

A Study of Impact of HR Practices on Organization Performance of IT Companies

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Abstract— Human Resources are key to the success of any organization. Employees or human resources bring in with them essential skills and competencies which ensure organization achieves goals. However, HR as a function has to have a permanent presence in the company board which though is an evolving thought. In this paper, we try to discern the impact that HR practices have on different facets of organization which have linkages to organization performance. This study was conducted with 524 employees of 51 IT organizations across 8 cities in India. HR practices like Training and Development, Recruitment, Compensation, Rewards and Recognition, Work-life balance and Employee Engagement were studied. A pilot study along with focus group discussions held helped discern 15 performance parameters which have linkages to organization performance. A final questionnaire was administered post refinement for the final survey. The results reaffirm our belief in HR practices showing significant impact on performance parameters.

Keywords— Human Resources, Impact, Organizational performance, IT companies, HR Practices

I. INTRODUCTION

Human resources and the study of HR practices have been a part of management theories for several decades. Several studies have been conducted by researchers in the HR domain but very few focus on tangible or intangible linkage of HR practices on the performance of the organizations. There has been hardly such a study conducted in the Indian context and that too specifically for IT companies. The human resource management function has consistently faced a battle in justifying its position in organizations. At good times when there are enough budgets, firms easily justify expenditures on training, staffing, rewards and employee involvement systems, but when faced with financial difficulties, such HR systems get the earliest cutbacks. The advent of the subfield of strategic human resource management (SHRM), devoted to exploring HR's role in supporting business strategy, provided one opportunity for demonstrating its value to the firm. The birth of the field of strategic human resource management can be dated back to 1984, when Devanna, Fombrun and Tichy extensively explored the link between business strategy and human resources.[1] HRM discipline has witnessed a great deal of change over the past 25 years. These changes represent two major transformations. The first is the transformation from being the field of personnel management to being the field of human resource management. The second is the transformation from being the field of human resource management to being the field of strategic human resource management. [2] The first transformation incorporated helped the recognition that people are an important asset in organizations and can be managed systematically. The second transformation has built on the preceding knowledge base of the discipline. This transformation is based upon the recognition that, in addition to coordinating human resource policies and practices with each other, they need to be linked with the needs of the organization. Given that these needs are reflected in the strategies of the firm, this transformation of “human resource management” came to be known as “strategic human resource management”. Strategic human resource management is based upon the recognition that organizations can be more effective if their human resources are managed with human resource policies and practices that deliver the right number of people with the appropriate behaviours, the needed competencies and the necessary level of motivation to the organization. To put it another way, strategic human resource management is “the creation of linkage or integration between the overall strategic aims of business and the human resource strategy and implementation. In principle, the processes and people within the company are managed in such a way as to foster the aims of the business strategy and create an integrated approach to managing the various human resource functions, such as selection, training and reward so that they complement each other”.[3]

Strategic human resource management may bring a number of benefits to the organization: [4]

- Contributing to the goal accomplishment and the survival of the company,
- Supporting and successfully implementing business strategies of the company,
- Creating and maintaining a competitive advantage for the company,
- Improving the responsiveness and innovation potential of the company,
- Increasing the number of feasible strategic options available to the company,

Participating in strategic planning and influencing the strategic direction of the company as an equally entitled member of top management, improving cooperation between the HRM department and line managers.

SHRM's widespread popularity owes much to the promise of higher organizational effectiveness achievable, through the nurturing of internally reliable bundles of human resource strategies which are appropriately linked to business strategies. [5]

Technology sector has been a key factor of India's growth and contributed immensely to the services sector in India. While individual HR practices have been studied, this study combines several HR practices and tries to discern the impact of these practices individually and in totality on the organizational performance of the IT companies in India. The following HR practices were studied during the course of this research:

1. Training and Development
2. Rewards and Recognition
3. Performance Appraisal
4. Work-life balance
5. Compensation and Benefits
6. Employee Engagement

An impact of each of these practices was studied on the overall performance of the organization comprising broadly of the following parameters:

- Longevity of association with organization
- Enhancement of Service/Product quality
- Innovation
- Timely completion of assigned tasks
- Customer Centricity
- Motivation
- Collaboration
- Absenteeism
- Ownership of work

An overall index was calculated giving equal weightages to all these parameters and correlation analysis was conducted for analysing association between the independent parameters – the HR practices and the Performance Index as the dependent variable. The research answers if there is impact linkage between each of the above 6 practices and the overall organization performance.

II. LITERATURE REVIEW

HRM practices are a way of attracting, motivating, and retaining employees to ensure the success of any organization (Schuler and Jackson, 1987). HRM practices are designed and implemented in such a way that human capital plays a significant role in achieving the goals of the organization (Delery and Doty, 1996). The appropriate use of HRM practices positively influence the level of employer and employee commitment (Purcell, 2003). HRM practices such as, training and development, performance appraisal encourage the employees to work better in order to increase the organizational performance (Snell and Dean, 1992; Pfeffer, 1998). The practices selected for this study are based on their importance in relation to the industry selected for this analysis. The practices used in this study are listed and defined as follows:

1. Training and Development: Training is a methodical process that enables employees to imbibe knowledge and attain skills in order to achieve their tasks effectively and efficiently with the end result being improvement in the behaviour (Armstrong, 2006). Development is typically used in management parlance to denote the identification of development needs of managerial level employees and preparing and executing developmental plans. Training and development certainly affirmatively contribute towards organizational growth. Training refers to the methods used to develop skills in the employees required to perform the job (Dessler, 2008). Most organisations consider training and development as an important factor of the human resource activity. Training can be used as a mechanism to enhance employee's performance by nurturing and developing knowledge and skills. Training can be described as an endeavour to develop additional competencies needed today or in future in order to increase the level of employee's performance (Jackson and Schuler, 2000).

Training can be used as an effective tool to increase efficiency and effectiveness of employees in order to increase organizational performance (Cook and Hunsaker, 2001). Extensive training programs are conducted by organizations to enhance the employee's performance in order to achieve strategic advantage over competitors (Brown, 2005). Training programs play a significant role in achieving organizational goals (Dobson and Tosh, 1998). A desired change can be attained in employees' performance by providing them proper training (Huselid, 1995). Kirkpatrick's Model was also studied to design the questionnaire. The model refers to 4 areas of training evaluation namely, Reaction, Learning, Behaviour and Results. This research typically focuses on the results part and training methodology as well setup. Organizations can develop and enhance the quality of the current employees by providing comprehensive training and development. Indeed, research indicates that investments in training employees in problem-solving, teamwork and interpersonal relations result in beneficial firm level outcomes (Barak et al., 1999).

2. **Recruitment and Selection:** Recruitment refers to the process of announcing and advertising for the open positions within the organization. This could be internal recruitment as well as external recruitment. Recruitment sets the stage for describing the job and the skills and knowledge required to do the job as well as detailing who would be the right candidate to apply for the job. Selection refers to the process of shortlisting and finalizing the candidate to be hired through several stages. Selection process could entail written tests as well as tasks and interviews to assess and shortlist the candidate. Both recruitment and selection form an important part of HR practices since this involves getting the right fit for the job at hand. A right candidate at the right time in the right job can work wonders for the organization. At the same time, the cost of having a wrong candidate could be multi-fold and not only impact the organizational performance but also at time impact the image of the organization both internally and externally. Hence identifying the right candidate for the right job becomes critical to the success of the organization. A rigorous selection system generates a sense of elitism, creates high expectations of performance, and signals a message of importance of the people to the organization (Pfeffer, 1994). The mismatch between the person and the job can hamper performance levels, whereas a sophisticated selection system can ensure a better fit between the person's abilities and the organization's requirement. Also, selection has been found to be positively related to firm performance (Terpsra and Rozell, 1993).
3. **Performance Appraisal System:** 'What gets measured, gets done' is an important management concept and rightly so. An organization is as good as its employees and if performance of the organization has to be evaluated, performance of its employees should be evaluated. Performance Appraisal System is an essential mechanism of identifying performance parameters, communicating and aligning them to the key result areas of an employee and measuring them after a definite time period. Performance management hence becomes core to the performance of the organization. Several methods are employed to appraise employees of their performance. These include MBO (Management by Objectives), 360o feedback, descriptive essay method, bell curve, forced ranking, etc. Objectivity in appraisal process is often compromised which results in subjective evaluation of performance and hence inappropriate feedback and expectations. This results in dissatisfied employees or employees living in a state of falsehood. Organizations which employ a robust process around employee performance appraisal are able to objectively communicate the performance feedback to the employees. Also continuous assessment of performance works better than a yearly feedback system minimizing the recency bias.
4. **Work Life Balance:** Work-life balance (WLB) refers [6] to the ability of individuals to pursue successfully their work and non-work lives, without undue pressures from one domain undermining the satisfactory experience of the other. A "good" work-life balance is defined as a situation in which workers feel that they are capable of balancing their work and non-work commitments, and, for the most part, do so [7]. Work and family are the two most important domains in a person's life. Work-life balance is a major aspect of the quality of work and life of individuals and couples trying to manage multiple roles. In India, organizations have recognized the need for and value of Work-Life Balance policies.
5. **Compensation and Benefit:** Compensation is the end benefit that employees receive in the form of pay, wages and also some rewards like monetary exchange for the employee to enhance the Performance(Holt,1993). The compensation process is crucial and a source of contention in most organizations. It deals with rewarding people in accordance to their value in the organization. The same process is concerned with both financial and non - financial rewards. It embraces the strategies, philosophies plans and processes employed by organizations to develop and maintain reward systems. A compensation package does not necessarily mean rewarding in the monetary form. It also includes flexible benefits, medical care, work-life balance, as well as employee perks. Today's employees not only work for the money, but also place equal emphasis on other aspects of compensation.

A good compensation package ensures:

- Retention – A compelling compensation plan helps to reduce the turnover rate of the company. Employees will be more incentivized to stay in their role and this saves potential expenses related to turnover.
 - Motivation – Compensation is the primary motivating factor for employees to continuously push themselves to strive for greater heights. It offers them a reason to work hard and keep driving towards achieving the next milestone.
- On the other hand, employee performance and efficiency can be drastically affected if a good compensation package is absent. Here are a few reasons why:
- Low job satisfaction – Employees will feel underappreciated and derive low satisfaction from their job. This may lead to discontent amongst co-workers and put a dent in workplace morale.
 - Low productivity – Poor compensation induces low productivity. There is less motivation for employees to strive for excellence
 - High turnover – If the reward versus effort ratio is low, employees are incentivized to cast their sights away from their current job. Employee churn incurs a hefty cost to the company (retraining, relocating and time wasted).
6. Employee Engagement: Engagement is defined as the “harnessing of organization members’ selves to their work roles” (Kahn, 1990, 694). When engaged, organizational members express themselves cognitively, behaviourally, and emotionally during role performance (Kahn, 1990; Shuck and Wollard, 2010). In contrast, personal disengagement refers to the “uncoupling of selves from work roles,” during which process people withdraw and defend themselves physically, cognitively, or emotionally while performing those tasks (Kahn, 1990, p. 694). Over the past two decades, significant efforts have been made by scholars to study engagement and by practitioners to develop organization development (OD) related interventions to raise the levels of engagement among organizational members. Such strong interest is not surprising, given that engagement has been shown to be related to a number of important organizational outcomes such as job satisfaction, organizational commitment (Saks, 2006), organizational citizenship behaviour (Rurkkhumand Bartlett, 2012; Saks, 2006); intention to turnover (Shuck et al., 2011); and performance (Kim et al., 2012).

III. Research Objectives

The research was carried out with the following objectives:

1. To study the HR practices in the Information Technology companies in India.
2. To study factors affecting employee performance and thereby organization performance.
3. To study the impact of HR practices on organization performance.

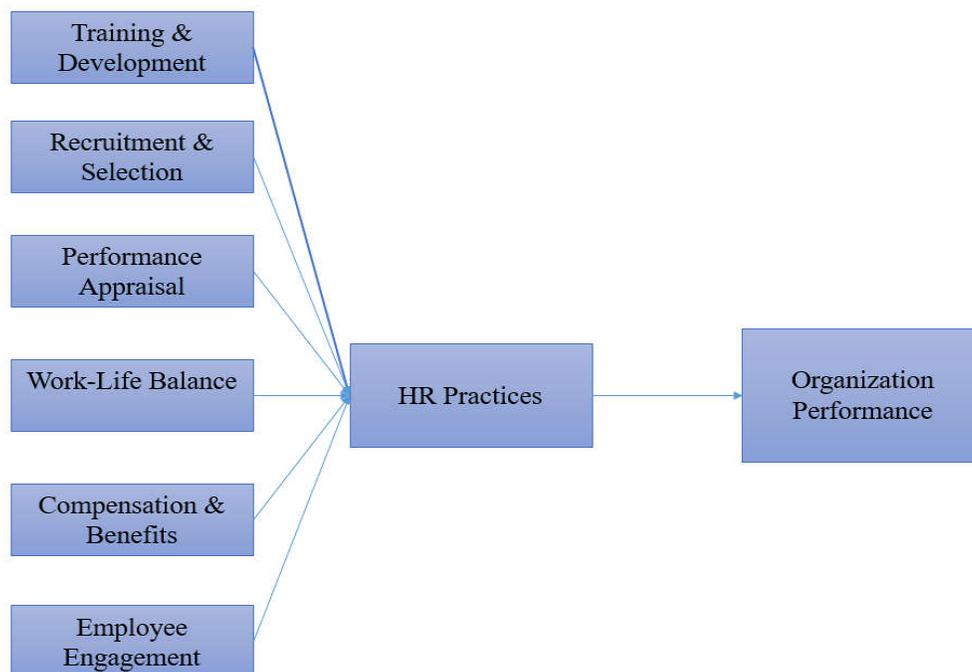


Fig 1: Model describing the study

IV. TESTING INSTRUMENT

The methodology used to arrive at the results was as following:

Phase 1:

- A pilot study using a survey questionnaire was conducted with 80 respondents of 4 different IT organizations in Delhi NCR.
- Focus group study was conducted with members of 2 organizations comprising of 10 members each.

Phase 2:

- Based on the inputs from focus group and analysis of the pilot survey, the questionnaire was further refined to incorporate parameters defining organization performance.
- The questionnaire was administered in physical paper format and over google form survey. A total of 524 survey questionnaires were administered covering 8 cities and 51 companies.

V. ANALYSIS

TABLE I
STATISTICS

		Age	Gender	Marital Status	Income	Legal Status
N	Valid	524	524	524	524	524
	Missing	0	0	0	0	0

The data was filled in by 524 respondents. The demographics captured were Age, Gender, Marital Status, Income and Legal Status.

TABLE III
AGE

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1.0	307	58.6	58.6	58.6
	2.0	200	38.2	38.2	96.8
	3.0	17	3.2	3.2	100.0
Total		524	100.0	100.0	

The age data was taken in different intervals with '1' being '20-30', '2' being '30-40', '3' being '40-50'. As per the analysis of the data, maximum respondents were in the age bracket of 20-30 years which is 307 respondents (58.6%). This also reflects the trend in the IT sector where there are employees in this age group. There were 200 respondents which is 38.2% in the '30-40' years age group. A small group of respondents was in the '40-50' years age group which is 3.2%. This goes on to show the typical composition one may find in an IT company with a considerable junk of employees in the '20-40' years age bracket. It is also reflective of the fact that there is pyramid like structure followed by organizations with more employees at the junior level.

TABLE IIIII
GENDER

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1.0	350	66.8	66.8	66.8
	2.0	174	33.2	33.2	100.0
Total		524	100.0	100.0	

The analysis of the data reveals that of the total number of respondents (524), 350 respondents which is 66.8% were male while 174 employees which is 33.2% were female.

TABLE IV
INCOME

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2.0	176	33.6	33.6	33.6
	3.0	174	33.2	33.2	66.8
	4.0	174	33.2	33.2	100.0
Total		524	100.0	100.0	

The income data was also sought as an interval data from the respondents. The coding was done as ‘1’ for ‘Less than 25000’, ‘2’ for ‘25000-50000’, ‘3’ for ‘50000-75000’ and ‘4’ for ‘More than or equal to 75000’.As can be seen from the data, this is quite spread out which shows that employees at all levels and salary groups have participated in the survey with participation in each being approximately equal to 33%.

TABLE V
LEGAL STATUS

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 3.0	327	62.4	62.4	62.4
4.0	197	37.6	37.6	100.0
Total	524	100.0	100.0	

The company status was also taken and data analysed on whether the company is (1) ‘Sole proprietorship’, (2) ‘Partnership’, (3) ‘Private Limited’ or (4) Public Limited. The data shows that 62.4% respondents were from private limited companies while 37.6% respondents were from public limited companies. Since convenience and snowball sampling was used, this could be the reasons for employees in IT companies to be from Private and Public Limited companies. This also helps us discern that IT industry being a part of organized sector has high frequency of legal status as ‘Private Limited’.

TABLE VI
CASE PROCESSING SUMMARY

	N	%
Cases Valid	524	100.0
Excluded ^a	0	.0
Total	524	100.0

ABBREVIATION

TABLE VII

Abbreviation	Full Form
OTD	Overall Training & Development
ORR	Overall Recruitment & Selection
OPA	Overall Performance Appraisal
OWL	Overall Work-life balance
OCB	Overall Compensation & Benefits
OEE	Overall Employee Engagement
OOI	Overall Organization Performance Index

The above table describes the variables taken during the study. Every practice was evaluated based on a scale and an average score called ‘Index’ was calculated for each practice. Each practice’s correlation was then studied against the other practices and the overall performance parameter represented by the OOI index.

TABLE VIII
CORRELATIONS

		OTD	ORR	OPA	OWL	OCB	OEE
OTD	Pearson Correlation	1	.785**	.751**	.849**	.789**	.826**
	Sig. (2-tailed)		.000	.000	.000	.000	.000
	N	524	524	524	524	524	524
ORR	Pearson Correlation	.785**	1	.765**	.780**	.731**	.795**
	Sig. (2-tailed)	.000		.000	.000	.000	.000
	N	524	524	524	524	524	524
OPA	Pearson Correlation	.751**	.765**	1	.811**	.738**	.824**
	Sig. (2-tailed)	.000	.000		.000	.000	.000
	N	524	524	524	524	524	524
OWL	Pearson Correlation	.849**	.780**	.811**	1	.775**	.816**
	Sig. (2-tailed)	.000	.000	.000		.000	.000
	N	524	524	524	524	524	524
OCB	Pearson Correlation	.789**	.731**	.738**	.775**	1	.774**
	Sig. (2-tailed)	.000	.000	.000	.000		.000
	N	524	524	524	524	524	524
OEE	Pearson Correlation	.826**	.795**	.824**	.816**	.774**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	524	524	524	524	524	524
OOI	Pearson Correlation	.669**	.784**	.781**	.764**	.676**	.665**
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000
	N	524	524	524	524	524	524

TABLE IX
CORRELATIONS

		OOI
OTD	Pearson Correlation	.669**
	Sig. (2-tailed)	.000
	N	524
ORR	Pearson Correlation	.784**
	Sig. (2-tailed)	.000
	N	524
OPA	Pearson Correlation	.781**
	Sig. (2-tailed)	.000
	N	524
OWL	Pearson Correlation	.764**
	Sig. (2-tailed)	.000
	N	524
OCB	Pearson Correlation	.676**
	Sig. (2-tailed)	.000
	N	524
OEE	Pearson Correlation	.665**
	Sig. (2-tailed)	.000
	N	524
OOI	Pearson Correlation	1
	Sig. (2-tailed)	
	N	524

** . Correlation is significant at the 0.01 level (2-tailed).

An index was developed for each of the HR practices based on the scale used for taking inputs. Each index is an average of the responses to all questions under each practice. So for example OTD is the index name for overall training and development index achieved by calculating responses to all the questions for Training and development. Similarly OWL is the index for Overall Work life balance. The table above describes the indices. An index was also calculated for overall organization performance (OOI). A co-relation study was done for all the parameters within themselves and also with Overall Organization performance. The above result shows that correlation is significant at 0.01 level significance level.

The results show that each HR practice is positively correlated to OOI which is overall organization performance index. It can also be discerned that Performance Appraisal, Work life balance and Recruitment and Selection have high correlation with the overall organization performance. This could be attributed to the fact that appraisal of an employee’s work tends to highlight the quality of work, achievement of key result areas, training and development needs and also elevation w.r.t position, role or compensation. It motivates the employees to perform better and also enhances a sense of loyalty towards the organization. Work life balance is another key factor where employees are given ample room and time to satisfactorily balance personal and professional life. This further enhances the skin in the game for the employees as they associate with the organization, are happy because they are able to balance work, pursue their hobbies or passion while taking care of their families. Satisfaction at work enhances satisfaction in personal life and vice versa. Recruitment and selection practice sets the stage for the initial interaction between the prospective employee and the organization. A positive impact created at this stage stays on and forms the first impression of the company in the employee’s mind and motivates him/her to deliver results while also enhancing chances of being loyal or getting associated with the organization. Getting right job description, experiencing quality interviews and then being provided satisfactory compensation post selection sets the path to success of the individual and hence the organization.

VI. FINDINGS AND CONCLUSION

The above results show that there is a significant correlation between HR practices and overall organization performance. Three parameters which show a greater amount of correlation are ‘Recruitment & Selection’, ‘Performance Appraisal’ and ‘Work Life Balance’. Training and Development, Compensation and Benefits, Employee Engagement show similar impact on organization performance. We can confidently conclude that HR practices have a positive impact on the overall performance of the organization and organizations which invest in their HR practices reap benefits by having higher productivity, loyalty, motivation and happy employees.

VII. SCOPE FOR FURTHER RESEARCH

This study covers several factors like efficiency, motivation, loyalty, ownership, innovation and others which comprise or affect organization performance. Further research can cover impact of HR practices on each of these factors and overall organization performance. It can also tell us which factors have greater impact on organization performance.

Further research can also cover more quantitative parameters and financial parameters to discern direct linkage between HR practices and quantitative parameters. The linkage established with the current study is indirect wherein we are saying that HR practices have significant co-relation with say Innovation which is an indicator of organization performance. But whether that innovation is linked to any quantitative result needs to be discerned. Similarly higher levels of ownership and loyalty are a result of HR practices which then impact organization performance. Employees who take ownership of their tasks tend to perform better and faster as they associate themselves with the work and organization as compared to those who lack this characteristic. Impact of HR practices on ROI (return on investment), Profitability, Revenue, Cost and NVA (net value added) can be studied taking a smaller group of companies and doing horizontal and vertical studies in detail to arrive at such correlations. At the same time there are several micro and macro environmental factors which impact the performance of the organization, hence attribution to only HR practices needs dedicated study of a single or a few companies. Research can also include qualitative data by means of interviews and more focus groups to identify factors which have linkage to the organization performance. There could also be analysis of direct and indirect linkages and factors broadly grouped into categories there by coming up with a suggestive model.

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