

# **The Impact of Human Resource Management Practices on Organizational Performance with Special Reference to BPO Industry in Kerala**

**Sylesh S.,**

Research Scholar,  
Bharathiyar University Coimbatore, India

**Dr. A. M. Viswambharan,**

Research Guide,  
Bharathiyar University Coimbatore, India

## **ABSTRACT**

*The purpose of this paper made out of my research study is to establish the importance of human resource management practices on organizational performance of BPO services in Kerala. The service sector especially BPO sector need expert employees and on-time delivery of services in a pre-determined standard with the least possible cost. The state of Kerala with highly skilled and talented human resources, high speed communication and internet connectivity has emerged as an important BPO hub. The important challenge of HR managers is to recruit and select the right candidates, else it would badly affect performance of the business and dampen the image of the company in the competitive market. This study is conducted to find out the impact of HRM practices followed by the companies to improve organizational performance through structured questionnaire from a sample size of 800 respondents from the BPO units in Kerala. The results showed that effective HR practices have a positive impact on with organizational performance.*

**Keywords:** recruitment and selection, training and development, performance appraisal, career planning and compensation.

## **INTRODUCTION:**

Business Process Outsourcing means outsourcing non-core business functions to third party vendor. But organizations must take care to select third party service providers because they must have sufficient experience and reputation to provide services. The main benefits of the organization are to concentrate more important business areas and also reduce cost (Quinn & Hilmer, 1994). At present competitive world organization should have the ability to change constantly because it is necessary for their continuous existence. So organizations need to improve efficiency and effectiveness of business activities, managers often resort to re-engineering, outsourcing and off shoring. The main two things of off shore outsourcing business is to cost savings and quality assurance (Dossani & Kenney, 2003; Taylor & Bain, 2005). The main BPO business is located in India, China and the Philippines. According to the national industry association India earned around US\$30 billion revenue from BPO industry, The BPO industry is a small portion of the total outsourcing industry in India. The total revenue from BPO and IT services industry is US\$154 billion in 2017. India is a vital destination for outsourcing business and expects the GDP growth rate 8-10% for the next decade (Pramanik, Ayan, 2017). Kerala BPO industry shows high growth rate in recent years. Human resource management has to follow better management practices to recruit and select qualified, skilled and best talents and also to retain these employees in the organization (Prasasthan, Akhila & Jubily, 2015). Business Process Outsourcing business greatly depends on employee's performance. So employees are the most important assets of an organization. Organization growth and success depend on these employees performance (Danish and Usman, 2010; Malik 2010). In today's business environment is unstable and dynamic, so managers are searching performance measures that can illustrate the competitive strategies and progress in quality (Kaplan and Norton, 1996 and

2001; and McNamara, 2003). The main role of HR management is to improve organizational performance. Effective HRM practices can exhibit a rapid and effective reaction to market demands (Prahalad and Hamel, 1990; Stalk, 1992; and Huselid and Becker, 1996).

Organizations HRM strategies and its relations with employees has a positive effect on organizational performance (Becker and Gerhart, 1996; and Boxall and Purcell, 2003). So organizational performance greatly depends on HR practices and it helps to increase return on assets (Delery and Doty, 1996), higher profit margin (Kalleberg and Moody, 1994), reduced turnover cost (Huselid, 1995), and higher productivity (Huselid, 1995; MacDuffie, 1995; Youndt, 1996 ND Datta, 2003). So many studies conducted in this area but all are trying to elicit the relationship between HR system and organizational performance. So uncertainty about the causal relationship between them can be observed. In the case of BPO industry, more uncertainty has been recognized (Delery and Doty, 1996; Guest, 2003). Human resource are the valuable resource of every organization because without HR other assets and even high technology become meaningless, organization face the challenge of staffing and employee retention. HR is a most competitive source of a firm and also HR includes the greatest time horizon of every task. Organizations cannot achieve long team strategies without appropriate force. Most of the organizations do not appropriately arrange HR strategies and also follow general approach and styles to manage employees. (Gerhart and Trevor, 1996). The main problem faced by the companies is performance improvement and it is a key objective of every organizations. The BPO companies mainly focus on cost reduction through lower vendor production costs and ensure better performance in areas such as quality, functionality and service (Handley & Benton, 2012).

On the basis of literatures reviewed in the BPO sector, the researcher identified a research gap in effectiveness of HR practices with organizational performance. So many literatures are progressed in describing HR practices in BPO industry in Kerala. To best of the knowledge no studies have revealed effectiveness of HR practices in organizational performance. According to this study the main HR practices effect on organizational performance are recruitment and selection, training and development, performance appraisal, career planning, compensation. They are not yet tested in Kerala context. On the basis of above discussion and literature researcher put forward the following objectives.

#### **OBJECTIVES OF THE STUDY:**

1. To identify the important HRM practices which affect organizational performance in BPO industry in Kerala
2. To evaluate the impact of HRM practices on organizational performance in BPO industry in Kerala.

This study carefully addresses the impact of better HRM practices on organizational performance. This study provides so many contributions to HR managers, employees, customers and government. This study helps HR managers to identify better HRM practices to develop organizational performance. Employees are other beneficiaries because they get well treatment from employers. Customers and government also get benefit because qualified and satisfied work force gives quality output. It will increase the image of the organization in this competitive market. Simultaneously, academic community is another beneficiary because this study explores some new areas of HRM practices and its impact on organizational performance in BPO industry in Kerala.

Thus in the first section deals with introduction, in the second and third sections deal with literature review and hypothesis and fourth section explains the research methodology in detail followed by discussion and conclusion. The last stage of the study deals limitations and directions for the future research.

#### **LITERATURE REVIEW & HYPOTHESIS FORMULATION:**

##### **Recruitment and selection and organizational performance:**

Recruitment is defined as any practices or activity carried on by organization with primary purpose of identifying and attracting potential employees (Noe, 2008). Selection is the process of reducing the number and choosing from among those individuals who have the relevant qualifications. If organization selects wrong individuals, organization cannot meet objective successfully and also create various personnel problems such as high turnover, low productivity and high rates of absenteeism and employee stress (Storey, 2007). Recruitment and selection methods greatly depend on organizational performance of the company because the best methods produce the best pool of candidates efficiently and effectively (Kleiman, 2000). So recruitment of best talents is one of the important functions of HRM because best talents only can improve organizational performance and timely accomplishes the objectives (Rehman, 2012). The main external recruitment methods are newspaper, network bulletins, posters and human resource banks, internal methods include personal connections and other

staffs (Chen and Cheng, 2012). So organizations should adopt better recruitment and selection methods for appointing suitable employees in right positions. It will lead to competitive advantage and high performance of organization (Pfeffer, 1994; Ttoey, 2007; Zheng, 2006 Werther and Davis, 1996). Therefore, we postulate the following hypothesis;

**H1:** Recruitment and selection of employees has significant impact on organizational performance

**Training and Organizational performance:**

Training helps to impart new knowledge, skills and other abilities to perform the job efficiently and effectively (Denisi and Griffin, 2001). Employees can improve their skills and attitudes through training (Herold and Fedor, 2003). Similarly training creates positive feelings towards growth and development individually as well as group (Paul, 2009). In this competitive world organizations give complexity tasks to employees. Employees need sufficient amount of skills to accomplish these tasks. So organization should adopt better training methods for successfully accomplishing objectives of the company. So training is necessary to accomplish trained and untrained task (Barzegar and Farjad, 2011; Lee, 2012, Tung-Chun, 2001). Training enhances employees capabilities which is instrumental in improving organizational performance (Mackelprang, 2012), Miller and Stevens, 2012). Training given to employees creates great impact on organizational performance so we suggested the following hypothesis:

**H2:** Training and development of employees has significant impact on organizational performance

**Performance appraisal and organizational performance:**

Performance appraisal means the process of determining and communicating to an employee how well he or she is performing on the job and make a plan of improvement ( Byars and Rue, 2004; Young, 1995). Performance appraisal is usually conducted annually and makes discussion between management and employees about the past 12 month's performance and take action plans to improve performance (John and Steven, 2000). At the same time improper appraisal methods and techniques creates problems including low morale, decreased employee productivity and low enthusiasm to support organizations, hence decrease organizational performance (Osman, 2011). An effective performance appraisal method helps to get optimal level of performance from employees and deliver better services to customers (Giles, 1997). Thus we postulate the following hypothesis:

**H3:** Performance appraisal has significant impact on organizational performance

**Career planning and organizational performance:**

Career planning means those who are aware of his or her personal skills, interest, knowledge, motivations and other characteristics; acquires information about opportunities and choices; identifies career-related goals and create action plans to attain goals( Abdulkadir, 2012). Previous studies revealed that career planning influences performance of both employees and organization (Osman, 2011; Qureshi, 2010; Katou and Budhwar, 2006; Dnisi and Griffin, 2001).As similar as it helps to balance the preferences and abilities of the employees and meet the requests of the organization. Career planning and development aligns should match with the interest and skills of the employees with the organizational needs (Nwuche and Awa, 2011). Thus we postulate the following hypothesis;

**H4:** Career planning has significant impact on organizational performance

**Compensation and organizational performance:**

Compensation is a reward provided to employees for accomplishing various jobs and tasks assigned by the company. Compensation is directly linked with employee's performance so compensation packages should be appropriate and equitable. Compensation should match with their skills, abilities and contribution to the firm (Denisi and Griffin, 2001;Fisher, 1999). Organization performance is greatly depends on efficient and skilled employees but they are retained only as per compensation package provided by the company. Therefore, at present competitive world, organizations try to identify innovative compensation strategies because it is directly linked to improving organizational performance (Steven and Loring, 1996; Denis and Michel, 2011) thus we following hypothesis is proposed:

**H5:** Compensation has significant impact on organizational performance.

## **METHODOLOGY:**

### **Sample and procedures:**

Kerala BPO business mainly concentrated on Techno Park Thiruvananthapuram, Info Park Ernakulam and Cyber Park Kozhikode. Techno Park has around 180 companies and employing 27000 professionals. Info Park hosts around 80 companies and professionals working there around 17000. Cyber Park has around 40 companies and employing more than 5000 professionals. To identify the impact of HRM practices on organizational performance in BPO industry in Kerala 340 sample respondents were selected which constituted a total of 800 samples. Employees selected as sample from team leaders and employees working in same level. The researcher had written to the management of the selected BPOs to get the approval from companies to conduct survey. The researcher highlighted the importance and the benefit of the study and also promised to maintain the confidentiality of the identity of all participating individuals and companies. After obtaining approval, the researcher sought the cooperation of the human resource managers and team leaders in these companies to distribute questionnaire to the team leaders and these team leaders in turn distributed to the subordinates and to their respective immediate subordinate.

### **Questionnaire development:**

The questionnaire was prepared for the top, middle and lower level employees of the BPO sector for studying factors affecting employee retention. The first section of questionnaire started with information relating to demographic profile of the respondents like gender, age, working experience, name of the company, tenure, position, number of employees, and salary range. Statements in the section II tried to elicit various HRM practices and its affect on organizational performance. Emphasis was given on the five factors affecting organizational performance that is recruitment and selection, Training, performance appraisal, career planning and compensation. The attributes selected were measured using a 5 point Linkert type scale having response from strongly disagree to strongly agree corresponding to the value of 1-5. A total of 800 questionnaires were distributed out of which 420 were received in a completed, from which 340 were selected for statistical analysis.

## **DATA ANALYSIS AND RESULTS:**

In this study, the researcher conducted the data analysis in three inter-related stages. In stage one, we conducted exploratory factor analysis. Exploratory factor analysis was performed to identify the underlying dimensional structure of the measurement items, and also to test whether the a priori dimensional structure for the selected scales or sub-scales is consistent with the structure obtained with the particular set of measures (Stewart, 1981). In this stage, study included the items covering recruitment and selection, training, career planning, performance appraisal, compensation, and organizational performance. The the factor analysis results supported a KMO value of 0.669, and Bartlett's test of Sphericity= 3889.319,  $p < 0.01$ . Further the analysis of communalities and factor loadings ( $\lambda$ ) revealed five dimensional structure, and all the loadings were above the suggested cut-off of 0.50. In addition, the total variance explained by these seven factors revealed a total variance of 64.48 %.

After this, the study used Confirmatory factor analysis (CFA) to check the reliability and validity of the scales used to measure the above said dimensions. The CFA results supported that the model fit very well with the data (Chi-square = 1334.55,  $p < 0.01$ , CFI = 0.91, TLI = 0.92, GFI = 0.92, SRMR = 0.05, RMSEA = 0.06). In addition, the examination of the convergent and discriminant validity of the scale measures supported that the scale is valid and reliable. This validity and reliability of the measures confirmed through the estimated Average variance Extracted (AVE) and Composite reliability (CR) estimates. In all cases, all the AVEs and CR values were above the suggested cut-off of 0.60.

After the confirmation of the reliability and validity of the scale measures, the study used Structural Equation Modelling (SEM) to test the proposed set of relationships. In this SEM, the study incorporated all the dimensions, such as recruitment and selection, training and development, performance appraisal, career planning, and compensation as antecedent to the outcome variable organizational performance. The SEM results supported satisfactory goodness of fit indices (Chi-square = 1325.11,  $p < 0.01$ , CFI = 0.92, TLI = 0.92, GFI = 0.92, SRMR = 0.06, RMSEA = 0.07). In addition, as reported in the Table (See Table 1), the examination of the test results supported the significance of all the proposed set of hypotheses. Hence, the study supported all the proposed set of hypotheses.

Test of Hypothesis (SEM Results)						
Endogenous variable		Exogenous Variables	Unstd. Estimate	Std Estimate	P values	Hypothesis Status
Recruitment and selection	→	Organizational performance	0.554	0.159	0.00	H1 supported
Training and development	→	Organizational performance	0.674	0.271	0.00	H2 Supported
Performance appraisal	→	Organizational performance	0.230	0.276	0.00	H3 Supported
Career planning	→	Organizational performance	0.454	0.383	0.00	H4 Supported
Compensation	→	Organizational performance	0.616	0.585	0.00	H5 Supported

**DISCUSSION & CONCLUSION:**

This study revealed that HRM practices have positive relationship with organizational performance. This study found that BPO Company’s performance is largely depends on HRM practices including recruitment, training, performance appraisal, career planning and compensation. So BPO companies have to adopt efficient recruitment policies and promote scientific selection methods to procure prospective employees. The HR managers and team leaders have to participate selection procedure because they can understand what kind of employees suitable to perform the job efficiently and effectively. Training is helpful to continuously improve the skills of the employees so management try to implement better training programs in the company. Furthermore, company need to adopt better performance appraisal systems and performance should be assessed based on quantifiable terms. The feedback should be communicated to employees and take action plans to correct them.

It was found that another factor that depends on BPO companies performance is career planning. The HR managers should try to understand employee’s career plans so that they match the career aspirations of employees and the needs of the BPO companies. BPOcompaniesperformances canenhance through participating employees in decision making related to their carrier plans. Management provides better facilities to learning and growth because it is one the dimensions which include development of staff to move up the career ladder hence the importance of career planning for performance improvement. Management should allow the employees to participate on decision making on issues which affect the employees. Candidates should be selected on the basis of merit which means they should have appropriate knowledge, skills, experience and qualification. Furthermore, better training programs should be given to select and employees who are not performing up to the mark. Open communication is necessary to promote fast decision making. This will influence commitment and job satisfaction among employees.

**LIMITATIONS & FUTURE RESEARCH IMPLICATION:**

HRM practices are positively related to organizational performance. This study has certain limitations. One of the major limitationsof this study is small sample size, so the findings of the study cannot be generalizable. Employees working in BPO industry are busy in their work. It was difficult to meet them. Most of the HR managers denied request of the researcher to meet and collect data from employees. The findings of the study are based on information collected from employees, but majority respondents fear to reveal information because they have limitations. The data is collected from selected BPO companies. The impression of employees may change from those of the rest of BPO companies.

The present study focus on the impact of HRM practices on organizational performance. The main HRM practices taken to this study is recruitment, training, performance appraisal, career planning and compensation. HRM should make employees committed to the organization; changes need to be made in the culture of the organization. If appropriate changes made in the culture of the organization employees would not only lead to effective utilization of human resources but also helps to retain best talents in the organization. The Future researchers can explore other factors relating to various HRM practices affecting organizational performance.

**REFERENCES:**

Abdulkadir, D.S., Isiaka, S.B. and Adedoyin, S.I. (2012). Effects of strategic performance appraisal, career planning and employee participation on organizational commitment: an empirical study, *International Business Research*, Vol. 5 No. 4, pp. 124-133.

- Barzegar, N. and Farjad, S. (2011). A study on the impact of on the job training courses on the staff performance (a case study), *Procedia – Social and Behavioral Sciences*, Vol. 29, pp. 1942-1949.
- Becker B E and Gerhart B (1996). The Impact of Human Resource Management on Organizational Performance: Progress and Prospects, *Academy of Management Journal*, Vol. 39, pp. 779-801.
- Byars, L.L. and Rue, W.L. (2004). *Human Resources Management*, 7th ed., McGraw-Hill, New York, NY.
- Chen, Y.-G. and Cheng, J.-N. (2012). The relationships among recruitment channels, understanding of perspective job, job performance and turnover intention among Taiwanese kindergarden teachers, *Social Behavior & Personality: An International Journal*, Vol. 40 No. 1, pp. 93-103.
- Danish, R.Q. and Usman, A. (2010). Impact of reward and recognition on job satisfaction and motivation: an empirical study from Pakistan, *International Journal of Business and Management*, Vol. 5 No. 2, pp. 159-167.
- Delery J and Doty D H (1996). Modes of Theorizing in Strategic Human Resource Management: Test of Universalistic, Contingency and Configurational Performance Predictions, *Academy of Management Journal*, Vol. 39, pp. 802-835.
- Delery, J.E. and Doty, H.D. (1996). Modes of theorizing in strategic human resource management:tests of universalistic, contingency, and configurational performance predictions, *Academy of Management Journal*, Vol. 39 No. 4, pp. 802-835.
- Denis, C. and Michel, T. (2011). Between universality and contingency: an international study of compensation performance, *International Journal of Manpower*, Vol. 32 No. 8, pp. 856-878.
- DeNisi, S.A. and Griffin, W.R. (2001). *Human Resources Management*, Houghton Mifflin Company, New York, NY.138.
- Dossani, R., & Kenney, M. (2003). *Went for cost, stayed for quality? Moving the back office to India*. Asia Pacific Research Centre Working Paper, Stanford, CA, USA. Accessedthrough <http://APARC.stanford.edu>
- Fisher, C.D., Schoenfeldt, L.F. and Shaw, J.B. (1999). *Human Resources Management*, 4th ed., Houghton Milflin Company, Boston, MA.
- Gerhart B and Trevor C (1996). Employment Variability Under Different Managerial Compensation Systems, *Academy of Management Journal*, Vol. 39,pp. 1692-1712.
- Giles, W., Findley, H. and Feild, H. (1997). Procedural fairness in performance appraisal: beyond the review session, *Journal of Business and Psychology*, Vol. 11 No. 4, pp. 493-506.
- Guest, D. (2002). Human resource management, corporate performance and employee wellbeing: building the worker into HRM, *The Journal of Industrial Relations*, Vol. 44 No. 3, pp. 335-358.
- Herold, D. M. and Fedor, D. B. (2003). Individual differences in feedback propensities and training performance, *Human Resource Management Review*, Vol. 13 No. 4, pp. 675-689.
- Huselid, M.A. (1995). The Impact of human resources management practices on turnover, productivity and corporate finance performance, *Academy of Management Journal*, Vol. 38 No. 3, pp. 635-672.
- John, P.W. and Steven, W. (2000). Performance appraisal: an obstacle to training and development?, *Journal of European Industrial Training*, Vol. 24 No. 7, pp. 384-391.
- Kalleberg A L and Moody J W (1994). Human Resource Management and Organizational Performance, *American Behavioral Scientist*, Vol. 37, No. 7, pp. 948-962.
- Katou, A. and Budhwar, P. (2006). The effect of human resources management systems on organizational performance: test of a mediating model, *International Journal of Human Resources Management*, Vol. 17 No. 7, pp. 1223-1253.
- Kleiman, S.L. (2000). *Human Resource Management: A Managerial Tool for Competitive Advantage*, 2<sup>nd</sup> ed., South-Western College Publishing an International Thomson, Minneapolis, MN.
- Lee, H., Boot, W.R., Basak, C., Voss, M.W., Prakash, R.S., Neider, M., Erickson, K.I., Simons, D.J., Fabiani, M., Gratton, G., Low, K.A. and Kramer A.F. (2012). Performance gains from directed training do not transfer to untrained tasks, *Acta Psychologica*, Vol. 139 No. 1, pp. 146-158
- Mackelprang, A.W., Jayaram, J. and Xu, K. (2012). The influence of types of training on service system performance in mass service and service shop operations, *International Journal of Production Economics*, Vol. 138 No. 1, pp. 183-194.
- Malik, M.E., Nawab, S., Naeem, B. and Danish, R.Q. (2010). Job satisfaction and organization commitment of university teachers in public sectors of Pakistan, *International Journal of Business and Management*, Vol. 5 No. 6, pp. 17-26.
- McDuffie, J.P. (1995). Human resources bundles and manufacturing performance: organizational logic and

- flexible production systems in the world auto industry, *Industrial and Labour Relations Review*, Vol. 48 No. 2, pp. 197-221.
- Millar, P. and Stevens, J. (2012). Management training and national sport organization managers: examining the impact of training on individual and organizational performances, *Sport Management Review*, Vol. 15 No. 3, pp. 288-303.
- Noe, R.A., Hollenbeck, J.R., Gerhart, B. and Wright, M.P. (2008). *Human Resources Management: Gaining Competitive Advantage*, 6th ed., McGraw Hill Irwin, New York, NY.
- Nwuiche, C.A. and Awa, H.O. (2011). Career planning and development: the realities in Nigerian organizations, *International Business & Management*, Vol. 2 No. 2, pp. 117-127.
- Osman, I., Ho, T.C.F. and Carmen Galang, M. (2011a). The relationship between human resource practices and firm performance: an empirical assessment of firms in Malaysia, *Business Strategy Series*, Vol. 12 No. 1, pp. 41-48.
- Paul, L. (2009a). Action theory and the training and performance application: performance templates, *Industrial and Commercial Training*, Vol. 41 No. 5, pp. 270-279.
- Pfeffer, J. (1994). *Competitive Advantage Through People*, Harvard Business School Press, Boston, MA.
- Pramanik, Ayan (12 October 2017). BPM sector sees faster growth than IT services: Nasscom, *Business Standard*.
- Prasasthan M. K., Akhila M. K., (2015). Jubily Navaprabha, *International Journal of Management, MIT College of Management*, Vol 3, No1, , pp 29-32 ISSN 2321-6700 MIT publications HRM practices in ITeS-BPO Industry in Kerala:Issues and Challenges.
- Quinn, J.B. and Hilmer, F.G. (1994). Strategic outsourcing, *Sloan Management Review*, 35, 4, pp . 43-55.
- Qureshi, M.T., Ayisha, A., Mohammad, A.K., Rauf, A.S. and Syed, T.H. (2010). Do human resource management practices have an impact on financial performance of banks?, *African Journal of Business Management*, Vol. 4 No. 7, pp. 1281-1288.
- Rehman, S. (2012). A study of public sector organizations with respect to recruitment, job satisfaction and retention, *Global Business & Management Research*, Vol. 4 No. 1, pp. 76-88.
- Steven, H.A. and Loring, M. (1996). Compensation in the year 2000: pay for performance?, *Health Manpower Management*, Vol. 22 No. 3, pp. 31-39
- Storey, J. (2007). *Human Resources Management: A Critical Text*, 3rd ed., Thomson Corporation, London.
- Taylor, P., & Bain, P. (2006). Work organization and employee relations in Indian call centres. In J. Burgess, and J. Connell(Eds.), *Developments in the call centre industry*, Abingdon,OX: Routledge.
- Tung-Chun, H. (2001). The relation of training practices and organizational performance in small and medium size enterprises, *Education & Training*, Vol. 43 No. 8, pp. 437-444.
- Werther, W. and Davis, K. (1996). *Human Resource and Personnel Management*, McGrawhill Inc, New York, NY.
- Youndt M A, Snell S A, Dean J W and Lepak D P (1996). Human Resource Management: Manufacturing Strategy and Firm Performance, *Academy of Management Journal*, Vol. 39, No. 4, pp. 836-866.
- Young, E.M., Green, J.B. and Gross, M. (1995). Evaluating school library and media specialists: from performance expectations to appraisal conference, *Journal of Personnel Evaluation in Education*, Vol. 9 No. 2, pp. 171-189.
- Zheng, C., Mark, M. and O'Neill, G. (2006). An empirical study of high performance HRM practices in Chinese SMEs, *International Journal of Human Resource Management*, Vol. 17 No. 10, pp. 1772-1803.

---