HUMAN RESOURCE ISSUES IN SMEs IN UTTARAKHAND

The Small and Medium Enterprises contribute to the economic development in a big way. They offer productivity and quality at par with the large-scale industries. The small and medium scale sector has grown in the country in terms of production, exports quality and is now gearing to accept the new challenges. They also make available to the masses a far wider range of consumer and industrial goods. Small and Medium Scale units are the backbone of the industrial structure in the state of Uttarakhand. These units are manufacturing a variety of goods ranging from tiny needles to sophisticated electronic goods. Market information is a necessary input for successful marketing planning and execution. Information collected from the market helps in the decision making process of the organization and helps the organization to estimate the future consumption patterns and hence, also helps in production planning and operations, procurement of raw material at right time, streamlining of production and distribution processes and deciding on the marketing network. So, the small and medium scale industries should focus on it for further development of this sector. Global economic integration is changing the competitive paradigm in which all businesses operate, requiring an international expansion strategy to positively impact long-term growth and survival. The small business sector has become more important as they emerge as a dominant force impacting the growth of national economies. There are number of disadvantages inherently faced by SMEs as they are passing through a transitional phase from national to international environments. Managers of non-exporting SMEs perceive the international environment as being risky, unprofitable and unmanageable, primarily due to misinformation and lack of experience with global business. SMEs, due to their size limitations, often have limited financial capital and a lack of necessary human resources. Many operators of small businesses lack experience in developing an international strategy. There are also disadvantages related to a lack of competitive power as a consequence of the size of the organization. There are certain issues that need to be addressed by SMEs in order to remain competitive and gain global competitiveness. The
most important issue before SMES is the non-availability of independent HR department, lack of specialized training and skilled management, poor marketing intelligence, lack of innovation initiatives and professionalism of employees etc. In most of the developing countries, performance of SMEs is one of the key issues since they are less productive and faces many constrains (Davidsson, 2004). More than 90% of enterprises in the Asian productivity organization (APO) member countries are SMEs and they account for about 75 percent of the Gross Domestic Product. But in many countries they face the constraints of technological backwardness, lack of human resource skills, weak management systems and entrepreneurial capabilities, unavailability of appropriate and timely information, insufficient use of information technology, poor product quality. As a result, there exists a low level of performance (Asian Productivity Organization, 2006, 2011).

The question how HRM would change in the post-modern globalised world needs to be understood in the light of challenges to HRM. Emphasis on human resource management will be still greater in the coming years. Companies/organisations are expected to invest more in health or welfare of employees. Emergence of transnational/multinational corporations is bringing cross-cultural work force and the consequent need to ‘manage diversity’ i.e. cultural, ethnic linguistic, religious, etc. properly. Cost constraint and the resultant emphasis on the necessity of output maximizing strategies viz. total quality management, flexible management systems, etc. Participative management for ‘knowledge workers’; need an active policy to retain competent employees is expected to be increasingly felt in the coming years. Flexible structuring in organisational design in response to changing requirements would be needed. Organizations now are less linear, more complex, environment more uncertain than predictable, traditional Weberian construct more a utopia than a reality, more cross functional/ networked than vertical/linear; providing more scope for freewheeling for its knowledge workers rather than insisting and focusing on a commanding or directive work pattern and culture. Precisely, its participative management, innovation and self-managed work-teams that are desired for a total quality management with emphasize on productive process, particularly technology. Organizational fluidity and dynamism may no longer be an exception or feature to be chafed at and resisted but an enduring quality to be desired
which is almost a necessity for organisations’ survival in this dynamic environment with constant change. Organisations are perceived as organic entities constantly and continuously vitalized and growing, meeting new/emerging challenges and answering critics in their attempt to avoid being moribund/ redundant in their operations. Tackling demographic changes in the work force will be a challenge as more old, young, women, backward castes are expected to force changes in HR policies. Vigorous interest articulation will be suggested for business at the policy stage to minimise incident and /or unsavoury pressures during implementation. In the face of increasing cost constraints, training programme is expected to get more targeted than generalised. It would need to be tailored according to changing requirements viz. customer preferences, specific need of a strategic plan in a given time frame, etc. Training is only one of the options to learning and development.

From the various literature reviewed, it is been found that HR issue is the critical issue that needs to be taken care for improving the employees performance .Out of various measures laid down in the literature, it is being found that Training is one of the most critical and strategic means for improving the employees capacity as well as their competency which again in turn will help the SMEs in gaining competitive edge .These objectives were achieved by raising following questions:

1) Does training help in raising the employees’ performance?
2) Whether important motivational issues are considered in training programme such as nature, duration, content, management support etc?
3) Does T&D help in improving the capacity of employees?
4) Whether issues related to promotion and succession planning is given consideration in Training and Development programme of employees?

Exploring the answer to the above questions will definitely help in improving training and development programs in SMEs which will further help in gaining the competitive advantages.

To conclude, the present chapter focuses on the various dimensions of HRM and the mean to manage it effectively. The chapter highlights on the different issues and challenges faced by the management as outcome of technological advancement,
globalization, and increasing employees as well as management expectations. The training and development of the employees has emerged as one of the important means to handle these issues. It offers a way of developing skills, enhancing productivity, and quality of work and building worker’s loyalty to the firm and most importantly increasing individual and organizational performance to achieve business results. The detail study of training and development and related contemporary issues and challenges are featured in the next chapter no. 2.