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**A STUDY ON THE IMPACT OF HUMAN RESOURCE  
SYSTEM ON PERFORMANCE OF AN  
ORGANIZATION**

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# A Study on the Impact of Human Resource System on Performance of an Organization

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**Abstract – In machine age, people were ancillary and things were central but in information age, things are ancillary and knowledge is central. A company's value derives not from things but from knowledge, know-how, intellectual assets, and competencies – all embedded in people. Change, complexity and competition are buzzwords in today's business environment. A turbulent business environment, highly demanding customers, formidable competitors, technological innovations, shortening product life cycles and low barriers to entry, have forced organizations to put a higher emphasis on learning. Organizations are becoming more fluid, facilitating networks of customers, suppliers and business partners. Boundaries of organizations are becoming blurred and departmental barriers are fading.**

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## INTRODUCTION

Corporations are becoming flatter and leaner. Empowerment is replacing power and revolutionary change is swapping with incremental change. The companies now have to find and retain their positions not only in local or national market but also have to explore markets worldwide. To survive, prosper and succeed in current business environment, the organizations have to be proactive instead of being reactive. The need of the hour is to think the unthinkable, try what seems to be impossible, put your best to bring forth novel ideas and then implement them to revolutionize the world.

Business people are now increasingly realizing that those having strong intangible asset base can dominate the sky. A national survey of chief executives in the U.K. was conducted and it was found that company reputation, product reputation and employee know-how, were the most important intangibles contributing to overall success. Reputation is usually built through the use of superior competencies over the years, but can be damaged easily. Management should make sure that every employees disposed to be both promoter and a custodian of the reputation of organization which employs him. Today, firms compete less on the basis of products and markets and more on competencies, relationships and new ideas. Barney's seminal work on 'Resource Based View' of firms, the concept of 'core competencies' propounded by Hamel and Prahalad and the 'knowledge Based Theory' of firm given by Grant provides a strong

theoretical base for strategic importance of human resources.

## OBJECTIVES

The present study hence endeavored to examine the relationship between Human Resource Practices, HR system and Company Performance. In order to accomplish this broad objective, it had the following sub-objectives:

1. To examine the prevalence of selected HR practices in selected Indian companies.
2. To study the role of selected HR practices and HR system in affecting performance of the companies.
3. To appraise the selected HR practices as determinants of Perceived Organizational Support, Trust, Employee Commitment and Discretionary Behaviour.
4. To examine the role of Perceived Organizational Support, Trust, Employee Commitment and Discretionary Behaviour as intervening variables between HR practices and Company Performance.

## REVIEW OF LITERATURE

Moorman(2012)examined the relationship between perception of fairness(organizational justice) and organizational citizenship behavior (OCB) in a sample of 225employees and their managers drawn from two firms in the mid-western U.S. Two sources of organizational justice, that is distributive justice and procedural justice were taken into consideration. Distributive justice describes the fairness of the outcomes an employer receives and procedural justice describes the fairness of the procedures used to determine those outcomes. Support has been found for a causal relationship between perceptions of organizational justice and OCB.

Even though a general relation was foundbut an analysis of one to one relationship between the three dimensions of fairness and OCB resulted in differential effects attributable to distributive justice, formal procedures and interactional justice. In this case interactional justice was the only dimension of fairness which has been found significantly related to organizational citizenship. Thus employees who believed that their supervisor personally treated them fairly appeared to be more likely to exhibit citizenship behaviors.

Arthur (2010)carried out an empirical analysis of the 'Control HR systems' (cost reducers) versus 'Commitment HR systems' (commitment maxi misers) dichotomy in 54US steel mini-mills. Control oriented human resource systems aimed at reducing direct labor costs or improve efficiency by enforcing employee compliance with specified rules and procedures. On the other hand, commitment oriented human resource systems aimed at shaping desired employee behaviors and attitudes by forging psychological links between organizational and employee goals. It was found that the mills with commitment oriented HR systems had better manufacturing performance (high productivity and low scrap rates) and lower employee turnover than those with control oriented HR systems.

Huselid (2013) undertook a system level research in order to find out the impact of HRM practices on turnover, productivity and corporate financial performance. It was hypothesized that firm performance will be enhanced to the degree a firm adopts HRM practices that complement and support each another (internal fit) and a firm's high-performance work system is aligned with its competitive strategy.

Results indicated that the high performance work practices significantly affected both intermediate employee outcomes (turnover and productivity) and short as well as long term measures of corporate financial performance (market value and profits). One standard deviation increase in high performance lead to 7.05 percent decrease in turnover, increase in sales per employee by \$27,044, increase in market value by \$18641, and increase in profits by\$3814. Modest evidence was found for internal fit that is between HR

practices and little evidence for external fit that is between HR system and corporate strategy. The simple adoption of high performance work practices were concluded to be more important than any efforts to ensure internal consistency or alignment of these policies with firm strategy.

Mac Duffie (2014) studied the relationship between interrelated and internally consistent HR practices and economic performance. He opined that bundles of HR practices create multiple mutually reinforcing conditions that support employee motivation and skill acquisition. He used a unique international data set from the MIT Future of the Auto Industry Project based on a survey of 62 automotive assembly plants. He argued for HR bundle to be integrated with firm's overall business strategy to make it effective. The results of the study strongly supported the use of HR practices bundle in improving performance and also suggested that the integration of the bundle of HR practices with production/business strategy could further enhance the performance in terms of both productivity and quality.

Delery and Doty (2010)proposed two employment systems; the market type and the internal system, each of which was described in terms of seven employment practices. The market type system consisted of HR practices like, hiring from outside an organization, providing little training, broadly defined jobs, very little employment security and voice, performance measured by quantifiable output and extensive use of profit sharing.

The internal system was characterized by the existence of an internal labor market, extensive socialization and training, tightly defined jobs, high degree of employment security and voice, performance assessment through behavior and very little use of profit sharing. The middle-of-the-road system that is the hybrid employment system would stand half-the-way between market system and internal system. These systems were then aligned with the ideal strategic types - the prospector (market system),the analyzer (middle of the road system), and the defender (internal system). These strategic types were propounded by Miles and Snow where the defender emphasizes on better and more efficient ways to produce a given product or service instead of experimenting with new product. When a defender pursues new product they import technology from outside the organization rather than engaging himself in research and development. On the other end, prospectors are characterized by their constant search for new products and markets.

They continually experiment with new product lines adventures into new markets. Analyzers have characteristics of both defenders and prospectors. They usually operate in both stable product markets like defenders and new changing product domains like prospectors. They do not initiate change unlike prospectors but follow it more rapidly than defenders.

Senior HR managers and presidents of 1050 banks were surveyed separately. All the three approaches were studied, where relatively strong support was found for universalistic perspective and some support for both the contingency and configuration perspective. Three individual HR Practices – profit sharing, result oriented appraisals and employment security have demonstrated relatively strong universalistic relationships with important accounting measures of performance including; return on assets (ROA) and return on equity (ROE).

## RESEARCH STUDY

SHRM is concerned with the relationship between HRM and strategic management in an organization. SHRM refers to the overall direction an organization wishes to pursue in order to achieve its goals through people. SHRM addresses various issues, such as organizational effectiveness and performance, changes in structure and culture, matching resources to future requirements, the development of distinctive capabilities, knowledge management and the management of change. Overall, it considers major people related issues that affect or are affected by the strategic plans of the organization. Ulrich and Lake described SHRM as “a process of linking HR practices to business strategy”. Truss and Gratton defined SHRM as “the linkage of HR functions with strategic goals and organizational objectives to improve business performance and cultivate an organizational culture that fosters innovation and flexibility”. Researchers have defined SHRM in variety of ways, however, they agree in general that the central feature of SHRM involves designing and implementing a set of internally consistent policies and practices to ensure that firm's human capital contributes to achieve its business objectives.

On one hand HR is increasingly becoming strategically important to a firm's success and on the other a major change can be witnessed on the front of employment contract and choice of HR practices.

Corporate employees used to expect reward against loyalty and job security for good work, generous benefits and steady pay increases from their employers. But in the post liberalization period in response to global competition, unfriendly takeovers, leveraged buyouts, etc., corporations began to discard traditional policies on job security, seniority and compensation. They sought to become “lean and mean” by selling off or closing down less profitable businesses, eliminating entire levels of management, replacing permanent employees with temporaries and substituting performance based pay systems for seniority based programs. Today most managers and employees face a world of permanent “temporariness.” These changes have resulted in a sharp decline in employee loyalty. Employees perceive that their

employers are less committed to them and as a result employees respond by being less committed to their companies.

Advocates for greater use of HPWPs argue that recent changes in firms 'competitive environments have increased the degree to which human capital will be a source of valuable and inimitable competitive advantage. The arguments extend to suggest that these changes also imply a greater need for HR systems which develop and sustain human capital. For example, drawing upon Pfeiffer and Becker *et al*, argue that the current economic environment demands innovation, speed, adaptability, and low costs. They maintain that these environmental demands increase the importance of the core competencies and capabilities of employees relative to more traditional sources of competitive advantage, such as patents, economies of scale, and access to capital and market regulation. Thus, their perspective is that the value of HPWPs is magnified due to the hyper-competitive markets faced by today's firms.

## LIMITATIONS OF THE STUDY

The present study is primarily a survey based study, conducted with the help of a questionnaire. Such a study suffers from the basic limitation of the possibility of difference between what is recorded and what is truth because there are bound to be differences owing to well-known problem of filters in communication process. Some other limitations of the study are lack of willingness of organizations to share employee related information due to high volatility in the Indian labour market.

Therefore, there may be some problem with the sample truly being representative of the population. Further, the study suffers from the common method bias, use of cross sectional data which may cause a problem of causality, use of profit as the measure of corporate Performance which is quite problematic as financial indicators are being influenced by a whole range of factors (both internal and external). The results of the study need to be interpreted cautiously as the study not being longitudinal in nature cannot confirm the direction of causality implied in our research model. Due to these limitations the findings of the study cannot be generalized for other organizations. These issues need to be controlled in future research.

Every research study has a limited scope and the present study is not an exception. The present study provides insights about new areas where more research studies can be carried out. Future research should attempt to conduct longitudinal analysis, to explore and examine other strings of relationship HR practices and Employees' Attitudes and Behaviour, to examine the relationship among business strategy of

an organization, HR practices adopted and Organizational Performance and look into whether any of the employee attitudes act as moderator in this relationship.

The present study has covered the widely researched Human Resource practices, such as Selection and Staffing, Training and Development, Compensation and Performance Appraisal, Career Development, Supervisory Support and Work Life Balance. Further, the relationship between the selected HR practices and employee attitudes, viz., Perceived Organizational Support, Trust, Employee Commitment, Discretionary Behaviour and Corporate Performance measured in terms of sales per employee (productivity), sales growth, profit per employee and profit growth were also investigated.

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