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Organisational Effectiveness Through Human Resource Practices in Information Technology-Based Companies

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Research Guide

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Abstract: There is a growing body of work on HR practices and organizational performance (e.g., Li, Zhao, & Liu, 2006; Sanchez, Jimenez, Carnicer, & Perez, 2007; Lin & Chen, 2007) which showed an important linkage between HR practices and organizational performance. High-impact HR organizations must invest the time and money needed to ensure team members' competence grows in such disciplines as change management and relationship management. Efforts must also focus on developing team members' business acumen, industry knowledge and command of current best practices in all areas of talent management, as well as the use of social networking tools and other HR technology. High-impact HR organizations in Information technology (IT) based Companies, must invest the time and money needed to ensure team members' competence grows in such disciplines as change management and relationship management. Efforts must also focus on developing team members' business acumen, industry knowledge and command of current best practices in all areas of talent management, as well as the use of social networking tools and other HR technology.

Key words: Human Resource Management Practices(HRM Practices), Human Resource (HR), employee relations climate, organizational commitment.

1.1 Human Resources Practices; an introduction:

Human resources functions are significantly different from HR practices. Functions are comprised of transactional activities that can be handled in-house or easily outsourced. Practices are part conceptual, part implementation of an HR strategy, comprised of systems that follow the normal or customary way of doing business. The term "best practices" refers to the HR systems that have the greatest impact on the workforce and the organization. (smallbusiness.chron.com)

All managers in IT Companies must adopt a more open, flexible and caring style in managing their staff. Such an approach is reflected in a number of ways. The three most common practices are -

- Managing people effectively for performance through an open Performance Management System (PMS) that will call for individual objectives tied to departmental objectives, regular coaching, and developing staff on the job;
- Enhancing staff's competencies to perform better through effectively training people to achieve departmental objectives and results; and
- Delivering quality service through training and engaging staff in developing a service culture in addition to business process re-engineering and work streamlining. (cbs.gov.hk)

John Hollon in an 2011 article in eremedia.com talks about the ten best HR practices; which are:

1. **Structured governance and business case development:** From Bersin: "Building a business case in IT Companies requires a clear understanding of the business or businesses that HR serves, as well as working relationships with all business leaders. HR can achieve both by involving business leaders in the planning processes and governance. This involvement also helps to ensure business alignment and, as a result of that alignment, business buy-in and support."
2. **Developing advanced workforce planning capabilities:** From Bersin: "High-impact HR organizations incorporate sophisticated forecasting and workforce analytics into their processes. This enables them to translate company-wide talent, business data and external workforce segment data into workable insights that they can use and share with business leaders."
3. **Implementing the "right" HR philosophies:** From Bersin: "High-impact HR organizations tend to commit themselves to creating work environments that enable employees to thrive both as individuals and as contributors to IT business success. They strive to create positive employee environments, and clearly communicate these expectations in the HR philosophy and mission. The most effective philosophies focus on fostering innovation and collaboration, or creating the best place to work, while the least effective philosophies focus narrowly on efficiency or cost-cutting efforts."
4. **Reducing administrative work for HR business partners:** From Bersin: "Many HR functions have a role that is a liaison between the HR function and IT business leaders. The specifics of this role vary

widely. High-impact HR organizations use it to advise senior business leaders, focusing on decision support, workforce planning, leadership development and executive coaching. By enlisting the right person, HR can improve its credibility across the enterprise, improve working relationships with business leaders, cultivate mutual understanding and gain influence.”

5. **Implementing flexible HR organization design:** From Bersin: “High-impact HR organizations are flexible and agile. Like earthquake- proof buildings, they are structured to allow adaptive movement if the ground shifts. No overall IT HR structural model (centralized, decentralized or a combination of the two) in itself emerged as a predictor of HR success. But certain structural features do lend themselves to areas of excellence...like flexibility.”
6. **Improving employee-facing HR systems:** From Bersin: “The most significant contributions to the overall effectiveness of an HR function come from community-building and self-service elements. Knowledge-sharing portals, web-based recruitment tools and management dashboards let various HR stakeholders and clients find what they need when they need it. HR functions with user-friendly client systems are regarded as twice as effective and efficient as functions that do not invest in this advantage.”
7. **Measuring both HR operational and business metrics:** From Bersin: “Measurement strategies in high-impact IT HR organizations have evolved to ensure efficiency, effectiveness and business alignment. Such strategies incorporate both operational measures by which to manage the HR function and strategic people measures to support crucial business decisions.”
8. **Developing internal HR skills:** From Bersin: “As they focus on programs to develop employees company-wide, HR organizations often neglect the development of their own team members. High-impact HR organizations must invest the time and money needed to ensure team members’ competence grows in such disciplines as change management and relationship management in IT Companies. Efforts must also focus on developing team members’ business acumen, industry knowledge and command of current best practices in all areas of talent management, as well as the use of social networking tools and other HR technology.”
9. **Improving line manager capabilities:** From Bersin: “A common pitfall for many HR functions is the attempt to meet the needs of every stakeholder directly, thereby spreading limited HR resources very thinly in IT Companies. High-impact HR functions have prioritized the focus of their HR resources on building the capabilities of their line managers. This decision allows them to work in partnership with their line managers, versus trying to work around line managers who may be incompetent or ill-prepared.”
10. **Outsourcing HR services strategically:** From Bersin: “High-impact HR organizations use IT based outsourcing to enable their internal teams to focus on things that cannot be outsourced, such as building business relationships and developing custom solutions for business managers. These organizations outsource areas that can be improved through economies of scale, or which require

global coordination and expertise. What an organization outsources often depends on its level of maturity.”

Organizations are now evolving toward IT structures in which rank means responsibility but not authority, and where the supervisor’s job is not to command, but to persuade (Drucker (1999). Blickle (2003) contended that, in order to be effective, it is critical for managers to influence their subordinates, peers, and superiors to assist and support their proposals, plans, and to motivate them to carryout with their decisions. Previous researchers on managerial performance such as Kanter (1982) and Pavett and Lau (1983) pointed out that an important component of successful management is the ability to influence others. There is a growing body of work on IT HR practices and organizational performance (e.g., Li, Zhao, &Liu, 2006; Sanchez, Jimenez, Carnicer, & Perez, 2007; Lin & Chen, 2007) whichshowed an important linkage between HR practices and organizational performance. In addition to that, Brower, Schoorman, and Tan (2000) stated that effective IT managers do not work in isolation from their subordinates, instead they would prefer to work with their subordinates, and the nature of the relationship between the manager and subordinate has been acknowledged as complex, interactive, and exist reciprocity in the dyad. (MohamadAbangAzlan et al, 2009)

There are a number of well-developed theoretical frameworks that help explain how human resource management systems can result in competitive advantage. Becker et al.’s (1997) HRM-performance model, for example, explains how the design of HRMsystems in IT Companies that support and develop employee skills and motivation will result in increased productivity, creativity and discretionary effort that will in turn result in improved performance, profit, and growth. Similarly, Guest’s (1997) HRM-performance model explains how HRM selection, training, appraisal, reward, job design and involvement practices result in IT employee effort, cooperation, involvement, and discretionary behavior that, in turn, result in improved individual performance and increased organizational profit and return on investment.(Brecht et al, 2015)

Theoretical and empirical evidence supports that HRpractices in IT Companies have positive effects on firm outcomes. However, the utilization of HR practices seems to vary among different types of firm ownership. (Hang-Yue Ngo et al, 2008)

1.2 IT Employee relations climate and human resource management practices: HR practices, when properly implemented, should create a social atmosphere in which employees have a good feeling about the organization (Bowen &Ostroff,2004). For example, effective management of human resources in IT Companies should result in the presence of a feeling of participation, open communication, sharing information, and trusting relationships in the organization(Collins & Smith, 2006). This kind of shared perception and feeling among organizational members often is referred to as theist organization’s climate (Riordan, Vandenberg,& Richardson, 2005).(Hang-Yue Ngo et al, 2008).

The employee relations climate, therefore, reflects a high involvement, employee-centered culture that creates the conditions for employees to make a value-added contribution to improving organizational performance (Riordan et al., 2005; Schuster, 1998). This kind of climate can be used as a proxy to evaluate how strategically and effectively an organization manages its human resources. The relationship between HR practices in IT Companies and employee relations climate has been demonstrated in previous studies (Collins & Smith, 2006; Schuster, 1998).

(Hang-Yue Ngo et al, 2008)

1.3 Human resource management practices and organizational commitment in IT Companies:

Organizational commitment comprises three dimensions (Meyer and Allen 1990). First, IT employees with a strong affective commitment (personal attachment and identification to the organization) continue employment because they *want* to do so. Second, employees whose primary link to the IT organization is based on continuance commitment (awareness of the costs associated with leaving the organization) remain because they *need* to do so. Third, IT employees with a high level of normative commitment (feeling of obligation due to social pressures) feel that they *ought* to remain with the organization. (Pare and Tremblay, 2000)

High-impact IT HR organizations must invest the time and money needed to ensure team members' competence grows in such disciplines as change management and relationship management. Efforts must also focus on developing IT team members' business acumen, industry knowledge and command of current best practices in all areas of talent management, as well as the use of social networking tools and other HR technology in IT Organisations. Organizational commitment predicts work variables such as turnover, organizational citizenship behavior, and job performance. (Sendogdu, et al, 2013)

1.4 Foremost impact of human resource management practices in It Companies: The positive relationships between HR practices with firm performance have been demonstrated in the West, and more recently in China. These relationships are not only found in FIEs and JVs, but also in SOEs (Bjorkman & Fan, 2002; Law et al., 2003). Both local and foreign firms are aware that the proper utilization of human resources in IT Companies can improve organizational effectiveness (Zhu et al., 2005). Firms that are able to attract, recruit, and retain talent via HRM gain a competitive edge in the dynamic market. When the HR practices are internally consistent and well integrated with business strategy, they help to develop a human resources pool that adds value to the firm, and in turn enhances firm performance (Bae & Lawler, 2000; Wright et al., 1995). (Hang-Yue Ngo et al, 2008)

1.5 Literature Review: Regarding the effects of HR practices on organizational outcomes, Deng, Menguc, and Benson (2003) reported that in their sample of SOEs, a bundle of HR practices had a substantial impact on

export performance in the IT sector. Yu and Egri (2005) found that several HR practices in IT firms were related to job satisfaction and affective organizational commitment of employees working in a JV and an SOE. Bjorkman and Fan (2002) reported that HR practices that focus on individual performance and employment motivation were strong predictors of IT based firm performance in FIEs. Takeuchi, Wakabayashi, and Chen (2003) also found support for the positive relationship between a firm's HR practices and financial performance in a sample of Japanese subsidiaries. (Hang-Yue Ngo et al, 2008)

Some of these research work questions the presence of a correlation between human resources management practices and organizational commitments and HR practices which seem to have a greater correlation with organizational commitment has been tried to be identified in IT based firms. Delaney and Huselid (1996: 949) found positive associations between human resource management (HRM) practices, such as training and staffing selectivity, and perceptual IT firm performance measures (using the sample of = 590 for-profit and nonprofit firms). Pfeffer (1998: 96) has proposed seven HRM practices that are expected to enhance organizational performance: (1) employment security; (2) selective hiring of new personnel; (3) self-managed teams and decentralization of decision making as the basic principles of organizational design; (4) comparatively high compensation contingent on organizational performance; (5) extensive training; (6) reduced status distinctions and barriers, including dress, language, office arrangements, wage differences across levels; (7) extensive sharing of financial and performance information throughout the IT based organization (Ahmad & Schroeder, 2003: 20).

Jayaram et al. (1999: 1) examined relationships among dimensions of human resource management practices and manufacturing performance of first tier suppliers to the Big 3 in North America. The study found support for the proposed framework, suggesting that human resource management practices can be grouped into five distinct factors, four of which are associated with specific manufacturing competitive dimensions (quality, flexibility, cost and time). Several human resource management practices have been reported as key factors affecting both manufacturing performance and competitive advantage. Jayaram et al. (1999:3) conducted a study on IT top management commitment, communication of goals, employee training, cross functional teams, cross training, employee autonomy, employee impact, broad jobs, open organizations, effective labor management relations.

Cho et al. (2006: 262) investigated the relationship between the use of 12 human resource management (HRM) practices and IT organizational performance measured by turnover rates for managerial and non-managerial employees, labor productivity, and return on assets. The results of regression analyses indicated that companies implementing HRM practices such as labor management participation program, incentive plans, and pre-employment tests are more likely to experience lower turnover rates for non-managerial employees. (Sendogdu, et al, 2013) Meyer & Smith (2000: 319) reported that relations between employees' evaluations of HRM practices and their affective and normative commitment were largely mediated by

perceptions of organizational support and procedural justice. Conway (2003) study extends on the literature by examining whether stage of the career of an employee has a moderating influence on the HR-commitment relationship. The findings highlight the extent to which interaction effects are evident regarding attitudes towards IT HR practices and continuance and normative commitment, though not affective commitment.

Paul & Anantharaman (2004: 77) indicated that HRM practices such as employee-friendly work environment, career development, development oriented appraisal, and comprehensive training show a significant positive relationship with organizational commitment in IT based Companies. Shahnawaz & Juyal (2006) explored and compared various HRM practices and commitment degrees can be attributed to HRM practices in two different organizations-consultancy/research based organization and fashion industry. HRM practices were found significantly different into organizations and mean scores on various HRM practices were found more in the fashion organization. Regression result showed that various HRM practices were significantly predicting organizational commitment in two organizations and also when they were combined.

Fiorito et al. (2007: 186) developed and tested hypotheses concerning the influences of human resource (HR) practices and IT organizational characteristics on organizational commitment. Results showed that grievance resolution mechanisms and employee involvement indicators are positively related to organizational commitment, and compensation cuts are negatively related to organizational commitment. Qiao et al. (2008) investigated the effect of HRM practices on organizational commitment using the sample of 610 IT employees in total. The hypotheses that information sharing, training and development, recruitment and selection, and compensation management had positive effect on IT employees' organizational commitment were partially supported by hierarchical regression analysis. Gellatly et al. (2009: 869) examined how employee perceptions of development-oriented, stability-oriented, and reward-oriented human resource management (HRM) practices affected the likelihood of affective and continuance commitment profile membership. They showed ways that IT organizations can use HRM practices strategically to help shape the nature of overall employee commitment (using the sample of = 317). Giauque et al. (2010: 185) assessed the impacts of HRM practices developed in Swiss SMEs upon the commitment of knowledge workers. Results show, for example, that organizational support, procedural justice and the reputation of the organization may clearly influence knowledge workers' commitment, whereas other HRM practices such as involvement in decision-making, skills management or even the degree of satisfaction with pay do not have any impact on knowledge workers' commitment.

Hashim (2010: 785) examined the management of human resources from the Islamic perspective and its effects on organizational commitment among selected employees in Islamic organizations in Malaysia. The results of correlation and regression analysis showed that the Islamic approach in HRM was highly and significantly correlated to organizational commitment. About 45 percent of the organizational commitment variance was explained by the Islamic approach in HRM. Gelade & Ivery (2003) examined relationships

between human resource management (HRM), work climate, and organizational performance in the branch network of a retail bank. They found significant correlations between work climate, human resource practices, and business performance in IT firms.

Agarwala (2003) analyses showed that the perceived extent of introduction of innovative human resource practices by the organizations was the most significant predictor of organizational commitment. (Sendogdu, et al, 2013) Although much of the previous research on the relationship between HRM practices and organizational performance has concentrated on a single HRM practice, within growing number of research it has been argued for instituting complementary bundles of HRM practices to enhance organizational performance in IT firms. However, very few studies have examined the impact of HRM practices on operational performance measures (quality, cost, delivery etc) or intangible performance measures such as organizational commitment (Ahmad & Schroeder, 2003:21, 23, 25). Organizational commitment is an indicator that testifies whether the HRM practices employed in an organization are able to foster psychological links between organizational and employee goals. This is an intangible outcome of a HRM system and is important in retaining employees and exploiting their potential to fullest extent over time (Ahmad & Schroeder, 2003: 26). (Sendogdu, et al, 2013)

1.6 Concluding remarks: Firms are considering the adoption of new work practices, such as problem-solving teams, enhanced communication with workers, employment security, flexibility in job assignments, training workers for multiple jobs, and greater reliance on incentive pay. Adopting individual work practice innovations in isolation has no effect on productivity. Empirical linkages between HR practices and organizational performance have been found by several authors. For example, Arthur (1994) and Huselid (1995) have shown that HR practices can have significant impact on organizationally relevant performance. Other studies also indicate that some HR practices always have a positive effect on organizational performance.

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