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HUMAN RESOURCE MANAGEMENT AND PRODUCTIVITY

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ABSTRACT

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we examine the relationship between Human Resource Management (HRM) and productivity. HRM includes incentive pay (individual and group) as well as many non-pay aspects of the employment relationship such as matching (hiring and firing) and work organization (e.g. teams, autonomy). We place HRM more generally within the literature on management practices and productivity. We consider some facts on levels and trends of both HRM and productivity and the main economic theories of HRM. We look at some of the determinants of HRM – risk, competition, ownership and regulation. The largest section analyses the impact of HRM on productivity .

1. Introduction

Every organization is essentially a combination of physical and human resources (HR). Physical resources refer to materials, money and machines pre-arranged by the organization for production or trade. human resources, on the other hand, refer to the knowledge, education, skills, training and proficiency of the members of the organization. All organizational resources are important for achieving the objectives of an organization. In fact, the effectiveness of an organization lies in the judicious blending of the two resources to achieve optimum competency.

However, for a long time, it was felt that the efficient utilization of physical resources was primary for developing an organization. This was so because the acquisition of physical resources resulted in a huge outflow of funds and those assets carried a definite value. On the contrary, it was felt that hiring employees never cost anything substantial for a firm and it was also quite easy to replace them. This made human resources less important for employers. But, in the past decade, employers have realized that intellectual capital is critical to business success. The main reasons for this change are due to the understanding that

1. Product innovation and marketing strategy, which are crucial for market survival and growth in a competitive environment, are possible only when a good and creative workforce is present.
2. The challenge, opportunities and even disputes of creating and managing organizations arise mostly from people-centered problems.

Meaning of Human resource Management

Organizations are managed by people and through people. Without people, organizations can never exist. Indeed, people who make up the human resources of a company are unique and they can make or break an organization, depending upon their level of commitment, contribution and cooperation. Hence, it is relevant to know the intricacies of the term *human resources* first, before we discuss HR management (HRM) in detail. Different people have defined human resources differently. showcases the various definitions of human resources.

Mission Statements of a Few Organizations

To develop ICICI Bank into an organization that is empowered by bright and talented individuals, working in teams and riding on the backbone of world-class technology.

–ICICI BANK

To be a globally respected corporation that provides the best-of-breed business solutions leveraging technology delivered by the best-in-class people.

– ALLAHABAD BANK

To deliver superior value to our customers, shareholders, employees, and society at large.
–INFOSYS

To ensure anywhere and anytime banking for the customer with the latest state-of-the-art technology and by developing effective customer-centric relationships and to emerge as a world-class service provider through efficient utilization of human resources and product innovation.

–ADITYA BIRLA GROUP

Definition

The process of hiring and developing employees so that they become more valuable to the organization. Human Resource Management includes conducting job analyses, planning personnel needs, recruiting the right people for the job, orienting and training, managing wages and salaries, providing benefits and incentives, evaluating performance, resolving disputes, and communicating with all employees at all levels. Examples of core qualities of HR management are extensive knowledge of the industry, leadership, and effective negotiation skills. Formerly called personnel management.

Objectives of HRM

The primary objective of HRM is to take care of the work life of the employees from the time they join the organization to the time they leave it, while ensuring their best possible cooperation in achieving the organizational goals and objectives. This broad objective of HRM can be classified into the following specific ones:

1. To act as a liaison between the top management and the employees
2. To arrange and maintain adequate manpower inventory, which, in turn, ensures the smooth working of the organization
3. To offer training as a way of developing skills, enhancing productivity and, most importantly, increasing individual and organizational performance to achieve the desired results
4. To devise employee benefit schemes for improving employee motivation and group morale and enhancing employer–employee cooperation
5. To ensure and enhance the quality of work life, which refers to the employees’ perception of their physical and psychological well-being at work
6. To help keep up ethical values and behaviour amongst employees both within and outside the organization

Challenges of Human Resources Management

Human beings are the most important resource in an organization. A firm’s success depends on the capabilities of its members. Most problems, challenges, opportunities and frustrations in an organization are people related. Human Resources Management is one of the toughest duties of a manager since humans differ in terms of attitudes, values, aspirations, motivations, assumptions, psychology, and life goals.
Looking at today’s competitive world, managerial level staff will require more conceptual and strategic skills. Thus, managers should for example ensure a suitable, relevant and up-to-date training for specific skills of lower level employees.

Managers have to be proactive, able to anticipate technological developments and prepare their staff for whatever technological changes that might take place.
This will be a successful task only when the HRM itself is fully aware of those changes and has the means to deal with them.

HR managers have a number of roles to fulfill. They are the guardians of the key assets of the organizations. They are also counselor and protector of employees and directly responsible for productivity. The government, including the Ministry of Labor, expects HR managers not only to comply with labor laws, but also to promote harmony at the workplace; this will directly contribute to healthier and more attractive work environment. As a result, both job hunters and seekers will feel compelled to target such organizations in their search for new job opportunities.

The success or failure of HR depends also on the top management recognition of the importance of HRM, and secondly on its commitment to assist HR to carry out its functions.

Human Resources jobholders need capability, integrity and professionalism in order to succeed in the ever-changing environment.

Role and importance of human resources

Human Resources (HR) is concerned with the issues of managing people in the organization.

The Human Resources department is responsible for many people related issues in an organisation.

Under the HR department's remit are the following roles:

- The process of recruiting suitable candidates for the organisation
- Identifying and meeting the training needs of existing staff
- Ensuring employee welfare and employee relations are positive
- Ensure the working environment is safe for employees
- Raising awareness of current workplace legislation

The Human Resources Department also covers five key roles.

- **Executive role –** in this role the HR department are viewed as the specialists in the areas that encompass Human Resources or people management.
- **Audit role –** in this capacity the HR department will check other departments and the organisation as a whole to ensure all HR policies such as Health & Safety, Training, Staff Appraisal etc are being carried out in accordance with the company's HR policy.
- **Facilitator role –** in this role, the HR department help or facilitate other departments to achieve the goals or standards as laid out in the HR policies of the organisation. This will involve training being delivered for issues that arise in the areas relating to people management.
- **Consultancy role –** the HR department will advise managers on how to tackle specific managing people issues professionally.
- **Service role –** in this capacity the HR department is an information provider to raise awareness and inform departments and functional areas on changes in policy.

Workers are key elements in the running of a firm and as such play an important part.

HRM AND ITS IMPACT ON RESULTS in the firm's success in reaching its objectives. Human resources, taken to be the pool of human capital under the firm's control in a direct employment relationship.
Human Resource Management, Strategy, and Operational Performance can provide the firm with a source of competitive advantage with respect to its rivals.
This is possible because of the series of requirements that the workers fulfill.
The first of these is the value added to the company's production processes, the contribution made by each individual having its effect on the results obtained by the organisation as a whole. Also, since individuals are

not all the same, their characteristics are in limited supply in the market. In addition, these resources are difficult to imitate, since it is not easy to identify the exact source of the competitive advantage and reproduce the basic conditions necessary for it to occur. Finally, this type of resource is not easily replaced; though short-term substitutes may be found, it is unlikely that they result in a sustainable competitive advantage anything like that provided by human resources.
Among these we would find quality circles (Katz, Kochan and Gobeille,1983), recruitment (Holzer, 1987), worker training (Bartel, 1994), profit-sharing schemes (Weitzman and Kruse, 1990) and information sharing (Morishima, 1991).
Other investigations have attempted to examine the individual impact of not one but several of these practices. Finally, there are some studies that take a global perspective
on the relationship between personnel management and performance, taking the view that practices are not applied separately but in conjunction with one another. Instead of looking at the impact of one specific practice, they study the total joint effect of the way in which the different aspects of personnel management are dealt with, particularly
the adoption of high-performance practices. Studies such as those of
Huselid (1995) and MacDuffie (1995) are among these. There are sev-M@n@gement, Vol. 5, No. 3, 2002, 175-199

Alberto Bayo-Moriones and Javier Merino-Díaz de Cerioeral articles that offer an in-depth critical review of this literature.Among them we must mention those of Dyer and Reeves (1995), Becker and , Huselid and Becker (1996), Ichniowski ,Kochan, Levine, Olson and Strauss (1996), Guest (1997), Whitfieldand Poole (1997), and Becker and Huselid (1998).This last type of empirical studies, and here we would include our own,analyse a wide range of measurements. Among them we find, for example such measurements of HRM performance as the ability to
attract and retain employees (Kalleberg and Moody, 1994), management-worker relations (Wood and de Menezes, 1998), turnover ,absenteeism ,workers' commitment to the company , job satisfaction among workers and indices that capture several of these outcomes .
Finally, we find studies which, like ours, are concerned with analyzing the effect of HRM on aspects of operational performance, such as the hours of labour required to manufacture a particular product , the percentage of programmed time that the production line is in operation , the defects rate (Arthur, 1994; MacDuffie, 1995) or the percentage of production that meets the required
quality standards .
There are also works that take as their dependent variable indices that capture the firm's overall performance in this area. These would include Liouville and Bayad (1998), who incorporate aspects such as defects costs, and Youndt, Snell, Dean and Lepak (1996), who include the degree of utilizations of equipment, minimization of waste, product
quality and in-time delivery. Broadly speaking, all the studies that address this issue, irrespective of the type of operational result on which they are focused, show the introduction of high-commitment
HRM practices to have an impact not only on the plant's productive system performance but also on business performance.

Some facts on HRM and productivity

Industrial sociologists and psychologists made the running in Human Resource Management (HRM). This has changed dramatically in last two decades. Human Resource Management (HRM) is now a major field in labor economics. . HRM economics has a major effect on the world through teaching in business schools, and ultimately what gets practiced in many organizations. HRM covers a wide range of activities. The main area of study we will focus on will be incentives and work organization. Incentives include remuneration systems (e.g. individuals or group incentive/contingent pay) and also the system of appraisal, promotion and career advancement. By work organization we mean the distribution of decision rights(autonomy/decentralization) between managers and workers, job design (e.g. flexibility of working, job rotation), team-working (e.g. who works with whom) and information provision. Space limitations mean we do not cover matching (see Oyer and Schaffer, this Volume) or skill
development/training. Second, we will only devote a small amount of space to employee .representation such as labor unions (see Farber, this Volume).Where we depart from several of the existing surveys in the field is to put HRM more broadly in the context of the economics of management.

HRM practices

Econometric studies of the productivity impact of HRM

1. First, high quality studies generally show that there is a positive effect on productivity of incentive pay, both individual bonuses and(more surprisingly) group bonuses. This seems true 18 across many sectors, including the public sector
2. Second, in addition to a pure incentives effect, there is usually also an important selection effect generating higher productivity – productivity increases because high ability workers are attracted to organizations offering higher powered incentives.
3. Third, the introduction of new forms of incentive pay is generally more effective when combined with other "complementary" factors. There are complements within the bundles of HRM practices (e.g. team work and group bonuses), and between some HRM practices and other firm characteristics (e.g. decentralization and information technology).
4. Fourth, there are many examples of perverse incentives, for example, when rewards are tied to specific periods of time so that workers manipulate commissions to hit quarterly targets.
5. Fifth, incentive pay schemes tend to be associated with greater dispersion of productivity as the effects are stronger on the more able workers, and this is stronger than the selection effect

Motivation is the number one problem facing businesses today. It is essential for employers to recognize what motivates employees in order to improve productivity and ensure the success of the company.

In the 1970s the general assumption was that incentive pay would continue to decline in importance. This opinion was based on the fact that traditional unskilled jobs with piece-rate incentives were declining, and white collar jobs with stable salaries and promotion based incentives were increasing.

Surprisingly, however, it appears (at least in the US) that over the last three decades a greater proportion of jobs have become rewarded with contingent pay, and this is in fact particularly true for salaried workers.

There are two broad methods of assessing the importance of incentive pay: Direct and Indirect methods. Direct methods use data on the incidence of HRM, often drawn from specialist surveys.

Indirect methods use various forms of statistical inference, ideally from matched worker-firm data, to assess the extent to which pay is contingent on performance. We deal mainly with the direct evidence and then discuss more briefly the indirect evidence.

HRM measured using direct methods

Incentive Pay

Individual incentive pay information is available from a variety of sources. Using the Panel Study of Income Dynamic (PSID) Lemieux, McCleod and Parent (2009) estimate that about 14% of US prime age men in 1998 received performance pay (see Figure 2.1). They define a worker as receiving performance pay if any part of compensation includes bonus, commission or piece rate

They find a much higher incidence of performance pay jobs (37%
on average between 1976-1998) defined as a job where a worker ever received some kind Overtime is removed, but the question is imperfect pre-1993 which could lead to undercounting performance pay
performance pay

They also look at the National Longitudinal Survey of Youth (NLSY) which shows .coverage of performance pay jobs for men of 26% in 1988 to 1990. Other papers deliver similar estimates of around 40% to 50% of US employees being covered by some form of performance pay. For example, using the US General Social Survey Kruse, Blasi and Park (2009) estimate that 47% of American workers were covered by some group incentive scheme in 2006. Of this 38% of employees were covered by profit sharing, 27% by gain-sharing, 18% by stock ownership (9% by stock options) and 4.6% by all three types. Lawler et al (2003) surveyed Fortune

The changes which affect the HR performance are:

- HR should not act as a therapy clinic
- HR must measure their outcomes
- HR practices must create value by increasing the organization’s intellectual capital
- HR must attempt to make employees committed to achieving organizational goals, and not merely to make employees happy
- HR practices must be aligned with company strategies
- HR must champion the needs and development of employees and yet become partners in the business

Suggestions for increase effectiveness of human source

The 1990s have been called the era of **Employee Empowerment**. This means the management delegates as much power and authority as possible to low level employees to enable them to make their own decisions and participate in the managerial decision-making as well. This way, the employees will be more motivated and productive.

The empowerment process is effective under the following conditions:

1. The employee must be given adequate training and knowledge regarding his job and responsibilities, which includes technical knowledge, decision-making skills and group process skills.
2. Both employees and management share a common vision and goals, and are really committed to achieve them.

3. Both employees and management possess common values, in term of job implementation, behavior standards and ethics.
4. Benefits and profits are to be shared together (shares, bonuses...)
5. Management should show and have trust in lower level employees.

Conclusion

Actually, the nation's capacity to face the challenges of globalization and industrialization of business towards the 21st century depends heavily on the human resources.
Firms have the capital, technology and human resources; but the HR is the one who can help facing the challenges of business globalization. Capital can be generated. So can technology. But the human resources are needed to propel the organization and the nation through the coming challenges with encouragement and motivation.
With the ongoing changes in Human Resources Management (HRM), it's important that managers, executives and HR employees, specifically, be aware of the challenges that today's HRM team may face. While there are certainly other issues, these are common to most any type business or size of company and having policies in place to ensure these challenges are met head-on can make the workplace more settled and peaceful for everyone.

1. Compensation and benefits. With a slow economy and tightening corporate purse-strings, the issue of compensation and employee benefits is one that almost every business must deal with. The key is to present mandatory changes in such a way that employees can accept, if not necessarily agree with them while providing non-monetary morale boosting incentives whenever possible to make the changes less traumatic.
2. Recruiting skilled employees. In an era of rising unemployment, it would seem that finding qualified workers would be easier than ever. But that's seldom the case. Many industries are facing dire needs for employees with acceptable skills and the required training or degree. This applies not only to health care, but also to technology and other fields as well, causing many employers to search outside their local marketplace for workers who can do the jobs they need filled.
3. Training and development. This is another challenge that HR managers and personnel must deal with more frequently. With the need to cut training costs, training itself often suffers. Yet the skills an employee needs must still be taught. Many companies are meeting this challenge by providing eLearning opportunities that allow employees to receive the training they need without the expenses associated with travel, on-site trainers, hours away from their jobs and high-priced materials.

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