A STUDY ON THE IMPACT OF HR PRACTICES ON THE PROFITABILITY AND PERFORMANCE OF BUSINESS

Shalini Arora
Assistant Professor, Department of Management, Banasthali University, Rajasthan

Dr. Sunil Mishra
PhD, Professor, Department of Management, Banasthali University, Rajasthan

ABSTRACT

This article investigates the influence of human resource practices and commitment of organization on profitability and operating performance of units of business. Using a predictive design with a sample of fifty autonomous units of business within similar organization the study shows that both human resource practice and commitment of organization are related to performance of operational measures essentially as well as operating pre-tax profits and expenses.

Keywords: Human Resource practices, Business units, Profitability, Operating performance

Introduction:

Organizations have recognized the importance for their people to be a competitive benefit source increasingly (Pfeffer, 1994). Creating competitive benefit through people needs cautious attention to practices that leverage these assets better. This alteration in executive decision maker’s mindset has urged a developing academic research body trying to show a rapport between an organization’s performance and human resource practices. Most of the study has essential rapport statistically between organization profitability and human resource practices measures (Delery and Doty, 1996; Guthrie, 2001; Huselid, 1995). Certain authors have defined it as black box issue mentioning that the conceptual growth of arbitrating mechanisms through which human resource management has an influence on profitability has thus far evaded empirical testing (Purcell et al, 2003). Thus this study’s purpose is to investigate the rapport between organizational performance and human resource practices in a way that develops causal conclusions that can be drawn. This study moves beyond former
work in 3 ways. First it investigates the occurrence at level of business unit thus reducing the amount of essential noise established when learning much heterogeneous human resource systems across different businesses within organizations. Secondly it utilizes much proximal estimation of business unit performance rather than only stock price or distal profitability measures. Lastly it utilizes a predictive design of research enhancing much causal confident conclusions.

Previous Research:

Over the past few years the research body investigates the rapport between organizational performance and human resource practices have developed exponentially. Huselid (1995) interviewed senior executives of human resource in 968 samples of publicly traded organizations in United States considering the % of workers who were enclosed by a group of human resource practices usually regarded representative of HPWS (high performance work system). Delery and Doty (1996) investigated the rapport between profitability and human resource practices in a sample of banks in United States. In verifying contingency, configurationally and universalistic approaches to human resource management they predicted that human resource practices related to profitability positively. Guthrie (2001) investigates the influence of human resource practices on organization productivity and turnover among a sample of organizations in New Zealand. He mentioned that human resource practices had an influence on turnover and the rapport between productivity and retention was positive when organizations executed greater involvement human resource practices but negative when they did not involve. MacDuffie (1995) predicted that the bundles of human resource practices he estimated were common to productivity and quality on lines of auto assembly. Meanwhile Youndt et al (1996) invented that human capital developing human resource practices were similar to performance of organization among manufacturing plants sample. The arguments have emerged considering appropriate sources for acquiring valid reports of human resource practice estimation the appropriate level of proximity and analysis of measurement timing and measures of performance.

Human resource practice measures sources:
Considering the utilization of individual designs of respondents Gerhart et al (2000b) offered proof calling into query the reliability of human resource practices measures stemming from individual respondents. In response to Gerhardt et al (2000b) study Huselid and Becker (2000) recommended that in several cases individual respondents were placed best and the only ones qualified offer human resource practice data across numerous jobs. As mentioned above Huselid and Becker (2000) protected their senior human resource executives usage as the most applicable source of human resource practice information. This led Gerhart et al (2000a) to implicate that if an individual seeks to assess actual practices then utilizing employees as the human resource practice data source would be a much logical approach.

**Level of analysis and outcome problems:**

Dyer and Reeves (1995) evaluated most of the already occurring study on rapport between performance and human resource practices and suggested that performance measures would be categorized into 4 types. First outcomes of employees handle with the results of employees’ practices such as their behavior and attitudes specific behavior namely turnover and absenteeism. Accounting/financial outcomes define to actual measures of financial performance and involve revenues, profitability and expenses. Organizational outcomes concentrate on much operational performance measures such as quality, shrinkage and productivity several or all of which would be profitability precursors. Rogers and Wright (1998) examined empirical study on rapport of human resource performance interviewing twenty nine studies accounting eighty effect sizes and mentioned two specifically common trends. Firstly strategic human resource management concentrates highly on the relationship between business strategy and human resource the biggest number of research has been organized at corporate analysis level. Secondly with regard to the kinds of performance results they predicted that only few studies had investigated human resource results, most of them had utilized financial and accounting measures of market and the biggest number of effect sizes was investigated for outcomes of organization (such as service, productivity, quality, etc.). One is pressed hard to isolate the option of results from the option of analysis level. Huselid and Becker (1998) discuss that the analysis corporate level is valid because this enhances the shareholder wealth examination
which is the raison d’ tre of corporation. Huselid and Becker (2000) identified essential issues of methodology at this level as they recommended that one reason for reduced reliabilities in Gerhart et al (2000a) research was the conclusion of big diversified firms. On the other side Wright et al (2001) queried the validity and usefulness of study at corporate analysis level. They mentioned that given the significance for huge differences in human resource practices across business sites and units the importance for acquiring valid and accurate estimation of human resource practices was reduced. Dyer and Reeves (1995) outcomes categorization recommends that: 1) certain outcomes such as human resource outcomes are much proximal to human resource practices than others; and 2) the influence that human resource practices have on much distal results are thorough the influence on much proximal results. Together these 2 points recommend that to perceive how human resource practices influence profitability one would required to view what influence they have on proximal results that have an influence on much distal results and consequently have an influence on much distal results.

**Measurement timing:**

The measurement timing in most of the study on influence of human resource practices on performance has prevented drawing organization’s causal inferences of this rapport. Ichiowski et al (1997) utilized data of monthly performance from lines of steel finishing over a 3 year time period. Similarly Guthrie utilized performance information from 1996 to 1997 but asked respondents during that time to account the practices that occurred during 1995 to 1996. During 1992 Delery and Doty (1996) collected data of human practice and utilized the data of year end performance. Huselid (1995) collected both subsequent and contemporaneous year data performance and announced consequent year information in his study to offer much conservative estimates of effect size.

A study by Gardner and Wright (2003) presented graduate students and executives with fictitious explanations of low and high end performing firms and predicted proof that their human resource practices reports can be impacted by organization’s past performance knowledge. This study seeks to offer a much definitive causal conclusions by: 1) utilizing numerous employees as human resource practice measures source; 2) utilizing numerous employees as human
resource practice measures sources; 3) evaluating financial, human resource and organizational results; and 4) utilizing a predictive design where the financial and operational measures of performance follow the collection of employee attitude and human resource data temporally.

Hypotheses:

Becker and Huselid (1998) provide the most definitive and logical model of the methods through which human resource practices influence performance of organization. They recommend that practices of human resource have a direct influence on motivation, skills of employees, work structures and design of job. These variables have an influence on growth and profitability which in turn have a direct influence on market valuation of an organization. The model which the author recommended in this study separates from general Becker and Huselid (1998) model not much in logic as in actual measured variables. The authors base their hypotheses on theory of job performance (Campbell, 1990). Researchers investigating different role behavior and task elements in both macro and micro literature of organizational behavior appear to accept on 3 job behavior categories common to performance of organization. First in role behavior defines to employees expected behaviors based largely on job needs and commonly agreed rules and this has been known as core task proficiency (Campbell, 1990). Extra role behavior comprises of behavior moving outside the need for the work and which has a positive influence on performance of organization. Extra role behavior comprises of moving beyond the call of duty for the betterment of firm. Lastly counterproductive behavior generally comprises of extra role or in role activities that are implicitly or specifically targeted at inquiring the company (Sackett and DeVore, 2000). The core workers attitudes have regard able impact on these 3 classifications of work behavior in companies. Because attitudes involve cognitive and affective as well as behavioral tools (Fishbein and Ajzen, 1972), they are essential employee involvement antecedents and role behavior in work surroundings. In addition to investigate the results of commitment the author posit that practices of human resource are an essential lever driving this kind of attitude. There are numerous practice which an organization’s human resource practices can enhance a gathered commitment level in its workforce. First the author recommends that the initial influence
of human resource practices on commitment of employees to organization initiates with staffing and selection. This makes positive work surroundings by enhancing them to concentrate on serving their own customers successfully performing their own job properly and not having to clean up other workers mess constantly. Additionally by utilizing monetary incentives and valid systems of performance management to obtain greater performance, employees can view a much straight sight line between their personal results and behavior. Lastly have participatory systems and open communications enhancing employees to both perceive the competitive position of an organization and be capable to involve in methods to help develop it. Virtanen (2000) discusses that the commitment’s social nature involves such problems of consistency of loyalty and observable behavior together with conviction, value systems and ideology. Thus commitment impacts the view of employees of utilities, emotions and obligations in any work circumstances and thus has an influence on employees’ behavior. Businesses with employee commitment must face greater productivity as their employees seek to execute needed behavior better and move beyond the job to devise much effective ways of working and are not probable to free ride or shirk. Lastly committed employees are probable to damage or steal products resulting in shrinkage of inventory for business. Because compensation claims, shrinkage, productivity and quality of workers all have a direct influence on organization costs by impacting these variables commitment of employees have an influence on operating expenses.

Method:

This study reports on study that investigates the rapport of both organizational commitment and human resource practices with different operational performance measures utilizing a predictive design of research. The surveys of employee attitude were organized and common to subsequent measures of performance gathered in 3 to 9 months time period after the interview data was gathered.

Performance:

Six performance measures were offered from archival records of organization. Every measure was for a 6 month time period initiating 3 months after the attitude survey administration. These measures indicated the
leading measures of performance tracked by corporate headquarters as business success indicators. Compensation of workers was the compensation expenses of workers incurred during the 6 months divided by sales reduced the number the better. Quality was estimated as 100000 pieces per mistake where every piece indicated a carton. Shrinkage was estimated as the inventory loss percentage involving warehouse outs, loss due to spoilage, samples shrinkage, delivery shorts, sales return damage and delivery damage. Productivity was assessed as expenses of payroll for entire employees divided by several pieces reducing the number the better. Operating expenses comprises of all similar operating expenses of business involving delivery, occupancy, warehouse, selling, processing of data and administrative and general expenses. Lastly profitability was assessed as the business unit’s operating pretax profit as a sales percentage where pretax profit of operating was estimated as sales.

Results:

Because of the little size of sample the author investigated the rapport among similar variables using only bi-variate correlations. The author were less interested in describing particular outcomes than in perceiving overall results pattern in how human resource practices and commitment of employees relate to much proximal measures of performance. The overall mean was subtracted from every actual value of organizations on every variable in order to disguise the data.

Discussion:

This study results showed a predicted brief model of human resource influence on profitability steady with a model hypothesized by Becker and Huselid (1998). The human resource practices measures were described to be reliable highly unlike past research in this vein (Wright et al, 2001). Additionally these measures were used prior to the measures of later performance thus offering a larger weight to the drawing of causal inferences. The study also mentioned the rapport between both organizational commitment and human resource practices with several financial and operational measures of performance. Lastly the distinct nature of the organization learned enabled to manage for several sources of additional difference that would occur in cross firm and specifically studies of cross industry to offer a much clearer test of the influence human resource has on performance of finance. The
outcomes showed that human resource practices were related strongly to commitment of organization.

**Practical Implications:**

This study outcome assists the idea that businesses which handle employees with much progressive human resource practices can expect to view greater performance of organization as an outcome. The author noted that the senior VP of human resource sought this information as a way to impact these autonomous units of business to manage their people more effectively. Subsequently the author has utilized this information in presentations at meetings with presidents of organization to describe the type of performance they might acquire by implementing and developing proven practices of human resource. Additionally the organization has now evolved a portal to assist presidents of business unit whose units are not attaining their targets of performance. The website supports them recognize their major deficiencies of performance and then offers data on practices they can implement that must help develop their performance on this measure of performance. In summary this study utilized a greatly controlled sample and setting and a predictive design to examine the processes better through which human resource practices might have an influence on profitability of organization. The outcomes of the study appear to represent assistance for the hypothesized model. Future study must concentrate on offering many generalizable and brief findings to add to the base of knowledge describing how organizations can leverage people as competitive benefit source.

**References:**


