



## IMPORTANCE OF HUMAN FACTOR IN THE ORGANISATIONS A CRITICAL REVIEW

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### **Abstract**

It is known fact that Human resource is an important element in organization. Various researches have been conducted to identify the factors that influence the performance of employees. This paper attempts to analyze the Research work which results to major contributions in the field of Human resource management and strategic HRM, since the period of its evolution. Influential elements in different paradigm shifts and their related empirical evidences are also reviewed.

**Keywords: Human Resource Management, Evolution, Paradigm Shifts, Strategic HRM.**

### **Introduction**

Every Bussiness organisation has to conduct its operations by making use of important factors like Men, Material, Money and Machinery. All these factors are having equal importance. Materials , Money , and Materials can be manipulated according to the circumstances and requirements of the organisations but dealing with 'Men' factor is a very challenging task which is considered as Human Resource of the Organisation. Diversified nature of HR made it difficult for the organisations to manage with. This diversified nature of HR has been evolved because of continuous changes in the work environments. Globalisation and unstable economic conditions made work environments more challenging and un predictable. In these unstable work environments, organisations must strive to retain efficient HR in order to fulfill its goals and objectives.

According to Peng (2007) , people are the key resources of the firm to be actively managed and developed. Efficiency and effectiveness at work can be achieved only by proper utilisation of Human Resource. The creative pool of employees serves as an irreplaceable, intangible asset for an organisation. Competent workforce of an organisation can become an uncopied competitive advantage. This is possible only when organisation look after its HR by developing appropriate polices, functions , and procedures.

In oldendays there was no much importance for managing HR even though it is much crucial for organizational effectiveness and with the passage of time the importance of HR is recognised ,intense research work has been conducted and emperical findings of those work paved way for organised and formalised structure for managing HR. this resuts to HRM department in organization. In this context human resource management has got great importance. HRM deals with responsibility functions behaviours of the employees in an organization.

### **Evolution of Human Resource Management**

In 18<sup>th</sup> century, the concept ofHRM was in very crude form. The period of industrial revolution was the main basis for the concept of HR. In this period there was conversion of economy from agricultural based to industrial based. Industrial revolution leads to setup of department or units to look after workers wages, welfare and other related issues. This leads to the emergence of personnel management with major tasks as – workers' wages and salaries, record maintained. The workings in the Industries or factories were of long working hours with very less wages. This led to generation of unrest and frustration among workers. The result was the establishment of labour unions which has become an important aspect of industrial revolution.

In the period of post industrial revolution many experiments and studies were conducted that gave new meaning and importance to the concept of HRM after 1850. Robert Owen, a young welsh factory owner, was one of the first to emphasis the human needs of employees. He taught his employees about cleanliness and provided improved working conditions. In 1835, Andrew Ure , published his work ' The philosophy of Manufacturers' , in which he included the human factor as one of the factors of production besides mechanical and commercial parts. Beleiving in the importance of the human factor, Ure provided workers with hot tea, medical treatment, and sickness.

Fredrick. W. Taylor proposed principles of scientific management (1857-1911) that led to the evolution of scientific Human resource management approach. This approach focused on attaining better productivity. Hawthorne studies conducted by Elton mayo and fritz Roethisberger(1927-1940). This experiment shifted the focus from increasing worker's productivity to increasing worker's efficiency through improved work satisfaction. This study laid foundation for understanding people's



social and psychological behaviour in the workplace. Abraham Maslow's Hierarchy of needs (1954) revealed that unsatisfied needs become motivation at individual level. This theory helped to understand individual behaviour at workplace. One of the major works on the grounds of satisfaction level of employees is Herzberg's two factor theory of job satisfaction. According to Herzberg, satisfaction and dissatisfaction are opposite poles of one dimension but they are of separate dimensions. These studies and observations made clear that human factor should be managed proactively rather conventionally.

Initially Human factor of organization has been managed with some administrative functions which again named as Personnel functions. Personnel management includes functional activities like Manpower planning, Job analysis, Recruitment, selection, Job evaluation, pay roll administration, performance appraisal, Labour law compliance, Training etc.... Personnel Management approach also concerns with establishing rules, policies, procedures. Apart from these functions, human factor demands much more to manage. This leads to the shift from the administrative and passive personnel management approach to a more dynamic HRM approach which considers workers as valuable resources. According to Armstrong (2006), HRM is defined as 'strategic and coherent approach to the management of the organisation's most valued asset- the people working there who individually and collectively contribute to the achievement of its objectives'.

HRM is the modern approach to manage people in an organisation. The purpose of evolution of HRM is inclusion of traditional personnel management functions to organisational objectives and also to implement development activities in organisation which are of employee centered. Rigid rules are made flexible according to the needs of organisation. HR approach make environment amicable for development activities and motivate employees to take part in organisations' decisions and also encourages leadership. Aligning workforce with organisation's strategy to achieve corporate objectives is the important function of HRM. With the intense global competition and drastic improvements in technology, the scope has become wider. This view can be supported by analyzing various research works.

#### **Evolution of Strategic Human Resource Management**

Walker(1978) proposed a link between strategic planning and HR planning. This study has been considered as first step towards the concept of StrategicHRM. But SHRM birth was in the early 1980s with Devanna. The pioneering article on SHRM by Fombrum and Tichy(1984) stressed the link between business strategy and human resource. Since then SHRM's evolution has consistently followed developments within the field of strategic management.

From mid 1980s, HR department has been emerged as a key strategic partner in the business operations and organisational performance. Some researchers revealed new domain, i.e; Strategic perspective of HR function. This is an important shift in paradigm with respect to the contribution of HR functions towards Organisational performance. HRM adopted strategic approach in which all the practices and philosophies of HR are refined in order to deal with external and internal influences and organisational effectiveness.

In 1990s, scholars like Spencer, Lawler, and Ulrich argued that HR functions has to focus on what it contributes to business rather than the activities it does. They linked the HRM practices with strategic goals and objectives in order to improve business performance. Stone (2005) refers to HRM as 'managing people especially involves the productive utilisation of people in achieving the organisation's objectives as well as the satisfaction of individual needs'. Becker and Huselid(1998) identified that HR practices increases firm's performance which in turn improves the market value of the organisation. Khatri(2000) examined the relation among organisation's strategy, HR practices, and its performance with the sample of 200 large companies. Strategic HRM stresses on long term goals, achievements and put efforts to differentiate organisation from its competitors. The strategic approach to HRM is generally characterised by linking the external and internal environment of the business to the management of HR. According to Jackson and Schuler(1995), organisation's important internal environment include technology, structure, size, life cycle stages of organisation and business strategy and external environment includes legal, social, political environments, labour market conditions including unionisation, Industry characteristics and national culture. These are considered important components in SHRM literature. This strategic perspective is adopted to add value to the organisation through HRM functions.

HR researchers like Ulrich, Huselid, Snell and Collins implies the new HRM which specialize in Value Management strategic partnering. According to Beer et al(1985) the Harvard model suggest that strategic HRM fall into four broad areas. Those are (1) Employees influence and involvement – This is the extent to which employees participate in organisational decision making. (2) HR flow – All HRM function that involve in employee management. (3) Reward system – The monetary and non monetary plans adopted to motivate work force. (4) Work systems – It includes consideration of the fit between employees and their work place. In the context of strategic HRM, the 'fit' between organisation strategies and



HR strategies is very crucial. Research has been conducted in this perspective which supports this argument. Baird and Meshoulam(1988) stressed on fit of Internal and external components. External fit is aligning of firm's HR practices with its strategies where as internal fit is aligning a firm's HR practices with one another. Lengnick-Hall(1988) asserted that there is a need of 'fit' between organisation's strategy and HR strategy and is not always desirable during the time of implementation. Milliman, Vonglinow and Nathan (1991) expanded the 'fit' concept and applied in strategic International HRM context.

In this aspect, one more idea also got great acceptance. That is about 'Fit' and 'Flexibility'. Wright and Snell(1998) promote the idea that 'fit and 'flexibility' are complementary and are necessary for organisation's functions. According to them strategy should fit with employees' skills, behaviour and HR practices. Again 'flexibility' under Resource and co-ordination dimensions. Resource flexibility is all about the extent of adopting and application of HR practices and co-ordination flexibility is about how quickly practices are re-synthesized and re-deployed. Depablos(2005) mentioned that sustainable competitive advantage can be achieved through organisation's 'fit' and 'flexibility'(in terms of resource and co-ordination) with the simultaneous respond to environmental demands.

One more concept has been evolved which is considered as a clear instrumental to the development of SHRM is Resource based view. This concept has become a dominant theory in most of SHRM literature. There was a shifting emphasis in a strategy literature from the external factors to internal firm resources as a source of competitive advantage (Hoskisson, Hitt Wan, Yiu, 1999). Much emperical research has been undertaken that have used RBV as basis to relation between HR and firm's performance. Another research by Barney and Wright (1998) came out with the components of RBV( Value, rareness, inimitability,non-substitutability) and asserted that competitive advantage can be attained throuh these components. Wright and Memahan (1992) also mentioned RBV perspective that HR as potential source of competitive advantage.

Another important shift in SHRM literature was human capital perspective. Wright and Snell proposed two major elements of human capital - competence and behaviour. Competence management strategies deal with competence acquisition, utilisation, retention, and displacement. Behaviour management strategies consist of behaviour control and co-ordination. Research has been conducted on sample of 269 HR professionals from large manufacturing firms by Green, Whitten, and Medlin(2006). They found that SHRM is related to professionals' individual performance, organisational commitment and job satisfaction and also they found positive and significant relationship between SHRM and organisational performance. Hatch and Dyer(2004) found that investments in human capital had significant impact on learning and firm performance. In this line, Social capital conceptualisation also gains importance. Leana and Buren(1999) were among the first to find the relation between social capital and SHRM. They defined socialcapital as a resource that maintains the social relations with in the firm. Intellectual capital concept has been evolved with social capital and human capital as a basis. Intellectual capital has been proposed as mediating variable in the relationship between HR systems and organizational performance (Youndt and Snell (2004)).

One more perspective also gained more importance in mid 1990s, i.e.; Integrative HR systems. These are bundles of HR practices and configurations of these practices are more efficient than single activity (Dyer and Reeves (1995)). Mc Duffie (1995) constructed hypothesis that HR bundles (interrelated consistent HR practices) create multiple, mutually, reinforcing conditions that support employee motivation and skill acquisition. He also hypothesized that HR bundles or systems must be integrated with firm's overall business strategy to be effective. In this context High performance work systems has been evolved which includes comprehensive Recruitment and Selection procedures, Incentives, compensation and performance management systems, extensive involvement of employee training etc. Huselid (1995) examined that employee turnover can be reduced by high performance work systems which leads to increase in productivity in turn effects on corporate financial performance. Macky and Boxall (2008) examined that HR practices normatively associated with High performance work systems and have positive relationship with work attitudes ( job satisfaction, trust in management, psychological identification with their organization, and intention to remain employed with their organization).

The scope of SHRM has been expanded by introducing HR in the value chain. The pioneer of this concept was Michael E Porter (1985). Value chain analysis is the method of assessing the strength and weakness of an organization on the basis of understanding of series of activities it perform. Value chain is a set of inter-linked value creating activities performed by an organization. According to Schuler and Mc Millan HR function could be applied in value chain to develop competitive advantage of an organization. The inclusion of HR practices in the value chain of the organization means expanding the scope of HR activities not only within the organization but also outside of it. This can be considered as a shift towards a value-added paradigm in which HR functions are not limited to manage employees but also towards shareholders, customers and also community.



Ulrich et al (1995) provided key roles of HRM through which value added to the organization. Those are- Management of SHRM, Management of Transformation change, Management of Employees, Management of administration of organization. Ulrich and his colleagues (2012) in the book 'HR from outside in' elaborated on this idea by identifying six competencies as – Strategic builder, Change champion, HR innovator and integrator, and technology proponent. According to Ulrich et al these domains leads to effective HR professionalism by managing both people and business.

Dave Ulrich and Wayne Brock bank (2005) proposed a practical approach for HR professionals to add value to their business – 'The HR value Proposition'. According to this approach, HR practices, departments, and professionals produce positive outcomes for key stake holders (employees, line managers, customers and investors) of the organization. This can be measured by the dimensions – Knowing external business realities, serving external and internal stakeholders, crafting HR practices, Building HR resources, and assuring HR professionalism.

Ongoing professional development is a new approach in the HR literature. This has been proposed by Nel and Little. They asserted that OPD theory is a new scientific approach that redefines the traditional process of SHRM that can be used to rollout new organizational strategy. OPD theory is considered as improved and scientific foundation of the linkage between people and organization. It is based on the assumption that if a person is clear about what they need to do to be successful, he or she can do it more effectively. The person's performance depends on his or her full commitment and appropriate intensity. OPD-SHRM comprises of following steps like – agreement for success, psychological insight, clear conveying of ideal actions, personal choice and commitment. This approach has been adopted by organizations of Newzealand and proven to be more effective.

### Conclusion

The deep analysis of existing research work and literature clearly reveals the importance of Human resource aspect in the organizational activities. Major works of Literature revealed various paradigms shifts and it has been identified that these shifts have been evolved due to the changes raised in the business environment internally and externally. Because of the dynamic nature of business environment, there is a demand for continuation of extensive research in various perspectives and aspects of this field in order to maintain consistency and sustainability with respect to the changing demographics, attitudes and behaviors of the employees

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