CHAPTER-I

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Significance of HR

Human resource is the most strategic resource and no other resource can be fully utilized to generate income and wealth of a nation without the active involvement of this resource. It is pertinent to mention that human resources are primarily responsible for making use of physical and natural resources and for the transformation of traditional economies into modern and industrial economies. Human resource accounts for a large part of national output and there exists a wide scope for increasing national wealth through their proper development. Human factor provides value to physical resource and necessary dynamism in the economy.

As Ginzer Berg points out that the key elements such as values, attitudes, general orientation and the quality of the people of a country determine its economic development. However he says that human resources are being wasted through unemployment, disguised unemployment, obsolescence of skills, and lack of work opportunities, poor personnel practices and the hurdles of adjusting to change.

According to Werther and Davis human resource infer the people who are readily willing and are able to contribute to organizational goals. Human resources have also been designated as human factor and it refers to a whole consisting of interrelated, inter-dependent and inter-acting psychological, physiological, sociological and ethical components. Human resource is the most potential and versatile resource. Its effective utilization is a “sine qua non” of the rate of growth of any economy regardless of the structure and
system of economy and the governance. No society and no nation can be proud of its human resource unless there is a systematic and sustainable development of capacities of its people and convert the human resource into human capital.¹⁶

A nation may be endowed with abundant natural, physical resources. Capital and technology but unless there are competent people who can mobilize, organize and harness the resources, it can't be converted into economies of scale.⁷ Galbraith⁸ a renowned economist also opined that well-educated and well-trained workforce was not only an economic source but was a nation's greatest form of capital. Therefore it is a pre-condition for economic growth as the rapid rate of physical capital formation.

The significance of human resource as the greatest asset of an organization assumes highest importance since it constitutes the organization's intangible and valuable resource.⁹ The term human resources can be thought of as, “the total knowledge, skills, creative abilities, talents and aptitudes of an organizations' workforce, as well as the value, attitudes and beliefs of individuals involved”.¹⁰ A nation with abundance of physical resources will not benefit itself unless human resources make use of them.¹¹

Lack of organization of human resources is largely responsible for the backwardness of the nation.¹² The shift from manufacturing to service and the increasing pace of technological change are making human resource the ingredient to the nations' well-being and growth. In service-oriented industry like banks, railways the quality, quantity and utilization of human resources become more important.¹³
Human resource plays a crucial role in the development process of modern economies. Lewis observed that “there are great differences in development between countries though have equal resources, which makes the necessary differences in human behaviour”. In a nutshell the difference in the level of economic development of the countries is largely a reflection of the difference in quality of their human resources.

Jucius calls these resources “human factors, which refer to “whole consisting of inter-related, inter-dependent and interacting physiological, psychological, sociological and ethical components”. In the words of Oliver, Sheldon, “no industry can be rendered efficient so-long as the basic fact remains un-recognized that it is principally human. It is not mass of machines and technical processes, but a body of men. It is not a complex of matter, but a complex of humanity. It fulfills its function not by virtue of some impersonal force, but a human energy.

To fulfill their basic role and achieve their goals, HRM professionals and departments engage in a variety of activities in order to execute their human resource plans. HRM implementation activities fall into four functional groups, each of which includes related legal responsibilities: acquisition, development, compensation, and maintenance.

**Core activities for HR**

*Human Resource Planning*: Acquisition duties consist of human resource planning for employees, which includes activities related to analyzing employment needs, determining the necessary skills for positions, identifying job and industry trends, and forecasting future employment levels
and skill requirements. These tasks may be accomplished using such tools and techniques as questionnaires, interviews, statistical analysis, building skill inventories, and designing career path charts. Four specific goals of effective human resource planning are: 1) Sustaining stable workforce levels during ups and downs in output, which can reduce unnecessary employment costs and liabilities and increase employee morale that would otherwise suffer in the event of lay-offs. 2) Preventing a high turnover rate among younger recruits. 3) Reducing problems associated with replacing key decision makers in the event of an unexpected absence and 4) Making it possible for financial resource managers to efficiently plan departmental budgets.

Human resource planning is fundamental as an organization seeks to maintain and improve its ability to achieve corporate objectives by developing strategies which are designed to increase the present and future manpower. It is a great difficulty in forecasting future demand because of the changes in the areas of technology where there are changes in materials, technical systems and methods of power, the economy where there is consideration of markets and capital formation, the social aspect where there is consideration on population trends, education and population mobility and finally political where there changes in industrial relations.

Advantages of human resource planning may be that the right number of staff is recruited at each level in the hierarchy and the staffing requirements can be better balanced and movement of staff made easier to live up to the expectations of the public. As businesses face increasing competitive challenges, the need to increase productivity becomes ever more important. It has become cliché to say that a business needs the “right” people, in the”
right” place, at the “right” time—although that is critical to strategy. Staffing considerations are becoming more important because human resource costs are commanding larger portions of an organization’s financial resources. These costs not only include salaries and wages paid to employees but also the costs of recruiting, hiring and training employees.

Thus the need for human resource planning has become an ever more important aspect of the business planning process states that planning for human resources is more important than ever as competitive advantage is sought through superior service, quality, lower costs and organizational effectiveness. The increased emphasis on productivity, quality and service, executives now recognize that attention to the financial and technological side of business must be balanced by attention paid to planning for human resources.

The acquisition function also encompasses activities related to recruiting workers, such as designing evaluation tests and interview methods. Ideally, the chief goal is to hire the most-qualified candidates without encroaching on federal regulations or allowing decision makers to be influenced by unrelated stereotypes. HRM departments at some companies may choose to administer honesty or personality tests, or to test potential candidates for drug use. Recruitment responsibilities also include ensuring that the people in the organization are honest and adhere to strict government regulations pertaining to discrimination and privacy. To that end, human resource managers establish and document detailed recruiting and hiring procedures that protect applicants and diminish the risk of lawsuits.
Recruitment & Selection: The process of staffing employees in the organization consists of finding, evaluating, and assigning people to work. HRM activities involved in getting the right person on the right place (employee skills and organizational structure) contribute to higher productivity. In addition, research has shown that implementing an effective staffing process (selectivity in staffing) is positively related with organizational performance. It is also found that sophisticated recruitment and selection procedures are positively related to labour productivity.

Recruitment is a process to discover the sources of man power to meet the requirement of the staffing schedule and to employ effective measures for attracting that manpower in adequate numbers to facilitate effective selection of an efficient working force.

There are two general sources of recruiting—internal and external. The internal source of recruitment means giving preference to suitable candidates from among the current employees in an organization. Many large organizations attempt to develop their own employees for senior positions such as present temporary employees died while in service, retrenched employees, laid-off employees, promotions, transfers and demotions.

The advantages of internal recruitment policy by promoting from within wherever possible i.e. it builds good public relations, it improves employee’s morale, it encourages good individuals who are ambitious, it improves the probability of a good selection since the information on the individual’s performance is readily available, it involves less cost than going outside to recruit. Those chosen internally already know the organization, when carefully
planned, promoting from within can also act as a training device for developing middle and top managers.

An external source of recruitment is a process that recruits from outside the organization, facilitates the entry of new people and ideas in the organization, they are direct applicants via walk-in-interview, advertisement of vacancies, private placement agencies, government employment exchanges, campus recruitment, head hunters, military, professional associations and internet based recruitment.

The advantages of external sources of recruitment are: attain adequate and suitable people with multi skills and up to date, knowledge available in the market, infusing young blood. Fresher’s can be mould according to the organizational culture and the mind set also can be tuned on the requirements of the organization.

Selection is a process of matching between the skills of the individual and the requirements of job. The selection process plays a pivotal role in the entire human resource issues. Care has to be taken in hiring decisions, as these decisions affect not only the career of the individual but also the future of the organization. The fluid nature of employment more evident in the 1980s implies that selection process requires greater thought and emphasis because, although employees may work with the organizations for shorter and shorter periods of time, the quantity and quality of output required will be greater and greater.\textsuperscript{20}

The purpose of selection is to pick up the most suitable candidate who would best meet the requirements of the job and the organization. In the other
words, to find out which job applicant would be successful, if hired. To meet this goal, the company obtains and assesses information about the applicants in terms of age, qualifications, skill, and experience.

The standardized process of selection beginning with an initial screening interview and concluding with the final employment decision. Preliminary screening and interview helps the organization to eliminate misfits among applicants at the first and second stages, a completed application form help predict the candidate’s chances of success in the job. Third stage, employment tests like intelligence tests, aptitude tests, personality tests, projective tests interest tests and achievement test interviews by the employer is used to assess the applicant’s personality and also intelligence, interests, general attitude etc. Suitable selection interview method includes structured, unstructured, unstructured and stress interview. After all the above steps are completed, the final stage is hiring decision. The management makes the final decision as on hiring candidate.

The step immediately succeeding the selection process is ‘placement’. Placement refers to the actual procedure wherein an individual is assigned with a job. It is final decision taken by the management as to the position, which needs to be occupied by the applicant. It also involves assigning specific rank and responsibility to an employee. This decision is taken after matching the requirements of a job with qualification of a candidate. Placement is an important activity because when handled carefully, it reduces absenteeism and employee turnover, prevents accidents and reach expectations. When the placement does not match with the skills of individuals, employees experience frustration, feeling of neglect etc. To avoid
this, organizations undertake the process of induction. Induction is a technique by which a new employee is rehabilitated into the changed surroundings and introduced to the practices, policies, and purposes of the organization.

**Human Resource Development:** Human resource development, which is the second major HRM function, refers to performance appraisal and training activities. The basic goal of appraisal is to provide feedback to employees concerning their performance. This feedback allows them to evaluate the appropriateness of their behavior in the eyes of their coworkers and managers, correct weaknesses, and improve their contribution. HRM professionals must devise uniform appraisal standards, develop review techniques, train managers to administer the appraisals, and then evaluate and follow up on the effectiveness of performance reviews. They must also tie the appraisal process into compensation and incentive strategies, and work to ensure that federal regulations are observed.

As HRD is a process in which the employees of an organization are continually helped in a planned way to acquire or sharpen capabilities, they required to perform various functions associated with their present or expected future roles. Also through develop their general capabilities, discover their own inner potentialities and exploit them fully for their own and organization development purpose. Then it leads to develop an organizational culture where superior-subordinate relationship, team work and collaboration among different sub-units are become strong and contribute the organizational health, dynamism and pride of employees.
Many HRD mechanisms are available to develop the competencies of employees and improve the overall organizational climate; they are performance appraisal, potential appraisal, career planning and career development, training and development, organizational development, quality of work life, human resource information system and other subsystems like feedback, counseling, coaching, human resource information system.

HRD activities include the determination, design, execution, and analysis of educational programs. Orientation programs, for example, are usually necessary to climate new hires to the company. The HR training and education role may encompass a wide variety of tasks, depending on the type and extent of different programs. In any case, the HRM professional ideally is aware of the fundamentals of learning and motivation, and must carefully design effective training and development programs that benefit the overall organization as well as the individual. Training initiatives may include apprenticeship, internship, job rotation, mentoring, and new skills programs.

Performance Appraisal: Performance appraisal represents, in part, a formalized process of worker monitoring and is intended to be a management tool to improve the performance and productivity of workers. Performance appraisal, the process of observing and evaluating employees’ performance and providing feedback, is a potentially important method for developing an effective workforce. Performance appraisal is also used as mechanism for improving employee performance. It is widely recognized as the primary human resource management intervention for providing feedback to individuals on their work-related achievements. Hence, performance appraisal
can be used as an aid in making decisions pertaining to promotion, demotion, retention, transfer, and pay. It is also employed as a developmental guide for training needs assessment and employee feedback. Employee commitment and productivity can be improved with performance appraisal systems.

Compensation: Compensation, the third major HRM function, refers to HRM duties related to paying employees and providing incentives for them. HRM professionals are typically charged with developing wage and salary systems that accomplish specific organizational objectives, such as employee retention, quality, satisfaction, and motivation. Ultimately, their aim is to establish wage and salary levels that maximize the company's investment in relation to its goals. This is often successfully accomplished with performance based incentives. In particular, HRM managers must learn how to create compensation equity within the organization that doesn't hamper morale and that provides sufficient financial motivation. Besides financial compensation and fringe benefits, effective HRM managers also design programs that reward employees by meeting their emotional needs, such as recognition for good work.

In the era of globalization, where the business environment has become increasingly complex and challenging, structuring an effective compensating package to attract and retain talent is an important function of the organization effectiveness. In the recent past, several changes have taken place in compensation packages. There has been a tremendous increase the diversity of pay package offered by organizations.
Beach visualized four objectives of wages and salary administration system including recruitment of people in the company, control of payroll costs, satisfaction of individuals and reduction of their voluntary separation and grievances. Compensation administration intends to develop the lowest cost pay structure that will not attract, inspire and motivate capable employees but also be perceived as fair by these employees establishing pay rates involves five steps: evaluate jobs, induct salary survey, develop pay grades, use wage curves, and fine tune pay rates. The pay structure of a company depends of several factors such as labour market conditions, company’s paying capacity, legal provisions prevailing wage rates, demand and supply of labour, degree of unionization etc. The wage policy in India is built around certain cardinal principles: equal pay for equal work, living wage for all workers so that they lead a decent life, payment of wages on appointed dates without unauthorized deductions, resolving wage elated issues through collective bargaining, payment of statutory bonus as per legal provisions, ensuring a fair, equitable wage plan for various employees without significant wage differences etc\textsuperscript{24}.

*Industrial Relations*: Industrial relations systems can be divided into two categories, such as traditional (old) and modern (new) systems. Traditional systems of industrial relations developed during 1950s and 1960s in UK and USA. This system is less relevant today because of massive changes that have taken place in industrial relations settings since 1970s. However, this system provides a useful backdrop to the new developments and awareness with it is essential to understanding the meanings of the new system. This modern version of industrial relations conceived as the formal and informal
relationships existing between employers and trade unions and their members. There is a move away from collectivism towards individualism in which employers relate to their employees.

In India, the directive principles of state policy are among the core guiding factors influencing the labour policy, supported by the various five – year plan documents. The government of India has been making conscious attempts to improve economic and social condition right from the first five year plan, especially the sixth five year plan made comprehensive policy statements on labour and the objectives of the plan were effective implementation of welfare measures, programmes for improving workers education etc.

The industrial relations system in India sought to control conflicts and disputes through excessive labor legislation. These labor laws were protective in nature and covered a wide range of aspects of workplace industrial relations like laws on health and safety of labors, layoffs and retrenchment policies, industrial disputes.

The basic purpose of these laws was to protect labor. However, these protectionist policies created an atmosphere that led to increased inefficiency in firms, over employment and inability to introduce efficacy. With the coming of globalization, the 40 year old policy of protectionism proved inadequate for Indian industry to remain competitive as the lack of flexibility posed a serious threat to manufacturers because they had to compete in the international market. The industrial relations policy began to change. Now, the policy was tilted towards employers. Employers opted for workforce reduction, introduced
policies of voluntary retirement schemes and flexibility in workplace also increased. Thus, globalization brought major changes in industrial relations policy in India. Over the years, with the rapid industrialization of India, a massive organized sector employing a large workforce has come to occupy an important and visible part of the country’s economic life.

The industrial way of life has brought in its wake a host of concerns and issues, which have led to periodic discussion. As a result, a set of relationships in a totally different work context has been established. As organizations grew, and many new ones were established, people who developed and contributed to their viability created a new work environment. Hence, a new industrial culture has emerged which has given birth to industrial relations. Industrial relations constitute one of the most delicate and complex problems of the modern industrial society which is characterized by rapid change, industrial unrest and conflicting ideologies in the national and international spheres. It is dynamic concept, which depends upon the pattern of society, economic system and political setup of a country and changes with the changing economic and social order. It is an art of living together for the purpose of production, productive efficiency, human well-being and industrial progress. Due to this rapid industrialization and the increase in the number of industries which has let to industrial unrest industrial relations has become one of the most important topics of the modern industrial society.

Models of Human Resource Management

Various models of HRM have been developed from time to time by different teams of the researchers. All these models have helped the HR
practitioner to effectively manage the human resources. Some of the important models have been discussed as follows:

Harvard Model: The Harvard model\textsuperscript{26} works as a strategic map to guide all managers in their relations with employees and concentrates on the human or soft aspect of HRM. It strives at employee commitment not control. It also works on the premise that employees needed to be congruent, competent and cost effective.

Michigan Model: The Michigan model\textsuperscript{27} focuses on hard HRM. It holds that people should be managed like any other resources and so obtained cheaply, used sparingly, developed and exploited fully. It also emphasized the interrelatedness of HRM activities. According to this model, selection, appraisal, development and rewards were geared towards organizational performance.

Guest Model: Guest comparative model\textsuperscript{28} works on the premise that a set of integrated HRM practices will result to superior individual and organizational performance. It advocates a significant difference of HRM from PM. It holds that HRM strategies like differentiation, innovation, the focus on Quality and cost reduction will lead to practices like better training, appraisal, selection, rewards, job designs, involvement, and security leading to more quality outcomes; commitment and flexibility. It will then affect performance in that productivity will increase; innovation will be achieved as well as limited absences, labour turnover, conflict or customer complaints.

Warwick Model: This model\textsuperscript{29} was developed by Hendry and Pettigrew at centre for strategy and change, Warwick University in early 1990s. It
emphasizes on analytical approach to HRM. It also recognizes the impact of the role of the personnel functions on the human resource strategy content. The researcher focused their research on mapping the context, identifying the inner (organizational) and external (environmental) context.

**Maintenance of HRM**

Human resource maintenance activities related to safety and health usually entail compliance with federal laws that protect employees from hazards in the workplace. Regulations emanate from the federal occupational safety and health administration, for instance, and from state workers’ compensation and federal environmental protection agency laws. HRM managers must work to minimize the company's exposure to risk by implementing preventive safety and training programs. They are also typically charged with designing detailed procedures to document and handle injuries.

Maintenance tasks related to worker-management relations primarily includes working with labor unions, handling grievances related to misconduct such as theft or sexual harassment, and devising systems to foster cooperation. Activities in this arena include contract negotiation, developing policies to accept and handle worker grievances, and administering programs to enhance communication and cooperation.

At the same time the maintenance of HRM encompasses the activities related to employee benefits, safety and health and worker-management relations. Employee benefits are non-incentive-oriented compensation, such as health insurance and free parking, and are often used to transfer no taxed compensation to employees. The three major categories of benefits managed
by HRM managers are employee services, such as purchasing plans, recreational activities, and legal services vacations, holidays, and other allowed absences and insurance, retirement, and health benefits. To successfully administer a benefits program, HRM professionals need to understand tax incentives, retirement investment plans, and purchasing power derived from a large base of employees.

**Evaluation of HRM methods**

One of the most critical aspects of HRM is evaluating HRM methods and measuring their results. Even the most carefully planned and executed HRM programs are meaningless without some way to judge their effectiveness and confirm their credibility. The evaluation of HRM methods and programs should include both internal and external assessments. Internal evaluations focus on the costs versus the benefits of HRM methods, whereas external evaluations focus on the overall benefits of HRM methods in achieving company goals. Larger human resource departments often use detailed, advanced data gathering and statistical analysis techniques to test the success of their initiatives. The results can then be used to adjust HRM programs or even to make organizational changes.

Some experts in HRM explored the "4 Characters viz., commitment, competence, cost-effectiveness, and congruence.," which should be used to determine whether an HRM department or individual program is succeeding or not. In testing commitment, the HRM manager asks to what extent policies enhance the commitment of people to the organization. Commitment is necessary to cultivate loyalty, improve performance, and optimize cooperation among individuals and groups.
Competence refers to the extent to which HRM policies attract, keep, and develop employees. The HRM policies result in the right skills needed by the organization being available at the proper time and in the necessary quantity. Likewise, cost-effectiveness, the third factor, measures the fiscal proficiency of given policies in terms of wages, benefits, and absenteeism, turnover, labor/management disputes. Finally, analysis of congruence helps to determine how HRM policies create and maintain cooperation between different groups within and outside the organization, including different departments, employees and their families, and managers and subordinates.

In addition to advanced data gathering and analysis techniques, several simple observations can be made that provide insight into the general effectiveness of a company's human resources. For example, the ratio of managerial costs to worker costs indicates the efficiency of an organization's labor force. In general, lower managerial costs indicate a more empowered and effective workforce. Revenues and costs per employee, when compared to related industry norms, can provide insight into HRM effectiveness.

Furthermore, the average speed at which job vacancies are filled is an indicator of whether or not the organization has acquired the necessary talents and competencies. Other measures of HRM success include employee complaint and customer satisfaction statistics, health insurance and workers' compensation claims, and independent quality ratings. In addition, the number of significant innovations made each year, such as manufacturing or product breakthroughs, suggests HRM's success at fostering an environment that rewards new ideas and is amenable to change.
Besides evaluating these internal aspects of HRM programs, companies also must assess the effectiveness of HRM programs by their impact on overall business success. In other words, companies must link their evaluation of HRM methods with company performance to determine whether these methods are helping their business by increasing quality, reducing costs, expanding market share, and so forth. Ultimately, companies must make sure that they have the right amount of properly skilled employees performing tasks necessary for the attainment of company goals and that greater revenue and profits result from HRM efforts to increase the workforce and improve worker training and motivation.

**Changing Role of HRM and Results**

In the 1990s several forces were shaping the broad field of HRM. The first key force, new technologies—particularly information technology—brought about the decentralization of communications and the shake-up of existing paradigms of human interaction and organizational theory.

Satellite communications, computers and networking systems, fax machines, and other devices were facilitating rapid change. Moreover, since these technologies helped blur the lines between work time and personal time by enabling employees to work at home, HRM professionals began adopting "management by objective" approaches to human resources instead of the traditional "management by sight" method.

A second important change affecting HRM was new organizational structures that began to emerge during the 1980s and continued through the 1990s. Because many companies began expanding their operations and
diversifying their products and services, the central decision-making system failed to respond quickly enough to managers’ needs and concerns. Therefore, companies started scrapping traditional, hierarchical organizational structures in favor of flatter, decentralized management systems. Consequently, fewer managers were involved in the decision-making process and companies were adopting more of a team approach to management. HRM professionals, as the agents of change, were charged with reorganizing workers and increasing their efficiency. These efforts also resulted in the proliferation of part-time, or contract, employees, which required human resource strategies that contrasted with those applicable to full time workers.

A third change factor was accelerating market globalization, which was increasing competition and demanding greater performance out of workers, often at diminished levels of compensation. To compete abroad, companies were looking to their HRM professionals to augment initiatives related to quality, productivity, and innovation. Other factors changing HRM include: an accelerating rate of change and turbulence, resulting in higher employee turnover and the need for more responsive, open-minded workers; rapidly changing demographics; and increasing income disparity as the demand for highly educated workers increases at the expense of lower-wage employees.

HRM practices directly or indirectly affects several other variables in the organization. The following relationships have been identified in the literature. HRM practices help the organizations to achieve competitive advantage. According to the resource based view of the firm, competitive advantage can be developed and sustained by creating value in a way that is
rare and difficult for competitors to imitate and the quality the human resource within is difficult to imitate.

Employee-employer relations can be made improved if the organization implements effective HRM practices. A survey reveals the consequences of effective human resource management practices on employees trust; its result indicated a positive and significant influence of empowerment, organizational communication and procedural justice as determinants of employees trust in their managers. It also indicated that procedural justice mediates the impact of employee development on their trust in their managers. The HRM practices help the organization to increase mutual understanding between the employees and the employer.

Generally the application of promoting HRM practices on the grounds that human resources are frequently underutilized. Employees often perform below their potential. Bailey points out that HRM practices may have an influence on employee skills and motivation. HRM practices influence employee skills through the acquisition and development of a firms human capital. Recruiting procedures and selection regimes will have an influence over the quality and type of skills new employees possess.

The results indicated that HRM practices had partially a direct effect on customer perceptions of service quality and an indirect effect through employees’ service behavior. This means that service behavior only partially mediates the relationship between human resource management practices and service quality. The implementation of HRM practices in any organization leads to enhance their employee commitment. Hence, the HRM practices
enhance organizational performance. HRM practices and workers overall job satisfaction based on their satisfaction with pay. The result indicated that several HRM practices raise workers overall job satisfaction and their satisfaction with pay.
References


