CHAPTER - II
CONCEPTS AND REVIEW OF LITERATURE

Introduction

There have been many studies conducted in the field of Human resource practices and Human resource audit in different industries both at national and international level. This review focuses on literature that makes a more holistic approach to examining the effective HR practices and HR audit. This review includes both academic and professional literature.

The literature review addresses the following research questions

- What are the best HR practices?
- How to discover Effectiveness of HR practices through HR audit?

2.1 HR Practices

Augustine, Lado and Wilson\(^1\) have noted that managing people is more difficult than managing technology or capital. Wright\(^2\) has pointed out that the firms which have learnt how to manage their human resources well, would have an edge over others for a long time to come because acquiring and deploying human resources effectively is cumbersome and takes much longer. According to Khatri\(^3\) people are one of the most important factors providing flexibility and adaptability to organizations. Rundle\(^4\) argues that one needs to bear in mind that HR Professionals not the firm, are the adaptive mechanism in determining how the firm will respond to the competitive environment.

Koch and McGrath\textsuperscript{5} views that HRM can help firms improve organizational behaviour in such areas as staff commitment, competency and flexibility, which in turn leads to improved staff performance. The effective management of human resources requires sound Human Resource Management systems such as Recruitment, People Management, Salary Management, Competence and Talent Management, Carrier Management, Learning Management, Change Management, Absence Management, and Time Management. Storey\textsuperscript{6} defines HRM as a distinctive approach to employment management, which seeks to obtain competitive advantage through the deployment of a highly committed and skilled workforce, using an array of techniques. In order to develop a sound HRM system, the organization should have effective Human Resource Management practices.

Schuler and Jackson\textsuperscript{7} HRM practices refer to organizational activities directed at managing the pool of human resources and ensuring that the resources are employed towards the fulfilment of organizational goals. Hamel and Prahalad\textsuperscript{8} argue that a competitive advantage is obtained if a firm can obtain and develop human resources, which facilitate it to learn quicker and apply its learning more successfully. E. Guest\textsuperscript{9} says that the HRM has evolved as one of the most important areas of organizational science and practices. It has not been developed in isolation, but rather in the context of industrial change and economic development. The uniqueness of the Human Resources (HR) approach needs a total different type of attention from managers. The HR has characteristics that provide the greatest challenge as well as opportunity. A company's HR is fragile with delicate relationships, along with unpredictable contributions, and permanency is uncertain.

Wright, Smart, and McMahan\textsuperscript{10} state that the crucial inputs among others in the organization are its human resources. People bring to their jobs diversity of skills, needs, goals, and expectations. They are socialized into the organization through their hiring to begin with, and their continuous functioning in the organization. According to Bulla and Scott\textsuperscript{11} there is a need to ensure that the human resource requirements of an organization are identified and plans are made for satisfying those requirements.

Shay and others\textsuperscript{12} in their study examine the consequences of emerging human resource management (HRM) practices for employees’ trust in their managers from a combination of the theory of exchange and a resource-base perspective.

MacDuffie\textsuperscript{13} found that the measures of HR practices were related to quality and productivity on auto assembly lines, Youndt and others\textsuperscript{14} discovered that human capital enhancing HR practices were related to operational performance among a sample of manufacturing plants. Though much of the research on the relationship between HR practices and performance has somewhat consistently revealed a significant relationship, some recent debates have emerged regarding the value of different approaches to studying this phenomenon. Debates have arisen regarding the proper sources for gaining the most valid reports of HR practice measures, the proper level of analysis and proximity of Performance Measures (PM), and the timing of measurement.

Dyer and Reeves\textsuperscript{15} reviewed much of the existing research on the relationship between HR practices and performance and proposed that measures of performance could be broken down into four categories. First, employee outcomes deal with the consequences of the practices on employees such as their attitudes and behavior, particularly behavior such as absenteeism and turnover. Secondly, organizational

\begin{thebibliography}{9}
\bibitem{11} http://www.chinaabout.net/human-resource-planning-strategic-recruitment-selection-procedures-pay-rates-setting/
\bibitem{12} http://shodhganga.inflibnet.ac.in/bitstream/10603/4838/11/11_chapter%202.pdf
\bibitem{13} J.P. MacDuffie, “Human Resource Bundles and Manufacturing Performance: Organizational Logic and Flexible production systems in the world auto industry”, \textit{Industrial and Labor Relations Review}, 48, 197-221.
\end{thebibliography}
outcomes focus on more operational measures of performance such as productivity, quality and shrinkage, many or all of which would be precursors to profitability. Thirdly, financial/accounting outcomes refer to the actual financial performance measures and include expenses, revenues and profitability. Finally, market-based outcomes reflect how the financial markets value a firm, particularly stock price or variations of it.

According to Seyed-Mahmoud Aghazadeh\textsuperscript{16} Human resource management must change as the business environment in which it operates changes. He outlines the key challenges facing human resources managers as they move from simply handling personnel issues to making a strategic contribution to the future direction and development of an organization. He demonstrates that human resources managers can contribute both to performance enhancement and cost reduction thus contributing directly to the productivity of the organization.

Seyed-Mahmoud Aghazadeh\textsuperscript{17} also investigates three aspects of human resource management facing future challenges, personnel, technology and globalization. He suggests that the human resource professionals in a successful business must be able to attract and retain individuals who have the ability to manage a globally responsive business. He covers the use of technology for competitive advantage. He advocates global strategies in operations management and empowerment of the individual.

The global turmoil has witnessed the rising importance of Human Resources Management (HRM) in both business and public life. The turbulent business climate brought in the wake of liberalization, globalization, changing technologies, growth in knowledge and advances in information technology is offering managers a complex and challenging situation. Indian organizations are tending to become competitive to meet up globally relevant standards. The growing stress on privatization has warranted a new focus in terms of result orientation. Singh\textsuperscript{18} in his article speaks of long-term strategies, consumer focus, initiative and different mindsets for internal and

external communication. Indian organizations normally direct their HRM efforts towards the development of competencies, culture and effectiveness among employees individually or in groups. Best HR practices vary from industry to industry, among companies within an industry. The most effective practices are not necessarily uniform across geographical regions. However, more similarities than differences exist in the types of HR practices advocated within and outside India.

The next section of the paper will discuss the types of HRM practices, followed by the detailed discussion of the factors affecting HRM practices and various models of HRM practices. The relationship between HRM practices and other important organizational variables is then presented including the HR best practices of Indian companies.

2.2 Types of HRM Practices

Many researches on HRM practices have been conducted from time to time and researchers have identified different practices by different names. Huselid and Becker\textsuperscript{19} discussed eleven HRM practices in his study they are personnel selection, performance appraisal, incentive compensation, job design, grievance procedures, information sharing, attitude assessment, labor management participation, recruitment efforts, employee training and promotion criteria.

Tessema & Soeters\textsuperscript{20} used eight HR practices in their research paper namely recruitment and selection practices, placement practices, training practices, compensation practices, employee performance evaluation practices, promotion practices, grievance procedure and pension system. According to them these HR practices can affect the performance of the employee. Huselid\textsuperscript{21} speaks of “best practice,” or “High – performance and Aldrich and Langton\textsuperscript{22} speak of formal

HR practices. Heneman and Berkley\textsuperscript{23} refer to HR practice as “sophisticated” while Gnan and Songini\textsuperscript{24} perceived it as “professional”

According to Chandler and McEvoy\textsuperscript{25}, one of the lingering questions in HRM research is whether or not there is a single set of policies or practices that represents a ‘universally superior approach’ to managing people. Theories on best practices or high commitment theories suggest that universally, certain HRM practices, either separately or in combination are associated with improved organizational performance. Boxall\textsuperscript{26} has also found that the well-paid, well-motivated workers, working in an atmosphere of mutuality and trust, generate higher productivity gains and lower unit costs.

In order to determine any effects of HR practices on firm growth, we prefer to examine HR practices initially proposed by Pfeffer\textsuperscript{27}, which according to the literature, can be expected to influence the firm performance. In his seminal work, Pfeffer proposed the following seven HRM practices

(1) Employment security
(2) Selective hiring,
(3) Self-managed teams and decentralization of decision making
(4) Comparatively high compensation contingent on organizational performance,
(5) Extensive training,
(6) Reduced status distinctions and barriers, including dress, language, office arrangements, and wage differences across levels, and
(7) Extensive sharing of financial and performance information throughout the organization.

In one another study, Redman and Matthews\textsuperscript{28} identify an ‘HRM bundle’ of key practices that support service organizations quality strategies, these being:

1. Careful recruitment and selection, for example, ‘total quality recruitment’, ‘zero defects recruitment’, ‘right first time recruitment’.
2. Extensive remuneration systems, for example, bonuses available for staff willing to be multi-skilled.
3. Team working and flexible job design, for example, encouraging a sense of cohesiveness and designing empowered jobs.
4. Training and learning, for example, front line staff having enhanced interpersonal and social skills.
5. Employee involvement, for example, keeping employees informed of key changes in the organization.
6. Performance appraisals with links to contingent reward systems, for example, gathering customer feedback to recognize the work by employees over and above their expected duties, which in turn is likely to lead to a bonus for staff.

Recently, Saxena and Tiwari\textsuperscript{29} examined the HRM Practices implemented by leading IT Companies such as TATA, Infosys and Wipro in India. They developed the 3cTER Framework of HRM practices and identified Training and Development, Employer-Employee Relations, Recognition through Rewards, Culture building, Career Development, Compensation and Benefits as important HRM Practices.

2.3 HR Functions

2.3.1 HR Structure

Wright and others\textsuperscript{30} argue that top line executives represent the best source of evaluative information on this topic, for two main reasons. First, they are the most involved of all ‘service users’, in that they are both subject to HR policies, and additionally have vested interests in their positive impact on employees. Secondly,


they are in a good position to judge what practices are likely to be in the firm’s best interests, providing a more rounded view that balances ‘what employees [think they] want against the actual returns to those employees, or the financial impact on the business, related to particular courses of action.

Overall, as Huselid and others \(^\text{31}\) nonetheless notes, the concept of ‘HRM effectiveness’ is a very broad one, and so any assessments in this area should ideally reflect the needs and desires of diverse stakeholders. Buyens and De Vos\(^\text{32}\) stated that comparing customer views across organizational sizes, sectors and locations, as the value of the HR function can be perceived differently according to these factors. As mentioned previously, it may also be the case that employee status and demographics are a source of variation in customer views, in which case these too should be taken into account in a survey instrument.

2.3.2 Man Power

Wright and others\(^\text{33}\) mentioned that the issue of what contributes to competitive advantage has seen a shift in emphasis away from external positioning in the industry and the relative balance of competitive forces, towards an acknowledgement that internal resources be seen as crucial to sustained effectiveness.

2.3.3 Recruitment and Selection

Shen and Edward\(^\text{34}\) defined Recruitment as a process that seeks and obtains potential job applicants in sufficient numbers and quality in order to fulfil the available work positions, as well as meeting the organisation’s requirements and expectations. Recruitment is highly dependent on job analysis, and recruitment is also linked to organisational strategy through HRM planning. Recruitment policy is very important to organisations, and it reflects an organisations’ general strategy.


Werther and Davis\textsuperscript{35} are of the opinion that Exit interviews are conducted with departing employees to learn their views and experiences with the organization. Questions asked along these lines are reviewed later to find out if there is a major cause for turnover, absenteeism, dissatisfaction etc. The Human Resource department must take an active interest in exit interviews. Some employees may be hesitant to pass judgment on and speak their mind. Reasons must be studied to determine if trends exist among employees of the organizations. The scope for taking interviews is however time consuming and limited, therefore there is a trend among Human Resource departments to use questionnaires to widen the scope of their research. Survey Questionnaires may lead to more honest answers than face-to-face interviews. Attitude survey feedback can find answers to concerns.

Crompton, Morrissey and Nankervis\textsuperscript{36} have suggested that effective worker recruitment, selection and retention can be deemed to contribute to successful work performance and business outcomes. Small business has many challenges in maintaining a competitive advantage with increasingly hard-line nature of competitive recruitment in a buoyant economy. This of course is the result of the fact that recruitment for larger organizations that have specific HR staff and departments to deal with such matters must employ formal strategies to maintain control. On the other hand, it is apparent that in the family owned and managed small business, restraints of time and money may contribute to the lack of formal process involved in the attraction of possible new employees to the business. Notwithstanding this, small business must “attract” a sufficient number of employees from which to select and retain employees within the same competitive environment as large business. Attracting the appropriate employee is the first phase in establishing the relationship between employer and employee. From this, it is possible to identify what characteristics of the small business recruitment processes contribute to effective attraction out come. Having briefly reviewed recruitment, attention is now turned to staff selection. Selection of staff from the recruitment process can often be a more complex experience.


\textsuperscript{36} http://epubs.scu.edu.au/cgi/viewcontent.cgi?article=1078&context=gcm_pubs
The selection process can include activities such as checking references, interviewing in order to obtain an appropriate match between the vacancy and the possible new employee. Other selection activities can include testing the employee’s abilities to see if they meet the organization’s needs. Cook\(^{37}\) recognized that it is important that the candidate selected must be the person who can most effectively contribute to the business’ goals. Carlson\(^{38}\) mentions that small business owners are repeatedly forced to have a reactive recruitment and selection process due to financial and time constraints.

2.3.4 Performance Appraisal and Management

Rondeau and Wager\(^{39}\) examined the relationship between HRM practices, workplace climate and perceptions of organizational performance, in a large sample of Canadian nursing homes and found that nursing homes, which had implemented more ‘progressive’ HRM practices and which reported a workplace climate that strongly valued employee participation, empowerment and accountability tended to be perceived to generally perform better on a number of valued organizational outcomes.

As with turnover, it is important to distinguish what we mean when we talk about performance. Probably the most important distinction is the unit of analysis: individual, unit, or organization. Higher level performance measures, such as profit or productivity for a business are obviously affected by many factors aside from those related to human resources. On the other hand, Van Iddekinge and others\(^{40}\) consider that a focus on individual-level performance can miss the group- and organizational-level dynamics which also affect outcomes. It is not necessarily true that a collection of high-performing individual employees added together will result in equally strong overall performance.

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Boswell\textsuperscript{41} in his research article investigates how employee perceptions of performance appraisal use relate to employee satisfaction with the performance appraisal and with the appraiser the employees’ immediate supervisor. Employee perceptions that appraisals were used for development positively associated with both attitudinal variables, after controlling for justice perceptions, performance, and demographics. Perceptions of PA use for evaluation did not show a significant relationship with employee attitude. The researcher has used Mean, Standard Deviations and Correlations as the statistical tool. It appears that there is a strong, positive relationship between perceived developmental use and employees’ feelings about the appraiser and the appraisal. The relationship between perceived evaluative PA use and these attitudes is less clear.

Welsh\textsuperscript{42} in his paper namely “Perceived Fairness of and Satisfaction with Employee Performance Appraisal” investigated employee reactions to fairness and satisfaction with an existing performance appraisal system utilizing a hypothesized four-factor model of organizational justice. Data were obtained via a survey questionnaire from 440 participants from two organizations that were part of a large public employment system. Ten multi-item scales representing four factors of organizational justice and performance appraisal fairness and three scales indicating satisfaction were included. The tools used by the researcher are Standard Deviation, Correlation, T-Test and F-Test. The findings of the study indicated that respondents perceived the performance appraisal system to be fair as indicated by their agreement.

The paper by Thomas\textsuperscript{43} with the title “Performance Appraisal Effectiveness Analysis” evaluates the performance appraisal effectiveness at Champion voyager designers Private Limited. The researcher has used percentage analysis as a tool to represent the number of respondents. It was found that if greater amount of objectivity can be infused into the appraisal system it could help to bring more transparency. The communication, fairness and managerial efficiency play an important part in effectiveness of performance appraisal.

Sekhar\textsuperscript{44} studies whether qualitative or quantitative on performance appraisal system have been quite exhaustively conducted across the world and for its inherent potential to activate the human resources in all type of organization. It attempts to explore the association between the employees profile and the perceived effectiveness of the PHS on a sample of 240 from one of the oldest private engineering companies. The researcher has used Mean, Standard Deviation, F-Test and Chi-Square. The researcher has developed a stable and reliable scale, which could help in assessing the effectiveness of performance appraisal.

Soundria\textsuperscript{45}, says that Performance appraisal is a process of assessing, summarizing and developing the work of an employee on qualitative as well as quantitative terms. The communication, fairness and managerial efficiency play an important part in effectiveness of performance appraisal. The articles showed that the procedural justice and interaction justice has a significant effect on individual information ethical behaviors. The study indicated that respondents perceived the performance appraisal system to be fair as indicated by their agreement.

\textbf{2.3.5 Talent Identification}

Snell and others\textsuperscript{46} mentioned that ‘If the types and levels of skills are not equally distributed, some firms can acquire the talent that they need and others cannot, then (ceteris paribus) that form of human capital can be a source of sustained competitive advantage’. According to Becker and Gerhart \textsuperscript{47} there are at least two reasons why human resources may be difficult to imitate causal ambiguity and path dependency. ‘First, it is difficult to grasp the precise mechanism by which the interplay of human resource practice and policies generates value. Second, these HR systems are path dependent. They consist of policies that are developed over time and cannot be simply purchased in the market by competitors’.

The interdependency between HR practices combined with the idiosyncratic context of particular companies creates high barriers for imitation. Essentially, the human resources must be valuable; they must, as Boxall\textsuperscript{48} says, be ‘latent with productive possibilities’. Therefore, the human capital advantage depends on securing exceptional talent, or, in the familiar phrase, ‘the best and the brightest.’

Ulrich\textsuperscript{49} noted that the ability to attract and retain high quality workers is critical to organizational competitiveness and a stream of research in strategic HRM has examined the linkage between HR practices and firm performance and effectiveness. However, Becker & Huselid\textsuperscript{50} have suggested that a systematic approach in creating a workplace within high performance work systems serve as an inimitable resource supporting the effective implementation of corporate strategy. Combs and others\textsuperscript{51} pointed out that the attainment of operational goals may not be sufficient to attract and retain high skilled employees nor lead to firm performance. Boxall & Macky\textsuperscript{52} ascertain that Organizations also need to provide employee-focused good employment/ high involvement practices that build a positive workplace experience to attract and retain employees.

### 2.3.6 Employee Welfare Measures

Purna Chandra Rao\textsuperscript{53} made and empirical study on the execution of the welfare provisions in a milk factory. The aim of the study is to assess the implementation of the welfare provisions, both statutory and non-statutory, by eliciting the opinions of the employees. A majority of the employees were satisfied with the facilities provided by the statutory welfare measures, except for those related to washing and a separate room for lunch. In the case of non-statutory or voluntary welfare measures, the facility of credit society was good, whereas the recreation

facility was not good. The cost of welfare by the management was very meager and it should be hiked to provide better voluntary welfare measures for the employees.

Tsung-Chih and others\textsuperscript{54} discuss safety culture in the petrochemical sector and the causes and consequences of safety culture. A sample of 520 responses selected by simple random sampling completed questionnaires for this survey, the return rate was 86.75%. The research instrument consists of four sections: basic information, the safety leadership scale (SLS), the safety climate scale (SCS), and the safety performance scale (SPS). Exploratory factor analysis indicated that (1) SLS included three factors namely safety caring, safety controlling and safety coaching. (2) SCS comprised three factors namely emergency response, safety commitment and risk perception; and (3) SPS was composed of accident investigation, safety training, safety inspections and safety motivation. The conclusions were the SLS, SCS, SPS developed in this paper had good construct validity and internal consistency and can serve as the basis for future research.

Julie Malveaux\textsuperscript{55} said that the majority of human resource professionals indicated that their organizations have been negatively affected by the U.S and global economic recession. In this ever-changing economic climate, organizations are looking for ways to manage costs at the same time dealing with the escalating expenses of employee benefits. Therefore, it is not surprising that 72% of human resource professionals reported that the benefits offered by their organizations have been affected in one way or other.

Sabarirajan and others\textsuperscript{56}, reported that textile industries are one of the important industries of India for earning Foreign Exchange and giving employment to lakhs of workers. Being a highly labor intensive industry it needs to concentrate more on the welfare of employees. The study shows that 15% of the employees are highly satisfied, 22% of the employees are satisfied, 39% of the employees are average with their welfare measures and 16% of them are in highly dissatisfied. Welfare measures


play an important role in satisfying the employees and it improves the quality of work life.

Chukwunenye and others\(^57\) examined staff welfare and organizations’ productivity, using Patani Local Government Council in Delta State, Nigeria as a reference. The methodology was primarily qualitative and involved use of In-depth Interviews and Focus Group Discussion to secure information from employees at the council. Data revealed general awareness about staff welfare among the employees and ability to identify the elements of welfare. There was absence of staff welfare in the council. The working environment was poor, in terms of office accommodation and furniture, paucity of working materials, scarcely available monetary incentives, unreliable health, and safety facilities, which altogether reduce morale and efficiency in job performance.

Chaudhay and Iqbal\(^58\) said that no technical labor had been able to undermine the place of labor in the industrial field. The main reason is that employees were the only active factor of production in the best possible manner. The main aim of the employee’s welfare is to establish and maintain relationship at all levels of management by giving satisfactory conditions of employment and also provide their requirement.

### 2.3.7 Compensation Policy

Collins and K.D. Clark\(^59\) say that Performance-based compensation is the dominant HR practice that firms use to evaluate and reward employees’ efforts. For Cardon and Stevens\(^60\) performance-based compensation has a positive effect upon employee and organizational performance.

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Singh\(^61\) says that there is scarce evidence of the effects of compensation policy on firm growth. Empirical studies on the relationship between performance-related pay and company performance have generally found a positive relationship, but a growing body of empirical evidence suggests that it is not just pay level that matters, but pay structure as well.

Barringer and others\(^62\) conducted a quantitative content analysis of the narrative descriptions of 50 rapid-growth firms and a comparison group of 50 slow-growth companies. Results demonstrated that employee incentives differentiated the rapid-growth from the slow-growth firms. Firms that were eager to achieve rapid-growth provided their employees financial incentives and stock options as part of their compensation packages. In doing so, firms managed to elicit high levels of performance from employees, provide employees the feeling that they have an ownership interest in the firm, attract and retain high-quality employees, and shift a portion of a firm’s business risk to the employees.

Delery and Doty\(^63\) identified performance-based compensation as the single strongest predictor of firm performance. Paul and Anantharaman\(^64\) found that compensation and incentives directly affect operational performance. To be effective, compensation practices and policies must be aligned with organizational objectives. While performance-based compensation can motivate employees, sometimes employees perceive it as a management mechanism to control their behavior. Baron and Hannan\(^65\) noted that employee turnover could significantly slow revenue growth, particularly in knowledge-intensive industries. Given that much of the tacit knowledge resides within employees, significant turnover poses a threat to firm performance and its future growth potential. With high turnover rates, firm growth

decreased with leaving managers who often become employers of rival firms or establish themselves rival firms.

2.3.8 Decentralization and Self-Managed Teams

Tata and Prasad\(^66\) says that more and more, employees are required to work in teams, make joint decisions, and undertake common initiatives in order to meet the objectives of their team and organization. Self-managed teams can affect firm growth in two ways: Firstly, a surplus of junior managers in a firm may create and support dynamics of firm growth. The growth stage is the most dynamic stage of a firm’s life cycle. As the business expands, new levels of management are added. Decision-making becomes more decentralized, middle managers gain authority and self-managed teams proliferate as the firm adds more and more projects and customers. Secondly, teamwork and decentralization of decision-making promotes employee commitment participation and create a sense of attachment, thus indirectly affecting firm performance. Wagner\(^67\) identified self-managed teams and decentralization as important high-performance HRM practices. Jayaram and his companions\(^68\) found that decentralized teams have a positive effect on two dimensions of the performance, namely time and flexibility.

2.3.9 Selective Hiring

Selective hiring can ensure that the right people, with the desirable characteristics and knowledge, are in the right place, so that they fit in the culture and the climate of the organization. Moreover, pinpointing the rights of employees would decrease the cost of employees’ education and development. Huselid\(^69\) examined HR practices of high performance companies and found that attracting and selecting the right employees increases the employee productivity, boosts organizational performance, and contributes in reducing turnover.

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2.3.10 Training and Development

Antonacopoulou\textsuperscript{70} defined Training and development as activities within organisations, and managers have limited control over these activities. Training and development as a learning opportunity provides employees with deep understanding of their organisation’s value and performance standard. Garavan\textsuperscript{71} suggests that General training is understood by its applicability to most employers, and specific training is understood as the attainment of KSAs valuable to one employer. As supported by the literature, training and development is an essential function in HRM; and it plays a key role in giving employees an opportunity to improve their performance, and to gather more understanding of their organisation’s expectations and future directions. The literature leads to the sub-question requesting information from the respondents regarding HRM practices such as training and development. Birdi and others\textsuperscript{72} mentioned that training and development could enhance an organisation’s specific knowledge, especially in developing employees’ KSAs in their professional area. It would not be easy to have fully capable and developed employees in organisations; however, Cunningham\textsuperscript{73} says that organisations can provide opportunities through effective training and development systems or programmes to improve their employees’ capability.

Huselid\textsuperscript{74} says that Training and development may be related to firm performance in many ways. First, training programs increase the firm specificity of employee skills, which, in turn, increases employee productivity and reduces job dissatisfaction that results in employee turnover. Secondly, training and developing internal personnel reduces the cost and risk of selecting, hiring, and internalizing people from external labor markets, which again increases employee productivity and reduces turnover. Training and development as well as job security requires a certain degree of reciprocity: A company that trains and develops systematically its

employees advocates them that their market value develops more favorably than in other firms. This increases employees’ productivity, commitment, and lowers turnover.

2.3.11 Human Resource Information Systems (HRIS)

The use of Human Resource Information Systems (HRIS) has been advocated as an opportunity for human resource (HR) professionals to be strategic partners with top management. The HRIS would allow the HR function to become more efficient and to provide better information for decision-making. Yukika and Kevin\(^\text{75}\) mention that the most basic form of HRIS is a system used to acquire, store, manipulate, analyze, retrieve and distribute pertinent information about an organization’s human resources. It is often regarded as a service provided to an organization in the form of information.

Lengnick and Moritz\(^\text{76}\) have postulated that HRIS will be implemented at three different levels: the publishing of information; the automation of transactions; and, finally, a change in the way human resource management is conducted in the organization by transforming HR into a strategic partner with the line business.

In their view, the evolution of HR as promoted by HRIS evolves from information to automation and from automation to transformation. They note that while HRIS has been widely deployed, a transformation of human resource management has occurred in relatively few organizations. The evolution that Lengnick and Moritz\(^\text{77}\) propose, along with Alfred\(^\text{78}\) revolves around the perspective that HRIS will create informational efficiencies and cost savings such that HR departments can turn their attention to providing better analysis of current data and creative uses of the HRIS to provide better and more accurate data upon which to base strategic decisions. Ultimately, the goal of both is to increase human resource service delivery. HRIS efficiency and administrative effectiveness can be described by studies of administrative HRIS, but the overall efficiency and effectiveness of an


organization can only be reached through strategic deployment of the information provided by an HRIS. Administrative HRIS is used in day-to-day operations and it is usually in the form of records that hold employee’s information.

Kirstie\textsuperscript{79} says that administrative HR is much more efficient when it is used with IT because HR professionals are able to handle large amounts of information efficiently. For instance, Watson survey report\textsuperscript{80} concluded that it does not take a high progression of e-HR to reach high HRIS performance on the administrative side. The results showed that a properly integrated e-HR system is the key to the evolution of the system. The survey covered all organization sizes, and the measures used included productivity improvements within the HR organization, cost reductions, return on investment, and enhanced employee communications. They concluded that by properly implementing an eHR system an organization should be able to reduce the amount of work for which the HR department is responsible and then leave HR professionals free to concentrate on performing more strategic roles for the organization.

Shikha and Karishma\textsuperscript{81} stated that Human resource information system (HRIS) is not a new concept but it is growing day by day with changing environment. Its major role is in human resource planning (HRP) which itself a crucial activity in any organization. Ineffective HRP can lead to extra or fewer numbers of employees than needed. Both over and under number of employees can create crappy situations. HRIS helps in proper planning of human resources. This paper focuses on the role of HRIS in HRP. The research is empirical in nature as 127 respondents from seven of the top IT companies (as per their market share) are taken to see the sights of the objectives. The survey is done with the assistance of the questionnaire. After investigation, it is concluded that HRIS has various benefits but the foremost is HRIS that stores ample data about the employees of the organizations that helps in escalating the snail’s pace of HRP. HRIS also helps in the strategic activities of HR managers and more in training and development, succession planning, applicant tracking in recruitment and selection and manpower planning. While analyzing the overall contribution of HRIS

in HRP, it is concluded that HRIS identifies occupied and unoccupied positions in an organization very effectively and accurately.

### 2.4 Sources of HR Practice Measures

Regarding the use of single respondent designs, Gerhart and others\(^8^2\) provided evidence calling into question the reliability of measures of HR practices stemming from single respondents. They found single-rater reliabilities to be frighteningly low.

Huselid and Becker\(^8^3\) in response to Gerhart and others article, suggested that in many cases single respondents (senior HR executives) were the best placed, and perhaps the only ones qualified, to provide HR practice information across a number of jobs. This led to the debate regarding the most valid source of HR practice information. As noted above, Huselid and Becker defended their use of senior HR executives as the most valid source of HR practice data. However, they also argued that the construct to be measured should be the HR practices actually implemented in the firm rather than HR policies that were not necessarily carried out. This led Gerhart and others\(^8^4\) to suggest that, if one seeks to assess the actual practices, then using employees as the source of HR practice data would be a more logical approach.

While not obvious to most, the timing of measurement in much of the research on the impact of HR practices on performance has precluded drawing firm, causal conclusions of this relationship. Very few studies have used simple, cross-sectional designs that present problems in drawing causal inferences. However, many of the studies accepted as being somewhat predictive are not true predictive designs. For instance, Ichniowski and others\(^8^5\) used monthly performance data from steel finishing lines over a three-year period. However, they measured HR practices by asking respondents after the three-year production period to recall which HR systems were in

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place at different points during the timeframe. Similarly, Guthrie\(^{86}\) used performance data from 1996-97 but asked respondents during that time to report the practices that existed during 1995-96. Given the potential problems noted above with regard to the unreliability of single-rater responses, compounded with the memory requirements to report practices that existed from one to three years in the past, such retrospective designs are problematic for drawing causal conclusions.

For instance, Delery and Doty\(^{87}\) gathered HR practice data during 1992 and used the year-end performance data. Because the year-end data includes performance from months prior to and concurrent with the HR practice measure, it is difficult to draw firm causal conclusions. Huselid\(^{88}\) gathered both contemporaneous and subsequent year performance data and reported only the subsequent year data in his study in order to provide more conservative effect size estimates. As can be seen by this detailed analysis of the designs, some of the seminal studies in the HR performance literature fail to provide predictive designs that allow the drawing of more confident causal inferences. Concurrent and retrospective designs are particularly weak for drawing causal conclusions because they may be subject to implicit performance theories, suggesting that knowledge of firm performance can influence reports of HR practices.

### 2.5 Impact of HR Practices

Guest\(^{89}\) explains that impact of HR practices on performance of employees is also related with the response of employees towards HR practices. Because employees have their own perception regarding the HR practices. Huselid\(^{90}\) explains that adopting effective HR practices in organization can produce the positive results in employee performance and can improve the organizational culture in a positive way. Compensation, promotion and performance evaluation and perceived employee

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performance are those three practices, which are related to financial earning and social issues of an individual so these can be used as determinants of employee performance. The performance of employee’s possibly related with their skills, knowledge and competencies, but most important is their level of motivation toward jobs. Employees who have great skills and competencies and well-motivated normally perform better than others.

Arthur\textsuperscript{91} says Firms with a high commitment strategy had significantly higher levels of both productivity and quality than those with a control strategy Huselid\textsuperscript{92} noted Productivity is influenced by employee motivation; financial performance is influenced by employee skills, motivation and organizational structures. Huselid and Becker\textsuperscript{93} state that firms with high values on the index had economically and statistically higher levels of performance. Purcell\textsuperscript{94} give clear evidence existed between positive attitudes towards HR policies and practices, levels of satisfaction, motivation and commitment, and operational performance. Policy and practice implementation (not the number of HR practices adopted) is the vital ingredient in linking people management to business performance and this is primarily the task of line managers.

Huselid\textsuperscript{95} examined the relationship between HR practices and corporate turnover, profitability and market value. Huselid \textsuperscript{96} surveyed senior HR executives in a sample of 968 publicly traded corporations in the US regarding the percentage of employees who were covered by a set of HR practices generally considered representative of a high-performance work system (HPWS). After controlling a number of variables, he found that his HR index was significantly related to the gross rate of return on assets (a measure of profitability) and Tobin’s Q (the ratio of the market value of a firm to its book value). This study provided the foundation for much

\textsuperscript{96} Ibid.
of the research that followed. Delery and Doty\textsuperscript{97} examined the relationship between HR practices and profitability in a sample of banks in the US. In testing universalistic, contingency and configurational approaches to HRM, they found that, in general, HR practices were positively related to profitability.

Guthrie\textsuperscript{98} examined the impact of HR practices on turnover and firm productivity among a sample of firms in New Zealand. He noted that HR practices had an impact on turnover, and that the relationship between retention and productivity was positive when firms implemented high-involvement HR practices, but negative when they did not. Two major studies at the plant level have been conducted examining the relationship between HR practices and firm performance.

MacDuffie\textsuperscript{99} found that the HR practice ‘bundles’ he measured were related to quality and productivity on auto assembly lines. Meanwhile, Snell and others\textsuperscript{100} discovered that human capital enhancing HR practices were related to operational performance among a sample of manufacturing plants. While much of the research on the relationship between HR practices and performance has somewhat consistently revealed a significant relationship, some recent debates have emerged regarding the value of different approaches to study this phenomenon. Debates have arisen regarding the proper sources for gaining the most valid reports of HR practice measures, the proper level of analysis and proximity of performance measures, and the timing of measurement.

### 2.6 Factors Affecting HRM Practices

HRM practices differ from one country to another and the factors, which affect the HRM practices, include external and internal factors. As quoted by Ozutku and Ozturkler\textsuperscript{101}, external and internal factors affecting HR practices differ significantly across countries. Some of the major potential influences are as follows:

2.6.1 External Factors

Kane and Palmer\textsuperscript{102} state that external factors affecting HR practices are those pressures on firms that cannot be controlled and changed in a favorable way in the short run.

These factors include the following:

1. Economic Changes: Satow & Wang\textsuperscript{103} found that the result of development of the global economy, the international dimension of HR practices has become more and more significant. The focus of HR practices has shifted from traditional topics such as internal selection and rewards to concepts such as globalization and international competition.

2. Technological Changes: DeFillippi\textsuperscript{104} says that Technology affects HRM to a great extent. Technology changes the way we work, the roles we undertake and the interactions through which work gets done. Verkinderen and Altman\textsuperscript{105} argued that technology facilitates the growth of a multinational enterprise but generates simultaneous problem of “unpluggedness” among a geographically dispersed workforce.

3. National Culture: Chandrakumara and Sparrow\textsuperscript{106} found that culture has crucial importance in organizations preferences in developing appropriate structure and methods for HR practices effectively.

4. Legislations /Regulations: Kane and Palmer\textsuperscript{107} mentioned that Legislations and regulations are frequently cited as having a direct impact on HR practices. Every country has developed a set of regulations for the management of human resources, so, the HRM practices have to be designed or modified according to these regulations.

5. Actions of Competitors: Narsimha\textsuperscript{108} says that there are many ways in which companies can gain a competitive edge or a lasting and sustained advantage over their competitors, among them being the development of comprehensive human resource practices.

6. Action of Unions: Kochan and others\textsuperscript{109} state that the presence or absence of unions in organizations is a salient variable known to be associated with some HR.

7. Globalization: As a result of globalization, the whole world has become a single market, the companies have crossed the boundaries of their country of origin and opened their operations in other countries. This has created a challenge for the organization in terms of management of human resources and some companies have tried to transfer the HRM practices from one country to another. It has been found that some practices can be transferred across nations almost without any change but some must be modified to become workable in another setting and some are more deeply culture-specific and may not always be transferable. The findings of the study conducted by Tayeb\textsuperscript{110} support the argument that multinational companies’ HRM practices are more prone to local cultural influences than are their overall policies and strategies. Moreover, some of the practices, which the company had imported from abroad, had to be modified to make them workable, given its local cultural and non-cultural contexts.

2.6.2 Internal Factors

The Internal environment of organizations strongly affects their HR practices.

The important internal factors are as follows:

1. Organizations Size: McPherson\textsuperscript{111} suggests that there are a large number of small firms that do not institute formal HR practices used in large organizations and

Jackson\textsuperscript{112} says that for each functional level there may a need for a different HR department.

2. Organizational Structure: Garvin\textsuperscript{113} views that a firm’s strategy and structure are important in determining HR practices, their flexibility and integration. There are important structural differences among firms that affect the way in which HR practices are designed and implemented.

3. Business Strategy: Schuler\textsuperscript{114} says that to gain competitive advantage, firms use different competitive strategies. These strategies are more productive when they are systematically linked with human resource management practices. Companies can improve their environment by making efficient choices about human resource practices that consistently support their chosen strategy.

4. Human Resource Strategy: Garavan and others\textsuperscript{115} say that HR strategy is an important determinant of both intensity and diversity of HR practices. As a rule, HR practices are shaped in accordance with HR strategy.

5. History, Tradition and Past Practices: Kane and Palmer\textsuperscript{116} mention that a number of closely related factors, such as history, traditions and past practices tend to generate resistance to change in most organizations.

6. Top Management: Ondrack and Nininger\textsuperscript{117} argue that the influence of top management on HR practices is acknowledged by most writers, even if only to the extent of advising that top management support should be present in designing and implementing HR policies.

7. Line Management: Okpara and Wynn\textsuperscript{118} consider that Line Management participation in designing and implementing HR activities is the key to organizational
success. Since line managers are responsible for creating value, they should integrate HR practices in their work.

8. Power and Politics: Tsui and Milkovich\textsuperscript{119} found that organizational power and politics as exercised by various constituencies are crucial determinants of HR practices.

9. Academic and Professional Influence on HR Practices: Kane and Palmer\textsuperscript{120} speak that HR staff are often involved in the decision making process about HR policies and practices. Their knowledge about alternative HR practices may represent important variables in their own right.

2.7 HRM Practices and other Variables

HRM practice directly or indirectly affects several other variables in the organization. The following relationships have been identified in the literature.

2.7.1 HRM Practices & Competitive Advantage

HRM practices help the organizations to achieve competitive advantage. According to the resource-based view of the firm, Barney\textsuperscript{121} says that the competitive advantage can be developed and sustained by creating value in a way that is rare and difficult for competitors to imitate and the quality of the human resource within is difficult to imitate.

2.7.2 HRM Practices & Employee-Employer Relationship

Employee-employer relations can be improved if the organization implements effective HRM practices. Tzafrir and others\textsuperscript{122} conducted a survey to find out the consequences of effective human resource management practices on employees trust. The result indicated a positive and significant influence of empowerment, organizational communication and procedural justice as determinants of employees trust in their managers. The result also indicated that procedural justice mediates the


\textsuperscript{120} B. Kane and I. Palmer, “Strategic HRM or Managing Employment Relationship?”, pp. 6-21.


impact of employee development of their trust in their managers. The HRM practices help the organization to increase mutual understanding between the employees and the employer. Guzzo and Noonan\textsuperscript{123} considered HRM practices as a communication channel between employer and employees. Rousseau and Greller\textsuperscript{124} proposed HRM practices as contract-shaping events.

2.7.3 HRM Practices and Trust

Vanhala and Ahteela\textsuperscript{125} in their study found that employee’s trust in the whole organization is connected to perceptions of the fairness and functioning of HRM practices. Such practices can therefore be used in order to build the impersonal dimension of Organizational trust.

2.7.4 HRM Practices & Effective Utilization of Employees

Bailey\textsuperscript{126} presented an argument for the application of promoting HRM practices because human resources are frequently underutilized. Employees often perform below their potential. Bailey points out that HRM practices may have an influence on employee skills and motivation. HRM practices influence employee skills through the acquisition and development of a firm’s human capital. Recruiting procedures and selection regimes will have an influence over the quality and type of skills new employees possess.

2.7.5 HRM Practices & Service Quality

Researches provide evidence to show that HRM practices help the organization to improve the quality of services. Tsaur and Lin\textsuperscript{127} empirically explored the relationship among human resource management practices, service behavior and service quality in the tourist hotels. The results indicated that HRM practices had partially a direct effect on customer perceptions of service quality and

an indirect effect through employees’ service behavior. This means that service behavior only partially mediates the relationship between human resource management practices and service quality.

2.7.6 HRM Practices and Employee Commitment

The implementation of HRM practices in the organization leads to enhanced employee commitment. Maheshwari and others\textsuperscript{128} conducted a study to find out the commitment of health officials and its implications for HR practices in Maharashtra. The study suggests that the district health officials do not share a strong emotional bond with their department. The state needs to reform its Human Resource Management practices effectively strengthen the functioning of the health system. The study also suggests that investing in development of multiple strategies for the growth and career development of health professionals is required. Similarly, Smeenk and others\textsuperscript{129} examined the factors, which affect organizational commitment among Dutch university employees in two faculties with different academic identities. The analysis of data reveals that in the separate faculties decentralization, compensation, training/development, positional tenure and career mobility have significant effects. Age, organizational tenure, level of autonomy, working hours, social involvement and personal importance significantly affects the employees’ organizational commitment in the hegemonies faculties. Participation, social interactions and job level are factors that are important in both faculties.

Shahnawaz and Juyal\textsuperscript{130} compared various HRM practices in two different organizations—a consultancy/research based organization and a fashion firm. The study also aimed at assessing how much of commitment in the two industries can be attributed to HRM practices. HRM practices were found significantly different in the two organizations and mean scores on various HRM practices were found more in the


fashion organization. Regression results showed that various HRM practices were significantly predicting organizational commitment in both organizations and when they were combined. Performance appraisal and ‘attitudes towards HRM department’ were the significant predictors of organizational commitment in both the organizations. In another study, Chew and Chan\textsuperscript{131} examined the impact of HR practices on permanent employee’s organizational commitment and their intention to stay and found that organizational commitment was positively affected by person-organization fit, remuneration, recognition, and an opportunity to undertake challenging employment assignments. Intention to stay was significantly related to person-organization fit, remuneration, recognition, training and career development. Further, he found that training and career development were not significantly related to organizational commitment and challenging assignments were not significantly related to intention to stay.

2.7.7 HRM Practices and Organizational Performance

HRM practices enhance organizational performance. Rondeau and Wager\textsuperscript{132} examined the relationship between HRM practices, workplace climate and perceptions of organizational performance, in a large sample of Canadian nursing homes and found that nursing homes, which had implemented more ‘progressive’ HRM practices and which reported a workplace climate that strongly valued employee participation, empowerment and accountability tended to be perceived to generally perform better on a number of valued organizational outcomes.

Chand and Katou\textsuperscript{133} conducted a study to investigate whether some specific characteristics of hotels affect organizational performance in the hotel industry in India; and whether some HRM systems affect organizational performance . They found that hotel performance is positively associated with hotel category and type of hotel and hotel performance is positively related to the HRM systems of recruitment and selection, manpower planning, job design, training and development, quality circle, and pay system.

Joseph & Dai\textsuperscript{134} found that there are significant connections between HRM practices and firm performance; that the strategic alignment of HRM is also a driver for firm performance.

Nayaab and others\textsuperscript{135} found that HRM practices contributes to the enhanced banks’ performance. Further, the result indicated that HRM practices like training, employee participation in decision-making was found significantly related with banks performance. Further, Osman and others \textsuperscript{136} found that the effectiveness of implementing HR practices in a company does indeed have a major impact towards a firm’s performance. The findings also show that HR practices have an impact of nearly 50 percent on firm performance.

2.7.8 HRM Practices & Financial Performance

Huselid\textsuperscript{137} conducted a study to evaluate the link between systems of High Performance work practices and firm performance and found that these practices have a statistically significant impact on intermediate employee outcomes (turnover and productivity) and short and long term measures of corporate financial performance. Hyde and others\textsuperscript{138} examined the impact of HRM practices on firm profitability. They found little support for a positive relationship between HRM practices and firm profitability. Fey Carl\textsuperscript{139} investigated the relationship between human resource management (HRM) practices and the performance of 101 foreign-owned subsidiaries in Russia. The study’s results provide support for the assertion that investments in HRM practices can substantially help a firm perform better.

Further, different HRM practices for managerial and non-managerial employees are found to be significantly related with firm performance. Ngo and


others examined SHRM (Strategic Human Resource Management) practices in China to assess the impact of these practices on firm performance and employee relation climate and found that SHRM practices have direct and positive effects on financial performance, operational performance, and the employee relations climate.

2.7. 9 HRM Practices and Employees Productivity

Boselie and Wiele show that certain HRM practices, such as working in teams, greater discretion and autonomy in the workplace and various employee involvement and pay schemes, do motivate workers and generate higher labor productivity. Wallace says that employees’ involvement in terms of delegation of responsibility and systems of collecting proposals from employees may have a positive impact on productivity. Banker and others mention that cross-functional teams, job rotation, quality circles and integration of functions may all contribute positively to labor productivity. Recently in the study conducted by Soomro and others it has been found that HRM practices (training, selection, career planning, employee participation, job definition, compensation, performance appraisal) were correlated positively with the employee’s performance. Further respondents gave highest importance to performance appraisal and then to compensation among individual HRM practices.

2.7.10 HRM Practices and Effective Management of Employees

Tripathy Laxman and Tripathy Kumuda found that the majority of the IT companies sampled, institute such HRM practices that are complex in nature and a majority of the IT companies do follow such HRM practices which can be termed as

adaptive in nature. They suggested that offering job plus education referral recruitment, online and open house tests (in case of recruitment & selection), flexible training choice, skills & project centric training (in case of training & development) and lastly, transparent appraisal systems, above average salary, more non-salary benefits, flexi timing and opportunity for growth are some of the selective practices which, if followed with rigor, would help managing enhance human resources of an IT company.

2.7.11 HRM Practices and Growth and Innovations

Panayotopoulou and Papalexandris\textsuperscript{146} found that HRM has a more significant influence on growth / innovation indices as opposed to financial performance. Li and others\textsuperscript{147} examined the relationship between HRM, technology innovation and performance in China and found that employee training, immaterial motivation and process control have positive effects on technological innovation, while material motivation and outcome control have a negative influence on technological innovation. It is also found that technological innovation is positively related with performance.

2.7.12 HRM Practices & HRD Climate

It has been found that the HRM practices help the organization to develop better HRD climate in the organization. Hassan and others\textsuperscript{148} measured employee’s perception of HRD practices, to explore whether ISO certification leads to any improvement in HRD climate and examined the role of HRD practices on employee’s developmental climate and quality orientation in the organization. They found that ISO certified companies obtained higher means on some HRD variables as compared to others. Organizations with better learning, training and development systems, reward and recognition, and information systems promoted a favorable HRD climate. Quality orientation was predicted by career planning, performance guidance and development, role efficacy and reward and recognition system.


2.7.13 HRM Practices and Technology

HRM practices and Technology affect each other. According to Bondarouk and Rue\textsuperscript{149} HRM practices affect implementation of the technology because the success of information technology (IT) projects is highly dependent upon the end-users’ behaviour. Whether end-users are able and willing to work with newly introduced software applications is fundamental. Hence, a key issue is supporting targeted employees of newly introduced software applications in their proper utilization. HRM practices have the potential to provide such support.

Lawler & Mohrman \textsuperscript{150}, argued that with the growth of information technology, much of the administrative aspects of human resource management can be accomplished through technology solutions hosted by the company or outsourced. As technology frees up HR from some of its routine tasks, there is a greater opportunity for HR professionals to become a strategic partner.

2.7.14 HRM Practices and Job Satisfaction

HRM practices also affect the level of job satisfaction of the employees. Petrescu and Simmons\textsuperscript{151} studied the relationship between HRM practices and workers’ overall job satisfaction and their satisfaction with pay. The result indicated that several HRM practices raise workers overall job satisfaction and their satisfaction with pay.

2.7.15 HRM Practices and Employees Intention to Leave

Employee turnover is a major challenge for the organization but the companies implementing effective HRM practices can reduce the rate of the employee turnover. Abeysekera\textsuperscript{152} empirically evaluated six HR practices (realistic job information, job analysis, work family balance, career development, compensation and supervisor support) and their likely impact on marketing executives intention to


leave (MEIL) in the Sri Lankan leasing companies. The result indicated Job Analysis, Compensation, Career Development, Realistic Job Information variables were negatively and significantly correlated with MEIL. The work family balance was not negatively correlated with MEIL. Results of the HR practices on MEIL showed that compensation and job analysis are strong predictors of MEIL.

2.7.16 Organizational Effectiveness

Extending the concept of Sense of Efficacy to the role Udai Pareek formulated a term called “Role, Efficacy”. According to these formulation individuals with high degree of role efficacy, carry with them different perceptions and feeling of their role.

Role efficacy is defined as the potential effectiveness of an individual occupying a particular role in an organization. It consists of making your role the way you like (role making), feeling important and central in the organization through your role (role centering) and linking various aspects of the role to make it stronger (role linking).

The various dimension of role efficacy include:

1. Increase in the individual efficiency
2. Conducive inter personal relationship
3. Increase in the monetary and non monetary benefits
4. Considerable increase in the productivity
5. Significant quality of work life
6. Job security is ensured
7. Carrier growth and opportunities are more
8. Decreased job related problems
9. Perfection in the ethical behavior and organizational culture
10. Increase in the personality development
11. There is a significant decision making abilities
12. Able to realize the profitability of the organization

2.8 HR Audit

The general meaning of an audit according to Arens and others \(^{154}\) is ‘Auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria. Auditing should be performed by a competent, independent person.’ Like any other audit of the accounts of firm or organization, there was also a distinct audit called Human Resource Audit.

Cantera\(^{155}\) says that HR auditing is a basic tool for the management of a company. Its objective is not only the control and quantifying of results, but also the adoption of a wider perspective that will aid in deepening future lines of action in the HRM field. According to Nevado\(^{156}\) the basic functions of the audit of conformity or of performance as an element of HR auditing are threefold. The first function is examining to see if the firm is fulfilling all its administrative social obligations, as well as those relative to the collective rights of its personnel. The second is to study the relationship between the employees and the firm based on the legal statutes. The final function is verifying if the firm fulfills its financial obligations (for example, social security payments), as well as its informative ones.

According to Adler \(^{157}\) the HR auditing process is an independent, objective, and systematic evaluation that provides assurance that: 1) compliance and governance requirements are being met; 2) business and talent management objectives are being achieved; 3) human resource management risks are fully identified, assessed, and managed; and 4) the organization’s human capital adds value. Under this definition, HR audits are more than an audit activity that solely collects and presents evidence of compliance. HR audits are increasingly expected to look behind and beyond the organization’s assertions of sound and proper HR management practices and to assess the assumptions being made, to benchmark the organization’s processes and practices,


\(^{157}\) [http://www.linkedin.com/groups/HR-Audit-is-now-open-2254479.S.38640305.](http://www.linkedin.com/groups/HR-Audit-is-now-open-2254479.S.38640305.)
and to provide the necessary consultative services that help the organization achieve its business goals and objectives.

Lengnick & Lengnick\textsuperscript{158} mention that today’s role of Human Resource department is more pro-active and it has responsibility to find out the causes of employee dissatisfaction and mismanagement. If there is need to scan the environment for identifying the changing trends of the business practices, there is also a need of using a research based approach to evaluating Human Resource activities and Florkowski & Schuler\textsuperscript{159} says that it can be achieved by widening the scope of the Human Resource audit so that it covers the corporate strategy, the Human Resource function, managerial conformity and employee satisfaction.

Wright & Snell\textsuperscript{160} rightly pointed out that Human Resources have an ultimate and significant role in meeting the organization’s corporate strategy. Organizations consist of people and the main responsibility of Human Resource department is to find the right people for the right jobs so that the organization can gain a competitive edge in the marketplace. Understanding the organization’s corporate strategy is very much important for planning, staffing, compensation, employee relations and retention, training and other Human Resource activities. Human Resources are effective for the organization only when they contribute to the firm’s strategic goals. It is necessary for Human Resource department to learn about the firm’s overall strategy through interviews with key executives, review of long-range business plans, and logical scanning of the environment to reveal changing trend for its effective and efficient role in the organization.

Lengnick & Lengnick\textsuperscript{161} suggest that the next step of audit team is to identify who is responsible for each activity of the department and determines the objectives of each activity. The team appraises the policies and procedures used in the organization regarding the Human Resource Management and get the sample of


available records to find if the policies and procedures are being followed or not and prepare an audit report including proper objectives, policies and procedures. A complete action plan is being developed on the basis of analysis of objectives, policies and procedures, the errors in the objectives if any are being corrected and follow up on the action plan at a later stage to see it has worked or not.

Lengnick & Lengnick\textsuperscript{162} further said that the audit team starts the Human Resource audit with the gathering of data from workers to find out how well their needs are being met. Employee feedback and information is gathered on wages, benefits, supervision, career planning, and performance appraisals. The effectiveness of the Human Resource department can be judged by its ability to meet the employee’s needs as well as serving the organization’s interests at the same time. Employee actions including turnover, absenteeism and unionism are more likely to occur when their needs are not being met.

Candace Walters\textsuperscript{163} gives the importance of the HR audit. How can an organization avoid the time, expense and embarrassment of a DOL investigation? The best solution: Conduct an audit of your own HR Department and make sure your pay practices and other policies comply with ever changing state and federal regulations. Further, he says that Progressive organizations will embrace a well-executed HR audit as an important tool for creating, updating and executing HR strategies and best practices that will provide long-term support to the organization's big picture.

Sanjeev and Matsuo\textsuperscript{164} studies that because of rapid evolution in product and process technology, many operations in the manufacturing and service industries in recent years require workers to acquire and maintain more extensive “knowledge stock” than before.

Ishrat and Habib\textsuperscript{165} find that in the changing economic and business environment, proper Human Resource Management has assumed a crucial role in the growth of the organization. It has become imperative to re-look at this most important asset of the organization. The main objective behind this research was to gain in-depth

\textsuperscript{165} Ghazala Ishrat and Javed Habib, \textit{Journal of Business and Management}, 6, no. 2 (2012) pp. 01-08.
knowledge of the Human Resource and the effectiveness of HR functions within an organization. The HR audit in University was planned to get a clear judgment about the overall status of most faculties/Departments and to find out whether existing systems and procedures are yielding desired result. This information will be an invaluable input while making strategic decisions. The human resource audit involved examining current policies, practices and strategies of all the departments/faculties to verify the effectiveness and helping the university to improve its productivity, transparency and efficiency. To conduct Human Resource Audit in the university extensive study on various aspects related to faculties, students and staff were analyzed and studied through interviews of staff at various levels, observation of working of non-teaching staff, taking responses from students and staff by questionnaire method and documents review at various levels.

Therefore, through the Human Resources Audit one can understand a complex of activities of monitoring and collecting information, that ensures the manager that the activities developed in the Human Resources field are running according to the plan, measuring the progress in the direction of the established objectives and detecting this way the deviations from the plan in order to take corrective measures. Derived from the monitoring activity of the results of the Human Resources, the Human Resources Audit evolved in time and became a ground rule of the Human Resources Management. Except the fact that it succeeds in pointing out the real dimensions of the Human Resources activities, the audit helps the manager within all phases of the managing process, the decisions resulted from the information provided by the audit being well fundamental.

2.8.1 Evolution of HR Audit

Adler\textsuperscript{166} speaks about evolution of HR Audit. Evolution is a process of change. Over the last 25 years we have seen significant change in the HR auditing process, the value derived from HR auditing, and the HR audit tools used. HR audits have evolved from a simple checklist of dos and don’ts or periodic affirmative action plans to a comprehensive, sustainable process that: 1) is an integral part of the organization’s internal controls, due diligence, and risk management; 2) is a fundamental activity of
strategic management; and 3) uses sophisticated auditing products and consulting services. Increasingly HR audits are conducted of HR rather than by HR.

2.8.2 Definitions

According to Jack J. Phillips167 “HR audit as an investigative, analytical and comparative process that attempts to reflect the effectiveness of the human resource functions”.

Eric168 defines HR audit as a systematic assessment of the strengths, limitations and developmental needs of its existing human resources in the context of organizational performance.

David Campbell169 says that “The human resource audit is an investigation into size, skill, structure, and all other issues surrounding those currently employed by the organization and its future human resource needs.”170

Rosemary Harrison171 defines HR audit as “a way of assessing the nature and impact of human resource department activity at particular points in time.”

The American specialist in this field, Bill Coy172 says, “The human resources audit represents a process of politics, procedures, documentations, and system and research practices regarding the functions of the human resources within an organization.”

2.8.3 Objectives of HR Audit

Jack J. Phillips173 says that the Basic objective of an HR audit is to evaluate the current HR policies, procedure and practices of an organization to determine the extent of their contribution to the accomplishment of corporate objectives. The

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evaluation is usually done in terms of completeness, accuracy and effectiveness of the HR policies and practices.

Paul Banfield and Rebecca Kay\(^\text{174}\) suggest that the organization has to provide feedback to the employees about the areas of good performance and areas where improvements are required.

We can summarize the objectives in the following six points

i. To review the performance of the Human Resource Department and its relative activities in order to assess the effectiveness on the implementation of the various policies to realize the Organizational goals.

ii. To identify the gaps, lapses, irregularities, short-comings, in the implementation of the Policies, procedures, practices, directives, of the Human Resource Department and to suggest remedial actions.

iii. To know the factors which are detrimental to the non-implementation or wrong implementation of the planned Programs and activities.

iv. To suggest measures and corrective steps to rectify the mistakes, shortcomings if any, for future guidance, and advise for effective performance of the work of the Human Resource Department.

v. To evaluate the Personnel staff and employees with reference to the Performance Appraisal Reports and suggest suitable recommendations for improving the efficiency of the employees.

vi. To evaluate the job chart of the Human Resource Managers, Executives, Administrative Officers, Executive Officers, Recruitment Officers, whether they have implemented the directives and guidelines for effective Management of the Human resources in their respective Departments.

### 2.8.4 Levels of HR Audit

Rosemary Harrison\(^\text{175}\) says that the success of HR activities depends on the involvement and commitment of different levels of management. HR audit needs to be done at various levels of organization. There are three levels of HR audit. A) Corporate level B) Managerial level C) Functional level.


Corporate Level (Board Level): C.J. Fombrun and others\textsuperscript{176} stated that the HR auditor must ascertain the relevance, completeness and accuracy of the corporate strategies, mission, vision and other directives which provide a broad framework and directions for the HR activities of an organization. HR audit at corporate level usually focuses on issues relating to the designing of organizational structure, institution of reporting and accountability structure among the various levels of management.

Managerial Level (Line Managers): Rothwell and Kazanas\textsuperscript{177} mentioned that the line managers play a crucial role in the implementations of HR policies of an organization. The HR auditor should examine and evaluate critically the extent to which line managers apply the HR policies and practices while dealing with employees. As a matter of fact, the rate of labor turnover is affected more by what line managers do in their own department than what anyone at the HR department is doing.

Functional Level (HR Department): Rosemary Harrison\textsuperscript{178} speaks about functional level of HR audit in the following way. An HR audit at this level generally focuses on the design and development of various human resource policies and procedures and proper functioning of the human resource department. The HR audit may specifically focus on the levels of employee commitment, involvement and morale in the HR department. The HR auditor may make use of exhaustive questionnaires to gather information about the employees’ roles, activities, and dissensions in order to assess the internal strengths and weaknesses of the HR department.

2.8.5 Steps in an HR Audit

Rothwell and Kazanas\textsuperscript{179} suggest eight steps in HR audit:

- Determining the objectives of the HR audit
- Developing a rough audit plan and its process
- Gathering background data

\textsuperscript{178} Rosemary Harrison, \textit{Employee Development}, p. 217.
2.8.6 Approaches to HR Auditing

Due to the growth of service sector in the economy, the importance of human resources has increased enormously in the organizations and this has hastened the process of the introduction of HR audit in the organizations. The role of the HR audit in these firms is to streamline the managerial control over HR activities. Based on the role and utility of the HR audit Walker\textsuperscript{180} proposed two approaches that is Internal and External approach.

1. Internal Approach

Olalla and Castillo\textsuperscript{181} discuss the internal approach in the following way. The HR audit focuses on examining the effectiveness of the contribution of the HR department to the internal operations of the organization. From this perspective, the emphasis of the HR audit is on the cost – benefit of the HR activities measured in terms of the organizational productivity and overall cost. Quality, quantity, cost, speed and reliability are some of the criteria used in measuring the performance of the HR department in this method.

2. External Approach

Pravin Durai \textsuperscript{182} says the emphasis of the HR audit is on measuring the contribution of HR activities to the external performance of the organization. For instance, the organization may obtain competitive advantage in the market through efficiency of the HR department. Certainly, the ultimate benefit of efficiency of any operation must come only from outside the organization. In this method, the criteria would include external performance of the organization.

2.8.7 The HR Audit Process

According to Candace Walters 183 auditing a human resource department is a systematic process that involves at least two steps:

1. Gathering information to determine compliance, effectiveness, costs and efficiencies.

2. Evaluating the information and preparing a written report, with an action plan based on exposures, priorities and a timeline for instituting changes. In order to reduce exposure to legal liability, some changes will need to be implemented immediately, while others can be completed in three to six months.

Like a financial audit, an HR audit must be comprehensive in order to be effective. The audit review includes but is not limited to:

- Department infrastructure
- Compliance with state and federal employment laws
- Recruitment and selection processes
- Employment-related tests
- Employee relations
- Performance-evaluation processes
- Documentation, including employee handbooks
- Job descriptions
- Personnel records and files
- Benefits administration practices
- Benefit costs
- Exempt and non-exempt classifications
- Time-keeping and pay practices
- Recordkeeping and posting requirements
- Policies governing independent contractors
- Training and Development
- Technology
- Safety and security
- Labour relations

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2.8.8 The Five Critical Components of the HR Audit Process

Adler\textsuperscript{184} discussed the five critical components of the HR audit process by designing HR audit Model, are shown and discussed below in the HR Audit Model™.

\textbf{Figure 2.1: HR Audit Model}

1) \textbf{Activities:} The starting point of the HR auditing process is a review of the organization’s activities, that is, the tasks and actions that create or implement employment policies, practices, procedures, and programs. The Activities component of HR audits is typically evaluated by using a “checklist approach,” that is, the item is checked off when it is completed.

2) \textbf{Behaviors:} Behaviors in this context are actions and conduct that affect — either positively or negatively — the implementation or effectiveness of the organization’s policies, practices, procedures, and programs, and demonstrate the organization’s commitment to stated goals and objectives.

3) \textbf{Risk Assessment:} Risk assessment is the identification of current and/or future events that have the potential to cause loss, peril, or vulnerabilities, and

\textsuperscript{184} http://www.theiia.org/chapters/pubdocs/27/HR_Audit_White_Paper.pdf
management’s willingness to accept those risks. Risk assessment is also the identification of events or conditions that create new opportunities for the organization to achieve its business objectives.

4) Internal Controls: Internal controls are processes, tests, and assessments that help ensure compliance, manage risks, identify fraud, and help ensure the achievement of organizational goals. HR auditing activities include: 1) assessments of the effectiveness and efficiency of HR management processes, policies, practices, and procedures; 2) the reliability and accuracy of HR management reporting; and 3) the level of compliance with: laws and regulations; industry and professional standards; codes of conduct and ethics; organizational policies; and budgets.

5) Outcomes: Outcomes are quantitative and qualitative measurements and metrics that measure and help assess the achievement of organizational goals and objectives. HR auditing activity includes the identification of metrics used by the organization to measure organizational and individual performance; the assessment of results by comparing actual results against projected results, budgets, and internal and external standards; and a description of the activities, behaviors, and internal controls that are needed to maintain or improve future results.

2.8.9 Determining the Scope of the Audit

Human Resources Industry Whitepaper – June 2011\(^{185}\) deals with the scope of Audit. Once you have committed to undertaking an audit, you will need to decide what areas the audit will cover. An all-encompassing audit would look at policies, forms and tools, employment records, the employment process (from recruiting to on boarding), job descriptions, compensation, training and development, retention and succession plans, benefits, the performance management process, discipline and termination, posting requirements, immigration, and human resource staffing. The audit can also look at key metrics, such as turnover, cost per hire, spans of control, salary compact-ratios, and more. If this list seems overwhelming, you may want to consider limiting the scope of the audit, or breaking it into manageable segments. The deciding factors regarding the scope of the audit should be centered on the status of the business and the strategic plan. You may want to focus the audit on a key segment

\(^{185}\) Human Resources Industry Whitepaper – June 2011
of the function that is struggling, such as recruiting and selection, or performance management and discipline.

2.8.10 Immediate Benefits of an HR Audit

Candace Walters gives two important benefits of HR audit. As with accounting audits, the findings and recommendations from HR audits are only as good as the information provided. If you are not entirely honest and objective, no purpose is served. However, if staying on the right side of the law and reducing legal exposure are not enough incentive to launch your organization on the audit path today, consider the other benefits. Very typically, small to medium-size companies realize almost instant cost savings once an audit is complete and changes are implemented. For example:

- Correcting benefit premium errors and overpayments can generate many thousands of dollars in savings.
- Initiating a safety program can reduce workers compensation, experience modification numbers, reducing annual premium costs by tens of thousands of dollars.
- Shopping benefit costs among alternative carriers and modifying employer/employee co-pay ratios can recoup dramatic savings.
- Examining the effectiveness of recruiting tools can pare the expense of filling positions.

A small or medium-size firm also may benefit from using an HR audit to:

- Study retention and turnover, employing a neutral party to solicit honest feedback from employees, and allowing the company to develop an action plan.
- Examine the company's foundation for its compensation philosophies and develop an objective method of grading jobs, with new ranges that are market-competitive and internally equitable.
- Create or enhance an employee-referral program or internal jobs board.

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➢ Improve employee communication and ensure that the HR department is accessible.

➢ Identify opportunities to outsource areas within human resources that offer more value to the company

**2.8.11 Tools of HR Audit**

Blaird and Meshoulam\(^{187}\) argue that in a Comparative Approach, another company or unit that has more developed practices or results is chosen as the model. The audit team audits and weighs the audited firm’s results with the best practices of the model organization. This approach is normally used to match the results of certain activities or programs. This approach is usually used for comparing the results of turnover, absenteeism, salary data and staffing levels. It helps to identify areas for improvement. It also makes sense to compare where a procedure is being used for the first time.

Martocchio\(^{188}\) says that the Statistical Approach depends on performance measures drawn from the company’s existing information system. From existing records, the audit team creates statistical standards against which activities and programs are appraised. With the mathematical standards as a base, the team may discover errors while they are still minor. For example, by tracking and managing turnover and absenteeism rates from one period to another, the team can compare and analyze the data to see how well Human Resource and operating managers control these problem areas. Often this approach is supplemented with comparative data from external sources such as other firms, or industry association surveys. The information is usually expressed in ratios or formulas that are easy to compute and use.

Wright and others\(^{189}\) deal with the Compliance Approach; the auditor reviews past practices, to determine if actions taken followed legal requirements and company policies and procedures. The audit team here often examines a sample of employment, compensation, discipline and employee appraisal forms. The purpose of the review is

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to ensure that the field offices and the operating managers have complied with internal rules and legal regulations, such as minimum wages and equal employment opportunity laws. By sampling elements of the Human Resources information system, the audit team looks for deviations from laws and company policies and procedures. The team can then determine the degree of compliance achieved.

Werther & Davis consider the MBO (Management by Objectives) Approach where managers and specialists set objectives in their area of responsibility. Then they create specific goals against which this performance can be measured. The audit team investigates actual performance and compares it with the previously set objectives. They can then evaluate the trends in this area. According to Wright and others audit teams normally use several of the above strategies, depending on the specific activities under consideration. Feedback is then given to senior management, the operating managers and the employees. Unfavourable feedback leads to remedial action and development in the contribution of the Human Resource department.

Noe and Raymond state that the audit team uses a combination of several information-gathering tools to collect data about the firm’s Human Resource activities. These tools include interviews, surveys, historical analysis, external information, Human Resource experiments and international audits. Each tool provides partial insights into the firm’s activities. By using these tools skillfully, the audit team can get an insight into the effectiveness of the organization’s Human Resource activities.

Grip and Sieben say that an analysis of historical records can also reveal important trends. Compliance with laws and company policies and procedures can also be determined, as well as the success of action plans to remove points of concern. Specific areas that may be covered include employee safety and health, grievances,

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compensation, affirmative action, programs and policies. There may be a conflict between these laws and the organization’s practices, however a proper study and analysis is helpful to level out these discrepancies and meet the organizational goals.

Florkowski and Schuler\textsuperscript{194} state that external information can also be helpful in giving the audit team a perspective against which the firm’s activities can be judged. Such information can be available from various public and private agencies and government departments. Examples include wages and salary surveys, employee turnover rates, workforce projections, future employment opportunities, and accident rates by professions that can serve as benchmarks for comparison purposes. Workforce demographics such as age, sex, education and racial composition are useful in evaluation of affirmative action programs. Some information may also be provided from consultant studies and research bureaus.

\textbf{2.8.12 HR Auditing Techniques}

Like a financial audit, an HR audit must be comprehensive in order to be effective. The audit review includes but is not limited to

- Department infrastructure
- Compliance with state and federal employment laws
- Recruitment and selection processes
- Employment-related tests
- Employee relations
- Performance-evaluation processes
- Documentation, including employee handbooks
- Job descriptions
- Personnel records and files
- Benefits administration practices
- Benefit costs
- Exempt and non-exempt classifications
- Time-keeping and pay practices
- Recordkeeping and posting requirements
- Policies governing independent contractors

- Training and Development
- Technology
- Safety and security
- Labor relations

A small or medium-size firm also may benefit from using an HR audit to:

- Study retention and turnover, employing a neutral party to solicit honest feedback from employees, and allowing the company to develop an action plan.

- Examine the company's foundation for its compensation philosophies and develop an objective method of grading jobs, with new ranges that are market-competitive and internally equitable.

- Create or enhance an employee-referral program or internal jobs board.

- Improve employee communication and ensure that the HR department is accessible.

- Identify opportunities to outsource areas within human resources that offer more value to the company

2.8.13 The Optimal Outcome: Taking HR to the Next Level

Candace Walters\(^\text{195}\) assures to those companies that complete an HR audit for compliance and cost reasons that they will enjoy an improved employment climate and a healthier bottom line. Organizations that opt to gain maximum benefit, however, also will use the HR audit to ensure that HR practices are linked to and play a vital role in the company's strategic planning and execution.

Conclusion

The review of literature on HRM practices and HR audit have shown how effectively human resources can be managed. For effective management the organization have to implement innovative HR audit practices. The organization which implements HR audit practice with dedication remains ahead of their competitors because HR audit affects other variables such as competitive advantage,

job satisfaction, financial performance, employee turnover, service Quality, employee commitment etc. in a positive manner and leads to overall performance. While designing and implementing HR audit practices, one important thing is to be kept in mind that the HR practices should be analyzed from time to time and it should be updated accordingly.

Managers should be involved in designing HR practices and HR audit should be conducted among employees to know their opinion about HR practices by external HR auditors. This will help the organization to take corrective steps at the right time. One of the primary benefits of a do-it-yourself audit is that you know your organization better than any outsider (you know where the skeletons are hidden). Outsourcing your audit provides several benefits. Most importantly, you get the credibility and validity of a third party, expert opinion of your HR practices. They can give you a fresh perspective on your processes and policies. Since a good audit includes gathering feedback from stakeholders, allowing a third party to conduct interviews with employees and management will allow for a level of confidentiality. Stakeholders may tend to be less candid if you ask them directly whether your HR department is meeting their expectations.

In addition, outsourcing the audit will consume less of your time. Finally, a third party auditor could continue to be an ongoing resource to you for questions and issues you have going forward. Whether conducted in-house or by an outside party, an HR audit can provide an opportunity to examine the HR function in your organization and offer useful feedback to improve the department’s contribution to the success of the organization.