

# **CHAPTER – 1**

## **INTRODUCTION**

### **1.0 Introduction**

Human Resources are vital for any organization. People working in the organization constitute human resources. Productivity, quality of the product, relationship with suppliers, customers, branding – everything depends upon the people working in the organization. People can be said to be the life-line of any organization. The concept of human resources has undergone many transformations since the importance of people in organization was realized. Realizing the importance of human resources in an organization, keeping information about the human resources working in the organization is very vital. The term human resources systems has evolved over a period of time to systematically recruit, train and retain the employee in the organization. The Human Resources (HR) department of any organization administers human resources through the Human Resources System. A human resources system includes processes such as the selection of employees through raising vacancy adverts, calling for resumes, and facilitating interviews to finalize the hiring of employees with good skill sets. It also includes identifying training needs and scheduling of optimum training of employees through participation in conferences and seminars. Remuneration to employees is another important aspect that HR administers through the HR system. At this juncture, it would be insightful to have an overview of the Human Resource Systems.

## **1.1 Components of Human Resource System**

Human resources systems in the organizational context are a process by which the employees or an organization are helped in a continuous planned way to acquire or sharpen capabilities required to perform various functions associated with their present or expected roles. A typical Human Resources System comprises of the following components:

1. Securing Human Resources
  - i. Human Resources Planning
  - ii. Job Analysis and Design
  - iii. Recruitment
  - iv. Selection
2. Rewarding Human Resources
  - i. Performance Evaluation system
  - ii. Compensation and Rewards
  - iii. Employee Benefits
3. Developing Human Resources
  - i. Orientation and training
  - ii. Management and organizational Development
  - iii. Career planning, succession planning and development

Therefore, the study tries to include major components to examine whether the organization has implemented the HR systems or not and what is the impact of these systems on the performance of the organization.

The human resources system in any organization assumes a vital role in providing competitive and strategic edge. Organizations are complex social systems. These require clarity of purpose, guidance and direction in order to perform better

than its competitors. The changes in the present industrial scenario have necessitated changes in the structure and functioning of the organizations. Organizations have been giving lot of emphasis on development and nurturing of human resources, however the radical changes have forced them to restructure the organizations to make them flatter and leaner. The organizations which are able to leverage their people strategies and create strategic advantage will only be able to survive in the long run.

## **1.2 Human Resource Systems: A Historical Perspective**

The role of human resources has undergone change from being reflective to proactive. The organizations have realized that human resources are the most important assets in the organization. Organizations are giving more and more importance to the people. This emphasis is also due to the new emerging values of humanism and humanization. There is an increased focus on creativity and autonomy. This is due to people realizing that it is important to have freedom and creativity. The expectation of people are fast changing, people cannot be taken for granted anymore. There are lot of changes which are happening at a very fast pace. Organizations are now working in a global environment. The evolution of the concept of HR systems is presented chronologically as follows:

Though, the concept of Human resources can be traced back to 3000 BC, the time of Sumerian civilization, however the concept of Human resources or human resource management is said to have started in England in the early 1800s, when training was started for craftsmen and apprenticeship which was further advanced and developed when industrial revolution began in the late 1800s. Various scholars have studied this subject and tried to trace the origin of concepts of human resources/

human resources management, human resources development and human resources system.

Some scholars argue that Human resources management has its origin from the term Personnel Management. The term personnel management was coined after the World war in 1945. This was result of an effort by personnel management practitioners to distinguish their profession from other managerial functions and making the personnel management function as a separate function with professional body of knowledge and code of ethics as a result personnel management became a full fledged professional managerial function.

The main responsibility of personnel management professionals was to arrange for the required manpower, administration of benefits and training.

Tyson, (1985) stated that there were many criticisms and concerns of uncertainty articulated about the purpose and role of personnel management and human resources management. In management of human resources activities one had to respond to different circumstances and situations. They had to proactively respond to the demands of trade unions.

Beer and Spector, (1985), stated that though there were many similarities in the functions some writers defined the terms human resources management and personnel management differently.

Lloyd and Rawlinson, (1992) stated that the term human resources management slowly replaced the traditional personnel management during 1980s. However it seems there was not much difference in both these human resources management and personnel management functions, as both took care of arranging, organizing, and motivating human resources required by organizations.

Noon, (1992), Armstrong, (2000), observed that the change in the nomenclature from personnel management to human resources management was due to evolvement and changes in the world of management and the new term was introduced so as to take up new ideas, concepts and philosophies of human resources

Marchington and Wilkinson, (2002); Legge, (2005) continued this debate and argued that both human resources management and personnel management are the same concept with different names. They have same meaning and practice as of personnel management, this debate is still continued on the meaning and practice of human resources management. Another concept used in practice of human resources management is human resources development.

Legge, (2005) commented on the work of scholars and stated that most of the scholars feel that there are no much difference between personnel management and human resources management and it is the same thing with a new label.

According to Ivancevich, (2007), in the 19th century, Frederick W. Taylor suggested that a combination of scientific management and industrial psychology of workers should be introduced. The proposal was made to manage the workers from job and efficiencies related with the jobs and psychology and maximum welfare of the workers. Due to radical changes in technology, the growth of organizations, unionism and intervention by the governments the personnel department came in existence in 1920. During these days the personnel administrators were called welfare secretaries and their prime responsibility was to take care of the welfare of the workers in the organization.

One more term which one comes across is human resources development. The current study is examining the human resources system hence it will be instructive to understand the term human resources development and its meaning. This will make

clear our understanding of all the concepts i.e. human resources management, human resources systems and human resources development.

The term human resources development is supposed to have its origin in the USA during the beginning of the Industrial Revolution in 1800s. However according to some scholars the concept of human resources development was introduced in 1913 when Ford Motor started training its workers to introduce mass production in the assembly line.

Garavan, Costine and Heraty (1995) provided the viewpoints of human resources development as a strategy for business success. They stated that with the help of human resources development initiatives organizations can gain competitive advantage.

Blake (1995) argued that Human resources development may have started in the early 1930s and it was originated from the concept of organization development (OD). According to him, Nadler (1970) realized the extended role of personnel management is which went beyond hiring and administration of benefits. Due to this extended role and he introduced the term human resources development in 1970s and placed the same under the big structure of human resources with the function of selection and development of employees under the term human resources development.

On the other hand, Stead and Lee (1996) argued that the historical starting point of human resources development was during the 1950s and 1960s when theories on employees' developmental process was popularized and published by organizational psychologists such as Argyris (1957), McGregor (1960), Likert (1961) and Herzberg (1959).

Stead and Lee (1996) believed that the development of human resources in an organization goes far beyond the training and also takes care of the development and motivation aspects as suggested by organizational psychologists such as Blake,(1995).

Desimone et al, (2000) observed that subsequently in early 1980s, the term human resources development got approval from the American Society for Training and Development (ASTD) because they believed that training and development competencies expanded to include interpersonal skills such as coaching, group process facilitation and problem solving. It was during this time that organizations realised the importance of human resources and placed greater emphasis on investment in training and education for improvement in performance and ultimately increase productivity and business success.

In the UK, Harrison (2000) argued that the historical development of human resources development is more fragmented in UK than in the US. The history of human resources development in UK was suggested to have started during World War Two in which training was a very popular mutually benefiting activity helping the workers and the organizations. In the same manner during this period training gained lot of importance as the workers were trained in the production and manufacturing sector as well as becoming soldiers. The emergence of Human resources development began in early 1980s. This was the period when manufacturing industry was hit by a recession and unique strategies were required to overcome the crisis particularly in multinational companies. Very soon the companies started to realize that human resource are an important assets and started developing their employees with a view to improve their performance. The development activities were also undertaken in order to improve their skills to increase productivity. Since then, human resources

development is considered as an important business strategy and processes (Harrison, 2000).

Desimone et al (2002) agreed with this view and stated that during 1960s and 1970s, professional trainers understood that their role is extending beyond classroom training and they started to coach and counsel the employees at the work place.

Desimone, Werner and Harris, (2002), according to them, many scholars state that after the outbreak of World War Two in the 1940's was the period in which workers were trained to produce warships, machinery, and other military equipments and armaments.

In order to understand all the three concepts i.e. human resources/ human resources management, human resources systems and human resources development it is important to understand the relationship between human resources management and human resources development. Human resources systems are overall all system of human resources management and individual component are the components of human resources or human resources management.

### **1.2.1 Relationship between Human Resources Management and Human Resources Development**

Traditionally, it is suggested that human resources development is a component of human resource management, in which human resources development supports by taking care of training and development activities and it is part of the overall human resources function. The term human resources and human resources management is same and used interchangeably.

Human resources development takes care of mainly training and development, performance management, career progression and change management.

One of the historically significant events in relation to the workers training and skill development is human relations movement. This movement started as welfare movement for the working class.

### **1.2.2 The Human Relations Movement**

During the time of factory system there was prevalence of abuse of, workers, skilled workers including children, they were often subjected to unhealthy working conditions, long hours, and low pay. The appalling conditions spurred a national anti-factory campaign. Led by Mary Parker Follett and Lillian Gilbreth, the campaign gave rise to the "human relations" movement advocating more humane working conditions. Among other things, the human relations movement provided a more complex and realistic understanding of workers as people instead of the factors in production. The human relations movement highlighted the importance of human behavior on the job.

The movement continued into the 1940s, with World War II as a backdrop. Abraham Maslow published his theory on human needs, stating that people can be motivated by noneconomic incentives. He proposed that human needs are arranged in terms of lesser to greater potency (strength), and distinguished between lower order (basic survival) and higher order (psychological) needs. Theories like Maslow's serve to reinforce the notion that the varied needs and desires of workers can become important sources of motivation in the workplace.

The discussion on human relations movement reveals that in early days the concept of human relation was confined to motivation through comforts, salaries and some perks. The present concept encompasses expectations of employees and treating human resources as human beings, not merely as factors of production.

In the present times, the basic concept of human resource system assumes human resources to be the core assets for an organization with immense potential for achievement of organizational goals. It is now considered important to train and develop the human resources of the organization to meet both – the organizational goals as well as individual objectives.

Human resource system concept also emphasizes on creativity and autonomy. It is believed that freedom to work contributes to creativity and productivity. At the same time, the expectations of employees are changing with time. Moreover, organizations are now working in a global environment. Thus, human resource systems are becoming increasingly complex over a period of time. A glance at the characteristics of human resource system will help in understanding its nature and the context in which the study is undertaken:

Human Resources System has following four characteristics:

- (1) It consists of several dimensions or components which are per se unique entities.
- (2) These elements or components are inter-related and form a network, reinforcing each other: there are feedback loops from one sub system to the other. Such a network assumes inter-relationship amongst the various components, contributing to a thrust by the entire system
- (3) The human resources system can be conceived as an open system, i.e it interacts with other systems in the organization such as the information system, the budgetary system, etc. and does not function in isolation.
- (4) It is a unique system, for it has its own dynamics, rules, procedures, and operation, which is distinct from that of other systems. It has

therefore, unique ways of working, and hence requires special consideration. With these assumptions, it can be treated as a system.

The evolution of human resource systems discussed in the earlier sections shows the importance of human resource systems for attaining the organization goals and enhancing the organizational performance. The ensuing section presents reviews of some empirical studies examining the relationship between implementation of human resource systems and the organizational performance.

### **1.3 Review of Literature: Human Resource Systems and Performance of the Organization**

This section presents the review of studies examining the relationship between human resource system and organizational performance. There are various styles of presenting the review of literature. This study broadly categorizes the review of studies undertaken in countries other than India and those undertaken in India. Moreover, in each of these sections, the review is presented chronologically.

#### ***International Studies***

Katzell (1975) tried to identify the relationship between the employee satisfaction (as a result of a specific HR strategy) and the corporate performance and found that “policy-makers must face up to a serious dilemma and find some way to resolve it; the dilemma is this: policy-makers would like to achieve two objectives for work organizations, on the one hand to enhance productivity and performance, and on the other to improve the quality of working life and job satisfaction for employees because under certain conditions, improving productivity will enhance worker satisfaction and improvements in job satisfaction will contribute to productivity; what it does mean is that there is no automatic and invariant relationship between the two”

Under these terms, corporate performance has been found to be related with the employees' performance within a particular organization.

Schneider and Bowen (1985) undertook a study of bank branches. According to them when the branches had sufficient numbers and quality of people to perform its tasks (called the service imperative) customers reported receiving higher level of service, customer perceptions and attitudes were affected by what employees experienced. Organizational practices that are both service related and human resources related seem to provide clues to customer to evaluate bank's service. They observed that while service organizations have been neglected relative to manufacturing firms, it is now recognized that to close this gap it is necessary to attend to both customer and employee constituencies.

Porter (1985) has articulated a broader perspective and suggested that firms should analyze their competitive environment, choose their strategies and then acquire the resources needed to implement their strategies. Firms are assumed to have the same resources to implement these strategies or to have the same access to these resources. He has introduced a language for discussing possible internal organizational attributes that may affect competitive advantage. He argues that human resources management policies can represent a significant source of competitive advantage because they allow a firm to locate and develop employees which are more effective than those of competitors. Superior employees create superiority both in primary value chain activities (such as managing inbound logistics) and in support activities (such as development of a high quality infrastructure). Porter thus posits strong interaction between the quality of a firm's human resources management practices and its sources of advantage in competitive markets.

Macduffie (1989) conducted a study of 70 automobile plants representing 24 companies from 17 different regions; the traditional mass production system with a control oriented approach to managing people was contrasted with a flexible production system that placed emphasis on people and their participation. He found that enormous economic returns can be obtained through the implementation of what are variously called flexible production systems. Even if the high performance bundle does improve employee performance, how does this translate into company performance? The general assumption in the literature is that the causal direction runs from the high performance HR bundle to employee performance and on to company performance.

Peteraf (1993) stated in his study, the cornerstone of competitive advantage: a resource-based view of the firm seeks to explain sustained difference in firm resources. A firm with resources that are valuable and rare may generate a competitive advantage over its rivals, thereby resulting in superior financial performance.

Barney (1991), states that firm resources and sustained competitive advantage have become major areas of research in strategic management. It has been discussed in the earlier sections that the theory of human resource systems has evolved over years. In the primitive years of the development of the concept of human resource system, human resources were considered to be the factors of production. This quoted study considers human resources as strategic resources of the firm. Building on the assumptions that strategic resources are heterogeneously distributed across the firm and that these differences are stable over time, he examined the link between firm resources and sustained competitive advantage. Four empirical indicators of the potential of firm resources to generate competitive advantage were – value, rareness,

limitability and sustainability. He applied the model by analyzing the potential of several firm resources for generating sustained competitive advantage. He examined implications of firm resource model of sustained competitive advantage for other business disciplines.

Arthur (1994) studied the impact of two different management approaches on the productivity of steel mills. The study tested the strategic human resources proposition that specific combination of policies and practices are useful in predicting differences in performance and turnover across steel mini-mills. The mills with commitment systems had higher productivity, lower scrap rates and lower employee turnover than those with control system. The study moderated the relationship between turnover and manufacturing performance. The data used for this study was collected primarily from the questionnaire responses by human resource managers at 30 of the 54 existing U.S. steel mini-mills. Data were gathered between November 1988 and March 1989. In his earlier study (Arthur, 1992) showed that the average age, size, geographic region represented, and union status of the mills surveyed are not statistically different from those of the total mini-mill population. He differentiated the 'control' approach to human resources management (HRM) from that of 'commitment' approach. In the control approach the goal of HRM is to reduce labour costs or improve efficiency by enforcing employee compliance with specified rules and procedures and basing employee rewards on some measurable output criteria. In the commitment approach the HR systems are intended to shape desired employee behaviours by forging psychological links between organizational goals and employee goals. The focus is on developing committed employees. After statistically controlling the age, size, union status and business strategy of the mills, the result showed that using a commitment strategy was significantly related to improved

performance in terms of labour hours and scrap rate. Mini-mills using the commitment approach required 34 percent fewer labour hours to produce a ton of steel and showed 63 percent better scrap rate.

Johnson, Ryan and Schmit (1994) in a study at the Ford Motor Credit revealed that attitudes concerning work load, team work, training and development, satisfaction with the job, and satisfaction with the company were all related with the customer satisfaction. The customers satisfaction in turn lead to growth of the organization.

Ostroff (1995) developed an overall HR quality index based on aggregate ratings of all HR activities of a firm. On the basis of this index, firms were grouped into four categories. The firms that scored higher on the HR Quality Index consistently outperformed than those with a lower index on four financial measures: market/book value ratio, productivity ratio (i.e. sales/employees), market value and sales. Recent researches worldwide have shown that good HR practices and policies do influence business growth and development. The researches indicate that the companies gain competitive advantage through people. Yeung and Berman (1997) point out that HR practices can play three major roles.

- These are building critical organizational capabilities
- Enhancing employee satisfaction
- Improving customer and shareholder satisfaction.

Huselid (1995) undertook a study on 3452 firms representing different industries. He used two scales – one to measure employee skills and organizational structure and second to measure employee motivation. The first scale included a broad range of practices intended to enhance employee knowledge, skills and provide mechanisms to use those for performing the roles. The second scale measured how

well designed the appraisal systems were and how well they were linked to compensation and merit decisions in the corporation. The findings of his study revealed that one standard deviation increase in management practices was associated with increase in sales, market value and profits. He stated that “prior empirical work has consistently found that use of effective human resources management practices enhances firm’s performance”. A subsequent study by Huselid and Becker (1997) found that one standard deviation improvement in HR system index was associated with an increase in shareholder wealth of \$41000 per employee.

Schmit and Allscheid (1995) found that customer satisfaction and the perceptions of service quality were significantly related to measures of employee attitudes about the fairness of pay.

Welbourne and Andrews (1996) studied the survival rate of 136 non-financial companies that initiated public offering in the US stock market in 1988. The firms studied were drawn from various industries ranging from food service retailing to biotechnology and varied size from less than 110 people (about 50 % of them) to 700 or more (about 20 per cent of them). They developed and used a scale to measure the value the firm placed on human resources. This scale used five items:

- Whether the company’s strategy and mission statement cited employees as constituting a competitive advantage?
- Whether the company’s initial publicity material mentioned employee-training programmes?
- Whether a company’s official was charged with the responsibility for human resources management?
- The degree to which the company used full time employees rather than temporary or contract workers?
- The company’s self rating on office – employee relations.

A second scale measured how the organization rewarded its people, i.e. whether through stock option, gain sharing, profit sharing, etc. The study indicated that with the other factors such as size and the rewards scales were significantly related to the probability of survival.

Koch and McGrath (1996), in a study conducted on 319 business units linking improved labour productivity with human resources polices observed that “At the core of strategy lies the managerial question, “what shall we do to improve performance? Our research suggests that the way in which an organization’s human resources are managed has a perceptible and significant relationship to the productivity of its employees. They argued that the set of finding support the resource based view of strategy, in which the competitiveness of firm is believed to be related, at least in part, to investments in firm specific assets. Investments explored here include the planning for, recruitment, selection and development of firm specific human capital assets. The major finding of the study is that the effects of a firms’ human resources strategy may be leveraged in a capital intensive environment. The results of their study show that increasing attention needs to be given to the hiring and developing of employees in comparison with capital formation of the firm.

Delery and Doty (1996) in a study of nearly 200 banks found that difference in HR practices accounted for large differences in financial performance and devised models for theorizing in strategic human resources management. They are of the opinion that the strategic human resource management draws on three dominant modes of theorizing, universalistic, contingency and configurational perspective. They identified seven key strategic human resources practices developed theoretical arguments consistent with each perspective. The result demonstrated that each

perspective can be used to structure theoretical arguments that explain significant level of variation in financial performance and observed, in a study of nearly 200 banks, that differences in HR practices accounted for large differences in financial performances.

Bilmes, *et.al.* (1997) carried out a study of more than 100 companies operating in 10 industrial sectors found a strong link between investing in employees and stock market performance. He observed that companies which place workers at the core of their strategies and invest in their development, produce higher long-term returns to shareholders than other industries in the same trades. Significantly, the research also found that companies that focused on their people not only delivered superior returns to their stockholders but also created significantly more jobs than firms that did not.

Haines (1997) found that there are also companies where human resources are not considered as having particular importance for the firms' growth. They observed that those firms that consider their human resources as an asset rather than an expense; enhance individual value through training and development, which in turn ensures continued contribution towards the achievement of organization goals.

Yeung and Berman (1997) conducted a study to address following questions and find out impact of Human resources on business performance. The questions are:

- Do Human Resources practices make a difference in business results?
- In what ways can Human resources practices add value to business performance?
- What are the most appropriate human resources measures that drive business performance?

They observed that in general human resources practices play three major roles:

- Building critical organizational capabilities;
- Enhancing employee satisfaction; and
- Improving customer and shareholder satisfaction.

They also observed that by ‘reviewing some recent research studies regarding the human resources – business performance relationship and by building upon the use of the balanced scorecard framework in some companies such as Sears and Eastman Kodak, the results were:

- Human resources do make a difference in business results.
- Human resources practices can contribute to business performance through a multidimensional approach-building organizational capabilities, improving employee satisfaction, and increasing customer and shareholder satisfaction and commitment; and
- New cluster of human resources measures, in addition to the traditional human resources measures, should be developed to capture and drive the impact of human resources on business performance.

March and Sutton (1997) conducted a study ‘Organization Performance as a Dependent Variable’ and observed that most of the studies define organizational performance as a dependent variable and seek to identify variables that produce variations in performance. They quoted Adams *et al.* (1985) in their study, which states that performance appears as an independent variable in some cases, but it is more relevant as a dependent variable. The scholars have varying views on the role of performance in organizational development.

Pfeffer (1998) studied some organizations and feels that it is the managers who do not feel the need to change and argue that their HR strategy is optimal. In order to be effective it is those managers who need to change and accept the fact that

it will be better if the strategy is implemented by involving people making them more committed and better skilled. He argued that:

- Performance increases because people work harder.
- People put in effort and show greater commitment if they have greater control over their environment, see their effort as related to compensation, and pressure activated from self managed teams.
- Training, Job rotation and such other practices help people to work smarter also. High commitment to work also saves direct and indirect costs of labour.
- Trained, multi-skilled, self-managed and motivated employees save on a variety of administrative cost including the cost of management, thus reflecting in profits.

He observes that employee security is very fundamental in order to strengthen all the other Human resources management policies, principally because it is regarded as unrealistic to ask employees to offer their ideas, hard work, and commitment without some expectation of security on their part. He has identified the following seven practices of successful organizations on the basis of his review of various research studies, related literature, and his own personal observations and experience. These seven dimensions seem to characterize most if not all of the system producing profits through people. These dimensions are:

- Employment security.
- Selective hiring of new personnel.
- Self management teams and decentralization of decision making as the basic principles of organizational design.

- Comparatively high compensation contingent on organizational performance.
- Extensive training.
- Reduced status distinctions and barriers including dress, language, office arrangement and wage differences across levels.
- Extensive sharing of financial and performance information throughout the organization.

Mathews (1998) noticed that in order to implement strategies related to human resources diversity, the organization's cultural environment, management and evaluation systems should be examined to ascertain if existing personnel/human resources processes will support or hinder diversity in the organization; then, appropriate strategies can be designed to develop and manage diversity based on these findings. Diversity provides a broader range of knowledge, skills and abilities; better decisions based on different perspectives; better services to diverse populations; and the ability to recruit excellent talents from the entire labor pool.” Organizations that practice diversity initiative effectively value each person as an individual. These companies appreciate, respect and enjoy each person’s uniqueness.

Donahue, *et.al.* (1999) studied the human resources management in government setting; they developed a set of criteria that serves as indicator of effectiveness of human resources management system. They observed ‘Human resources management is a vital issue to city government. In a sense, the historical struggles about the structure of government initiated by Progressive-era reforms and about the power and role of unions are fundamentally about who controls the public workforce and how. The current emphasis on performance in public organizations may be changing the ways in which top elected officials view the potential of the

public workforce and the systems by which it is managed. For a local government to be most effective in this environment, the critical point may be not to remove the human resource capability from political officials, but to ensure that key capacities and flexibilities are available to their managers.

Marchington and Grugulis (2000) provided the best practice models; they state that the best practices models are more attractive as rhetoric than as reality, with the model works best when implemented totally. If the practices are implemented in isolation they become ineffective and lose their purpose. Care has to be taken to see what is included in the lists of best practice. The objectives of the study were to take a feedback from the regular employees about the best practices. Draw a comparison between the practices for their association with the variables in terms of psychological contract, employee motivation and commitment. Staffing, compensation, and reward issues were seen as the most relevant to the future success of their business. More specifically entrepreneur's find the most important, factors to their business's success to be developing high-potential employees, that can perform multiple roles under various stages of growth and matching of people to the organization's culture. They suggest that the extant research into small firm employment decisions has been too heavily influenced by this rational search view. They highlight that the network, values and motivations of the owner manager play a pivotal role in recruitment decisions.

Moynihan, *et.al.* (2001) Examined organizational commitment and studied it as a mediator between HR practices and customer satisfaction of 35 job groups from 13 service firm business units. Both commitment level and consensus were predicted to influence customer satisfaction. Results found that commitment level mediated the relationship between HR practices and customer satisfaction.

Rudman (2003) showed that paying for performance is a critical issue in contemporary human resources management; organizations have long believed that production and productivity improve when pay is linked to performance, and have developed payment-by-results (PBR) systems and incentive schemes to support this belief. Accordingly, if an organization has to achieve growth and stability it is important that the employees in the organization are satisfied.

Lawler *et.al.* (2003) argued that “Human resource’s greatest opportunity to add value may well be to play a role in the development and implementation of corporate strategy; HR can make a logical case for being an important part of strategy development, because of the importance of human capital in the ability of the firm to carry out its strategy”. In other words, HR strategy can influence the firm’s growth in accordance with the measures provided for the personal and professional development of the firm’s employees even in the long term. The implementation of appropriate diversity strategy has to be considered in this case as absolutely necessary because in case of inequality in the workplace, no cooperation would be regarded as existed – even if such cooperation exists, it will be problematic.

Ramlall (2003) supported that most of the studies have proved that Human resources systems are a critical driver in an organization's financial performance; it is imperative for Human resources and other leaders to understand the critical nature and utmost importance of understanding the effectiveness of all Human resources activities in creating value for the organization. To a more thorough examination of the problem, Christensen managed to identify the five elements that are considered as most crucial in the improvement of the employees’ productivity (as this improvement is expected to lead to the increase of the corporate growth). More specifically, Christensen (1958) supported that there are five elements which are extremely

important for the effectiveness of employees within a particular organizational environment. These are (1) The technical organization of the group; (2) The social structure of the group; (3) The individual task motivation, i.e., the willingness to work hard that each member brings to and maintains toward his job; (4) The rewards he receives from doing the job, and (5) The satisfactions he obtains from being an accepted member of the group". The above elements can exist in any organization and can influence the productivity of its employees either in the short or in the long term.

Hatch and Dyer (2004) conducted a study in semiconductor industry, with a view to identify the sources of wide and persistent variations in learning performance in the semiconductor manufacturing industry. They state that management of selection, development, and deployment of human resources can significantly improve the performance. There is a relation between training as learning by doing and firm performance. Firms that use tests to identify best candidates in their hiring process enjoy higher performance, apparently because they are able to identify employees with the aptitudes, attitudes, and skills that contribute to the stock of firm-specific human capital that serves the particular needs of the company. Firms that emphasize human resources development through training in statistical process control find that their employees are more productive and can meaningfully participate in the learning activities of the firm.

Tzafir (2005) studied the relationship between trust, human resources management practices and firm performance. The study deals with practices, attitudes and performance at the organizational level. The sample was selected from 275 organizations from public and private sectors, each employing 200 or more employees. Out of the total sample 104 questionnaires were completed. The study contributed to the growing literature on the role of trust in the context of

organizational and employment relationships. The study puts in perspective a multidimensional conceptualization of trust and integrates it with many human resources management practices and organizational performance. This study was among the first to explore the broader effects of trust in the workplace. The study looks at the relationships between trust and several mechanisms for improving organizational performance, influencing employee attitudes and behaviors, and retaining employees in the organization. He stated that manager's trust in their employees has a considerable impact on shaping the human resources management system. In order to improve the performance, senior managers need to hold a clear philosophy with regard to importance of human resources to the organization's purpose and continually invest resources to improve human resources management practices.

Kim (2005), noted that job satisfaction is sentimental or emotional response toward various facets of one's job. Job satisfaction has been a topic of great interest for researchers and practitioners in a wide range of fields, including organizational psychology, public administration, and management. On the other hand, the existence of job satisfaction has been extensively related with the level of payment of employees in the particular sectors of a specific organization.

Ahlstrom *et.al.* (2005) studied the emerging market with a focus on China using a framework of human resources deliverables they proposed several keys for successful human resource management the competition has increased, the state sector organizations are a decreasing, and there is a change in legal landscape, all of this will require organizations in China to be more flexible and adopt creative Human resources practices to adapt to the new environment. According to them the issues

which need to be addressed are poorly defined objectives, inflexible rules, slow decision making and a limited strategic role for Human resources managers.

Katou and Budhwar (2007) noted in study conducted in Greek manufacturing firms. The study notes following observations in respect of Greek manufacturing firms and provides strong support for a universalistic perspective, but in the form of individual HRM policies. Seven individual HRM policies have the following properties:

- Training and development may convey a message to employees that it is in the best interest of the organization to have employees stay longer in the firm.
- Providing internal promotion opportunities may instill a sense of fairness and justice among the employees and make them feel that they are more secure.
- Incentives schemes basing employee rewards on profits may ensure that employee interests are aligned with owner interests. Similar benefits schemes applied to all employees may send a message that all employees are valuable assets.

Li, Yang *et.al.* (2008) studied how to improve service quality and organization performance through human resources practices. They used the case study method in their study and conducted this study in a company in Taiwan which had 300 branches employing 3000 employees and serving nearly 4 million customers in the hair saloon industry. They observed that service quality can be improved through the service system and human resources practices. In most of the service industry there is an interaction between the personnel and customer in providing services, the

improvement of human resources practices through training and maintenance of employees attitude and service ability are more prominent.

They explored the main factors including the crucial methods, content and processes during training, which is considered in order to improve the service quality of the firm. They found the design of the services process influences service personnel job attitude. Similarly the service process influences the content of personnel training. Training helps upgrade service personnel's service ability and motivates job attitude, further supplements are necessary in the form of post training measures on the policies in service quality and organization performance are to be attained through customer-oriented employees showing great job satisfaction.

Subramony (2009) in his study on "A Meta-Analytical Investigation of the Relationship between HRM Bundles and Firm Performance", observed after studying the meta-analysis of 239 effect sizes derived from 65 studies reveals that HRM bundles have significantly larger magnitudes of effects than their constituent individual practices, are positively related to business outcomes, and display effect sizes that are comparable to or larger than those of high performance work systems. These findings reaffirm the case of firm level investments in synergetic HRM combinations and highlight the importance of investing in complementary practices.

Grip and Sieben (2009), studied the more advanced human resource systems in small firms. They analyzed whether human resources system in small firms can be associated with higher performance as well as higher wages. Their study focused on Dutch pharmacies and the data was collected from 549 out of total 1319 pharmacists who responded to the questionnaire. They noted that the human resources system approach is more adequate in analyzing effects of human resources management. They analyzed the effects of non-traditional human resources systems on the

performance of Dutch pharmacies, which are micro firms, which operate on a local market. The pharmacies did not have advanced human resources system but focused on improving the quality of workforce by means of performance evaluation, permanent contracts, training, employ highly competitive workforce and allowed assistants to perform tasks of pharmacist. They found that workers benefit from more advanced human resources systems as the system includes higher wages. This shows that the firms reward the higher quality of workforce. They did not find any positive effect of the intermediate human resources system on employee's wages. They also found that more advanced human resources systems do not have any effect on firm's productivity, as normally observed in large firms.

Messersmith and Guthrie (2010) studied the high performance work systems organizations and their implications on the firm's performance they observed that the most important challenge faced by the human resources today is finding and retaining the right people. They stated in that the most important part of an organization are people and human resources systems designed to acquire, develop, and motivate talented individuals have implications for firm performance. These policies and practices seem particularly salient for firms relying on innovation and an entrepreneurial spirit to compete in today's dynamic business world. They studied the data of 2018 establishments and provided a number of theoretical and practical implications which showed that using high performance work systems is associated with higher levels of sales growth, product innovation, and organizational innovation. The study results did not support a mediating relationship for firm turnover levels. Their findings are in line with much of research in strategic human resources management which has consistently found a positive relationship between

commitments based human resources systems such as high performance work systems and firm performance metrics.

In this manner if one looks at the various research studies conducted on impact of human resources system on performance of the organization find a positive relation between the two. Most of the literature reviewed clearly and found a positive relationship between human resources systems and performance of the organization. This is particularly true for the organization which have well established human resources system as part of the overall corporate strategy and where corporate strategy and human resources strategy are linked hence creating a high performance work systems and excellent firm performance.

Most of the work in this field is conducted in western countries. Indian organizations have also realized the potential of human resources and how human resources systems can enhance overall performance of the organization. Let us look at some of the Indian studies conducted in human resources. Most of the studies conducted in India are on the subject of Human resources development mainly examining the development part of the human resources. There are very few studies conducted to link particular human resources system with the overall performance of the organization.

### ***India based Studies***

Various scholars in India have conducted studies on different aspects of human resource development and the role which human resource development interventions have played in improving organizational effectiveness. The studies conducted in India are mainly on human resources development.

Bhusan (1987) noted Human resources development in the perspective of an organization refers to improvement in the capacities and capabilities of the personnel

in relation to the needs of the organization. The initiatives involves creation of a climate in which the human knowledge, skill, capabilities and creativity can be enhanced.

Raman (1988), Puranik (1988) and Advani (1989), have conducted studies at Blue Star limited, State Bank of India and Research & Development Organization respectively. They have observed that HRD is a mechanism through which organizations culture can be changed by giving emphasis to better employee relation and inter-departmental communication.

Achdeva and Arora (1988)'s study in Eicher Tractor reveals that HRD helps in organization building by continuously making studies and preparing action plans to make improvements in areas like accountabilities, compensation, forecasting, appraisal system, recognition, communication, training and development, union management relation, working conditions etc.

Bhatt, Dixit and Mehta (1988) reveal that HRD through training not only maintain shop floor discipline but also maintains positive Industrial Relations Climate by changing the attitude of employee.

Parthasarathi and Rao (1988) in their HRD experiences in BHEL share that HRD helps in bringing individual and organizational effectiveness through its mechanisms like human resource planning and audit, training and development, performance and potential appraisal, career planning and development, organizational development, participation, quality circle and communication etc.

Abraham (1989) surveyed the HRD practices of 68 Indian organizations. He measured various elements of the HRD profile of these organizations including performance management practices, training, career planning, promotions, rewards etc. and the HRD climate (openness, collaboration, trust, authenticity, proaction,

autonomy, confrontation). Abraham also constructed an index of growth of the company profitability as a measure of organizational performance. He was able to use this index only in 14 of the 68 companies. He found that while the HRD profile did not correlate with the company performance, the HRD climate did. He found that the perception of the HRD climate of the company was more important than the HRD practice itself. This study also indicates that HRD culture is a powerful intervening variable in translating HRD practices into profit. The HRD manager matters a lot in this regard along with line managers and top management.

Nair (1988), Nair and Ramakrishan, (1989) and Jain (1991) have conducted studies on HRD at SAIL and brought to the light some of the achievements of HRD in the organization. HRD plays the role of a catalyst through its integrated sub-system to manage organizational change. It has brought a change in the organization culture by inculcating positive values and has achieved many other qualitative changes such as change in the attitude of the employees by making them more aware about the priorities of the company, making communication more effective, maintaining organizational discipline, cost control, making goals and objectives more clear through a more developed human resource planning, training, performance appraisal etc. Besides challenges of technological- transformation can also be achieved with the help of HRD interventions.

Ramanathan (1989) views HRD as a process concerned with the people's dimension in the management of any organization.

Khanna (1989) observed that human resource development through group discussion, participation in common task, mutual discussion, common agreement, on group goals, results into changes in attitude of employees. This facilitates change in the culture of the organization.

Gupta (1989) observed that HRD initiatives promote commitment of employees to organizational objectives through fair treatment, information sharing and trust building.

Narsimhan (1989) conducted a study at Hindustan Aeronautics, Hyderabad. It has been found that HRD facilitates technology improvement through training and development. Training and Development has yielded not only tangible benefits of increasing productivity but some intangible benefits of improving working relationship such as positive attitude towards change, increased motivation to take up new jobs, higher involvement in work and in the organization and pride of work.

Sundaram (1989) finds that full utilization of the potential of the employees can be possible through an integrated HRD system by using its sub-systems like human resources planning, performance appraisal and training.

Rao and Abraham (1989) conducted HRD survey in fifty three Indian organizations and analysed in-depth the practice of various sub-systems of HRD in those organizations. They have studied sub-systems like training, Performance appraisal, Organization development, employee counseling, potential appraisal and reward management and have suggested HRD functions to be developed a lot to ensure effectiveness.

Raghavan (1989)'s study at Maruti Udyog observed in his study that an integrated HRD system is really effective in improving organizational effectiveness and achieving employee satisfaction. It further highlights that a well designed, suitable and unbiased performance appraisal system can go a long way in maintaining the morale and motivation of people at high level.

Gupta and Gangotra (1989) have conducted a study at Jyoti Limited. They have observed some success of HRD activities such as role effectiveness through

identification of individual training need by role efficacy mechanism; managing ongoing organizational problems through extensive use of OD, improvement in superior – subordinate relationship through a development oriented performance appraisal system and effective utilization of human resources through human resource information system. They conclude that by using various HRD mechanisms organizational effectiveness can be attained.

Sinha (1991) stated that HRD is development of skills, through action learning and continuing education, these capability contributes to human resources development. Capability building has to be supported with commitment to work.

Bose and Natrajan (1991) study at Colgate Palmolive highlights that human resources development through training can build a firm foundation of Mutual Trust and independence which helps in bringing change in organizational culture, conducive far better industrial relations and increased productivity.

Shah (1991) and Shirodkar (1988)'s studies reveal that besides qualitative gains, quantitative results in terms of increasing sales turnover, profit, labour productivity and discipline can also be attained through HRD. According to Shah, HRD brings healthy organizational climate and culture which helps in setting individual and departmental goals.

Khandwalla (1992) provided some indirect evidence linking HRD managers, line managers and top management to successful implementation of HRD practices, after review of several case studies and experiences in India, noted 'Western and third World studies of organizational excellence indicate five major keys to organizational excellence: mission, vision of excellence, core values, style of management; goals, policies and choice of domain; management systems and structure; and organizational renewal processes'

Bajpai and Gupta (1993) have made a study at JK Paper mills and identified the role of various HRD sub-systems in ensuring excellence in work through TQM (Total Quality Management)

Chatterjee, (2006) observed in his book, that uniqueness of demography is one of the features of Indian workplace. It is estimated that both China and India will have a population of 1.45 billion people by 2030; however, India will have a larger workforce than China. Indeed, it is likely India will have 986 million people of working age in 2030, which will probably be about 300 million more than in 2007. And by 2050, it is expected India will have 230 million more workers than China and about 500 million more than the United States of America (U.S.). It may be noted that half of India's current population of 1.1 billion people are under of 25 years of age while this fact is a demographic dividend for the economy; it is also a danger sign for the country's ability to create new jobs at an unprecedented rate.

Human resources should be considered as a significant organizational asset. In this context, the application of the appropriate strategies for its development, can lead to the improvement of the corporate performance both in the short and the long term.

HRD started gaining importance in 1980s and 1990s continued to be a decade of new technologies in every field including human resources. The decade of 2000 has seen many new developments in the field of human resources management. It is the year 2010 in which human resources systems are being studied for their strategic role and impact on the performance of the organizations.

The latest research talks about the strategic aspects of human resources. It is well recognized everywhere that human competency development is an essential prerequisite for any growth or development effort. Research, experimentation and experience in the field of HRD have grown enormously in the last decade. Many

organizations have set up new departments known as “HRD Departments” which symbolize the recognition of importance of people’s competency development. These departments have done remarkable work in attempting to find out new ways of developing employee competencies. In addition to the well known mechanism of training, experiments are being undertaken to use performance appraisals, potential appraisals, feedback and counseling, mentoring, job-rotation, training, OD interventions, career development systems etc.

In addition to using a variety of mechanisms to develop Human Competencies, organizations have started enthusing supervisors, line managers, top management and other categories of employees to recognize their respective roles in developing their own and their subordinates’ competencies. While there is a lot of progress in the field of human resource development in the last two decades, there is a lot more that needs to be achieved. Last twenty years efforts have largely been limited to large size industry and profit sector. Even here human resource development was focused much more on executive development rather than labour development. Service sector industry and government systems still treat HRD as synonymous with training. A lot more work and a lot more experimentation is still needed in this area.

The review presented above gives the impression that Indian organizations view HRD as an integrated system with many sub-systems such as human resources planning, training, performance appraisal, OD, career planning etc. Organizations have increasingly realized the need for changing their culture and climate and attitude of employees for which they are relying on HRD. Many quantitative and qualitative results have been achieved by some of the organizations. Many organizations are in the midst of HRD interventions. This evidence is sufficient to indicate that good HR practices do matter.

#### **1.4 Objectives of the Study**

1. To study the overall impact of human resources systems on the organization.
2. To study the nature and extent of implementation of some important human resources systems.
3. To study the out come of Human resources system implementation.
4. To identify the human resources system which has major impact on the performance of individual and organization?

#### **1.5 Rationale for the Study**

There are very less studies conducted in the area of human resources as a complete system and its impact on the performance of the organization. Even in Indian context very few studies have been undertaken. Most of these studies are on HRD practices or HRD. The present study focuses on examining the impact of human resources system and organizational performance in Vapi, Daman and Silvassa.

Vapi, Daman and Silvassa are one of the most industrialized areas. There are many progressive industries which have well established Human Resources systems and they view human resources systems as one of the most important system. There are some well established organizations which operate without Human Resources systems. Study of these organizations will give insight in understanding the role of Human Resources system on the performance of the organization.

Most of these organizations have business relations with many multinational companies and work around the globe. The competitive advantage which was previously achieved through technology has been neutralized due to economic liberalization. The organization can achieve advantage through human resources only. It is the people who can only provide the competitive edge, the management of

Human resources systems have become crucial in conduct of business operations. This study seeks to understand existing issues of human resources system which has an impact on the performance of the organization.

In recent times lot of progress has been made in the understanding of the HR systems. There is lot of literature which is available from the west. Most HR system models highlight the need of linking the business aspects with that of HR and try to measure how HR influences business goals and results. One of the most important approach in this direction is the balanced score card approach highlighting the importance of Human Resources function by focusing on human process variables.

This approach was given by Kaplan and Norton (1992, 1993) which assumes that if a business has to succeed in the long run, it will have to satisfy the expectations of all the three stakeholders' i.e. the employees, the customers and shareholders. It is possible that it may get success in the short intervals, however if it has to succeed in the long run it will have to take a balanced approach and will not succeed without a balanced satisfaction of all the three. One of the pre-assumption of this model is that all the three are interrelated: employee attitudes and behavior influences customer satisfaction and retention and similarly customer satisfaction and retention influences share holders satisfaction and investments, and the shareholder satisfaction affects employee satisfaction through bonuses, stock options and further investments on employees. If even one of the components breakdown, the chain does not work leading to performance drops.

## **1.6 Research Methodology**

### **1.6.1 Research Design**

The present study attempts to examine the impact of human resource systems. Considering the nature of the study, we have used both – quantitative and qualitative

– research methodologies. For assessing certain performance indicators, we have used survey method. We have administered structured questionnaire to the different categories of respondents in an organization to elicit relevant information.

Certain qualitative aspects related to performance are examined through qualitative research methodology. Focus group discussion; and participant and non-participant observation methods in qualitative research methodology were employed to get qualitative inputs. This has helped us to understand intricacies and dynamics of change. The present study is both descriptive and exploratory.

Focus group was conducted by arranging a meeting with a group of employees who were in the same grade from different departments. These employees represented a homogenous group, belonging to different function. The discussions were facilitated and the questions were asked on the basis of a pre-decided questionnaire.

The questionnaire had questions on all the aspects of Human Resources in the organization. After meeting the group of people, in-depth interviews were conducted with randomly selected employees. The timekeeper was asked to call any employee from the respondent group. The employee was then interviewed in detail.

In one of the organization participant observation method was adopted. Participant observation method and focus group method were restricted in the industries based at Vapi only.

### **1.6.2 Sampling Method**

The study is confined to industries located in Vapi, Daman and Silvassa. We have used purposive sampling method to select industrial units. Purposive representative sample method was used keeping in view the following criteria:

1. Practices of Human Resources System
2. The large scale and medium scale units located in each region

3. Database management system in the organizations
4. Availability of data

Based on the above criteria, we have selected 10 industrial units. From these 10 industrial units, we canvassed questionnaire to all the employees of the rank of supervisor and above. From these industrial units, total 937 employees have given response.

### **1.6.3 The Sample**

Care has been taken to select the sample of respondents. The sample covers employees in executive and above cadres. The study is confined to industries located in Vapi, Daman and Silvassa. We have used purposive sampling method to select industrial units. Purposive representative sample method was used keeping in view the following criteria:

1. Practices of Human Resources System
2. The large scale and medium scale units located in each region
3. Database management system in the organizations
4. Availability of data

Based on the above criteria, we have selected 10 industrial units. From these 10 industrial units, we canvassed questionnaire to all the employees of the rank of supervisor and above. From these industrial units, total 937 employees have given response.

### **1.6.4 The Sources of Data**

Data are collected from both the secondary and primary sources. Data regarding history of the organization, human resources systems are collected from secondary sources such as text books, journals, magazines and records, reports,

publications and balance sheets of the organizations. Primary data refers to the data which are collected from the respondents through a structured questionnaire with one hundred and six questions divided in sections of demographic information, human resources planning, HR climate, employee development and performance management system.

#### **1.6.5 Period of the Study**

The period of study has been considered three years based on the availability of data. The study aims to look at the impact of human resources system prevailing in the sample organizations. The data collected represent the situation at the time of survey and gives a snapshot view. It is possible that the scenario in different organizations might have been drastically changed or may have improved or deteriorated. The suggestions are based on the findings prevailing at the time of survey.

#### **1.6.6 Plan of Study**

This study has been proposed to be conducted under two parts. The first part deals with the theoretical frame work of human resources systems starting from the concept and its evolution.

The second part of the study reveals actual practices of human resources system in sample organizations. It also covers the perception of respondents on the effectiveness of human resources systems. At the end of this part, the summaries of findings are analyzed and the researcher has given his suggestions.

#### **1.6.7 The Method of Data Collection**

For collection of secondary data the human resources departments, training and development centre, website, library have been visited to collect and examine the

written material required for the purpose of study. From the primary source information were collected, through administering structured questionnaire to the respondents in executive and above cadre of the selected ten organizations. The respondents filled the questionnaires and returned them back. The returned questionnaires were scrutinized thoroughly and used. The Human resources professionals in the selected organization were also interviewed.

The interviews were open and non-restricted pattern which encouraged extraction of maximum information from the human resources professionals. The focus group method was used with selected organizations. Focus group was conducted by arranging a meeting with a group of employees who were in the same grade from different departments. These employees represented a homogenous group, belonging to different function. In one of the organization participant observation method was adopted. Participant observation method and focus group method were restricted in the industries based at Vapi only.

#### **1.6.8 Limitations of the Study**

The study covered ten organizations which are geographically located in different areas. It was very difficult for the researcher to travel to different areas and to cover all the organizations. Some times the respondents were not available. In some of the organizations local human resources professionals needed approvals from their head offices, which resulted in delay.

#### **1.7 Chapter Scheme**

The study is presented in the following chapter scheme:

- Chapter-I: Introduction, review of literature, research methodology, objectives of the study and industries in Vapi, Daman and Silvassa region.

- Chapter-II: Profile of the sample organizations.
- Chapter-III: Human resources systems: Human resources planning, recruitment and selection.
- Chapter-IV: Human resources system: Performance management system.
- Chapter-V: Human resources system: Employee development and training effectiveness
- Chapter-VI: Human resources system: Human resources climate
- Chapter-VII: Growth, market share, profitability and customer satisfaction in the selected organizations
- Chapter-VIII: Suggestions