

**HUMAN RESOURCE PRACTICES AND HUMAN CAPITAL:  
EVIDENCE FROM INDIAN MANUFACTURING SECTOR**

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**Abstract**

Human Capital plays the most vital role to any organization for achieving diversified business goals in today's scenario. Also, the HR practices followed in Indian organization plays a very crucial role for the organizational success. The present study was designed to study the nature and pattern of relationship between Human Capital and HR practices (Compensation, Performance Evaluation process & promotion) of the employees working in manufacturing sector. Questionnaires consisting of 19 items (Human Capital) and 15 items (HR Practices) were used. The findings of the present study reveals that Human Capital followed in Indian Industry are correlated positively with the HR Practices.

**INTRODUCTION:**

The organizations attempt to succeed in the highly competitive business environment tend to depend heavily on employee's skill and commitment. The individuals working in the organization become the source and basis for utilization of other resources. Effective human resource management makes organizations and its employees achieve their own objectives.

Human capital refers to processes that relate to training, education and other professional initiatives to increase the levels of knowledge, skills, abilities, values and social assets of an employee which will lead to the employee's satisfaction and performance of the organization. Harbison (1962) defines human capital as means of action taken for enrichment of the skills, education and experience. It is important for any kind of economic and political development in the country. Human capital formation gives top priority to man so as to make him better and productive resource for carrying out different operations in a life.

Wright et al. (1994) explored human capital from resource-based perspective to achieve sustained competitive advantage. Choo and Bontis (2002) reported human capital as the knowledge, talent and experience of employees.

The effective human resource practices can motivate, reward, develop and offer challenging tasks so that the employee will stay in and contribute to the organization and the employee become a strategic asset. Arthur and Boyles (2007) defined human resource (HR)

practices as to how an organization's HR programs are implemented for and experienced by lower-level employees and managers. HR practices capture the potential for variation in employees' perceptions and experiences of an HR program based on the quality of the HR program implementation. HR programs are defined as the set of formal HR activities used in the organization. Barney (1991) observed that human resources can provide a source of sustained competitive advantage through well organized human resource management practices. Wright et al. (1994) distinguishes organization human resources (skilled and experienced employees) and human resource systems by observing that organizations human resources have a greater potential to generate value on a sustainable basis.

### **LITERATURE REVIEW:**

Delaney and Huselid (1996) suggested that organizations can adopt various human resource management practices for improving the quality of the individuals hired, or raising the skills and abilities of current employees or for both. Further organizations can improve the quality of current employees by providing comprehensive training and development activities after selection of workers. Decieri and Kramar (2008) documented recruitment as a process for which an organization seeks applicants and attracts potential whereas, selection as in which an organisation identifies those applicants with the knowledge, skills, abilities and other characteristics which help in achieving goals.

Becker (1964) focused on general training contribution to the worker's general human capital, increasing his or her productivity with a range of employers. However, general training and development may increase organizational risk, because, after training, employees may decide to leave the organization to find a better job in another organization. Peteraf (1993) pointed out that the human resource training and development (T&D) system of an organization is a key mechanism to ensure the knowledge, skills and attitudes required to achieve organizational goals and create a competitive advantage. Employers invest in human capital after the start of employment and normally this investment is called training, provided either by the firm itself on the job or acquired by the worker through vocational training.

Knoke and Kalleberg (1994) argued that training can be treated as an investment in organizational human assets. Further it is seen as a useful means of changes fostered by technological innovation, market competition, organizational structuring and demographic shifts to develop better human capital. Waterman et al. (1994) reported that training and development encompass three main activities: training, education and development. Firms that offer training and employee development are making a visible investment in employees. This investment increases employability for the individual employee. In a rapidly changing global market place due to increased technological advancement, organizations demand a more flexible and competent workforce to be adaptive and to remain competitive. Thus, demand for a well-qualified workforce becomes a strategic objective.

Huselid (1995), MacDuffie (1995) & Koch and McGrath (1996) observed that training was included as a high-performance human resource management practice. In firms with good technical and non-technical training programmes, employees are likely to realize that their market value develops more favorably than in other firms. Therefore, it is in their own interest to remain longer in the firm. In the field of human resource management, training and development is the field concerned with organizational activity aimed to create better

performance of individuals and groups in organizational settings. Arthur (1994) & Fey et al. (2000) stated that organization with effective training pursuits experience lower employee turnover. Arago'n-Sa'nchez et al. (2003) & Lee and Bruvold (2003) concurred that comprehensive training and development activities are positively related to productivity, reduce staff intentions to leave and organizational effectiveness. Further Blair and Sisakhti (2007) found that expenditure on training and development yield enormous benefits.

Kalleberg and Moody (1994) & Russel et al. (1995) examined the effects of training and development on business performance and a reported a positive significant relationship between investment in training and development activities and firms' performance. Similar type of relationship was reported by Delaney and Huselid (1996), Jarventaus (2007), Kalleberg and Moody (1994) & Koch and McGrath (1996). Kundu (2003) opined that companies should invest heavily in training the workforce for implementation of customer focused strategy. Bitner and Zeithmal (2004) concluded that investment in training yields strategic advantage to the organizations. Further Arlond (2005) suggested that employers provide an opportunity for their workforce to learn whereas Garibaldi (2006) suggested that firm specific training develops human capital which increases productivity of the employees.

Coch and French (1949) stated that employee's participation in decision making at work place satisfies employees and their self actualization needs. It further increases motivation and job performance of the employees. Walton (1985) observed that in changing business environment, competitive pressures have resulted in flexible organizational response to employee management. The knowledge workers seek elusive goals of stability, job satisfaction and life-enhancing service and career. The new paradigm of employees partnership focuses on new partnership between employers and employees, individualization of employment relationship and employee commitment rather than control. Wislon and Peel (1990) reported a positive relationship between worker participation and reduced absenteeism and turnover. Further Cooke (1994), Fernie and Metcalf (1995) & Jones (1987) reported a positive and significant relationship between employee participation and business performance. Employee participation fosters commitment and greater quality and output, productivity and firms' performance.

### **OBJECTIVES:**

To study the relationship between Human Capital variables (Collective capability, Intellectual Agility, Employee attitude, Peer group performance, Interpersonal Skills, Employee competence) and HR Practices (Compensation, Performance Evaluation, Promotion).

### **RESEARCH METHODOLOGY:**

To fulfill the above-mentioned objectives, following research methodology was used:

#### ***Sample:***

A sample of 324 respondents working in manufacturing sector of Bihar, Jharkhand and Odisha states was drawn by Convenient Sampling Method. The age of the respondents ranged between 21 to 55 years. Majority of the respondents were Graduates in different disciplines.

#### ***Instruments Used :***

- To measure Human Capital a questionnaire was prepared taking items from Bontis

(1998) scale of intellectual capital. Out of 53 items of intellectual capital scale, covering human capital, structural capital and customer capital areas, only 19 items of human capital variables were selected. Respondents answered on each item by choosing one of the alternatives ranging from strongly disagree to strongly agree on 7 point Likert scale. These 19 items were grouped into 6 categories of variables of human Capital (collective capability, intellectual agility, employee attitude, peer group performance, interpersonal skills & employees competence levels.

- The questionnaire for HR practices consists of 15 items comprising of three HR practice measure viz. Compensation, Performance Evaluation process & Promotion, which was based on 5-point Likert scale (Strongly disagree to strongly agree) developed by Teseema & Soeters (2006).

#### ***Statistical Analysis***

The obtained data were processed using IBM SPSS for the computation of Mean S.D and Pearson's correlation.

### **RESULTS & ANALYSIS:**

In order to fulfill the main research objectives of the present study, the obtained, data were processed for the computation of means, Standard Deviations and Pearson's correlation.

#### **Descriptive Statistics:**

The collected data were analyzed with the help of descriptive statistics. The scores of employees on 9 variables including 6 of Human Capital variables (Collective capability, Intellectual Agility, Employee attitude, Peer group performance, Interpersonal Skills, Employee competence) and 3 of HR Practices (compensation, performance evaluation process & promotion) and have been shown in Table 1.

#### **Inter correlations between Human capital and HR Practices**

The obtained correlations between six variables of human capital and three HR practices have been presented in the inter correlation matrix (Table 2). Inspection of table reveals that out of 18 inter correlations between the variables of human capital and HR practices, 15 are significant at .01 level and 2 are significant at .05 level and one is non-significant. The inter correlations ranges between .044 to .397.

Collective capability a measure of human capital correlates .293 ( $p < .01$ ) with compensation practices, .383 ( $p < .01$ ) with performance evaluation practices, .263 ( $p < .01$ ) with promotion practices measures of HR practices. Intellectual agility correlates .106 ( $p < .05$ ) with compensation practices, .307 ( $p < .01$ ) with performance evaluation practices. Employee attitude correlates .334 ( $p < .01$ ) with compensation practices, .333 ( $p < .01$ ) with performance evaluation practices, and .286 ( $p < .01$ ) with promotion practices. Peer group performance correlates .168 ( $p < .01$ ) with compensation practices, .313 ( $p < .01$ ) with performance evaluation practices and .164 ( $p < .01$ ) with promotion practices. Interpersonal Skills correlates .397 ( $p < .01$ ) with compensation practices, .337 ( $p < .01$ ) with performance evaluation practices and .348 ( $p < .01$ ) with promotion practices. Employee competence correlates .137 ( $p < .01$ ) with compensation practices, .098 ( $p < .01$ ) with performance evaluation practices, .239 ( $p < .01$ ) with promotion practices. Only one inter correlation between intellectual agility and promotion practices is non significant.

All the positive and highly significant correlation between human capital variables & HR practices suggests that these variables share maximum of their variances with each other suggesting thereby that human capital variables and HR practices by steel and power sector organizations are in coherence, thus, have positive impact on employees perception.

### DISCUSSIONS & CONCLUSIONS:

The present study states that collective capability a human capital variable significantly correlates with HR practices such as compensation practices, performance evaluation practices and promotion practices. Two HR practices i.e. compensation and performance evaluation practices are in positive association with intellectual agility, but non significant association was found with promotion practices. There is positive association between employee attitude and peer group performance (two variables of human capital) and HR practices (compensation practices, performance evaluation practices and promotion practices). Interpersonal skills and employee competence are in positive and significant association with compensation practices, performance evaluation practices and promotion practices.

On the basis of above discussion and obtained intercorrelation patterns, it is concluded that the compensation practices and performance evaluation practices in Indian manufacturing industry tend to be positively associated with collective capability, intellectual agility, employee attitude, peer group performance, interpersonal skills and employee competence variables of human capital.

The correlation between promotion practices and five human capital variables i.e. collective capability, employee attitude, peer group performance, interpersonal skills and employee competence is found to be positive but intellectual agility shows non significant relationship with promotion practices. A study by Storey (2007) suggested that human capital ought to be nurtured as valued assets, and not be regarded as an incidental cost. Human resources or employees, are the most critical resources a firm possesses because human capital underlies any organizational capability in the sense that organizations do not make decisions or allocate resources; people do (Ulrich & Lake, 1991), which supports the current study in Indian manufacturing sector.

### Descriptive Statistics:

**Table 1:**  
**Means & Standard deviations (N= 324) on Measures of Human Capital and HR Practices.**

S. No.	Variables	Observed Mean	Standard Mean	Standard Deviation
1	Collective capability	31.95	28.00	4.72
2	Intellectual agility	21.84	20.00	3.26
3	Employee Attitude	9.37	8.00	2.02
4	Peer group performance	14.70	12.00	2.42
5	Interpersonal skills	4.63	4.00	1.15
6	Employee Competence	4.31	4.00	1.27
7	Compensation Practices	22.77	18.00	4.58
8	Performance Evaluation Practices	17.76	18.00	3.00
9	Promotion Practices	10.50	9.00	1.73

**Table 2**  
**Correlation matrix for Human capital variables and HR Practices (N=324)**

Variables	Compensation Practices	Performance Evaluation Practices	Promotion Practices
Collective Capability	.293**	.383**	.263**
Intellectual Agility	.106*	.307**	0.044
Employee Attitude	.334**	.333**	.286**
Peer group performance	.168**	.313**	.164**
Interpersonal Skills	.397**	.337**	.348**
Employee Competence	.137**	.098*	.239**

\* significant at .05 level.

\*\* significant at .01 level.

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