



Economics Meets Hrm: "A Comprehensive Study on Congruence Existing Between Economy & Hrm Practices"

KEYWORDS

Personnel Economics, HRM practices, Globalization

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ABSTRACT *Labour force is the most important and differentiating asset for any organisation the importance of work-force has enabled the management gurus to acknowledge their efforts by considering them as a resource and address them as HUMAN RESOURCE .For the maximum utilization of this resource the HRM is backed by sound HRM practices. All the organisational activities influencing the employees directly or indirectly in the fulfilment of the organisational objective and goal are termed as HRM PRACTICES.*

HRM has always considered as a "BLACK SHEEP" within the wider field of business administration. The perception comes because of the insufficiently demonstrated role of HRM in the organisations success as compared to other disciplines having deep root in micro economic theories of the organisation (Management review, vol 16 issue 2, 2005)

This paper has been designed to review HRM Practices and economics collectively and the influence of changing economy on the HRM practices adopted by the management for achieving organisational goal. The purpose of this paper is to develop an understanding of congruence between both the streams.

1. Introduction:

There is no doubt that the world of work is changing. Rapidly expanding emerging economies, an increasingly global labour market and new technology are all having a significant impact on the demand for and supply of skills, organisational structures and practices, and the prospects for employment, inequality, productivity and growth (London School Of economics- Special Report Sept 2006).

Emerging economy of any developing country leads to developments in HRM policies and practices, the main explored are HRM functions, employee resourcing, employee development, employee relations and other emerging HRM issues.

There has been a considerable shift from the traditional rigid personnel practices to modern flexible approach towards workforce. A more participative and employee oriented approach with central objective of achieving organisational goal.

The prevailing strategic management emphasis that with every change in organisation there is and should be a equal change in HRM practice. The alignment of HRM with business strategy is very important to meet the speed of changing economy of a country; studies have proved from time to time that HRM practices determine the productivity of employees. Profit sharing, compensation policies, efficiency based remuneration, incentive payment is a few examples of changed compensation practices, directly influence employee's productivity.

Globalisation and competition are the key challenges faced by organisation; management is under enormous pressure to meet these challenges through aligning business strategy with HRM strategy.

2. Literature Review

2.1 Thomas Friedman's critically acclaimed book on globalization, *The World Is Flat: A Brief History of the Twenty-First Century*, describes the next phase of globalization.

Technological and political forces have facilitated a global, web-based "playing field" that allows for multiple types of collaboration regardless of geography, distance, and even language. Since 1980, worldwide imports and exports, foreign direct investment, and national levels of gross domestic product (GDP) have increased dramatically, particularly following the fall of communism in the late 1980s in all but a few countries (e.g., China, Vietnam, North Korea, Laos, and Cuba).

(The Role of Globalization in HR policy & practice-Tata Mc Graw Hill 2013)

2.2 There is no doubt that the world of work is changing. Rapidly expanding emerging economies, an increasingly global labour market and new technology are all having a significant impact on the demand for and supply of skills, organisational structures and practices, and the prospects for employment, inequality, productivity and growth.

(Human resource, Labour Market, and Economic performance-Romesh Vatilingam-Special Report London School Of economics and Political Science-Sept 2006)

2.3Changes in the determinants of FDI

The way that FDI affects growth and development depends for an important part on the type and volume of FDI. Thus, when understanding the impact of FDI, it is important to understand what attracts FDI, how this has changed over time, and what these changes in determinants and types of FDI mean for differential growth prospects.

The main determinants of inward FDI can be divided into several categories, and relate to

- General policy factors (e.g. political stability, privatisation)
- Specific FDI policies (incentives, performance requirements, investment promotion, international trade and investment treaties)

- Macro economic factors (human resources, infrastructure, market size and growth)

- Firm specific factors (e.g. technology). For instance, ICT developments have had a profound impact on the way companies structure their international activities. Most importantly, it has facilitated a more specialized production attracted to those locations that can offer the most competitive environment for any given activity.

(Foreign direct Investment & Development-An historic perspective-30 Jan 2006-Background paper for "World Economic and Social Survey for 2006-Dirk Willems Velde)

2.4 Example- Influence Of Globalisation on HR policies:

Global expansion presents great challenges for HRM, for example: When McDonald's entered into a joint venture with the Moscow city council, the company placed a help-wanted ad and received about 27,000 Russian applicants for its 605 positions. It sent six Russian managers to its Hamburger University outside Chicago, Illinois, for 6 months of training and another 30 managers for several months of training in Canada and Europe. It also needed to overcome significant problems obtaining high-quality supplies, most of which were perishable. Ultimately, McDonald's opened a \$40 million food-processing center about 45 minutes from its first Moscow restaurant.

(Chapter-The Role Of Globalisation in Hr Policy & Practices-{book-HRM& Environment-Tata McGraw hill 2013})

2.5 There is a considerable mix in the ways in which HR practices are used by small and medium-sized enterprises (SMEs) and in their relative success (Cassell et al., 2002). Some HRM functions such as recruitment and selection were used more than any other practice. The key challenges for HRM include, among others, training and employee relations. These HRM practices are significantly related to organizational productivity (Stavrou-Costea, 2005). One may therefore summarise that an identification of HRM practices, challenges and prospects is essential to organizational productivity in this era of fluctuating economy-(Human resource management practices in a transition economy-Challenges & Prospects-John O.Okpara& Pamela Wynn-Department Of Mgmt College of Business, Bloomsburg University of Pennsylvania Pennsylvania,USA-Emerald Insight Journal)

2.6 The researchers have found that HRM practices get affected by external and internal factors and directly or indirectly affect other variables such as employee's attitude, employee employer relations, financial performance, employee productivity etc. And ultimately contribute to overall corporate performance. On the basis of the literature reviewed, a normative framework has been developed showing how HRM practices leads to overall corporate performance.

(HRM Practices: A Comprehensive Review-Pankaj Tiwari Shri Chimanbhai Patel Institute of Management & Research Ahmedabad Karunesh Saxena Faculty of Management Studies, Mohanlal Sukhadia University, Udaipur-Pakistan Business Review journal 2012)

3. Research Methodology: Secondary literature drawn from various proprietary sources available at their websites has been used along with various relevant books, research papers published in journals. The data has been cross

checked and validated and information provided can be used for further research.

4. Role of Emerging HRM Practices to meet challenges of Economy:-

4.1 Role Of Good HR Practices across Supply Chain. Organisations may try to improve the effectiveness of the supply chain by managing HR across organisational boundaries. This might be a particularly effective strategy if a client organisation focuses on increasing the use of 'good' or high performance working practices in its suppliers, as there is considerable evidence that such practices can contribute directly to organisational success and lead to higher employee well-being. Managing HR across organisational boundaries therefore provides a mechanism by which HR practices can be diffused throughout the supply chain.

(Diffusion of good HR practices across Supply chain-2012 David Holman, Ryan Lamare, Damian Grimshaw Lynn Holdsworth & Mick Marchington Manchester Business School University of Manchester)

4.2 Economics that drills deeply in to the HRM practices has been termed as Personnel Economics it gives deep insight on processes like training, incentive based compensation, hiring practices and team work. Foundation of personnel economics the assumptions that both the worker and the firm are rational maximizing agents.

At the initial stage of personnel process there are various expenses that an organisation incurs., these are fixed cost per person and do not vary with the working hours of the person once he is hired such cost are associated with training, hiring, recruiting, orientation. The economist point of view suggest that if HR managers consider the termination cost while hiring an individual and factor it in while hiring future employees the hiring decision will definitely be influenced. Although the termination is always at the other end of personnel function.(*1)

4.3 The economist suggest that fixed cost can be incurred in recruitment and training of employees and can sever as an incentive for employers. the employees can be used intensively for long hours and amortize the cost. These are emerging HRM practices under the influence of changing Economy and to keep in congruence between both the streams for organisational success.(*2)

4.4 Deferred compensation is a new approach of HRM influenced by economist. This is a employer initiative to give rational compensation to employee for reducing unwanted labour turnover, and induce honesty, work effort, commitment among workers as they are aware that they need to be associated with the organisation to collect deferred compensation. Pension benefits, Esop are the best examples for deferred compensation. Such deferred compensation always induce bonding between employer and employee and reduces the need for constant monitoring of performance by employer.(*3)

(*1*2*3-Economics of personnel and human resource management-Morley Gunderson*-Human Resource Management Review2001)

4.5 Human Resource Management practices play a pivotal role in privatisation process. There have been live cases in the history of developing countries where laws have been passed to encourage privatisation of state owned enter-

prises, evidences are there to support the statement that SOE's were preferred over private enterprises to support and develop the national economy but those days are over. HRM practices play a important role by helping the organisation in accepting the cultural shift of public to private. Privatisation leads to reduction in labour force as because public-sector companies are traditionally associated with over-staffing (Parker and Hartley, 1991; Parker, 1992; Haskel and Szymanski, 1994). Other changes have also been reported, such as in labour relations and employment contracts, as well as compensation practices, with the introduction of performance pay (United Research, 1990; Parker and Hartley, 1991; Bishop and Thompson, 1994). In short privatisation leads to change in organisational goal, objective and strategy and HRM plays a primary role in this process. A similar study was done for organisations in Nigeria where a privatisation drive was conducted to ensure economic boom and HRM practices were strategically implemented to achieve this objective. (HRM Practices in Transition economy challenges and prospects-John O. Okpara and Pamela Wynn-Emerald Insight Management Research News-Vol. 31 No. 1, 2008)

5. Conclusion: In order to achieve sustained and improved organisational success in this emerging economy the management needs to involve HRM practices, strategically. The organisation should focus on participative HRM practices. The HRM practices should fit in with organisational goal and should have congruence with other aspects of organisation as well. HRM practices should be guided towards enhancing the operational effectiveness.

HRM practices like recruitment selection and training should be strategically synergised with economic challenges. Candidates hired should fit in well with the organisational changes and the misfitted should be asked to move out of the organisation. There is an influx of FDI under the influence of developing economy, HRM practices are a potential tool for achieving the objective of FDI.

The degree of HR involvement increases as the internationalisation of organisation takes place. Whenever the HRM practices are run under different economic conditions the maximum influence is suffered by activities like staffing, compensation, career planning, training, decision making..

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It is evident with this comprehensive study that economic approach towards HRM has increased rapidly in past few decades. Now economists are being hired to teach HRM and other general organisational papers in top business schools. Through the multiple literature review my sole purpose is to integrate economics and HRM. A comprehensive study of both the streams has added much to the understanding of economics and HRM and its interrelation. (Economic Approach To Personnel Research-Michael & Alec).

The basic aim of employer is to maximise profit through good selection, motivation, Job enrichment, Job enlargement, optimum retention of employees

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