HCM Practices and Its Impact on Turnover, Profitability, and Sustainability in the Indian Business Environment

*Vivek Pandey

Abstract

Human Capital is the most important asset for any organization, and it is a unique source of achieving competitive advantage. Human Capital Management (HCM) practices refer to organizational activities directed at managing the pool of human resources and ensuring that the resources are employed by maximizing their competencies towards the fulfillment of organizational financial and non-financial goals. Competitive advantage of a company can be generated from human resources, and company performance is influenced by a set of effective HCM practices. 9 Industries, 23 Sectors, and 109 organizations across India were covered under the present study of HCM practices and related processes maturity to study its impact on turnover, profitability, and sustainability.

Keywords: **human capital management, turnover, profitability, sustainability, continuous capability improvement, workforce practice innovation, workforce performance alignment, competency integration, workgroup development**

JEL Classification : M1, M12, M120

Paper Submission Date : August 6, 2013 ; Paper sent back for Revision : August 30, 2013 ; Paper Acceptance Date : October 2, 2013

Under the present market forces and strict competition, organizations are forced to be competitive. Contemporary organizations seek ways to become more efficient, productive, flexible, and innovative, under constant pressure to improve their business results. The traditional ways of gaining competitive advantage have to be supplemented with organizational capability, that is, the firm's ability to manage human capital. Organizational capability relates to hiring and retaining human talent and developing their competencies through effective HCM practices. Indeed, developing a talented workforce is essential to sustainable competitive advantage.

High-performance work practices provide a number of important sources of enhanced organizational performance. The degree of survivability of the organization increases with the increase in quality, competency, and productivity of the workforce. In today's business, the only viable strategy is to recruit good people, develop them, and retain as many stars as possible. Every organization should create an inspiring environment that would motivate the workforce to perform better and boost efficiency. Good HCM practices have a favorable and significant impact on the survival and financial performance of firms, and on the productivity and quality of work life of the people working in these firms.

Literature Review

HCM is concerned with the provision of learning and development opportunities that support the achievement of business strategies and improvement of organizational core competencies, team, and individual performance to enhance turnover, profitability, and sustainability (Armstrong & Baron, 2002). HCM is the process of improving, molding and changing skills, knowledge, creative abilities, aptitude, attitude, values, commitment, and so forth, based on present and future job and organizational requirements (Rodrigues & Chincholkar, 2005). Attracting right talents, and by nurturing their dynamism and core competencies, an organization can make their people proactive and productive. To survive, it is very essential for an organization to adopt the changes in the environment and also continuously prepare their employees to meet the challenges; this will have a positive impact on the organization (Purang, 2006).

* *Chief Operating Officer,* AG Technologies Pvt. Ltd., MIDC, Marol, Andheri (East), Mumbai - 400 093.
and *Ph.D. (Business Administration) Research Scholar,* Poona College, Pune – 411 001.

HCM is a practice, wherein the employees of an organization are helped, in a continuous, planned way to deliver business results by:

- Acquiring or sharpening capabilities required to perform various functions associated with their presenting or expected future roles,
- Developing their general capabilities as individuals and discovering and exploiting their potentials for their own and/or organizational development purposes, and
- Developing an organizational culture in which supervisor-subordinate relationships, teamwork, and collaboration among sub-units are strong and contribute to the professional wellbeing, motivation, and pride of employees.

Managing people is more difficult than managing technology or capital (Barney, 1991; Lado & Wilson, 1994). However, those firms that have learnt how to manage their human resources well would have an edge over others for a long time to come because acquiring, institutionalizing core competencies, and deploying human resources effectively is cumbersome and takes much longer (Wright, McMahan, & McWilliams, 1994). Huselid (1995) conducted a study to evaluate the link between systems of HCM work practices and firm performance, and found that these practices have a statistically significant impact on intermediate employee outcomes (turnover and productivity) and short and long term measures of corporate financial performance. Fey and Bjorkman (2000) investigated the relationship between HCM practices and the performance of organizations. The study's results provided support for the assertion that investments in HRM practices can substantially help a firm perform better. Initially, Pfeffer (1994) identified 16 HCM best practices, which were later refined to the following seven practices:

- Employment security,
- Selective hiring,
- Self-managed teams/team working,
- High compensation contingent on organizational performance,
- Extensive training,
- Reduction in status difference,
- Sharing information.

Redman and Matthews (1998) identified HCM key practices which support the quality strategies of service organizations , these being :

- Careful recruitment and selection, for example, 'total quality recruitment,' 'zero defects recruitment,' 'right first time recruitment'.
- Extensive remuneration systems, for example, bonuses available for staff willing to be multi-skilled.
- Team working and flexible job design, for example, encouraging a sense of cohesiveness and designing empowered jobs.
- Training and learning, for example, front line staff having enhanced interpersonal and social skills.
- Employee involvement, for example, keeping employees informed of key changes in the organization.
- Performance appraisals with links to contingent reward systems, for example, gathering customer feedback to recognize the work by employees over and above their expected duties, which in turn is likely to lead to a bonus for staff.

Research Methodology

The competition between Indian organizations is increasing rapidly. Organizations are now trying to improve their operational performance and achieve competitive advantage. SCM can play an important role in improving operational performance and achieving competitive advantage. Through SCM practices, companies can increase

their revenue, minimize their system wide costs, and also provide maximum value to their customers.

↳ **Hypothesis :** The capability of SCM practices has a correlation with turnover in crores (INR), profitability in % of revenue, and sustainability in years in small, medium and large enterprises.

$$y = f(x)$$

where,

y is the dependent variable which represents sustainability in years, turnover in INR, and profitability in % of revenue; x is the independent variable, which represents capability of SCM practices in terms of score. HCM process frameworks under the scope of the present research are as follows:

1) The organization shifts its focus from the skills needed in individuals to the workforce competencies for accomplishing its current and strategic business objectives (Workgroup Development, HCM.01).

2) The organization integrates the competency-based processes of different workforce competencies to increase the efficiency with which they manage work dependencies (Competency Integration) by empowered workgroups (Competency Integration, HCM.02).

3) The organization uses its performance objectives, quantitative process results, and the workforce practices to ensure that its objectives are aligned across individuals, workgroups, and units of the organization (Workforce Performance Alignment, HCM.03).

4) The organization continually searches for innovative practices or technologies to improve the motivation of its workforce to achieve the strategic workforce objectives according to its workforce plans (Workforce Practice Innovation, HCM.04).

5) The organization's individuals and work groups adopt continuous capability improvement program to continuously improve their capability for performing competency based processes (Continuous Capability Improvement, HCM.05).

a) Participants : Target participants were senior management professionals within the organization or vice presidents or general/ group managers or heads or senior managers or managers or equivalent based on the organization structure.

b) Sample Size : The research covered 9 major industries, 23 sectors, and 109 companies - Technology, Basic Materials, Industrials, Consumer Goods, Healthcare, Consumer Services, Telecommunication, Utilities, Financial, and Oil & Gas.

c) Method of Data Collection : The research data was collected using the questionnaire method. The questionnaire was developed for capturing the impact of HCM practices and managerial processes on turnover, profitability, and sustainability. The questionnaire was sent by mail to 208 participants, out of which 109 were

Table 1. TO-HCM Capability Impact (Average, Mode) Analysis

Turnover (Cr)	Cos #	Average (σ_x)	Mode
1 - 10	4	4.0	4.0
11 - 100	25	3.6	4.0
101 - 1000	32	3.5	4.0
1001 - 10000	31	3.7	4.0
10001 +	17	4.1	4.0
$\sigma x(w)$		**3.8**	**4.0**
σ_x		**0.2**	**0.0**

Table 2. TO-HCM Capability Rating Count & % Score

Rating	Impact	ΣCount	% Score
5	Excellent	23	21
4	Very Good	47	43
3	Good	27	25
2	Fair	8	7
1	Limited	4	4

selected based on completeness of questionnaires that were returned by the respondents. Only one questionnaire was selected for one organization as the voice of the company. Telephonic conversation was done in case of queries. The research was conducted during July 2012- March 2013.

d) Techniques of Data Analysis

1) SCM practices analyze the impact in the form average and mode of rating for specified intervals. The average of rating σx was computed for each frequency interval (1-10 Cr, 11-100 Cr, … ; 1-10 years, 11-20 years, … so on) as decided in the research methodology. It was computed as continuous data. The mode of rating was computed in discrete format, which represents the maximum occurred rating for impact on specific variables. The mode findings were used to interpret the SCM practice capability maturity of individual interval of turnover, profitability, and sustainability. The weightage average $\sigma x(w)$ was computed to analyze the sample mean of the entire population. Weightage average findings were used to interpret SCM practice capability maturity across interval of turnover, profitability, and sustainability. The standard deviation (σx) was computed for average and mode intervals to understand the dispersion of data and confidence of prediction. Lower value of standard deviation of average and mode were considered for more accurate findings.

2) The absolute count of impact rating (1, 2, 3, 4, 5) was measured. The maximum count rating point was considered as a significant impact on specific variables (TO, PR, SUS). The count analysis reflects skewness and kurtosis of rating data. Skewness is demonstrated by higher percentage value of specific ratings, and kurtosis is analyzed by observing the spread of percentage value across rating value. The absolute count analysis finding is corroborated by mean and mode value. The accuracy is asserted by standard deviation. Lower standard deviation is considered as high confidence prediction.

Results

HCM practices and processes maturity impacting turnover (TO), profitability (PR), and sustainability (SUS) were analyzed. The scope of assessing HCM process maturity is confined to Workgroup Development (HCM.01), Competency Integration (HCM.02), Workforce Performance Alignment (HCM.03), Workforce Practice Innovation (HCM.04), and Continuous Capability Improvement (HCM.05). All the data provided in the tables is primary data. It was collected from the senior management of the organizations using the questionnaire technique on specified practices and processes. The research covered 9 major industries, 23 sectors, and 109 companies within India to understand the impact of managerial practices and processes on turnover, profitability, and sustainability. σ

a) Impact of HCM Practice Capability on Turnover : Statistics in Table 1 and 2 provide the following information:

↳ Mode analysis indicates that HCM practice capability had a very good impact on (1-10000 + Cr) turnover of organizations.

Table 3. PR-HCM Capability Impact (Average, Mode) Analysis

Profit (%)	Cos #	Average $(\bar{x})$	Mode
0-(-10)	6	3.8	4.0
0-10	25	3.2	3.0
11-20	44	3.7	4.0
21-30	21	3.4	4.0
31-40+	13	4.0	4.0
$\bar{x}(w)$		**3.6**	**3.8**
σ_x		**0.3**	**0.4**

Table 4. PR-HCM Capability Rating Count & % Score

Rating	Impact	ΣCount	% Score
5	Excellent	18	17
4	Very Good	42	39
3	Good	37	34
2	Fair	8	7
1	Limited	4	3

Table 5. SUS-HCM Capability Impact (Average, Mode) Analysis

SUS (Yrs.)	Cos #	Average ($\bar{x}$)	Mode
0-10	29	3.4	4.0
11-20	29	3.6	5.
21-30	19	3.6	3.0
31-40	12	4.0	4.0
41-50+	20	4.0	4.0
$\bar{x}(w)$		**3.7**	**4.1**
σ_x		**0.2**	**0.6**

Table 6. SUS-HCM Capability Rating Count & % Score

Rating	Impact	Σ Count	% Score
5	Excellent	28	26
4	Very Good	41	38
3	Good	22	20
2	Fair	11	10
1	Limited	7	6

Table 7. TO-HCM Leading Managerial Processes (Average, Mode) Analysis

Statistics	Cos #	Average ($\bar{x}$)					Mode				
		HCM.01	HCM.02	HCM.03	HCM.04	HCM.05	HCM.01	HCM.02	HCM.03	HCM.04	HCM.05
$\bar{x}(w)$		**3.5**	**3.6**	**3.6**	**3.6**	**3.5**	**3.5**	**3.7**	**3.8**	**4.0**	**3.7**
σ_x		**0.3**	**0.2**	**0.1**	**0.2**	**0.1**	**0.5**	**0.5**	**0.4**	**0.8**	**0.4**

- Statistical analysis [Average: $\bar{x}(w)$ = 3.8, σx = 0.2, and Mode: $\bar{x}(w)$ = 4.0, σx = 0.0] demonstrate that HCM practice capability had a very good impact on turnover.
- 64 % of the organizations were of the view that HCM practice capability had a very good [*r* (4,109): count = 47, population = 43%] to excellent [*r* (5,109): count = 23, population = 21%] impact on turnover. 25 % of the organizations quoted that HCM practice capability had a good impact [*r* (3,109): count = 27, population = 25%] on turnover.
- Only 7% of the organizations had a fair and other 4% had a limited impact of HCM practice capability on turnover.
- Organizations reflected that HCM practice capability had a very good impact [*r* (4,109): count = 47, population = 43%] on turnover.

b) Impact of HCM Practice Capability on Profitability : Statistics in Tables 3 and 4 conclude the following information :

- HCM Practice Capability had a distinctly very good impact [Average: $\bar{x}(w)$ = 3.6, σx = 0.3, and Mode: $\bar{x}(w)$ = 3.8, σx = 0.4] on profitability (-10 - 40+ %) in the Indian business environment. Negative profitability contributors are Insurance, Telecom, E-learning organizations which are high on investment. Start-ups and early entrants are high potential profit making organizations.
- Organizations with 0-(-10) and 11-40 + % profitability stated that HCM Practice Capability had a very good impact on their turnover and the 0-10 % profitability organizations said that it had a good impact on profitability.
- 56% of the organizations opined that HCM Practice Capability had a very good [*r* (4,109): count = 42,

population = 39%] and excellent [*r* (5,109): count = 18, population = 17%] impact on profitability. 34% of the organizations said that the [*r* (3,109): count = 37, population = 34%] influence of HCM Practice Capability on profitability was good.

- Only 7% of the surveyed organizations were of the opinion that HCM Practice Capability had a fair impact, and 3% of the organizations said it had a limited impact on profitability.

- Organizations reflected that HCM Practice had a very good [*r* (4,109): count = 42, population = 39%] impact on profitability.

c) Impact of HCM Practice Capability on Sustainability : Statistics in the Tables 5 and 6 provide the following information :

- Average [$\alpha x(w) = 3.7, \sigma_x = 0.2$] has a better predictability as compared to Mode [$\alpha x(w) = 4.1, \sigma_x = 0.6$] as mode has much higher standard deviation.

- HCM practice capability distinctly had a very good impact [Average: $\alpha x(w) = 3.7$, $\sigma_x = 0.2$, and Mode: $\alpha x(w) = 4.1, \sigma_x = 0.6$] on sustainability (operational for 0- 50+ years) in the Indian business environment.

- HCM practice capability for organizations operational for 1-10 and 31-50 + years showed a very good impact on sustainability. Organizations operational for 11-20 years had an excellent impact, and beyond 21-30 years, the impact on sustainability was good.

- 58% of the organizations were of the opinion that HCM Practice Capability had a very good [*r* (4,109): count = 41, population = 38%] to excellent [*r* (5,109): count = 22, population = 20%] impact on sustainability. 26% of the organizations mentioned that HCM practice capability had a good [*r* (3,109): count = 28, population = 26%] impact on sustainability.

- Only 10% of the organizations had a fair impact of HCM Practice Capability on sustainability and 6% of the organizations had a limited impact on sustainability.

- Organizations were of the opinion that Supplier Relationship Management practice had a very good [*r* (4, 109): count = 41, population = 38%], good [*r* (3,109): count = 28, population = 26%], and excellent [*r* (5, 109): count = 22, population = 20%] impact on sustainability.

d) Impact of HCM's Processes Maturity on Turnover, Profitability, and Sustainability : Statistics in the Table 7 depict the following :

- **Workgroup Development (HCM.01) :** Organizations up to 1-10000+ Cr with 47-64% of population indicate that Workgroup Development process only had good maturity. Statistical analysis [Average: $\alpha x(w) = 3.5, \sigma_x = 0.3$, and Mode: $\alpha x(w) = 3.5, \sigma_x = 0.5$] demonstrate that Indian organizations, having turnover between 1-10001+ Cr, had Workgroup Development process with good maturity except organizations with a turnover between 1-10 Cr.

- **Competency Integration (HCM.02) :** Average [$\alpha x(w) = 3.6$] statistics indicate that Competency Integration process has a very good maturity with high predictability ($\sigma_x = 0.2$) and Mode statistics [$\alpha x(w) = 3.7$] demonstrate that the Competency Integration process has a very good maturity with low predictability ($\sigma_x = 0.5$). Statistical analysis [Average: $\alpha x(w) = 3.6, \sigma_x = 0.2$, and Mode: $\alpha x(w) = 3.7, \sigma_x = 0.5$] demonstrate that Indian organizations, having turnover between 1-10001+ Cr had Competency Integration process with a very good maturity. This is supported by 25-65% of the population.

- **Workforce Performance Alignment (HCM.03) :** Average [$\alpha x(w) = 3.6$] statistics indicate that Workforce Performance Alignment process had a very good maturity with high predictability ($\sigma_x = 0.1$) and Mode statistics [$\alpha x(w) = 3.8$] demonstrate that Workforce Performance Alignment process had very good maturity with low

predictability ($\sigma_x = 0.4$). Statistical analysis [Average $\alpha x(w) = 3.6$, $\sigma_x = 0.1$, and Mode: $\alpha x(w) = 3.8$, $\sigma_x = 0.4$] demonstrates that Indian organizations, having turnover from 1-10001+ Cr had a Workforce Performance Alignment process with a very good maturity. This is supported by 50-68% of the population.

↳ **Workforce Practice Innovation (HCM.04) :** Organizations having up to 10001+ Cr indicated that Workforce Practice Innovation process had a very good maturity. Statistical analysis [Average: $\alpha x(w) = 3.6$, $\sigma_x = 0.2$, and Mode: $\alpha x(w) = 4.0$, $\sigma_x = 0.8$] demonstrate that Indian organizations, having a turnover between 11-1000 + Cr had Workforce Practice Innovation process with a good maturity. This is supported by 25-65% of the population.

↳ **Continuous Capability Improvement (HCM.05) :** Average [$\alpha x(w) = 3.5$] statistics indicate that Continuous Capability Improvement process has a good maturity with high predictability ($\sigma_x = 0.1$) and Mode statistics [$\alpha x(w) = 3.7$] demonstrate that Continuous Capability Improvement process only has good maturity with low predictability ($\sigma_x = 0.4$). Statistical analysis [Average: $\alpha x(w) = 3.5$, $\sigma_x = 0.1$, and Mode: $\alpha x(w) = 3.7$, $\sigma_x = 0.4$] demonstrate that Indian organizations, having a turnover from 1-10001+ Cr, have a Continuous Capability Improvement process with a very good maturity. This is supported by 48-65% of the population.

Discussion

The analysis of statistics and review of results clearly emphasize that HCM practices had a very good impact on turnover, profitability, and sustainability. The discussion of the findings is elaborated in the following paragraphs:

↳ **Impact of HCM Practice is Very Good on Turnover :** 64 % of the organizations said that HCM practice capability had a very good [*r* (4, 109): count = 47, population = 43%] to excellent [*r* (5, 109): count = 23, population = 21%] impact on turnover. 25 % the organizations quoted that HCM practice capability had a good impact [*r* (3, 109): count = 27, population = 25%] on turnover. Only 7% of the organizations had a fair and the other 4% had a limited impact of HCM practice capability on turnover. Statistical analysis [Average: $\alpha x(w) = 3.8$, $\sigma x = 0.2$, and Mode: $\alpha x(w) = 4.0$, $\sigma x = 0.0$] demonstrate that HCM practice capability had a very good impact on turnover.

↳ **Impact of HCM Practice is Very Good on Profitability :** 56% of the organizations said that HCM Practice Capability had a very good [*r* (4, 109): count = 42, population = 39%] and excellent [*r* (5, 109): count =18, population = 17%] impact on profitability. 34% of the organizations had a good [*r* (3, 109): count = 37, population = 34%] influence of HCM Practice Capability on profitability. Only 7% of the organizations had Knowledge Management Practice Capability with fair impact and 3% of the organizations had limited impact on profitability. HCM Practice Capability distinctly had a very good impact [Average: $\alpha x(w) = 3.6$, $\sigma x = 0.3$, and Mode: $\alpha x(w) = 3.8$, $\sigma x = 0.4$] on profitability (-10-40+ %) in the Indian business environment.

↳ **Impact of HCM Practice is Very Good on Sustainability :** 58% of the organizations were of the opinion that HCM practice capability had a very good [*r* (4, 109): count = 41, population = 38%] to excellent [*r* (5, 109): count = 22, population = 20%] impact on sustainability. 26% of the organizations mentioned that HCM practice capability had good [*r* (3, 109): count = 28, population = 26%] impact on sustainability. Only 10% of the organizations felt that HCM practice had a fair impact on capability, and 6% of the organizations had limited impact on sustainability. HCM practice capability distinctly had a very good impact [Average: $\alpha x(w) = 3.7$, $\sigma x = 0.2$, and Mode: $\alpha x(w) = 4.1$, $\sigma x = 0.6$] on sustainability (operational for 0- 50+ years) in the Indian business environment.

Conclusion

In the second decade of the 21st century, the third generation is qualitatively the most superior human capital in India, and it has a very good impact on financial performance. Results of the study show that firm's HCM has a

significant positive impact on organizational performance in terms of turnover, profitability, and sustainability. The study results provide support to the strategy of investment in Workgroup Development and Continuous Capability Improvement for competitive advantage at the organizational level. Workgroup Development and Continuous Capability Improvement in HCM practice lack maturity to add business value towards financial growth and sustainability for Indian organizations. Capable HCM practices (Competency Integration, Workforce Performance Alignment, and Workforce Practice Innovation) have developed the service sector of India with the export of financial services, software services, and tourism services; improved the invisible balance of India's balance of payments. The rapid growth of the Indian economy in response to improvement in the service sector is an evidence of cumulative growth of human capital in India. Organizations can manage their human capital and create value through knowing the business realities, serving key external and internal stakeholders, adapting best HR practices and processes, aligning HR departments with organizations' goal and investing in HR professionals.

Managerial Implications

The research had been carried out with the participation of the management team across the industries and its associated sectors. The HCM managerial practice and associated five processes offer insights to the senior management and entrepreneurs about their organizations' HCM capability and provide a roadmap to enhancing their turnover, profitability, and sustainability. Managementor Business Process Improvement or Reengineering consultants can use the framework for assessing the managerial practices and focus on the areas of improvement to add consulting value and enhance the performance of Indian organizations. The findings from the present study give insight on the existing strength and weaknesses of HCM practices and managerial processes in Indian businesses. Future researchers can explore additional HCM practices by extending the research and enriching the framework which favorably influences turnover, profitability, and sustainability in the Indian business environment.

References

Armstrong, M., & Baron, A. (2002). *Strategic HRM: The key to improved business performance*. London: Chartered Institute of Personnel & Development (CIPD).

Barney, J., (1991). Firm resources and sustained competitive advantage. *Journal of Management, 17* (2), 99-120.

Fey, C.F., & Bjorkman, I. (2000). *The effect of human resource management practices on MNC subsidiary performance in Russia*. SSE/EFI Working Paper Series in Business Administration No. 2000:6. Retrieved from http://swoba.hhs.se/hastba/papers/hastba2000_006.pdf

Huselid, M. A. (1995). The impact of human resource management practices on turnover, productivity, and corporate financial performance. *The Academy of Management Journal, 38* (3), 635-672.

Lado, A. A., & Wilson. M. C. (1994). Human resource systems and sustained competitive advantages: A competency based perspective. *Academy of Management Review,19* (4), 699-727.

Pfeffer, J. (1994). *Competitive Advantage through People*. Boston, MA: Harvard Business School Press.

Purang, P. (2006). HRD Climate: A comparative analysis of public, private and multinational organizations. *Indian Journal of Industrial Relations, 41* (3), 407- 419.

Redman, T., & Mathews, P.B. (1998). Service quality and human resource management: A review and research agenda. *Personnel Review, 27* (1), 57-77. DOI:10.1108/00483489810368558

Rodrigues, L. L. R., & Chincholkar, A. M. (2005). Benchmarking the HR practices of an engineering institute with public sector industry for performance enhancement. *International Journal of Training and Development, 9* (1), 6-20. DOI: 10.1111/j.1360-3736.2005.00218.x

Wright, P.M., McMahan, G.C., & McWilliams, A. (1994). Human resource and sustained competitive advantage: A resource based- perspective. *The International Journal of Human Resource Management, 5* (2), 301 - 326.