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**AN ANALYSIS UPON VARIOUS PERSPECTIVES OF  
HRM PRACTICES AND ORGANIZATIONAL  
PERFORMANCE: A CASE STUDY OF INDIAN  
CONTEXT**

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# An Analysis upon Various Perspectives of HRM Practices and Organizational Performance: A Case Study of Indian Context

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**Abstract – The link between human resource management (HRM) practices and organizational performance is well researched. With this paper we hope to contribute to a better understanding of the role of human resource practices in creating and sustaining organizational performance, specifically in the Indian context. The structure of the paper is as follows. First we briefly review the dominant perspectives in this field as per the available literature. We note that almost all of the published theory-building as well as empirical research in this area is conducted in societies other than the Indian society. On the other hand, the socio-cultural context of organizations in India is uniquely different. Hence in the next section we propose a framework to examine HR and firm performance linkage suitable for the Indian conditions. In the last section we point out some limitations and propose directions for future research.**

**The literature on the relationship between human resources management (HRM) and organizational performance has focused on private sector organizations and there has been very limited research on international governmental organizations (IGOs). This article focuses on the relatively understudied international governmental organization. On the basis of a large organization-wide survey, this study examines the effects of HRM practices on worker attitudes by reporting the results of a staff survey and follow-up interviews conducted on a cross-section of one of the largest IGOs.**

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## INTRODUCTION

The biggest challenge that any organization irrespective of its size, nature of ownership and control faces today is in regard to the procurement, utilization and development of the single largest resource at its disposal-the human resources. It is the most critical factor in every organization. It cannot be substituted by machines of any degree of automation, mobilization or remote control in the present or future centuries. It is recognized as the most important asset possessed by the progressive organizations, is perhaps the most strategic and critical determinant of growth of any organization. It is especially true for service oriented organizations like banks, where the improvement in service have to be made to meet the rising expectations of the society. Organization including banks exists for the people and by the people and their effectiveness depends on the behavior and the performance of people constituting them. As human resources is the most important asset of an organization and being the base of achieving competitive advantage, managing HR is extremely challenging when compared to managing technology and/or capital for its effective management. It goes without saying that an effective organization requires effective system of HRM. Human Resource

Management system should be supported by sound HRM practices. These HRM practices denote organizational activities aimed at managing the collection/team of human resources and ensuring that resources are utilized towards the accomplishment of organizational goals.

The rapid development of high technology, information and communications technologies have urged many organizations to actively seek for new way, ideas, experimentation, and creative solutions in improving their current product, process, system and technology, which commonly referred as organizational innovation. Malaysia as one of the post-industrial societies has undergone a fierce competition within its rivalries. To survive in the battle, Malaysia has launched its new economy model which aims in transforming the manufacturing firms from the product based towards the knowledge based. Aligned with this move, understanding the fundamental drivers influencing an organization's ability to innovate successful new products, idea, practices and system is a key strategic task for firms to continue to exist in this dynamic market. It has been widely acknowledged that effective human management resource (HRM) practices (Damampour & Gopalakrishnan, 1998; Tan & Nasurdin, 2010) are

significant in extracting positive work behaviours among employees, which consecutively lead to organizational innovation.

Since knowledge is reside in an individual and given the role of HRM practices in influencing an individual's attitude and behaviours, it is believed that HRM practices has significant and positive relationship on organizational innovation via knowledge management.

Organizational performance is a matter of utmost importance to scholars and practitioners in the field of public administration. Especially with the new waves of organizational reform and the adoption of new public management, performance management is one of the core elements is that organizations should measure, and actively implement (Saridakis, & Cooper, 2016; Swart, & Kinnie, 2015). This study focuses on International Governmental or Intergovernmental Organizations (IGOs). IGOs are public organizations that operate in different national contexts and whose members are states' governments who voluntarily join these institutions. These multinational bodies, such as the United Nations (UN), the World Bank (WB), the International Monetary Fund (IMF), and the World Trade Organization (WTO), serve different mandates and aim at maintaining global socioeconomic stability between member states' governments. The majority of IGOs are public service providers that operate across national boundaries, hire expatriates, and deal with cultural diversity and rely on donations from member states' governments to fund their programs. Despite the increasing interest among IGOs managers in HRM, research lags behind in this unique organizational context. This study aims at addressing the HRM-performance relationship in IGOs as public organization. A growing number of public management scholars have focused on research aimed at understanding the effects of management on performance in public organizations. Much of this research has shown a positive link between adopting specific management practices such as HRM, leadership, and performance management, and organizational performance (Katou, Budhwar, & Patel, 2014). This link has its roots in behavioral studies and organizational psychology and is based on the notion that these management practices foster employee attitudes measures such as employee commitment, job satisfaction and motivation, at the individual level, which ultimately results in enhanced individual and organizational performance (Paauwe, 2009). However, the link between HRM practices and organizational performance has been much researched as a result of the causal relationship between HRM practices and organizational performance. This topic has become one of the most popular topics within the management literature. The majority of these studies demonstrate a positive association between HRM practices and organizational performance. Although there is a growing body of evidence demonstrating this positive relationship, some important theoretical and methodological issues are missing in this line of research. The literature on HRM has focused on private sector organizations and there has been very

limited research on public organizations. Despite the substantial differences between public and private organizations, there is no clear distinction within HRM literature addressing how these differences may impact the practice of HRM in these different work environments (Vanhala, & Stavrou, 2013). Some scholars stated that HRM literature "disregard[s] or give[s] only some acknowledgement of HRM within the public sector, relying instead on appropriating a business model of firms as the general context for HRM scholarship". Others disagree, arguing that the "available evidence does not provide clear support for the view that public and private management are fundamentally dissimilar in all important respects". Despite this disagreement on the similarities or differences between public and private organizations, there is agreement that the last three decades have witnessed "waves of reform reshaping public service delivery across the globe". Although different scholars have used different terminologies for addressing these reforms, such as "new public service," "public value management," and "transferring from government to governance," the agreement among scholars is that these reforms have aimed at changing traditional public administration to the New Public Management (NPM) model. Managerialism under NPM involved the application of new business practices, which also embraced adopting new systems for managing public sector employees with new emphasis on results, performance measurement, strategic planning, decentralization, and a more market-based management approach (Osborne, Radnor, & Nasi, 2013).

## REVIEW OF LITERATURE

Human Resources Management is the process of creating, applying & evaluating guidelines, methods & programs relating to the recruitment, retaining, motivating, & managing people in an organization. It includes various activities such as strategic HRM, human resource planning, corporate social responsibility, human capital management, training and development, selection, recruitment, reward management, performance appraisal, health & safety, employee well-being as well as provision of employee services. It consists of a set of policies & practices aimed at maximizing organizational integration, employee ownership, quality of work & flexibility. Effective human resource practices directly relate towards company's performance by contributing to employee and customer satisfaction thus creating a positive reputation of the firm in the market. Since there is no universal agreement on the meaning of HRM, many definitions have been offered. Armstrong (2005) defined HRM as "a strategic and coherent approach to the management of organization's most valued assets – the employees who individually and collectively contribute to the achievement of the objectives of the business." Beer et al. (2004) viewed HRM as involving all management decisions that affect the

relationship between the organization and employees – its human resources. Storey (2005) considered HRM as a distinctive approach to employment management which seek to obtain competitive advantage through the deployment of a highly committed and skilled workforce, using an array of techniques. While others have defined HRM as being concerned with the need to achieve congruency among the various HRM policies and practices so that they become mutually supportive, rather than conflicting (Milliman, Von Glinow & Nathan, 2001).

**Organizational performance** - Organizational performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). According to Richard et al. (2009) organizational performance includes three specific areas of outcomes: (a) financial performance (profits, return on investment, return on assets, etc.); (b) product market performance (market share, sales, etc.); & finally (c) optimized shareholder return (economic value added, total shareholder return, etc.).

**Relationship between HR practices and Organizational performance** - Performance of any organization largely depends on the performance of its employees. Successful organizations are increasingly realizing that there are number of factors that contribute to performance but human resource is clearly the most critical (Mello, 2005). Effective HR practices improve the performance of organization and lead to higher profits. Datta et al. (2003) found that best use of HR practices reveals a stronger association with efficiency of firm. Human resource management (HRM) practices have significant association with accounting profits of organisation.

### **HRM AND ORGANIZATIONAL PERFORMANCE (OP) RESEARCH**

It is well understood that human resource management (HRM) decisions and practices are likely to have an important and unique influence on organizational performance. The obvious linkage must be either through improved efficiency or contribution to revenue growth. However, the views on the exact transmission mechanism or model linking the two have undergone much change over time. This change has happened alongside change in the perceptions about human resources themselves from being a cost to be minimized and a potential source of efficiency gains to a source of value creation, or what Hamel and Prahalad termed "numerator management".

Peters and Waterman described and assessed "excellent" organizations. This seminal 1982-work inspired writing of many testimonials to the value of progressive HRM practices and systems of such practices. In particular, employee participation and empowerment and job redesign, including team-

based production systems, extensive employee training, and performance-contingent incentive compensation, are widely believed to improve the performance of organizations. The interest in human resources since late 1980s as a strategic lever inspired several works published in the Academy of Management Journal, Journal of Accounting and Economics and Industrial Relations, among others, over the past three decades or so on the theme that HR can have economically significant effects on a firm's bottom line. A developing body of research has reported positive associations between firm-level measures of HRM systems and organizational performance in numerous studies conducted in contexts other than Indian. Marchington and Grugulis, however, emphasize that in order to determine the effectiveness of HR, the context in which HR is practiced must be included in the analysis.

### **HR PRACTICES AND OP OUTCOMES: THE STRATEGIC HR MANAGEMENT PERSPECTIVE**

The relationship between HR practices and firm performance outcomes is discussed best in the SHRM literature. What HR practices are and how they impact on firm performance are the central themes in the discussion of a strategic HR system.

Different HR configurations are needed to achieve a high level of firm performance. Also different types of HR practices generate different firm outcomes. For example, some HR practices are related to financial outcomes, while some others may relate more to staff turnover. Although the literature suggests that the link between HR practices and firm performance is quite positive, it is nevertheless not necessarily a direct relationship. Guest presented a model that provides the theoretical linkages between HR and firm performance. He suggested that there are different types of fit among HR practices. The fit or integration of these practices leads to different HR outcomes and subsequent firm performance. Similarly, others have suggested that in order to have effects on firm performance, there must be a certain alignment of different components of an organization, including different HR practices (as an HR system), the necessary skills and knowledge possessed by employees, a motivated workforce, and a value-added strategy. From a resource-based view, De Saa-Perez and Garcia-Falcon demonstrated that an appropriate HR system creates and develops organizational capabilities that become sources of competitive advantage. Wood reviewed several SHRM studies and noted that previous empirical works focused mainly on the link between HR practices and performance, but not on the mechanisms linking them. In another study of HRM and corporate performance, it was found that



although there was an association between HRM and firm performance, the causation effect was not established.

We may, therefore, conclude that HR system is likely to contribute to competitive success when it is introduced as an integrated package (or bundle of practices) and fits into the context of the organization concerned.

## HRM AND PERFORMANCE IN PUBLIC ORGANIZATION

Studies addressing the link between HRM and organizational performance have looked at different measures, such as organizational effectiveness and decision-making, absenteeism and turnover, and perceived organizational performance in comparison to other similar organizations. Baptiste (2008), in his study on local government in North England surveyed 100 employees to examine the effects of HRM practices on organizational effectiveness and decision making as part of a review for service provision. The study used a set of six HRM practices as independent variables: staffing and recruitment, training and development, worker involvement, pay and rewards, flexibility, involvement in decision-making and communication. For organizational performance, employee wellbeing was used as a measure of organizational effectiveness. Employee wellbeing was measured by using employee commitment, job satisfaction, and work-life balance satisfaction, which collectively constitute employee wellbeing at work. The bivariate inter-correlations results from data analysis have shown that HRM practices promote attitudinal characteristics among employees in the form of employee wellbeing, which “creates a domino effect through enhanced performance”; therefore, the indirect relationship between HRM and performance is mediated through employee wellbeing. Other studies have used a similar approach linking HRM to organizational level performance using different variables. Daniel Beaupré and Julie Cloutier (2007) conducted a similar study to examine the adoption of HRM practices in the public service sector in Quebec using economic performance as the main measure. The study was an exploratory examination of managerial reform within the Government of Quebec in 1999 and the effects of creating Autonomous Service Units (ASUs) within the government body. In their study, the main objectives were to verify if the new management model of ASUs corresponded to a “high-performance” management model, and to examine the effects of establishing ASUs in several government departments. The authors were able to organize group discussions and semi-structured interviews with personnel from four different government departments. In their findings, the authors reported that “results show that two of the four ASUs under study have the characteristics of a ‘high-performance’ management model: the employees are committed and motivated, their level of satisfaction is

very high ... and the economic performance of the ASU showed exceptional growth”.

In conjunction with these studies, another body of research suggested that HRM practices have positive effects on individual employee performance, providing the evidence that these practices have positive effects on individual employee outcomes. However, these studies have used HRM outcomes, such as job satisfaction, commitment, and motivation, as the intermediate variables linking HRM and performance, reporting statistically significant associations.

## A CONCEPTUAL FRAMEWORK FOR HRM AND OP RESEARCH IN INDIA

The conceptual and empirical work relevant to the question of firm-level linkage between HRM and organizational performance in the Indian context has not progressed much. Indeed, in order to provide a convincing explanation of the association between HRM and organizational performance in the Indian context we need to improve our theoretical and analytic frameworks in three key areas. These are the nature of HRM, and especially the rationale for the specific lists of HR practices; the nature of organizational performance; and the linkage between HRM and performance. In this paper we focus on the last linkage. We attempt to synthesize and organize concepts from SHRM literature into a more coherent and relevant framework for the Indian context. A comprehensive model is developed on these lines within which to explore these linkages. A number of specific, testable propositions are derived from the model to guide empirical work.

Tiwari and Saxena discuss a framework that indicates how external and internal factors affect HRM practices which in turn generate certain benefits for the organization and ultimately lead to overall corporate performance. The authors list some “innovative” HR practices being followed by seven selected companies, namely J K Lakshmi Cement, Grasim Industries Ltd, Tata AIG General Insurance Co Ltd, Maruti Udyog Limited (MUL), HCL Technologies Ltd., LG India and Pantaloons (India) Ltd. Noting that these companies are performing “well” in their sectors, they attribute their success to these so-called “innovative” HR practices and conjecture that the latter must have helped in building image of the company in the minds of the employees and hence contributed to their respective “good” business performance.

Anil K Singh took a sample of 95 respondents from two private sector organizations in India and reported positive correlations between HRM practices and variables of organizational culture.

However, we must go beyond simplistic views and conjectures and delve deeper into the exact transmission mechanism or model linking HR practices and firm performance in the Indian context.

An HR system, existing in any cultural context, is likely to contribute to competitive success when it is introduced as an integrated package (or bundle of practices) and fits into the context of the organization concerned.

The 'internal fit' concept is particularly salient here when we examine the organizational processes leading to good firm performance in the Indian context. One needs to examine closely the missing links between HR practices and performance. What intervening process factors are at work here?

## RESEARCH METHODS

The research setting for this study is a non-political intergovernmental organization with quasi-governmental role. The Agency provided public services such as health, and education for over 1.3 million direct beneficiaries, employing over 29,000 staff in its eleven offices located in nine countries. This is considered to be a particularly appropriate context as the organization began a comprehensive reform program to strengthen its management capacity and provide more effective and efficient services to its beneficiaries.

### **Data Collection –**

To collect data, surveys were distributed on a cross-section of the Agency workers. The questionnaire included a letter inviting individual participation and assuring that their responses are kept confidential. The researcher distributed the questionnaires on employees on an overall period of six weeks. A total of 505 questionnaires were distributed in seven service departments and a total of 234 usable responses were obtained. Interviews conducted with administrators and directors from different departments such as HRM services, finance, education, social and relief services, and procurement and logistics. These interviews aimed at investigating the effects of adopting the new HRM practices in each department and explore any additional factors that may influence HRM outcomes. The interviews were utilized to delve deeper into any ambiguous data obtained through the questionnaires, and further investigate the perceptions of the effectiveness of the current HRM practices.

### **Sample –**

The sample of 234 employees had the following characteristics: 67.8 per cent male; 15.3 per cent were between the ages of 18–30 years, 49.3 per cent between 31–45 years, 35.0 per cent between 46–60 years and 0.5 per cent were over 60 years. The average length of service was 13.08 years (standard deviation 7.92). 10.5 per cent had no formal qualifications, 20.5 per cent had diploma, 47.3 per cent had a university degree and 21.8 had postgraduate

university degree. 61.4 per cent were frontline workers, 25.7 per cent supervisors, 12.4 per cent middle managers, and 0.5 per cent program managers.

## The Results -

**HRM Practices Measures** -The findings suggest that there was an uptake of three practices from the staffing and recruitment bundle where organization relies heavily on internal resources, use fixed and explicit job description, and an extensive socialization process for new hires. However, there are limitations on the opportunities for advancement within the organization. These limitations may be referred to the narrow career path for advancement which is limited to specific area of practice or the same business unit. For performance appraisals, findings show that the performance appraisal process focuses on results, which is crucial for the appraisal process; other aspects are not fully adopted by the Agency. For instance, results indicate that there is little attention to employee development. Previous research emphasized that the appraisal process should capture areas for employee development based on employee engagement and focus on group performance (Payne, Horner, Boswell, Schroeder, & Stine-Cheyne, 2009). Finally, results indicate that employees are neutral and have mixed perceptions with regards to the performance appraisal time frame whether it focused on long or short term criteria. For the compensation and rewards practices, the survey results showed that the agency has very little use of HRM practices in this specific area. Face-to-face interviews also reveal that the organization implemented new austerity measures which have great impacts on the levels of rewards and incentives. The job satisfaction survey results also indicate that two main measures of satisfaction with pay and remuneration, and monetary and nonmonetary fringe benefits have the lowest scores of measures of employees' satisfaction. This is clear from the reported results of relatively low salaries paid from the organization, and few perks received. Finally, for the training and employee development practices, results have shown the amount of training received is limited and characterized to be task specific. The training and development programs are also characterized to focus on the long-term, with relatively high employee participation. However, the training and development programs are unsystematic and not group performance oriented. Finally, there was a little uptake of many practices especially in the area of compensation and rewards. In the other three areas, results demonstrate that the staffing and recruitment bundle is the only area at which the organization employs some HRM practices.

**Employee Attitudes Measures** -For the attitude measures, results show that respondents are very committed to the organization with Mean score of

4.76, but less satisfied with Mean = 4.36. However, respondents demonstrate very low intention to leave the Agency with Mean = 2.68. Results also show that there are motivated with score 2.21 (based on a 3-point scale). The results demonstrate that the relationships are in the anticipated directions. Two dependent variables -commitment and satisfaction - have the strongest association with the four bundles of HRM practices. The strongest association reported between training and development, performance appraisal, and rewards and recognition. Finally, it is clear that the aggregate effects of HRM have the highest association with each of the dependent variables. This also indicates that these practices are mutually reinforcing, overlapping, and have synergistic effect on employee attitudes.

## CONCLUSION

HRM practices must be married with not just the strategic objectives and market orientation of the organization but also the organizational culture, especially in the Indian context. Reflecting a multidisciplinary interest, we emphasized through this paper looking into the mechanisms by which human resource practices ultimately impinge upon the organizational performance. We derived some propositions and hope that validity of this conceptualization may be verified in the Indian context by future empirical research.

On the whole we found the existence of good HRM practices in the sample study organization. The managers in general showed a favorable attitude towards HRM practices of the organization. They were satisfied with the developmental policies of the top management as well as happy with the prevailing HRM climate in the sample organization. However, findings of the present study indicate that there is still substantial scope for improvement in various aspects of HRM practices in the sample study organization.

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