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FINANCIAL IMPACT OF HRM ON PRODUCTIVITY AND PROFITABILITY IN PUBLIC AND PRIVATE SECTOR ORGANISATIONS: A STUDY

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ABSTRACT

This paper attempts to explore the relationship between the practice of Human Resource Management and its impact on the organizational financial performance in terms of Productivity and Profitability. Exploring HRM attributes existing between public and private sectors organisation irrespective of industry they belong. It also tries to establish a model to study the relationship between Human Resource Management and financial performance of the organisation. The major objective of the study is to discover the relationship between Human Resource Management and financial performance of the organisation. Also indicates the six factors such as recruitment & selection, Training and Development, Performance Appraisal, Compensation, Industrial Relation and Work Life Program which influence the financial performance of the organization. The study concluded that there is a significant relationship between Human Resource Management and financial performance of the organisation in terms of productivity and profitability.

KEYWORDS

Financial Performance and Human Resource Management.

1. INTRODUCTION

Advent of globalisation and growing competition all over the world created a threat for the organisations to continue to exist in market. Innovative and demarcation became necessity to sustain economic development and competitiveness among the organisation. In these organization need to confiscate new opportunities not by retrenching but by rebalancing on the right innovation policies on human resource management attributes towards the financial performance more efficiently and effectively. Yet the financial impact of talent acquisition and mobility on an organisation is enormous. This can be seen from the recent report stating that considering only one attributes of HRM and how it is affecting the organisations in terms of financial. Such as HRM attributes like hiring is a costly affair and bad hiring is costlier. Indian firms are estimated to have lost at least Rs. 2460 crore in bad hiring in 2012. The figures were Rs. 2270 crore in 2011 and Rs. 2120 crore in 2010 with increases for every year but there is decrease in terms of percentage increase in 2010 to 2012. It is found that pressure and urgency to fill up positions, wrong benchmarking, poor screening, non-competitive hiring team, and lack of reference checks and fake identities/resume were among major factors that led to wrong inductions. Some 8123 companies from 18 cities operating across domains like manufacturing, BFSI, infrastructure, power, telecom, IT and BPO were interviewed for the study. About 89% of respondents admitted they suffer from decision to induct "unfit" and "untrainable" talent. Some 11% said make cautious hiring decision therefore, losses were negligible. "Bad hiring is an economic issue and not an industry-centric issue" by Hema Ravichandar, and independent HR consultant. Training accounted for the major chunk of the loss at 29%, rehiring 24%, hiring 22%, productivity loss 15%, relocation and other costs 10%. Expenses associated with hiring include interview expenses like travel, hotel and meals, training and orientation, employment testing, termination costs, unemployment and potential litigation expenses, plus relocation costs and outplacement or career transition costs. Companies said bad hiring impacted their productivity 22%, lost time in hiring and training (21%), lost money in hiring and training (19%) brought employee morale down (17%), negatively impacted clients (13%) and negatively impacted sales (8%). Bad hires are those lack quality, sincerity and understanding of the job. Or they carry negative attitudes and are not team players. Also Romi Malhotra, CEO of Linkage India said that a global leadership development and employability solutions provider said, 'Individual companies have to be blamed for bad hiring. Recruitment managers are often under pressure to acquire cheap talent. So to save, say 5% in the short term, companies end up losing about 10% or more in the long term. It's a typical Indian scenario, globally things are different. (Mini Joseph Tejaswi)⁶.

2. LITERATURE REVIEW

Pradeep N Khandwalla.,(2013)⁷ shown that Human Resource Management is necessary at all levels of human activity from the individual to the organisation to the community to the society and so for a developing country like India. In the coming three decades, a powerful synergy between HRM and technology can propel India to global economic and political power and the status of a prime civilisation. In this article he restrict to HRM for meeting India Inc's corporate challenges. He also said that he does not meant only the HR department, but HRM as a process and a culture at all the levels of organisations, in all its departments and divisions, and practised by all the managers from the CEO down to the first level supervisor. He also meant only the larger enterprises in the Indian public and private sectors. He also opined that meeting the challenges of the future, human resource management in India needs to move beyond its traditional functions and benchmark itself against global standards.

Karthik R., (2012)⁸ Studied on the company regarding the training to increase the quality of the job thereby reduces the job completion time wastage. Training has become an important component of any field of life. Of all, technical training has become very important in all companies. Employees need to be highly skilled and updated in their job. Technological innovations, increased competition and diverse workforce have increased the need for companies to re-examine their training practices. Evaluation of training has become an important process as training involves costs and brings benefits to the organization. Thus proper training brings appreciable changes in work and life.

Knifing Jiang et. Al., (2012)⁵ emphasized on the ability-motivation-opportunity model, this meta-analysis examined the effects of three dimensions of HR systems—skills-enhancing, motivation-enhancing, and opportunity-enhancing—on proximal organizational outcomes (human capital and motivation) and organizational outcomes (voluntary turnover, operational outcomes, and financial outcomes). The results indicate that skill-enhancing practices were more positively related to human capital and less positively related to employee motivation than motivation-enhancing practices and opportunity-enhancing practices. Moreover, the three dimensions of HR systems were related to financial outcomes both directly and indirectly by influencing human capital and employee motivation as well as voluntary turnover and operational outcomes in sequence.

TersitaAudea, Stephen T.T Teo and John Crawford., (2005)¹⁰ examined the extent of adoption of human capital-enhancing human resource (HR) and industrial relations (IR) practices. Differences between locally owned and other organizations in these practices and their relationship to firm performance were also investigated. Questionnaire responses were obtained from managers and union representatives from 128 organizations located in the Philippines. The results indicated that there was, on average, a fairly high level of adoption of practices consistent with a strategic approach to human resource management (HRM), with foreign-owned firms tending to show a slightly higher level of adoption of such practices. A scale representing the adoption of a more conciliatory and union-friendly IR approach was found to be a significant predictor of perceived firm performance. Surprisingly, the level of strategic integration between HRM and business planning and most human capital-enhancing HR practices were not significant predictors of perceived firm performance. Research and practical implications in relation to the role of HRM in enhancing firm performance are discussed

David E.G, Jonathan M, Neil Conway and Maura Sheehan., (2003)¹ explored the relationship between HRM and performance in 366 UK companies using objective and subjective performance measures and cross-sectional and longitudinal data. Bu using objective measures of performance, greater use of HRM is associated with lower labour turnover and higher profit per employee but not higher productivity. After controlling for previous years' performance, the association ceases to be significant. Using subjective performance estimates, there is a strong association between HRM and both productivity and financial performance. The study therefore confirms the association between HRM and performance but fails to show that HRM causes higher performance.

Snell & Dean., (1992)⁹ examined the relationship between integrated manufacturing, defined as the use of advanced manufacturing technology (AMT), just-in-time inventory control (JIT), and (total quality management (TQ), and human resource management from a human capital perspective. It is shown that data from managers and non-managers showed several direct and interactive effects. AMT was positively related to selective staffing. Comprehensive training, developmental appraisal, and externally equitable rewards for operations employees and to selective staffing for quality employees. TQ was positively related to these same human resource practices in quality and was also related to the comprehensiveness of training for operations employees. JIT was negatively related to selective staffing in operations and to performance appraisal in quality and positively related to staffing in quality. The two- and three-way interaction had negative effects.

3. STATEMENT OF PROBLEM

Change is the law of life. Just like life organisation changes every moment with sophisticated issues and problems. These changes ultimately affect the organisational performance in terms of productivity and profitability. This brings very importance attentions to Human Resource Management attributes which is the only reason behind successful of organisations. Therefore the problem here is to recognize and find solutions to the major question as how effective are HRM attributes in terms of financial impact on productivity and profitability and the impact it creates in private sector and public sector organizations. In today's world, are these HRM attributes creating the right kind of impact that it is believed and how successful can HRM initiatives be. But the problem faced by most of the organizations is to handle the varying types of HRM initiatives in selective private and public sectors organizations. Also there is multiple criteria influence the effectiveness of productivity and profitability through HRM attributes.

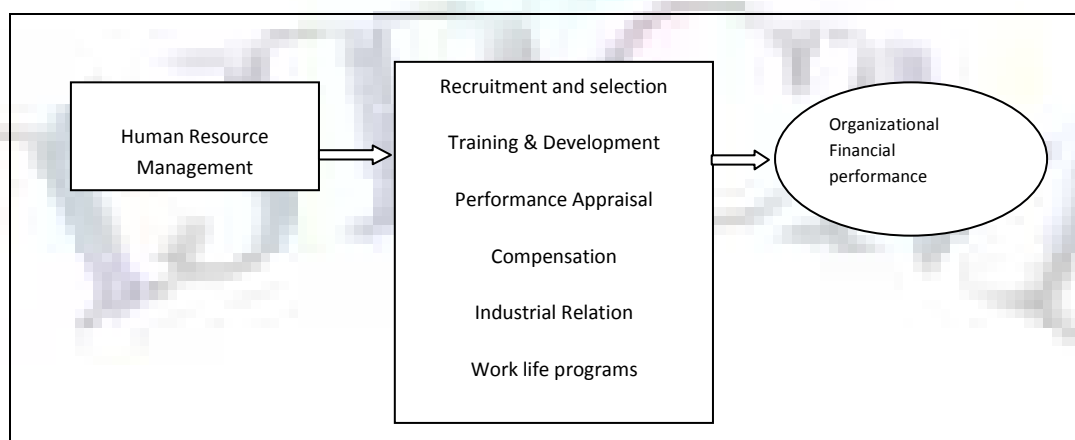
Hence, it is important to measure the financial impact of public and private sectors in terms of productivity and profitability through the application of innovative HRM Attributes in their organisations. This research focuses on how innovative human resource management attributes help the companies in increasing the financial performance towards the productivity and profitability.

4. OBJECTIVES OF THE STUDY

1. To discover the relationship between Human Resource Management attributes and financial performance of the organisation.
2. To give suggestions and recommendations to implement the findings in public and private sector organisation.

5. THEORETICAL FRAMEWORK

This model was shaped from the 6 comprehensive variables including recruitment & selection, Training and Development, Performance Appraisal, Compensation, Industrial Relation and Work Life Program which influence the financial performance of the organization. The Human Resource Management attributes were the independent variable where financial performance in terms of productivity and profitability were the dependent variable. These entire variables were extracted from the academic literature. The linkages between the Human Resource Management and financial performance were developed from theoretical framework. The figure below portrayed the theoretical model for the current study on Human Resource Management and financial performance of the organisation.



6. RESEARCH METHODOLOGY

Descriptive research which is fact finding is used to analyse the attributes of Human Resource Management and its impact on the financial performance. For this secondary data is used to examine the relationship. All the relevant data were collected from the academic literature.

7. RESULTS AND DISCUSSION

The important point is that it calls attention human resource management practices, which in turn, affect employee attitudes, engagement, and turnover, which, in turn, affect the experiences of customers. The experiences of customers, in turn, affect their buying behaviour, which, in turn, affects sales, which, in turn, affects profits. The focus is not on human resource specialists. Rather, it is on training line managers who must, by the very nature of their jobs, manage people and work with them to accomplish organisational objectives, consequently the purpose is not to show how to measure the effectiveness of the human resource department; the purpose is to show how to assess the cost and benefits of people-related business activities and how to use the results of those analyses to drive strategic organisational change towards the organisational performance in terms of productivity and profitability. The methods can be used in cooperation with the human resource management, but they are not the exclusive domain of that department. In fact, any manager in any department to measure the costs and benefits of employee behaviour in the areas such as recruitment and selection, training and development, performance appraisal, compensation, industrial relation and work life programs. Also is cleared from the above literature that there has been lots and lots of mismanagement attributes of HRM where it leads to crores and crores rupees eaten away simply. Therefore, it has been directed and call attentions to everyone to understand the effect of HRM and make our Indian HRM compatible to global standard.

It is also cleared from Pradeep N Khanwalla that, Indian culture is changing day by day but this can be adjusted with the introduction of Human Resource Management attributes such as

1. Appoint an innovative generalist rather than an HRM specialist.
2. The major strategic goal of this head to identify potential movers and shakers and gives them training.
3. The HRM head and the rest of the top management team should identify collectively the areas in which major changes are needed to reach global standards
4. The HRM should form brainstorming teams

8. CONCLUSION

It has been noted from the various literature review that there is close linkage between HRM and financial performance of the firm. But this brings challenges to the organisations that how HRM attributes can be used effectively towards the excellence performance of the organisations. This listed some of the HRM attributes which affects the financial performance. This can be illustrated by the introduction of company bill 2013, where 2% of profit should be offered to CSR. Therefore a lots more can be done in terms of HRM attributes which can bring complete changing scenario in the world of work place and organisations, this brings very importance issues to deal the Human Resource management and in turn it affects the financial performance of the organisation. Now world has taken that Human Resource management is the importance process for the organisation to be imbedded in the organisational system to accomplish the goals which align the personal, social, organisational etc. This makes the study more and more exploring that how far the Human Resource Management attributes help the organisation to fulfil its financial performance in terms of productivity and profitability. Finally the study concludes that there is significant relationship between financial performance of organisation and attributes of HRM. It also directed to study global standard Human Resource Management where it can be practice and tested in Indian scenario (Pradeep N Khandwalla).

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