Chapter I

Introduction
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1.0.  INTRODUCTION

1.1  INDIAN IT/ITES INDUSTRY

1.1.1  Impact of Economy and Society

The Indian IT / ITES industry has been one of the great success stories of modern India. An industry that did not exist barely 2 decades ago is now the toast of the nation and the envy of the world. It is arguably the most global of any Indian industry and has created international benchmarks for quality, proving to the world and to ourselves that Indian companies can compete globally and win on quality. It has also demonstrated what can be achieved by unleashing the power of middle class, first generation entrepreneurship in India. The overwhelming majority of companies in this sector were started by entrepreneurs with modest backgrounds and very limited access to capital. In many ways, this industry has helped create the brand of “New India” and served as an inspiration for everyone else.

The IT/ITES industry has significantly contributed through socially relevant products/services and community initiatives in human resource development, education, employability, health, encouraging women empowerment.

1.1.2  Contributing to Economic Growth

In the last two decades, the Indian IT/ITES industry has contributed significantly to Indian economic growth in terms of GDP, foreign exchange earnings and employment generation. However, equally significant though not as tangible, has been the ripple effect it has created on the general economic environment in the national and international economic space. The industry has been the trigger for many “firsts” and has contributed not only to unleashing the hitherto untapped entrepreneurial potential of the middle class Indian but also taking Indian excellence to the global market.

1.1.3  Direct Contribution to the Indian Economy

The current and evolving role of IT/ITES industry in India’s economy is well established. The sector is proving to be the major growth pole within the services
sector, which in turn drive’s several economic indicators of growth in the country. A few key indicators of direct contribution are:

- **Growing share of the country’s GDP:**
  The sector’s contribution to the country’s GDP has been steadily increasing from a share of 1.2% in FY98 to 5.9% in FY09

- **Boosting the foreign exchange reserve of the country:**
  Bouncing back from the global slump, India’s IT and ITES exports are projected to grow 13-15 percent in FY11 to USD 57 billion, the growth rate three times that of FY09. According to NASSCOM, if India maintains its current share of the global IT/ITES market, the IT/ITES exports from India will exceed USD 330 billion by 2019-20 (nearly 14 percent of the projected worldwide spend). The exports stand at USD 47.3 billion for FY09.

- **Employment generation:**
  Not withstanding recent setbacks and weak quarters, the tech industry is estimated to have added 90,000 jobs during FY10, taking the total workforce to 2.3 million professionals.

1.1.4 **Indirect Contribution to the Indian Economy**

The growth of the IT/ITES sector and its resultant contribution to the economic growth and development has also resulted in certain wider impacts, which in many cases have had a rub-off effect and set benchmarks for other sectors of the economy while boosting the image of India in the global market.

- **Additional employment generation:**
  The indirect employment generated, at the rate of 4 additional jobs created in the economy for every 1 job created in the sector, is even more socially relevant as nearly 75% of the workforce employed in those additional jobs are SSC/HSC or less educated.

- **Driving growth of other sectors of the economy:**
  Apart from contributing to the growing income of its direct stakeholders (promoters, shareholders and employees), the IT/ITES industry has had a multiplier
effect on other sectors of the economy with an output multiplier of almost 2 through its non-wage operating expenses, capital expenditure and consumption spending by professionals

- **Encouraging balanced regional development:**

  By gradually spreading their business operations to smaller Tier II/III cities, the IT sector (besides generating revenue and employment) is also assisting in improving the supply of talent pool and development of physical and social infrastructure, either directly by themselves or by spurring the Government to action. Some of the key impact of IT/ITES sector has been,

  i. *Increase in registered IT/ITES units* – The number of registered and exporting units has risen steadily showing a CAGR of 118 and 170% respectively as compared to 98-99.

  ii. *Employment* – Supply of IT professionals, which was higher than demand till 2004, now have a shortfall of 62,697. Demand for IT professionals is expected to reach 430,000 by 2011-12 with the corresponding figures on indirect employment being 1,720,000.

  iii. *Education* – While building and expanding capacity of educational institutes are underway, IT majors are undertaking training initiatives to improve student quality.

  iv. *Infrastructure and other amenities* – Keeping in line with the expansion/entry plans of major IT/ITES companies, IT parks and townships are being built with a corresponding improvement in other amenities like roads, housing, retail and entertainment facilities.

- **Fuelling the growth of PE/VC funding:**

  The worldwide dot com boom and growth in the IT sector kick-started VC activity in India which led to the creation of first generation of India centric VC funds. Other sectors, such as healthcare, manufacturing and financial services have also benefited from this phenomenon as these sectors are now also being able to access this source of funding. While IT/ITES continues to be the favourite sector with the largest share (28%) of PE/VC funding, other sectors now account for 72% share as compared to 34% in 2000
• **Spurring first generation entrepreneurship:**

Corporate India consisted of either large family owned businesses or multinational companies till the advent of the IT/ITES industry, and it was rare to see a first generation entrepreneur. The shift of focus from physical capital to intellectual capital and the advent of the PE/VC funding enabled a large number of first generation entrepreneurs with no wealth to try their hand at starting new enterprises. The demonstrated success of these entrepreneurs created an aspiration among the middle class and spurred them to exploit their potential with confidence.

• **Improving the product/service quality level:**

The fact that IT/ITES companies cater to and compete with global players has led to their adopting the highest quality standards. This high quality of services and products has been the driver and sustainer of growth which has helped to move India out of the “mediocrity”, low quality image and has in fact raised the bar for other industries as well. Indian exports had traditionally been restricted to low end, low-technology oriented products like gems, jewelaries, garments and apparels.

It is with the advent of IT/ITES industry that the world began to recognize that Indian products and services could also compete and win against global competitors on quality parameters. India is now also emerging as a research and development centre for some of the large IT/ITES companies in the world, once again demonstrating that India now stands for quality. 30% of companies worldwide who have reached Level 5 of Capability Maturity Model Integration (CMMI) are Indian IT/ITES firms. Nearly 75% of Fortune 500 and 50% of Global 2000 corporations source their technology related services from India with an increasing number of multi national corporation’s outlining their investment plans for setting up R&D operations in India.

• **Front runner in practicing good corporate governance:**

The industry has been a front runner in practicing good corporate governance and their commitment to infuse it in their business activities, have led to creating a positive pressure within the industry, as well as in other industries, with more and more companies adopting global standards in corporate governance practices. The major
IT/ITES companies in India have in recent times received national and international recognition for their corporate governance initiatives.

• **Boosting the image of India in the global market:**

  Widely traveled Indians have watched with pride as different countries and people look at India and Indians with hitherto unknown respect and admiration. The India IT/ITES industry has contributed to what brand ‘India’ stands for in today’s global market. Listing of Indian IT/ITES companies in global stock exchanges, which requires adherence to stringent global accounting norms, has helped to build a strong brand of the companies and the sector outside India. Made in India software products have found widespread use across the world while several Indian IT/ITES firms have been partnering with high profile global brands and events

### 1.1.5 Diversity in Employment

Besides being the largest employer in the organized private sector, the IT/ITES industry also consciously follows a diverse employment practice and encourages diversity in the workplace in terms of qualification, abilities, gender, skill sets etc.,

• **Creating employment opportunities in smaller towns/cities:**

  By recruiting talent from non-metro towns and rural background, the industry has reached out to the educated resource pool in these places and created employment opportunities, which hitherto was largely limited. Large IT/ITES companies often have 33% to 50% of their employees coming from non-metro/rural areas

• **Opening opportunities for non-technical personnel:**

  The growing employment opportunities in this sector (both direct and indirect) are not restricted to the better educated or technically educated people alone. While 75% of the employment generated through the indirect route are filled in by candidates who are SSC/HSC or less educated, companies also help under qualified candidates to reach a desired skill level by investing in their training and skill upgradation

### Practices Adopted by IT/ITES Companies

• **Promoting women empowerment:**

  The growing trend in the number of women employed in this sector indicates that not only does the industry offer equal opportunity to women but also has in place
proactive and sensitive mechanisms which counter the common causes that discourage women from pursuing employment in the corporate sector. Women employment in the industry is set to rise to 45% by 2010 from the current 30%

- **Providing high growth opportunities for the youth:**

  The industry has created excellent employment and fast track growth opportunities for the younger section of the population and is likely to become one of the largest employers of a growing ‘young population’ of India. The overall median age group of the sector is 28.9 years with 70% of the workforce being in the age-group 26-35 years

**1.1.6 Human Resource Development in ITES Industry**

The fast growing IT/ITES industry has been struggling with several issues concerning availability and quality of talent. The industry has responded to this issue by evolving sustainable and innovative solutions. Since the educational institutes lagged behind in supplying the requisite number of trained people required for the industry and their curriculum could not keep pace with the changing trends in technology, the IT/ITES industry themselves came forward and made massive in-house training investments, which helped them power their growth and compete at par with international giants in the global market.

The industry has also gone beyond and collaborated with the government, private educational institutions as well as industry associations to contribute towards capacity building, skill development and continual training of existing and potential employees to enhance their capabilities and competitive skills. The industry is also making efforts to ensure that employees are provided a stimulating and healthy working environment for improving their level of satisfaction and productivity.

- **Training of workforce:**

  The industry has played a pioneering and pro-active role in developing the talent pool in the country by forging links with the academia and the Government. It has not restricted its efforts to developing its own employees but is also investing in raising the overall standard of education. The industry has collaborated with academic institutions for bridging the gap between the education imparted to students and the
actual requirements in the job scenario. Collaborations have been in the areas of curriculum development and course design, training for students. NASSCOM has been involved in developing standards for training and recruitment at entry level to make students more employable. These training address both the technical and soft skills training needs. Companies on an average conduct 163 training programmes annually, with almost 80% spend on training entry level hires.

• Promoting higher education:

The industry has emphasized upon developing its workforce by encouraging and aiding upgradation of skills and abilities. It has done so through various means including provision of scholarships as well as training and development activities. Many companies have tie-ups with educational institutes for supporting the higher education needs of their employees and provide full/partial scholarships thus supporting their career goals. NASSCOM has been involved in building the talent base for high end skills in areas like multimedia convergence and bio-informatics while working with the Ministry to develop institutes that produce highly specialized professionals.

• Improving the work environment:

Improving the work environment: IT/ITES companies have been taking the lead in providing a conducive work environment to employees leading to increased productivity and better morale. The facilities provided focus on health of employees by providing gymnasium, yoga/meditation facilities as well as their safety through pick and drop facilities. To cater to the need of providing a work-life balance, particularly to women employees, the companies offer flexible working hours and work from home option

1.1.7 Future Outlook

The beginning of the new decade heralds the slow, but steady end of the worst recession in the past 60 years. Global GDP, after declining by 1.1 per cent in 2009, is expected to increase by 3.1 per cent in 2010, and 4.2 per cent in 2011, with developing economies growing thrice as fast as the developed economies.

Improving economic conditions signifying return of consumer confidence and renewal of business growth, is expected to drive IT spending going forward. IT services
is expected to grow by 2.4 per cent in 2010, and 4.2 per cent in 2011 as companies coming out of recession harness the need for information technology to create competitive advantage. Organizations now recognize IT’s contribution to economic performance extending beyond managing expenditures.

They expect IT to play a role in reducing enterprise costs, not merely with cost cutting but by changing business processes, workforce practices and information use. Government IT spending continues to rise across the world, focusing on infrastructure and security. Growth in outsourcing is expected to supersede overall IT spend reaffirming its potential to not only support short term, tactical goals of cost savings, but also long term advantages of increased competitiveness, efficiencies and access to emerging markets.

India has ample supply of talent, which is largely trainable in nature, not employable. This leads to incremental training costs and increased downtime for the industry, which is challenging keeping in mind quality talent availability in competing countries. Currently, over 90 per cent of total revenues are generated from the seven Tier-I locations, which are nearing peak capacities in terms of infrastructure support. India has to quickly develop other delivery locations to achieve its 2020 vision. There are concerns around security – both physical and data related, in service delivery, which would need to be addressed. Currency fluctuations have also dented India’s competitiveness, and steps need to be taken to address India’s increased risk perception.

A key impact of the recession has been the rise of protectionist sentiments in major markets for the industry. The impending discontinuation of fiscal incentives and frequent changes in fiscal regulations are making the business environment more challenging. Last but not the least, a number of new outsourcing destinations seeking to emulate India’s success have emerged, offering multiple fiscal and training incentives, making them cost competitive.

Concerted action by all stakeholders around below parameters is required to capture the opportunities and mitigate future risks. In doing so, stakeholders (industry, NASSCOM and the government) will need to act together in an unprecedented manner:
• **Catalysing growth beyond today’s core markets:**
  Breaking ground in new markets (verticals, geographies, segments) through reinvented offerings and business models.

• **Establishing India as a trusted global hub for professional services:**
  Building a conducive business environment (improved infrastructure, public services, corporate governance, and security) and a strong global image.

• **Harnessing ICT for inclusive growth:**
  Stimulating inclusion of citizens by enabling technology led solutions in healthcare, financial services, education and public services, leading to increased connectivity, improved soft infrastructure, and a balanced regional development.

• **Developing a high calibre talent pool:**
  Bridging a crucial talent gap by addressing gaps in tertiary education, at the same time fuelling efforts to upgrade curriculum, faculty and training methodologies.

• **Building a pre-eminent innovation hub in India:**
  Encouraging intellectual property, establishing distinctive capabilities and fuelling entrepreneurship. India’s technology and business services industry has flourished in the last decade. A bright future lies ahead and the industry has much to look forward to, with the potential to quadruple its revenues over the next decade.

### 1.2 HUMAN RESOURCE PRACTICES

The impact of Human Resource (HR) practices on the organization and its effectiveness is an important topic both from an academic and practitioner perspective as it addresses the “value-added” by human resources and the HR function. Much of the work on the impact of HR practices on the organization has been conducted at the macro level, studying the relationship between HR practices and firm performance.

As recently as two decades ago, human resource management (HRM) research took a macro approach to studying HR practices (Dyer, 1984; Schuler & Jackson, 1987a). This shift resulted from researcher’s desire to demonstrate the importance of HR practices for organizational performance and outcomes. While early HR research
has focused on HR practices and employee outcomes, the macro approach shifted the focus to organizational level practices and organizational outcomes. As a result, two streams of macro research evolved in the field of human resources management.

The first stream focuses on substantiating the relationship between business strategy and HR initiatives of the firm. The second studies the link between human resource practices and organizational outcomes such as performance. The alignment of HR practices with the business strategy resulted in a branch of HRM evolving into strategic human resources management (SHRM).

The underlying theoretical basis for research conducted in the SHRM literature is the resource based view of the firm. An assumption of this view is that organizations can be successful if they gain and maintain competitive advantage. The resource based view suggests that human resource systems contribute to sustained competitive advantage through facilitating development of competencies that are firm specific, produce complex social relationships, are embedded in a firm’s history and culture, and generate tacit organizational knowledge (Barney, 1992; Reed & DeFillippi, 1990; Lado & Wilson, 1994, Wright and McMahan, 1992).

According to Barney (1991:99), the framework of resource based view of sustaining competitive advantage “suggest that firms obtain sustainable competitive advantages by implementing strategies that exploit their internal strengths, through responding to environmental opportunities, while neutralizing external threats and avoiding internal weakness.” For competitive advantage to be gained, resources available to competing firms must be variable among competitors, and these resources are not easily obtainable. Taken from economics and strategic management, within the context of SHRM, the resources based views brings together strategy, HR practices, and the firm’s human capital (Wright & McMahan, 1992).

Based on numerous studies conducted in this field, there is general agreement that alignment of strategically focused human resource practices with business strategy and objectives is related to firm performance (Arthur, 1992; Delery & Doty, 1996; Lengnick – Hall, 1998; Schuler & Jackson, 1987a; Snell & Youndt, 1995; Wright, Smart, & McMahan, 1995; Youndt, Snell, Dean, and Lepak, 1996).
In addition, studies in the field of SHRM have also determined that there is a link between the HR practices in place in an organization and firm performance (Bartel, 1994; Becker & Gerhardt, 1996; Delaney & Huselid, 1996; Huselid, 1995; Huselid, Jackson & Schuler, 1997; Katz, Kochan, & Weber, 1985; Terpstra & Rozell, 1993; Youndt et al., 1996). In summary, the SHRM research acknowledges that a firm’s objectives influence the way it manages people and emphasizes that human resource management practices affect firm performance (Delery & Doty, 1996).

One major criticism of the work in SHRM is the lack of understanding the process or mechanisms through which HR practices impact organizational outcomes. While earlier work on HRM studied the relationship between HR practices and employee outcomes, the work in SHRM utilizes a macro approach by focusing on the impact of HR on organizational level outcomes such as firm performance.

This micro approach to demonstrating the importance of HR practices on organizational performance has become one of its biggest criticisms. The lack of understanding how it is that HR practices impact organizational outcomes or the mechanisms by which this takes place is the black box of SHRM. According to Wright, McMahan and MacWilliams (1994), HR practices are the means through which employee perceptions, attitudes, and behaviors are shaped. Yet this area of research is still underdeveloped, in that the SHRM work has not specified the mediating employee behaviors that help explain the relationship between HR practices and organizational performance (Becker & Gerhart, 1996; Delery, 1998, Wright & Sherman, 1999). This being the case, another limitation in the SHRM research is the lack of research integrating the employee’s perspective on HR practices with the macro perspective.

1.2.1 Training and Development

Training and development programs provide both formal and informal training to employees. The organizations’ commitment to provide training to its employees is clearly evidence of an optional investment by the organization. Training opportunities are planned efforts by the organization to ensure that their employees are competent in their current jobs. Investments in training produce organizational outcomes such as an increase in productivity (Bartel, 1994, Knoke & Kalleberg, 1994).
Training and development are processes that attempt to provide an employee with information, skills and an understanding of the organization and its goals (Samson SamGnanakkan, 2009). They are designed to help a person continue to make positive contributions in the form of good performance. Training helps employees to do their current work better. Development prepares individuals for the future. It focuses on learning and personal development.

Training is the systematic process of altering the behavior of employees in a direction that will achieve organization goals. It is related to present job skills and abilities. A formal training program is an effort by the employer to provide opportunities for the employee to acquire job related skills, attitudes and knowledge(Georgenson, 1982). Training activity remains a very large part of the practices of any successful organizations. It is a planned attempt by an organization to facilitate employee learning, which enhances individual competency by increasing employee’s skills and supporting career advancement.

Contemporary management thinking embraces the organizational training theory that sustainable success rests, to a great extent, upon a systematic evaluation of training interventions (Ekaterini Galanou and Constantinos-Vasilios Priporas, 2009). However, the evidence indicates that few organizations take adequate steps to assess and analyze the quality and outcomes of their training. The authors seek to develop the existing literature on training evaluation by proposing a new model, specific to management training, which might encourage more and better evaluation by practitioners. Training evaluation is best if it can be based on criteria derived from the objectives of the training and they draw on the management effectiveness literature to inform their proposed model. The study seeks to examine the effect of six evaluation levels – reactions, learning, job behaviour, job performance, organizational team performance and some wider, societal effects – in measuring training interventions with regard to the alterations to learning, transfer and organizational impact.

Organization training activities are recognized as being able to become sources of competitive advancement through their impact on employee’s productivity and their contributions to business objectives (Johnston and Packer, 1987). If training is to be conducted with the individuals and organization performance, employees must be
motivated and the continuous pursuit of development activities by individuals can be a key aspect in attaining training effectiveness in organization. Most of the major IT companies define implement training programs in the most effective manner, and that they understand the factors that contribute to training expenditures have been shown to result in behavioral changes back on the job. (Georgenson, 1982).

Some organization have attempted to increase the effectiveness of training by utilizing sophisticated training techniques without regard for their actual need, while others focused on arranging the best training environment. (Wexely, 1984). Without a theoretical basis for studying these techniques and training environments, however, practitioners and researchers are often at a loss to explain why training programs, are effective or to predict their effectiveness in other settings or for other trainees. Recognizing this situation in the training and development literature, (Tannebaum and Yuk, 1992) called for a “Paradigm shift” to research designed to why, when and for whom a particular type of training is effective.

Most of the IT Companies as can be termed as boundary less or multi-geographically located and there is a growing need for these organization to train their multi-locational workforce with cross-cultural understanding(Samson SamGnanakkan,2009). A lack of such an understanding among the IT professionals can result in increased time to get a job done, poor work relationships and lost opportunities. A significant challenge for IT organizations is to improve cross culture understanding among the entry level professional through cross cultural training programs. In the work place, cross cultural training can provide IT professionals on international assignments with cross cultural understanding that is needed to accomplish their tasks. Such training can also assist employees in overcoming the intercultural obstacles that could interface with their work satisfaction and performance.

There are many different types of management training development programs. One of the newest and most effective is the assessment center concept (Moses, 1987). The assessment center provides a means of both training individuals for managerial responsibilities, and for selecting those individuals within an organization who have the
highest probabilities of attaining success in higher organizational positions (Petry, 1984).

The relationship between perceived training opportunities and turnover intention was partially mediated by employee intrinsic motivation. In addition, intrinsic motivation was found to moderate the relationship between perceived training opportunities and organizational citizenship behaviors (Anders Dysvik and Bard Kuvaas 2008). The form of the moderation revealed a positive relationship for those with high intrinsic motivation.

Studies have shown that cross cultural training can bring about significant changes in learning and performance (C. Deshpande and Visveswaran, 1992). There is a good fit between training and a number of retention related practices, such as career development, and planning, skill based pay and others. Training can be a particularly strong relation tool when it is combined with measures designed to allow people to develop and progress within a company. Providing training and developmental activities to its organizational members is a clear indication of an investment a firm makes in its employees. Training activities are typically focused on building competencies for employees in their current jobs. Investments in training have been found to produce organizational outcomes such as an increase in productivity (Bartel, 1994).

1.2.2 Developmental Opportunities

Development is different from training in that it prepares its employees for the future. Developmental opportunities prepare employees for other positions which will be available in the future rather than focusing on competencies for the current job. In order to sustain a competitive advantage, training and development allows the organization to align development of competencies of its workforce with strategic goals of the organization, which might include for example new technology, new customer base, and new products. Wayne et al (1997) found that greater participation in developmental experiences was related to perceived organizational support.

Developmental opportunities, on the other hand, prepare employees for other positions which will be available in the future (Herr 2001). In order to sustain a
competitive advantage, training and development allows the organization to align development of competencies of its work force with strategic goals of organization, which might include for example, new technology, new customer base, and new products.

The research supports the commonly held belief that employee development programs make positive contributions to organizational performance (Ronald Jacobs; Christopher Washington 2003). However, there continues to be limited information beyond this basic relationship. From an HRD perspective, research on employee development seems an area of high importance. Employee development means more than helping employees become continuous learners, regardless of the requirements of the organization. To be beneficial for both individual employees and organizations, research on employee development should seek greater understanding about the wide range of conditions within which employee development programs exist in organizations.

The companies has to reaffirm faith in their, employees by putting them in change of their won careers. The better employers provide employees with the requisite information, infrastructure and developmental support to enable them to share their careers based on their own aspirations and abilities. A person must have or be able to develop the skills required to perform the job. A well designed career development effort will assist employees in determining their own career needs and develop career opportunities in the organization and match employees needs and goals with the organization.

Organizations can buy skills through hiring, or they can develop skills through training and development activities. It focuses on strategically aligned training and development systems that advance and sustain the organization's competitive position in its market. Traditionally, training and development systems were relegated to narrowly defined support roles, where individuals were trained around current job-based deficiencies or predicted knowledge and skill needs (Judy D. Olian, Cathy C. Durham, Amy L. Kristoff, Kenneth G. Brown, Richard M. Pierce, Linda Kunder; 1998). A few exemplary organizations, however, view a workforce with superior skills as a primary source of sustainable competitive advantage. In these organizations,
training and development becomes the critical means for creating readiness and flexibility for change across all organizational levels, and there are strong linkages between all facets of the training and development system and the strategic leadership and planning processes of the business. Readiness and flexibility are achieved largely through supervisory, management, and executive training, as these individuals set the boundaries for modification and continuous improvement of existing organizational practices.

In recognition of its increasing importance, many organizations make periodic assessments of their training and development activity (R. Krishnaveni and B. Sripiabaa, 2008). The objective was to extend the concept of capacity building to the assessment of training and development activity. The research provides a new methodology for the evaluation of training and development activity. Perception-based, consensus-oriented assessment is proposed as a valuable tool for evaluating and improving training and development activity. Brainstorming sessions led to suggestions for enhancing capacity in identified lag areas. In addition, this assessment serves as a platform for subsequent evaluation of the effectiveness of training and development activity.

Meta-analysis has shown that growth and development opportunities are positively associated with employee retention (Griffeth et al., 2000), and welfare clients respond similarly positively to opportunities for advancement. Organizations that offer development opportunities, such as written performance goals, career planning and a mentoring system, provide hope for advancement to better-paying and more secure positions. Development opportunities may thus provide the needed incentive for former welfare clients to tolerate the difficulties of adjusting to work, enhancing the chances that they will remain employed. And, similar to efficiency compensation, development opportunities may encourage employees to be productive in their current jobs.

1.2.3 Pay for Performance

Compensation is considered one of the most significant costs to operating a business. In addition, it is also an important factor in determining the types of employees hired into an organization; it can be powerful in aligning employee’s interests with organizational goals, by providing rewards for meeting specific goals.
Incentive compensation has been found to be associated with firm performance (Gerhardt & Milkovich, 1992).

The payment of “efficiency compensation” or pay and financial benefits beyond the minimum necessary to induce employment, can help to ensure that employees remain motivated to engage in an acceptable level of effort in order to retain the job (Bomberger and Meshoulam, 2000, MacDuffie, 1995). Empirical research has found evidence that efficiency compensation can reduce the tendency of the employee to “shrink” which include factors such as extensive absenteeism and reduced job effort that often leads to termination (Cappelli and Chauvin, 1991). For former welfare clients, the greater the compensation, the more they likely to find employment with their current organization attractive compared to both alternative employment and to no job at all.

Workplace supports and incentives enhance employee commitment to the workplace (Tsui, Pearce, Porter and Tripoli, 1997). Commitment focuses on employee relationship and seeks to enhance perceptions of organization support among employees by demonstrating that the organization appreciates the employees’ contributions and cares about the employee as an individual (Rhoades and Eisenberger, 2002). HRM practices designed to accommodate the employees’ needs and to promote their longer term development within the organization can demonstrate the kind of organizational support welfare clients need in order to retain their jobs.

Increasing payroll costs and competition in the global marketplace have caused managers to search for ways to increase productivity by linking compensation to employee’s performance. High Performance requires much more than motivation. Ability, Adequate equipment, good physical working conditions, effective leadership and management, health, safety and other conditions all help raise performance levels. A number of studies indicate that if pay is tied to performance, the employee produces a higher quality and quantity of work.

A substantial body of research has been developed that examined the impact of incentive compensation on firm performance and found that an advanced compensation system can be a potential source of achieving competitive advantage (Gomez-Mejia &
One way by which compensation system contributes to the organizations’ performance is by enabling the organization to attract more and better candidates and to retain essential employees for longer periods of time (Mobley, 1982; Lawler and Jenkins, 1992). A compensation system based on excellence results in increased employee performance (Delaney and Huselid, 1996) in the same way that a profit-sharing system increases productivity and contributes to improved performance by, among other things, decreasing absenteeism (Kaufman, 1992).

Some researchers argue that if you fix pay to performance, you will destroy the intrinsic rewards a person gets from doing the job well. Intrinsic rewards are powerful motivators too, but research on them has been limited to only a few studies. Studying pay, performance, productivity and job satisfaction is especially important because of their link to employee’s subsequent behaviors including absenteeism and turnover and assumption of responsibility. According to Lawler (1990), Organizations that have high levels of compensation, will have lower turnover rates. Furthermore he argued, high wage workplaces may create a “Culture of Excellence”. The innumerable pay plan developed over the years has their basis in one or more of only a few basic pay strategies.

**Profit Sharing:**

Profit sharing plans are designed to enhance productivity by linking worker pay to the profitability of the firm. Good worker performance may increase company profits, a percentage of which may then be paid to the workers. Mitchell, Lewin and Lawler (1990) point out that profit sharing offers benefits to both management and Labor. Management retains some flexibility in wages paid by means of the formulae determines the proportion of profits shared and labor benefits by increases in pay related in part to its efforts.

**Gain Sharing:**

Peach and Wren (1992) note that Gain sharing plan focus on more circumscribed work units than do profit-sharing plans, thus creating a tighter link between worker and wages. Abernathy (1990) makes the case that both profit sharing and gain sharing systems work because productivity is tied to monetary outcomes, but
he proposes a model that tightens the link between individual work and monetary consequences.

Abernathy, Dierks, Mevally (1987), reported proof operator data from union National Bank similar to the data from the Virginic workers. Production increased from a baseline of just over 1000 items per hour to over 2000 processed checks per hour when feedback and praise were introduced. Gaetani, Hoxeng and Austin (1985) evaluated the effectiveness of performance feedback and pay incentives on auto mechanic performance, measured in terms of dollars billed to customers. Their data showed a clear increase in dollars billed over baseline when feedback was provided, a decrease when feedback was removed and highest performance when feedback was combined with an incentive system.

Smooth and Colleagues (1992) examined linear, negative and positive growth pay systems while subjects worked alone or in groups of four. In both alone and growth conditions subjects were paid on the basis of their individual productivity. The results showed that there was no different in productivity as a function of group versus alone conditions.

1.2.4 Performance Management

Performance Management means setting goals that make sense in terms of the company’s strategic aims. It is a process that unites, goal setting, performance appraisal and development into a single common system whose aim is to ensure that the employee’s performance is supporting the company’s strategic aims (Samson SamGnanakkan, 2009). The distinguishing feature of Performance Management is that it explicitly measures the employee’s training, standards setting, appraisal and feedback relative to how his or her performance should be and is contributing to achieve the company’s goal.

Performance Management is the process through which the organization ensures that employees activities are congruent with organizational goals. Managing employee behavior and setting objectives which are linked to organizational strategy and goals will lead to organizational results. Studies in manufacturing found result-oriented appraisal systems were positively related to return on investment (Snell &
It means daily or weekly interactions to ensure continuous improvement in the employee’s capacity and performance. Performance Management has been practiced by numerous organizations since centuries and performance appraisal system has been debated by many, however, overall it is viewed that Performance Management is an inseparable part of an organization life.

**Longenuker and Fink (1999)** cited several reasons that formal performance appraisals are to stay in organization. Formal appraisals are required to justify a wide range of human resource decisions such as pay raises, promotions, demotions, terminations etc., It is also required to determine employees training need. The authors also cited study on high performance organization that the practice of performance appraisal was cited as one of the top ten vehicles for creating competitive advantage. However sufficient caution should be observed in implementing appraisal system.

Effective appraisal system can bring many problems including low morale, decreased employee productivity, a lessening of an employee’s enthusiasm and support for the organization. Performance Management is the process by which executive, managers and supervisors work to align employee performance with the firm’s goals. An effective Performance Management process has a precise definition of excellent performance, uses measurements of performance and provides feedback to employees about their performance. Thus it defines, measures, monitors and gives feedback.

From a strategic and competitive advantage perspective, it is important to integrate employee performance with organization, performance goals. Most experts believe that a firm’s strategy must be aligned with employee’s competencies and performance of profitability, growth, effectiveness and valuation are to be achieved.

Egan proposes the following guiding principles for performance management “Most employees want direction, freedom to get their work done, and encouragement not control. The performance management system should be a control system only by exception”. The solution is to make it a collaborative development system. In two ways first, the entire performance management process-coaching, counseling, feedback, tracking, recognition and so forth- should encourage development. Ideally, team members grow and develop through these interactions. Second, when managers and
team members ask what they need to be able to do bigger and better things, they move to strategic development.

The impact of Performance Management on organization performance

The report on the 1992 IPM research into performance management stated that: One positive theme which can be traced throughout the research is the extent to which Performance Management raises awareness of the pressures on the organization to perform. The survey conducted by the IPO in 1997 (Armstrong and Baron) established that the 388 respondents with Performance Management were generally confident but their organizations were mainly in the upper quartile compared with others especially with regard to quality of goods and services and the workforce.

A survey of 48 organizations in midlands established that the major benefit claimed by those with what they considered to be successful systems was its use in getting people to achieve work goals. The problems faced by organizations experiencing some difficulties were measuring performance and the extra demands made on managers. These academics make the somewhat sweeping statement that most organizations Performance Management is conducted in a superficial way and its significance to the HR role is not properly appreciated. This assertion is not supported by any evidence.

They suggest that performance management is “Vitiated” by the motivation to control: ‘Too often it is more about excursing control that contributing to real development: Their focus is on what they term ‘The dark side’ of performance management which arises from inappropriate links to rewards’.

They comment that problems with performance management are ‘frequently put down to the deficiencies of the like manager, who is seen as the weak link in a system designed’ imposed by others. In this connection they observe, sensibly that: ‘Performance Management needs to be seen first and foremost as a management process. If it overloads the ordinary manager, makes his or her job more difficult and distracts from tasks which are more productive, it is failing’.
Performance management in action

Outcomes of the CIPO survey 2004: The CIPO survey of Performance Management in December 2003 covered 506 respondents. The key data emerging from the survey were: 87 percent operated a formal Performance Management process (37 percent of these were new systems), 71 percent agreed that the focus of Performance Management is developmental, 55 percent disagreed that pay contingent on performance is an essential part of Performance Management, 7 percent had competence related pay, 4 percent had contribution related pay. 3 percent had a form of team-based pay. 46 percent separated performance management reviews from pay reviews, 75 percent agreed that Performance Management motivates individuals, 26 percent thought that Performance Management was bureaucratic and time consuming.

Performance Management, if carried out properly, can motivate people by functioning as a key component of the total reward process. The total reward concept emphasizes the importance of considering reward in all its aspects as an integrated and coherent whole. All the elements of total reward – namely base pay, pay contingent on performance, competence, employee benefits and non-financial rewards, which include intrinsic rewards from the work itself—are linked together.

1.2.5 Selection

Selection and staffing practices are instrumental to ensuring that the best talent, traits, abilities and competencies are brought into the organization. Bringing in the best talent and the process of how to choose organizational members is important in order to sustain a competitive advantage through people in the organization. Conducting an extensive recruiting process and hiring the right people will set the stage for high performance expectations for both new employees as well as current employees. Establishing selection practices that are geared towards ensuring that qualified people join the organization, will signal to employees that the organization is willing to invest the time and resources required to have an effective selection process in place.

In addition, hiring qualified candidates has an impact on current employees. When unqualified individuals are hired that cannot perform at the required level, there is a negative impact on current employees. Current employees will typically have to pickup the slack, and may not feel that their contribution is valued by the organization.
Employees will perceive that the organization dismisses the importance of hiring the right people, by hiring just any one. Research shows that selection practices are related to firm performance (Becker and Huselid, 1992; Snell & Dean, 1992; Terpstra & Rozell, 1993).

The process of staffing employees in the organization consists of finding, evaluating, and assigning individuals to work (Schneider and Schmitt, 1986). Research has shown that valid selection tests are very useful in employee selection (Schuler and Jackson, 1987) and implementing an effective staffing process is positively correlated with organizational performance (Terpstra and Rozel, 1993; Martell & Carroll, 1995). A sophisticated selection system tests a candidate's potential for a position and decreases the organizations’ level of uncertainty when faced with an external candidate (Holzer, 1987).

A stringent recruitment and selection system also gives those employees who are selected a sense of elitism, imparts high expectations of performance and conveys message of the importance of people to the organization (Pfeffer, 1994). Incopatability between the individual and the organization can impede the achievement of necessary performance levels (Lado and Wilson, 1994) while an advanced staffing process can bring to the organization employees who match the abilities of the present human resources and fit into the existing interpersonal structure, at lower training costs (Fernandez, 1992). In addition, it has been found that the staffing process is positively correlated to organizational performance (Terpstra and Rozell, 1993).

Selection is the process by which an organization chooses from a list of applicants the person who best meets the selection criteria for the position available, considering current environmental conditions. All selection programs attempt to identify the applicants who have the highest chance of meeting or exceeding the organization’s standards for performance. Selection is the search for an optimal match between the job and the amount of any particular characteristic that an applicant may possess.

Selection system is to be accurately determined which applicants possess the knowledge, skills, abilities and other characteristics dictated by the job. It must be
capable of distinguishing between characteristics that are needed at the time of hiring, those that are systematically acquired during training and those that are routinely developed after a person has been placed on the job. Selection dimensions can be summarized in several broad categories: education, experience, physical characteristics and personal characteristics.

**Experience and Past Performance:**

Many selection specialists believe that past performance on a similar job might be one of the best indicators of future performance. Their reasoning is that a prospective employee who has performed the job before and is applying for a similar job must like the work and must be able to do the job well. Over a large number of studies, experience is related to job performance (Miguel A. Quinones, Kevin J. Ford, Marks. Teachout, 1995). But the organizations must have a rational basis for defining what it means by “Relevant experience”.

**Personality Type A Performance:**

Recent findings on personality tests have been much more positive regarding the link between personality and job performance. Much of this change can be attributed to the development and validation of the Big Five personality factors known as Emotional stability, extroversion, openness to experience, agreeableness and Conscientiousness. The Big five describe behavioral traits that may explain up to 75 percent of an individual’s personality. Of the five dimensions Conscientiousness and emotional stability have been shown to predict performance across most occupational groupings.

Selection using any aspect of personality should always be based on whether it is really necessary for high performance. It is probably unwise to use personality as a general criterion for screening out “Undesirable” applicants, since the same personality characteristic that leads to failure in one job might lead to success in another. In part, because of this fact there is still considerable debate whether general, broad personality measures or more specific ones are the best to use in selection.
**Work Sampling for Employee Selection**

The work sampling technique tries to predict job performance by requiring job candidates to perform one or more samples of the job’s basic tasks. The work sample content—the actual tasks the person must perform—is not as likely to be unfair to minorities as might a personnel test that possibly emphasized middle class concepts and values.

Organizations that intend to compete through people must invest in a selection process geared specifically towards bringing members into the organization. Bringing in the best talent and the process of how to choose organizational members are important, in order to sustain a competitive advantage through people in the organization. Research shows that selection practices are related to firm performance (Becker & Huselid, 1992; Snell & Dean, 1992; Terpstra & Rozell, 1993).

### 1.2.6 Promotion and Career Development

An aspect of staffing which deals primarily with internal workforce is that of extending promotion opportunities to its organizational members. Offering opportunity for advancement within the organization and promoting its employees is a form of recognizing their accomplishments. This signals to employees that the organization values their contribution and is willing to invest in them further by promoting them into position of greater responsibility. Wayne et al (1997) found that the number of promotions received by employees was positively related to POS.

The bulk of research in the careers area has moved beyond organizations to focus on more flexible, individual models such as the “Boundaryless Career” (Arthur & Rousseau, 1996), “Protean Career” (Hall, 1976, 1996), and “Post-corporate career” (Peiperl & Baruch, 1997). Clearly the wave of the future for many people, such careers nonetheless still involve links between organizations and individuals, although in a less structured or permanent way (Brousseau, Driver, Eneroth, & Larsson, 1996).

**Rhoades and Eisenberger (2002)** suggested that providing potential career opportunities such as training and promotions may imply a high level of concern for employees and the recognition of their contributions by the organization. Since these organizational actions go beyond what is mandated by company policy or union
contract, employees are likely to view them as discretionary treatment by the organization that are indicative of organizational caring and support (Eisenberger et al., 1997; Shore & Shore, 1995). Eisenberger et al. (1999) also held that opportunities for recognition and promotion have positive associations with POS.

Past research has provided some evidence that career development opportunities offered by the organization may enhance POS beliefs. (Tetrick, Shore, and Miles, 1994; Shore & Shore, 1995) concluded that training provided by the organization is a predictor of POS. Wayne et al. (1997) found that developmental experiences and promotions both have significant positive impact on employees’ perceptions of organizational support. In addition, Meyer and Smith (2000) also detected a positive relationship between career development and perceived support from the organization.

Career consists of both attitudes and behavior and that it is an ongoing sequence of work related activities. It must be understood that a person’s non-work life and roles play a significant part in a career. Career development involves an organizational, formalized, planned effort to achieve a balance between the individual’s career needs and the organizations work force requirements. Career development system enables organization’s to tap their wealth of in-house talent for staffing and promotion by matching the skills, experience and aspirations of individuals to the needs of the organizations.

Career development enables the organization to make informed decisions around compensation and succession planning to attract, retain and motivate the employees, resulting in a more engaged and productive work force. The fast paced and continual evolution of technology makes properly implemented career development programs imperative for IT organizations. The constant changes in the highly changing IT sector make the concept of lifetime specialization obsolete. IT professionals will not only change jobs frequently during their careers, but also they are likely to change careers (Elitte, 1992).

For IT Professionals to remain valuable assets to corporations in the technology field they must constantly strive to upgrade their skills. During their training experiences, IT employees will be exposed to a variety of career alternatives, which
will lead many of them to switch career paths (Samson SamGnanakkan, 2009). Career development programs are designed to instigate and accompany employees on journeys of self-awareness, with the purpose of communicating to employees that the organization can accommodate career shift choices. Successful career development programs enhance retention by helping IT organizations keep pace with rapid technological evolution and changing employee requirements.

Research has indicated that the retention and development of young, talented employees can be increased by a number of different organizational practices. Employees at any level of the organization accumulate skills through their experiences and therefore must also have access to systematic career development.

1.2.7 Decision Making

Participation in decision making and the opportunity to voice one’s opinions gives employees a degree of control over decisions that concern their work. By doing so, the organization entrusts the employee to make decisions in the organizations interest, which implies that the organization both trusts the employee as well as values his / her contribution. Studies on participation and decision making have found a relationship to POS.(Allen et al., 2003; Wayne et al.,2002)

There has been a steady rise in the adoption of participatory management techniques and strategies in organizations nationally and internationally(Erez, Earley and Hulin,1985). Participatory management practices attempt to diminish the hierarchical structure of the organization in order to involve managers and subordinates in information processing, decision making or problem solving endeavors(Wagner, 1994).

Employee participation is “a conscious and intended effort by individuals at higher level in an organization to provide visible extra role or role-expanding opportunities for individuals or groups at a lower level in the organization to have a greater voice in one or more areas of organizational performance”. (Glew, O’leary-Kelly, Griffin & Vanfleet, 1995). Employee involvement enhances competitive advantage by increasing productivity, reducing costs, and improving quality and services.
Empirical studies have shown that high involvement work practices are associated with firm performance (Applebaum, Bailey, Berg, & Kalleberg, 2000). Specifically, high involvement work practices were found to be related to lower quit rates and employee retention (Batt, 2002; Guthrie, 2001; Vandenberg et al., 1999), higher sales growth (Batt, 2002), firm productivity (Guthrie, 2001), and return on equity (Vandenberg et al., 1999). In the POS literature inclusion was also found to be related to POS (Allen et al., 2003; Wayne et al., 2002).

Increased participation in decision making by lower-level members of the organization has been found to have a positive effect on the efficiency of the decision making process (Heller, Drenth, Koopman, & Rus, 1988). Research has shown that employees who participate in decisions involving them have higher levels of organizational commitment (Boshoff & Mels, 1995).

Research on judgments and decision making indicates that rational reasoning and intuition are distinct processes, each leading to different outcomes for the same problem-solving tasks (Kahneman, 2003). Managers are susceptible to judgment and decision making errors arising from the use of heuristics because of the substantial demands on their time and the need to make decisions under conditions that often are ambiguous and complex (Mintzberg, 1990).

1.3 ORGANIZATIONAL SUPPORT THEORY: A MICRO APPROACH TO STUDY HR PRACTICES

There is another stream of HR research that focuses on HR practices and employee outcomes. This is a micro view as researchers in this area, study the impact of HR practices on employee outcomes. Building on somewhat limits research conducted to date on HR practices and POS, this study proposes to examine the employee’s assessment of the quality of HR practices on their perceptions of perceived organizational support (POS).

Organizational support theory offers an interesting perspective for providing a better understanding of the impact of HR practices on outcomes. Perceived organizational support (POS) is based on the exchange relationship between the individual employee and the organization (Eisenberger, Huntington, Hutchinson, &
Sowa, 1986), and is an indicator of the overall exchange quality between an individual and the organization. Organization support theory suggests that if an employee perceives that the organization cares about his/her well-being and values his/her contributions, the employee will feel a sense of obligation to return favorable treatment.

Among relevant research, Settoon, Bennett, and Liden’s (1996) study provides support for the exchange relationship that exists between employees and the organization. These researchers found positive action aimed at employees by the organization results in employees reciprocating positively towards the organization. According to studies on POS, this sense of obligation manifests itself in outcomes including affective commitment, job satisfaction, withdrawal behavior, in-role and extra role (Allen, Shore, & Griffeth, 2003; Eisenberger et al., 1986; Eisenberger, Fasolo, & David-LaMastro, 1990; Eisenberger, Armel, Rexwinkel, Lynch & Rhoades, 2001; Eisenberger, Stinghla, Sucharski, &Rhoades, 2002; Rhoades, Eisenberger, & Armel, 2001; Rhoades & Eisenberger, 2002; Settoon et al; Wayne, Shore, & Liden, 1997; Wayne, Shore, Bommer, & Tetrick,2002).

HR practices which are intended to enhance the organization’s human capital (such as training and development) are an optional investment and discretionary, and therefore, should contribute to POS. Wayne and colleagues (1997) argue that human resource practices which make available resources and material rewards should therefore influence employee perceptions of POS. In their study, they found that developmental experiences have a positive impact on POS.

Based on the findings of the studies on POS, the notion of organizational support is accepted as being important in enhancing organizational effectiveness. These perceptions of organizational support (POS) have been linked to a number of important employee outcomes including job satisfaction, commitment, turnover intentions, and performance (Allen et al., 2003; Cropanzano, Howes, Grandey, & Toth, 1997; Eisenberger et al., 1990; Eisenberger et al., 1986; Nye & Witt, 1993; Settoon et al., 1996, Shore & Tetrick, 1991; Wayne et al., 1997; 2002). Although studies have found a link between POS and important antecedents and outcomes, few studies have examined the relationship between HR practices and POS.
The impact of HR practices on POS is attributed to the organization’s investment in HR initiatives which signal to employees that the organizational care about their well-being and values their contributions. For example Eisenberger et al., (1997) suggest that when organizations invest in and provide recognition for employees they are encouraging the development of POS. The somewhat limited work in this area of study suggest that POS provides an explanation for the process by which HR practices impact employee outcomes, and that HR practices are an important source of employee perceptions of organizational support.

SHRM and POS are two very distinct areas of study. The SHRM literature focuses predominantly on organizational factors and outcomes while POS studies the individual employee’s perceptions. However, the research conducted in the SHRM literature and the POS research with respect to HR practices is analogous, and these similarities support the integration of the two perspectives. The parallels between these two disciplines exist in that they both focus on: 1) the mechanism through which HR impacts organizational effectiveness; 2) work related behaviors that support organizational goals; and 3) the discretionary component of HR practices which implies optional investment by the organization in its human capital. By studying HR practices effect on employee perceptions of the organization and the outcomes of POS (as the mechanism through which this occurs), we can work towards developing a better understanding of the mediating behaviors that explain more of the relationship between HR practices and firm outcomes.

Ostroff and Bowen (2000) point out that over the last twenty years research in the area of HR has clearly been represented at the extremes of the macro-micro continuum. They suggest the integration of perspectives would enhance the understanding of the linkages between HR practices and firm effectiveness. Integrating the strategic human resource management (SHRM) literature and Perceived organizational support (POS) theory, the researcher develop a model on the impact of HR practices on employees attitudes and behaviors which are believed to have an impact on organizational outcomes.

HR practices are those which the organization chooses to invest in, are typically more strategically focused, and are different from those which are transactional. HR
practices are those which imply optional investment in the human capital of the organization in programs and practices such as those included in the selection, training and development, participation and involvement, pay for performance, and performance management initiatives.

SHRM theorists, maintain that through progressive human resources practices, firm specific capabilities are developed by building knowledge and assets, and thereby, creating and sustaining a competitive advantage (Rindova & Fombrun, 1999, Wright and McMahan, 1992; Wright et al., 1995). By investing in and implementing programs that develop and motivate people, organizations create their competitive advantage through people (Pfeffer, 1994; Schuler & MacMillan, 1984; Ulrich, 1991; Wright & McMahan, 1992).

The researcher draw from the work conducted in SHRM which proposes that investment in human capitals leads to competitive advantage, and integrate it with organizational support theory which argues that discretionary investment leads to a sense of obligation to reciprocate with behavior which would benefit the organization. The researcher, therefore, propose a framework of HR practices as those that satisfy the following conditions: 1) are considered an optional investment by the organization (versus a cost of doing business); 2) are an investment in human capital of the organization; 3) are perceived by employees as providing material rewards and resources; and therefore, 4) result in a sense of obligation to reciprocate with behavior which benefits the organization (such as those required to accomplish the strategic goals of the organization). The core HR practices include training and development, developmental opportunities, pay for performance, performance management, staffing and selection, decision making.
1.4 HUMAN RESOURCE PRACTICES AND ORGANIZATIONAL OUTCOMES

Many studies conducted in the 1990’s found consistent support for the relationship between HR practices and firm performance. In a study of 293 publicly held firms, relationship between HR effectiveness and productivity, cash flow, market value and firm performance were found to be significant (Huselid et al., 1997). Investments in high performance for practice’s were found to be associated with turnover, productivity and corporate financial performance (Huselid 1995).

HR systems that focused on human capital development were found to be directly related to operational performance in (Youndt et al., 1996) study of various industries. Terpstra and Rozell (1993) found a positive relationship between organization’s use of staffing practices and annual profit and profit growth. Snell and Youndt (1995) found that even executives posture toward HR practices can directly affect the bottom line. Studies in manufacturing found result oriented appraisal systems, employment security and profit sharing were positively related to return on assets (Nell and Youndt, 1995).

Katz and colleagues (1985) found strong evidence of an association between industrial relations practices and economic performance. Relevant to this research proposal, intermediate links have been found to exist between HR practices and firm performance. These mediating effects include productivity (Arthur, 1994; Bartel, 1994; Huselid, 1995:1997; Guthrie, 2001; Ichniowski, Sha & Prennushi, 1997; MacDuffie, 1995), turnover (Arthur, 1994; Batt, 2002; Guthrie, 2001; Huselid, 1997; Richard & Johnsons, 2001; Sha, Delery, Jenkins, & Gupta, 1998;Vandenberg, 1999), quality (MacDuffie, 1995), and safety (Sha et al., 1998).

With respect to organizational commitment, organizations and their employees are in an exchange relationship (Angle and Perry 1981). Each party makes demands on the other, and each party provides something in return. Thus, employees exchange performance for reward within an organizational structure. There are several types of reward; however, compensation is usually considered to be the primary reward for performance. Compensation is a manifestation of gain sharing between and organization and its employees.
Significant increase in labour productivity occurred following implementations of training programs (Bartel, 1994). (MacDuffie’s, 1995) Study revealed that bundles of HR practices contributed to productivity and quality and the presence of high commitment practices was found to be positively related to productivity and turnover (Arthur 1994).

1.4.1 Outcomes of POS

Much of the work on POS has focused on its outcomes or consequences. Based on the norm of reciprocity (Gouldner, 1960), if the employee perceives that the organization cares about his/her well being and values his/her contributions, the employee will feel essence of obligation to return to favorable treatment. This would suggest that when employees feel that the organization cares about their well being, exemplified by what they perceive to be highly valued resources (such as those provided by discretionary HR practices), they would feel obligated to reciprocate by helping the organization reach its objectives. Empirical evidence supports the view that POS creates feelings of obligation to support the organization, and that this manifests itself in work related attitudes and behaviors including increased commitment, job satisfaction, performance, citizenship behaviors and reduced intentions to leave (Allen et al., 2003; Cropanzano et al., 1997; Eisenberger et al., 1990; Eisenberger et al., 1986; Nye & Witt, 1993; Setton et al., 1996; Shore & Titrick 1991; Wayne et al., 1997; 2002). In this study the researcher, further examine employee attitudinal and behavioral outcomes of POS as influenced by HR practices.

1.4.2 Attitudinal Outcomes

1.4.2.1 Organizational Commitment

Organizational commitment refers to the identification with organizational goals, willingness to exert effort on behalf of the organization, and interest in remaining with the organization (Mowday, Porter & Steers, 1982). Affective commitment is the employees emotional bond and attachment to the organization.

Eisenberger and colleagues (1986) suggest that employees become more committed to their organization when they feel the organization is committed to them and that employees with high levels of POS will display more commitment to the
organization. Research indicates that POS and Affective commitment are strongly related and that POS is distinct from commitment (Cropanzano et al., 1997; Eisenberger et al., 1990, Guzzo, Noonan, & Elron, 1994; Hutchinson, 1997; Shore & Tetrick, 1991; Shore and Wayne, 1993, Settoon et al., 1996; Wayne et al., 1997). In addition (Rhoades et al., 2001) recently found that POS is positively related to temporal changes in affective commitment suggesting a casual relationship between POS and commitment, and that POS leads to affective commitment.

1.4.2.2 Turnover Intention

Social exchange theory (Blau, 1964) and Organizational support theory (Eisenberger et al., 1986) suggest that employees who receive high levels of support from the organization are inclined to repay the organization. One essential way to reciprocate the organization’s favorable treatment is through continued participation (Allen, Shore, & Griffeth, 2003; Wayne et al., 1997). As Allen et al., (2003) argued, March and Simon’s (1958) ground work on the inducements-contributions relationship between the organization and the employees also indicates that employees who receive more support as part of the inducements offered by the organization would have less desire to leave the organization.

POS research provides some evidence in support of this proposition. For example, Guzzo et al., (1994) found that expatriate managers who perceive higher levels of support from the organization were less likely to seek employment elsewhere. The negative relationship between POS and turnover intention was also evident in some other studies (Wayne et al., 1997; Eisenberger et al., 2001). Rhoades and Eisenberger (2002) concluded that desire to remain with an organization had a large, positive relationship with POS.

1.4.3 Behavioral Outcomes

1.4.3.1 Organizational Citizenship Behavior

Organizational Citizenship behaviors (OCB) are extra-role behavior (Bateman & Organ, 1983). According to Organ (1988), OCB represents individual discretionary behavior that is not explicitly recognized by a formal reward system, yet promotes the efficient and effective functioning of the organization.
According to organizational support theory, when employees feel that the organization cares about their well being, exemplified by what they perceive to be highly valued resources (such as those provided by the investments in discretionary HR practices), they feel obligated to reciprocate by helping the organization reach its objectives with behaviours that are considered beneficial to the organization. Empirical evidence supports the view that POS creates feelings of obligation to support the organization and that this manifests itself in work-related behaviours including extra-role behaviours or organizational citizenship behaviors (Kaufmen, Stamper, & Tesluk, 2001; Masterson, et al., 2000; Moorman et al., 1998; Shore & Wayne, 1993; Wayne et al., 1997; 2002).

While these studies consistently found that POS and OCB are related, most have studied one dimension of OCB. Alturism, and helping behavior, which captures behaviour directly intended to help a specific person, has been the predominant focus of studies on OCB and POS. Masterson et al., (2000) found that the civic virtue dimension of OCB was related to POS.

1.4.3.2 Performance

Based on organizational support theory the perception of being valued and cared about by the organization will lead an individual to reciprocate by helping the organization reach its goals with higher individual performance. Empirical evidence supports the view that POS creates feelings of obligation to support the organization, and that employees who feel they are supported by the organization will reciprocate with better performance (Eisenberger et al., 1986; 1990; 2001; Rhoades & Eisenberger, 2002; Wayne et al., 1997).

1.5 CONTRIBUTION TO THE STUDY

This research both complements and builds on the work conducted on the relationship between HR practices and POS. In contrast to prior POS research that has focused on individual aspects of an HR practice, the researcher identified core HR practices to explore their relative importance as predictors of POS. Drawing from the SHRM literature and practices that have been found to impact firm performance, the researcher argue that the quality of HR practices from an employee’s perspective leads to the development of POS.
There has been no established measure to assess the quality of HR practices from the employee’s perspective, and therefore, this study addressed that issue by developing a measure of quality of HR practices from the employee’s perspective.

Furthermore, the researcher propose studying additional outcomes of POS that would provide the organization with a competitive advantage and ultimately lead to enhanced organizational performance. The outcomes are organizational citizenship behaviors directed at the organization (as well as an individual). Finally, this study will allow the researcher to determine the direction of the relationship between HR practices and POS. In summary, this study suggests that core HR practices are the factors in influencing the employee’s perceptions of organizational support, and that a more comprehensive approach to studying the impact of HR practices is important in both the SHRM and POS literatures, in order to enhance understanding of the true impact of HR practices on employee’s attitudinal and behavioural outcomes.

1.6 CHAPTER SCHEME

The first chapter deals with the introduction followed by second chapter on literature review. The third chapter describes the research design. The fourth chapter is on analysis of data and the fifth chapter deals with findings, suggestion and conclusions. Finally the bibliography and appendices are included.