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# A Study Of HRM Practices And Its Impact On Organizational Performance And Employee Stability In Medium Scale Industry"

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## I. Introduction:

India's dynamic economy and diverse workforce lead to good Human Resource Management (HRM) practices. Medium-scale industries contribute significantly to employment generation and GDP. The effectiveness of HRM practices in these industries directly influences organizational performance and employee retention.

### 1.1 Background information on HRM practices:

Human Resource Management (HRM) practices cover all that is related to human beings, like strategies, policies, and procedures implemented by small or large companies to manage and retain their employees effectively. The right HRM practices aim to recruit, develop, motivate, and retain employees to achieve organizational goals and enhance performance. Many definitions are available, but a comprehensive definition of HRM practices is provided by Boxall and Purcell in 2011: HRM practices are the management of work and people towards desired ends. Practitioners' intentions are shaped by institutional, economic, and societal pressures, as well as by the beliefs and values of managers and HR professionals."

### 1.2 HRM practices in the medium-scale industries in the Indian scenario:

HRM practices in medium-scale industries in India typically reflect a blend of traditional approaches and modern strategies. Depending on the industry sector, region, type of family-run vs. professionally managed business, and level of technology adoption.

### 1.2(a) MSME Act:

In India, medium-scale enterprises are defined by the **MSME (Micro, Small, and Medium Enterprises) Act**, based on investment and turnover:

- **Investment in Plant & Machinery (Manufacturing):** More than ₹5 crore and up to ₹50 crore
- **Turnover:** More than ₹50 crore and up to ₹250 crore

These organizations are typically larger than small businesses but not at the level of large corporations or MNCs. They operate in textiles, machinery, chemicals manufacturing, logistics, IT services, hospitality services, and Engineering and component production.

**1.2 (b) HRM Practices in Medium-Scale Organizations in India:**

**1. Structure of the HR Department**

- Small HR team with 1 to 4.
- One or two people handle recruitment, payroll, welfare, and training.
- Family-run firms may have HR decisions made by top management or owners

**2. Recruitment & Selection**

- Recruitment Channels are Naukri, Indeed and Referrals and word-of-mouth and Campus drives from local colleges or it is.
- Competing with bigger companies for skilled talent, job hopping is common.

**3. Training & Development**

- Training is more practical and job-focused.
- More focus on -the-job training and Safety and compliance training
- Formal Learning & Development programs are rare but growing
- Some invest in external trainers or government skill development programs

**4. Performance Management**

- Performance reviews may be **annual** and **informal.**
- Promotions based on loyalty/seniority rather than KPIs as CLAN culture exists.
- Limited use of performance appraisal software or analytics.

**5. Compensation & Benefits**

- Competitive **within local markets**
- Offers **basic statutory benefits**: PF, ESI, gratuity
- Rarely provide Stock options, mental health support and flexible work arrangements (unless service-based)

**6. Employee Engagement & Relations**

- Stronger **personal relationships** due to a smaller workforce
- Less formal policies for grievance handling or conflict resolution
- In manufacturing sectors, some workers may be unionized

**7. Compliance & Legal**

- Must comply with Indian labour laws
- Many face challenges in regular audits and compliance documents
- Managing digital labor portals (e.g., Shram Suvidha)

**1.2 (c) Unique Characteristics of HR in Medium Enterprises:**

- Flat hierarchies and flexible decision-making.
- Cost-conscious HR strategies

- Lack of structured HR policies
- Less automation, but digital human resource management system adoption is increasing

**1.2 (d) Challenges Faced by Medium-Scale Industries in HRM**

- Talent acquisition and retention
- Limited HR expertise or professional HR departments
- Balancing traditional mindsets with modern HR approaches
- Budget constraints for HR initiatives
- Employee engagement in a highly competitive environment

**1.2 (e) Best Practices & Recommendations**

- Professionalize HR functions with trained HR managers.
- Employee development is key to reduce turnover.
- Implement structured appraisal systems with clear goals and feedback.
- Use low-cost digital tools for payroll and employee management.
- Focus on employee engagement through communication and recognition programs

**1.3 HRM practices and their significance in organizational performance:**

Overall effectiveness and efficiency of the organization, which include profit, production, performance, brand image, and stability etc. can be achieved based on its objectives. It includes various dimensions such as financial performance, operational performance, customer satisfaction, employee engagement, innovation, and social responsibility. Richard et al., (2009) mention in detail about organizational performance, which covers its goals and objectives. Huselid investigates the impact of HRM practices on various aspects of organizational performance, including turnover, productivity, and financial performance, emphasizing the critical role of HRM in enhancing overall organizational effectiveness. A book published by Pfeffer's argues for the importance of people-centered management practices in driving organizational performance, presenting evidence and case studies to demonstrate how investing in employees can lead to improved business outcomes. Guest provides a comprehensive review of the relationship between HRM practices and organizational performance, outlining key areas for further research and emphasizing the need for a strategic approach to HRM to maximize performance outcomes.

**1.4 Link between organizational performance and employee stability with organizational success.**

Authors and scholars have studied and suggested the relationship between good HR practices and organizational performance and employee stability. Emphasis may be different but the outcome is linked with HRM practices. Wright and Snell discuss the importance of aligning HR practices with organizational strategy to achieve high performance. They argue that stable HR practices can enhance organizational performance and employee stability by ensuring consistency in employee behavior and aligning HR systems with organizational goals. Huselid's study demonstrates the positive relationship between good HRM practices, including training and development, and organizational performance measures such as productivity and financial performance. Stable HR practices contribute to higher levels of employee commitment and engagement, which in turn lead to improved organizational success. Guthridge, Komm, and Lawson emphasize the strategic importance of talent management in driving organizational success. Stable talent management practices, including recruitment, development, and retention initiatives, are critical but helpful for building a high-performing workforce that contributes to organizational success. Bartel's resource-based view of the firm suggests that stable and valuable human capital resources, contribute to sustained competitive advantage and organizational success. Stable HR practices that enhance the skills, knowledge, and capabilities of employees can become a source of competitive advantage for organizations.

## II. Literature Review:

A vast literature is available on the topic, but selected research papers have been included where studies have been collected on HRM practices and their impact on organizational performance and employee stability.

### 2.1 HRM Practices and Their Impact on Organizational Performance:

HR leaders consider that due to living resources job becomes crucial to manage the struggle with several aspects of managing the workforce. The HR function is responsible for their entry till exit, which covers recruitment, training, evaluation, and ensuring sustained productivity. The HR function is often involved with payroll, administrative duties, and a friction agent between management and employees in times of labour unrest, like strikes and slow down etc. It is linked with monetary benefits, like wages and salaries being given to workers on schedule, ensuring the timely payment of payroll-related taxes.

HR teams in manufacturing companies play a crucial role in recruiting the right talent from the campus also. HR teams need to identify the right candidates for these roles from various sources like web portals also. HR teams handle training to sharpen the skills, and ensure to provide required skill to the new talent so that they are ready to get started with work at the manufacturing unit. Overtime work and verifying that the additional work hours have been compensated is a tedious process. During the late 1990s and early 2000s, scholars increasingly recognized the strategic role of HRM in enhancing organizational performance. Many researchers focus on Strategic HRM practices are aligned with organizational goals to drive performance outcomes. Studies such as Jiang et al. (2012) and Combs et al. (2006) conducted meta-analyses that provided strong evidence that High-Performance Work Systems (HPWS) bundles of HR practices like employee involvement, training, and performance-based rewards positively impact organizational performance. HPWS systems enhance employee skills, motivation, and opportunities to contribute, leading to better firm outcomes. This was supported by Jiang et al. (2012), who identified through another meta-analysis that HRM impacts performance indirectly through human capital enhancement and employee motivation, underscoring the mediating role of employee outcomes.

Research increasingly highlighted the importance of employee attitudes and behaviors as mediators. The mediating Role of Human Capital and Employee Outcomes has been narrated by Guest (2011) who emphasized how employee engagement, satisfaction, and commitment serve as channels through which HR practices influence performance. Strategic HRM and Resource-Based View (RBV) have been described by Scholars like Paauwe & Boselie (2005) argued that the effectiveness of HRM practices is highly contingent on contextual variables and institutional settings. Guest (2011) emphasized the importance of viewing HRM as a process influencing employee attitudes and behaviors, such as job satisfaction, engagement, and organizational commitment. These factors, in turn, serve as crucial mediators between HRM practices and organizational outcomes. This aligns with the Ability-Motivation-Opportunity (AMO) framework, which suggests that HRM practices influence performance by enhancing employees' abilities, motivation, and performance opportunity (Boxall & Purcell, 2011).

Wright, Dunford, and Snell (2001) continued to develop the RBV perspective and argued that effective HR systems create human capital that is valuable, rare, inimitable, and non-substitutable, key characteristics of strategic assets. In recent literature, contextual variables have also gained prominence by Paauwe and Boselie (2005) argued that institutional and organizational contexts significantly influence the design and effectiveness of HRM systems. As such, there has been a shift towards contingency-based HRM research, recognizing that the effectiveness of HRM practices depends on the alignment with organizational strategy, culture, and external environment. Recent advancements have also addressed methodological concerns. Scholars have increasingly called for longitudinal studies and multi-level analyses to better capture the causal pathways between HRM and performance (Boxall, Guthrie, & Paauwe, 2016). This has enhanced the credibility of claims regarding HRM's impact on organizational effectiveness. The Company's business strategy and culture are both are intangible but the HR department also plays a crucial role in every sector. Budhwar and Khatri examine the applicability of HRM models in the Indian context, including the manufacturing sector. In their model relationship between cultural, institutional, and economic factors influencing HRM practices in India. This edited volume provides a comprehensive overview of HRM practices in developing countries, including case studies and analyses relevance to the manufacturing sector in India. It offers insights into the challenges of managing human resources in emerging economies and the strategies adopted by organizations to address them. Budhwar and Mellahi's introductory article provides an overview of HRM practices in India, with specific reference to the manufacturing sector. It discusses the cultural, regulatory, and competitive dynamics shaping HRM in India and highlights the need for context-specific approaches to HRM. Mohapatra's study offers a comparative analysis of HRM practices between the manufacturing and service sectors in India. By focusing on specific industries within the manufacturing sector, the study provides insights into sector-specific HRM challenges and practices. These are just a few examples of HRM practices commonly observed in the manufacturing sector in India. Each organization may implement these practices to varying degrees based on its size, industry, and strategic objectives. Some commonly observed HRM practices include: Recruitment and Selection, Training and Development, Performance Appraisal, Compensation and Benefits, Employee Relations, Employee Engagement, Workforce Planning, Safety and Health Management. These practices include recruitment and selection, training and development, performance appraisal, compensation and benefits, employee relations, workforce planning, and safety and health management (Budhwar & Khatri, 2001; Budhwar & Mellahi, 2006).

In the manufacturing sector, research has been conducted by Katon, 2008 to assess the effect of HRM activities on organizational success. The findings showed that the connection between HRM activities (resourcing and growth, rewards and benefits, engagement and work design) and organizational success is partly mediated by HRM outcomes (skills, attitudes, and behavior), and that business strategies affect the relationship (cost, quality, innovation). According to the findings, HRM activities that are linked to market plans can have an effect on corporate success through HRM outcomes. HRM practices in Indian commercial banks have been conducted by Shikha (2010) and the findings come as, organizations should place a greater emphasis on long-term dedication to human capital rather than training and advancement. Martin (2011) determines the impact of intangible HRM activities like work satisfaction, corporate engagement. Recruitment and retention, wages and incentives, preparation and advancement, and oversight and assessment are all examples of HRM activities. According to the findings of the study, there is a substantial link between HR activities and employee expectations. Swaha Bhattatcharya & Monimala Mukherjee (2013) both gave information regarding the relationship between HR planning and organizational performance. Organization structure, healthy working environment, effective communication, good pay package etc. affect the efficiency of the employees. Besides this, the duration of service has a significant impact on perceived organizational climate and human resource planning. Gamage,2014 put the positive side of recruitment policy. How it provide a pool of potentially qualified job candidates? The performance of HR in an organization is highly influenced by the quality of applicants because the organization is going to select employees from those who were attracted.

**2.2 HRM Practices and Their Impact on Employee Stability:**

HRM practices have long been recognized as pivotal in shaping employee outcomes, including job satisfaction, commitment, and retention. Around the year 2000, a surge in research began focusing on how strategic HRM contributes to organizational performance and employee stability. This review synthesizes key literature around that period to highlight prevailing theories and empirical findings.

HRM practices include recruitment and selection, training and development, performance management, compensation, and employee relations. Strategic human resource management is explained by Delery and Doty (1996). HRM systems that are internally consistent and strategically aligned tend to result in better employee and organizational outcomes. Universalistic and contingency approaches have been identified. Job dissatisfaction is a leading predictor of employee turnover. Stability is often linked to how effectively HRM practices meet employee expectations and support career development. Mobley (1982).

Effective hiring processes ensure person-organization fit, which has been linked to employee commitment and retention. Schneider (1987) proposed the Attraction-Selection-Attrition (ASA) framework, suggesting that organizations become homogenous over time by attracting and retaining similar individuals, improving cohesion and stability. Bartel (1994) found that firms investing in employee training saw lower turnover rates. Training increases employee skillsets and career satisfaction, which are crucial for long-term retention. Performance appraisal systems can either motivate employees or lead to dissatisfaction. Boswell and Boudreau (2000) emphasized that clarity in goals and regular feedback mechanisms is critical in improving employee morale and organizational commitment. Milkovich and Newman (1999) highlighted that equitable and performance-based compensation systems are essential for retaining high-performing employees. Perceived fairness in pay significantly affects employee satisfaction and loyalty. Lawler (1986) argued that participative decision-making and empowerment practices improve employee engagement and reduce turnover intentions. This participatory environment led to a sense of ownership and psychological attachment to the organization. Strategic HRM, which integrates HRM practices with the business strategy, emerged around 2000 as a vital area. Huselid (1995) found that high-performance work systems (HPWS) — involving selective hiring, extensive training, and incentive compensation — significantly correlated with lower employee turnover and higher firm productivity. Research by Schuler and Jackson (1999) suggested that cultural and industry context greatly influence how HRM practices affect employee behavior. For instance, in collectivist cultures, job stability is influenced more by relational HRM practices than in individualist cultures.

**III. Research Methodology:**

This paper presents a comprehensive review of the literature on the relationship between HRM practices and organizational performance and employee stability within organizations. The paper examines the various HRM practices that influence employee stability, including recruitment and selection, training and development, work-life balance initiatives, organizational culture, compensation and benefits, performance management, and communication strategies. By synthesizing existing research findings, this paper aims to provide insights into the strategies that organizations can adopt to enhance employee stability.

**3.1 Limitations of the Study:**

The study was limited to theoretical work, which is already available in the form of research papers, journals, and books.

**3.2 Research Objectives:**

1) To review the research paper based on the connection between HRM practices and organizational performance.

2) To suggest the practical measures for a medium-scale organization.

**3.3 Research Design:**

The present study has adopted a descriptive research design for the analysis.

**3.4 Variables:**

Here is the Independent Variable as HRM Practices, and the dependent variables as organizational performance and employee stability. These two variables were not tested statistically.

## IV. Conclusion:

The HR department can start onboarding Programs that can attract the right talent into the organization. The skills to compete with the new challenges, to enhance employees' skills and competencies. This will help in investing in the development of employees and indirectly improve job performance and reduce turnover (Noe, 2013). Employees who perceive a better balance between work and personal life are more likely to stay with their organizations (Allen et al., 2013).In case of positive organizational cultures, employees feel valued and engaged, and it contributes to higher levels of job satisfaction and employee retention (Schein, 2010).

A study conducted by Campion et al.2011 focuses on how employees can be retained by providing personal growth and development of employees. Monetary and nonmonetary benefits should be introduced by way of fair and attractive compensation, a healthcare package for family, and retirement plans, which can enhance employee satisfaction and stability (Milkovich and Newman, 2016). Transparent performance management systems will provide regular feedback, recognition, and opportunities for career development. Deloitte (2017), focuses on a performance management system that is linked with employee engagement and with organizational stability. A role of organizational culture is to provide open communication where employees feel comfortable sharing their feedback and even demands. Two-way communication promotes transparency, and this feedback mechanism promotes trust and engagement, leading to higher levels of employee stability (Groysberg and Abrahams, 2014).

## V. Suggestions for Improvement:

- Medium-scale industries should adopt well-defined recruitment strategies to attract the right talent. They can implement competency-based interviews, skill tests, and a clear JD for accuracy. It will reduce employee turnover.
- Skill enhancement programs and career development opportunities can be improved employee satisfaction, better performance, and increased organizational commitment.
- Encouraging open communication, suggestion schemes, open door policy, and involving employees in the decision-making process will reduce attrition.
- Employee stability and productivity can be improved by implementing flexible work arrangements, wellness programs, and support for mental health.
- Grooming internal talent for future leadership roles can foster a sense of security and long-term association with the organization.
- HRM practices must go hand in hand with market trends and employees' expectations.
- Leveraging data on employee performance, turnover rates, and satisfaction surveys can help in proactive decision-making and strategic planning.

## VI. Scope for future research:

The comparative study focuses on how HRM practices differ between medium-scale industries and in the case of large or small-scale counterparts. Another study can be conducted to examine the long-term impact of HRM interventions on employee stability and organizational performance.

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