

Impact of Human Capital Management Practices on Financial Performance of Select IT Companies

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Abstract - The present research is conducted to study the impact of Human Capital Management Practices on Financial Performance of Select IT Companies such as TCS, Infosys and Wipro. For this purpose, primary data has been collected through questionnaire from 257 employees working in Select IT Companies from Hyderabad based on Convenience sampling method. For data analysis, Correlation Matrix and Regression analysis was carried out to find out the correlation and Impact of HCM Practices such as Talent Acquisition, Employee Engagement, Career Development, Training and Development and Leadership Development with Financial Performance indicators such as Organization Productivity (OP), Profitability (PROF) and Efficiency (EFF) and the study has statistically proved the association between Human Capital Management Practices with OP, PROF and EFF. Similarly, Training & Development has significant impact on OP and Leadership Development is also showing significant impact on OP, PROF and EFF respectively.

Keywords: HCM Practices, Productivity, Profitability, Efficiency, IT Companies.

I. INTRODUCTION

Attracting, Managing and Developing employees is a challenge for the organizations to achieve competitive advantage. The Human Capital particularly, knowledge and skills is playing an important role in the success of the organization because of multiple talents the people possess. The environment in which the organization exists is experienced by hectic competition followed by the Human Capital Management Practices which has become a major area of concern for the innovative organizations to perform well.

1.1 Concept of Human Capital.

Becker (1964) defined human capital as, the knowledge, information, ideas, skills and health of individuals. HC also refers to knowledge, skills of employees which can be improved through proper learning and experience to derive value in terms of output in the form of higher productivity, profitability and efficiency of the corporate companies.

1.2 Human Capital Management Practices.

A set of practices which are formulated by the management of the organization for the betterment and development of employees and whose contribution in the form of products produced or service rendered in different business areas can be measured properly by means of employee benefit expenses or costs in training and development, recruitment, selection, performance appraisal and compensation etc.

1.3 Financial Performance.

Financial performance refers to the act of performing financial activity. In broader sense, financial performance refers to the degree to which financial objectives being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

II. REVIEW OF LITERATURE

1. Ahesha Perera., (2012) has asserted that, there is a significant relationship between investment in Human Capital and firm financial performance in terms of market capitalization, return on equity and return on assets.
2. Batt, R. (2002), found that, there is a relationship between the indicators of human capital and organizational performance of software companies.
3. Birasnav M, Rangnekar S, Dalpati A(2009), has deeply investigated the human capital management field to identify the impact of the human capital aspects on organizational performance.
4. Youndt, M. A., Subramaniam, M., & Snell, S. A. (2004), observed that, the human capital practices have positively impacted the firm performance by creating a

significant contribution on organizational competencies which boost the enhancing innovativeness of the people.

5. Delaney, J. T., & Huselid, M. A. (1996), opined that, the development of human capital is a prerequisite for financial performance of a company.
6. Shrader, R., & Siegal D. S. (2007), stated that, there was an evidence among the technology based business with regard to the relevance of human capital to firm performance with greater emphasis on the quality of employees and their impact on firm success.
7. Sarminah Samad. (2013), has found that based on the correlation matrix and regression analysis all of the human capital aspects were positively related to business performance and had a positive and significant impact on business performance.
8. Neenu Wilson et al., (2014), has determined that organizations can benefit from human capital management practices because it leverages the most valuable asset people to improve business performance and help competitive advantage.
9. Bassi, L and McMurrer, D (2007), has conducted a survey which is focused on the relationship between HCM metrics and organizational performance. The empirical research revealed a core set of HCM drivers that predict performance are leadership practices, employee engagement, knowledge accessibility, workforce optimization and learning capacity.
10. Singh, K (2004), have studied 82 Indian organizations to investigate the relation of HR practices and firm performance. Study concluded that, HR practices (Compensation and Training) have a significant relationship with firm performance.
11. Huselid, Mark. A (1995), has concluded that investment in human capital, constant up gradation of human resource practices of firms also lead to higher employee motivation and productivity enhancement.

III. OBJECTIVES OF THE STUDY

1. To study the Concept of Human Capital and Human Capital Management Practices of Select IT Companies.
2. To find out the significant relationship between HCM Practices and Financial Performance of Select IT Companies in terms of Productivity, Profitability and Efficiency.
3. To analyze the Impact of Human Capital Management Practices of Select IT Companies on Financial Performance in terms of Productivity, Profitability and Efficiency.

IV. RESEARCH MODEL

Independent & Dependent Variables.

Independent Variables:-

Talent Acquisition Practices.

Organization Productivity (OP)

1.

1. Employee Engagement Practices.
2. Profitability (PROF)
2. Career Development Practices.
3. Efficiency (EFF).
3. Leadership Development Practices.
4. Training & Development Practices.

V. RESEARCH HYPOTHESIS.

H01. There is no significant relationship between HCM Practices and Financial Performance of Select IT Companies in terms of Productivity, Profitability and Efficiency.

H02: There is no impact of any independent variables on dependent variable (Organization Productivity).

H02a: There is no impact of Talent Acquisition Practices of Select IT Companies in terms of Organization Productivity.

H02b: There is no impact of Employee Engagement Practices of Select IT Companies in terms of Organization Productivity.

H02c: There is no impact of Career Development Practices of Select IT Companies in terms of Organization Productivity.

H02d: There is no impact of Leadership Development Practices of Select IT Companies in terms of Organization Productivity.

H02e: There is no impact of Training & Development Practices of Select IT Companies in terms of Organization Productivity.

H03: There is no impact of independent variables on dependent variable (Profitability).

H03a. There is no impact of Talent Acquisition Practices on Financial Performance of Select IT Companies in terms of Profitability.

H03b. There is no impact of Employee Engagement Practices on Financial Performance of Select IT Companies in terms of Profitability.

H03c: There is no impact of Career Development Practices on Financial Performance of Select IT Companies in terms of Profitability.

H03d: There is no impact of Leadership Development Practices on Financial Performance of Select IT Companies in terms of Profitability.

H03e: There is no impact of Training & Development Practices on Financial Performance of Select IT Companies in terms of Profitability.

H04 There is no impact of independent variables on dependent variable (Efficiency).

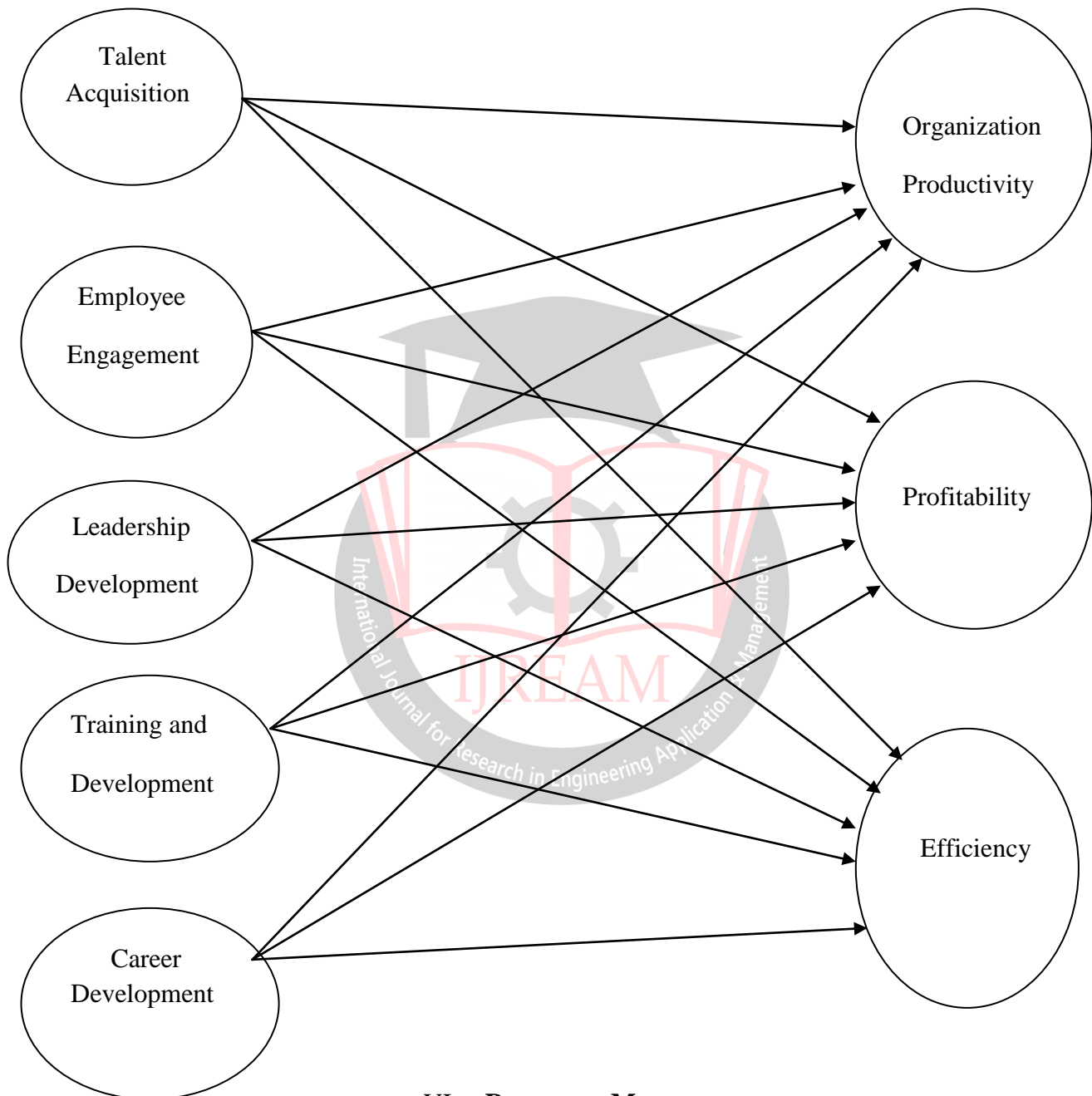
H04a: There is no impact of Talent Acquisition Practices on Financial Performance of Select IT Companies in terms of Efficiency.

H04b: There is no impact of Employee Engagement Practices on Financial Performance of Select IT Companies in terms of Efficiency.

H04c: There is no impact of Career Development Practices on Financial Performance of Select IT Companies in terms of Efficiency.

H04d: There is no impact of Leadership Development Practices on Financial Performance of Select IT Companies in terms of Efficiency.

H04e: There is no impact of Training & Development Practices on Financial Performance of Select IT Companies in terms of Efficiency.



VI. RESEARCH METHOD.

5.1 HCM Practices.

The present study focuses on 5 HCM Practices of Select IT Companies such as: Talent Acquisition, Career Development, Leadership Development, Training & Development and Employee Engagement.

5.2 Measurement Scale.

For the present study, to measure the responses of employees of Select IT Companies such as TCS, Infosys and Wipro, a five point Likert scale was used indicating (Strongly Disagree for 1, Disagree for 2, Neutral for 3, Agree for 4, Strongly Agree for 5).

5.3 Descriptive Statistics.

The mean and standard deviation of HCM practices and Productivity, Profitability and Efficiency reflect the conformity of respondents perception about the HCM practices and Productivity, Profitability and Efficiency of Select IT Companies as shown in Table-1. That is, the value indicates general agreement of the respondents.

Table-1 Item Mean and Standard Deviation of Variables.

Variables	Item Mean	Item Standard Deviation
Talent Acquisition (TA)	3.5013	.62371
Career Development (CD)	3.5101	.59452
Training Development (T&D)	3.6009	.55670
Leadership Development (LD)	3.5525	.56639
Employee Engagement (EE)	3.5831	.67742
Productivity	3.5362	.67359
Profitability	3.7097	.60203
Efficiency	3.6638	.57061

From the above table- I, it is observed that, the HCM Practices like Talent Acquisition, Career Development, training & Development, Leadership Development, Employee Engagement mean values are ranging from 3.60 to 3.50 and standard deviation ranging from 0.67 to 0.55 where as the Financial performance indicators such as productivity, Profitability and efficiency mean values are ranging from 3.70 to 3.53 and Standard deviation ranging from 0.67 to 0.57 respectively.

5.4 Reliability and Internal Consistency of Data.

HCM Practices and Financial Performance of Select IT Companies in terms of Productivity, Profitability and Efficiency have been measured by 5 point Likert scale, Coefficient of Cronbach's Alpha has been used to test the accuracy, reliability and internal consistency of data collected from the employees of select IT companies. The value of Cronbach's Alpha for all the items of Questionnaire is 0.802.

5.5 Sample and Data Collection.

The present study is carried out by selecting 3 IT companies such as TCS, Infosys and Wipro, Hyderabad selected based on their market capitalization. Hence, to study the employee's perception a sample of 257 respondents was selected based on the convenience sampling method by using Questionnaire.

VII. ANALYSIS OF DATA.

The data was analyzed using SPSS package. To find out the impact of HCM Practices on Financial Performance in terms of Productivity, Profitability and Efficiency of Select IT Companies, the analysis involved the use of statistical tools like Correlation Matrix and Regression analysis.

Correlation Matrix.

		TA	EE	CD	TD	LD	OP	PROF	EFF
TA	Pearson Correlation	1							
	Sig. (2-tailed)								
	N	257							
EE	Pearson Correlation	.658**	1						
	Sig. (2-tailed)	.000							
	N	257	257						
CD	Pearson Correlation	.534**	.609**	1					
	Sig. (2-tailed)	.000	.000						
	N	257	257	257					
TD	Pearson Correlation	.382**	.637**	.490**	1				
	Sig. (2-tailed)	.000	.000	.000					
	N	257	257	257	257				
LD	Pearson Correlation	.316**	.355**	.484**	.459**	1			
	Sig. (2-tailed)	.000	.000	.000	.000				
	N	257	257	257	257	257			
OP	Pearson Correlation	.245**	.292**	.256**	.399**	.322**	1		
	Sig. (2-tailed)	.000	.000	.000	.000	.000			
	N	257	257	257	257	257	257		

PROF	Pearson Correlation	.094	.117	.181**	.205**	.346**	.302**	1	
	Sig. (2-tailed)	.134	.061	.004	.001	.000	.000		
	N	257	257	257	257	257	257	257	
EFF	Pearson Correlation	.168**	.271**	.198**	.282**	.255**	.246**	.329**	1
	Sig. (2-tailed)	.007	.000	.001	.000	.000	.000	.000	
	N	257	257	257	257	257	257	257	257

** . Correlation is significant at the 0.01 level (2-tailed).

Interpretation: From the above table, it is observed that, there is a positive correlation between Talent acquisition with employee engagement (0.000), Career development (0.000), Training & development (0.000), Leadership development (0.000), organization productivity (0.000) and Efficiency (0.000) except profitability (0.134).

Employee engagement has positive correlation with Career development (0.000), Training & development (0.000), Leadership development (0.000), Organization productivity (0.000), Efficiency (0.000) except Profitability (0.061).

Career development has positive correlation with Training & development (0.000), Leadership development (0.000), Organization productivity (0.000), Profitability (0.000) and Efficiency (0.001).

Training & development has positive correlation with Leadership development (0.000), Organization productivity (0.000), Profitability (0.000) and Efficiency (0.000).

Leadership development has positive correlation with Organization productivity (0.000), Profitability (0.000) and Efficiency (0.000).

Organization productivity has positive correlation with Profitability (0.000) and Efficiency (0.000).

Profitability has positive correlation with Efficiency (0.000).

H02: There is no impact of any independent variables (TA, EE, CD, LD, T&D) on dependent variable (Productivity).

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.435 ^a	.189	.173	.61248

a. Predictors: (Constant), LD, TA, TD, CD, EE

ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	21.994	5	4.399	11.726	.000 ^b
Residual	94.159	251	.375		
Total	116.153	256			

a. Dependent Variable: OP

b. Predictors: (Constant), LD, TA, TD, CD, EE

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	1.270	.311		4.078	.000
1 EE	-.012	.094	-.012	-.130	.897
TA	.101	.084	.093	1.192	.234
CD	-.017	.089	-.015	-.187	.852
TD	.366	.095	.303	3.850	.000
LD	.196	.081	.165	2.421	.016

a. Dependent Variable: OP

Interpretation: From the above table, it is observed that, $r(0.435)$ and $r^{2(0.189)}$ and the F ratio is 11.726 for given degrees of freedom 5, 251 where as table value is 2.24. Here, table value is less than calculated value ie 11.726 and further, P value is .000 which is below threshold 0.05. Therefore, we may reject H02 hypothesis. Training & development(H2e) and leadership development(H2d) are showing statistically significant impact on organization Productivity whereas Employee engagement

(H2b), Talent acquisition (H2a), Career development (H2c) are showing insignificant impact on Organization productivity. This indicates that, when Talent acquisition, Training & Development and Leadership Development increase by one unit then it causes to increase by .101, .366 and .196 units of organization productivity respectively. Contrary, Employee Engagement and Career Development increases by one unit then it causes to decrease by -.012 and -.017 of Organization productivity respectively.

H03: There is no impact of independent variables (TA, EE, CD, LD, T&D) on dependent variable (Profitability).

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.353 ^a	.125	.107	.56880

a. Predictors: (Constant), LD, TA, TD, CD, EE

ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	11.579	5	2.316	7.158	.000 ^b
Residual	81.207	251	.324		
Total	92.786	256			

a. Dependent Variable: PROF

b. Predictors: (Constant), LD, TA, TD, CD, EE

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.306	.289		7.975	.000
	EE	-.053	.087	-.060	-.609	.543
	TA	-.016	.078	-.017	-.211	.833
	CD	.029	.083	.029	.351	.726
	TD	.098	.088	.090	1.107	.269
	LD	.337	.075	.317	4.474	.000

a. Dependent Variable: PROF

Interpretation: From the above table, it is observed that, r (0.353), r^2 (0.125) and the F ratio is 7.158 for given degrees of freedom 5, 251 where as table value is 2.24. Here table value is less than the calculated value 7.158 and further, p-value is observed to be .000 which is below the threshold 0.05. Therefore, we may reject H03 hypothesis. Leadership Development (H03d) is showing statistically significant impact on Profitability and where as Talent acquisition (H03a), Employee Engagement (H03b), Career Development (H03c) and Training & Development (H03e) are showing insignificant impact on Profitability. This indicates that, when Career Development, Training & Development, Leadership Development increases by one unit then it causes to increase .029, .098 and .337 units of profitability respectively. Contrary, Employee Engagement and Talent Acquisition increases by one unit, then it causes to decrease by -.053 and -.016 units of profitability respectively.

H04 There is no impact of independent variables (TA, EE, CD, LD, T&D) on dependent variable (Efficiency).

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.335 ^a	.112	.094	.54304

a. Predictors: (Constant), LD, TA, TD, CD, EE

ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	9.336	5	1.867	6.332	.000 ^b
Residual	74.017	251	.295		
Total	83.353	256			

a. Dependent Variable: EFF

b. Predictors: (Constant), LD, TA, TD, CD, EE

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	2.301	.276		8.336	.000
EE	.144	.083	.171	1.731	.085
TA	-.024	.075	-.027	-.325	.745
CD	-.030	.079	-.031	-.375	.708
TD	.128	.084	.125	1.516	.131
LD	.162	.072	.161	2.252	.025

a. Dependent Variable: EFF

Interpretation: From the above table, it is observed that, r (.335), $r^{2(112)}$ and F ratio is 6.332 for given degrees of freedom 5, 251 where as table value is 2.24. Here, table value is less than the calculated value 6.322 and further, p-value is observed to be .000 which is below the threshold 0.05. Therefore, we may reject H04 hypothesis. Leadership Development (H04d) is showing statistically significant impact on Efficiency where as Talent Acquisition (H04a), Employee Engagement (H04b), Career development (H04c) and Training & Development (H04e) are showing insignificant impact on Efficiency. This indicates that, when Employee Engagement, Training & Development, Leadership Development increases by one unit then it causes to increase .144, .128 and .162 units of efficiency respectively. Contrary, Talent Acquisition and Career Development increases by one unit, then it causes to decrease by -.024 and -.030 units of efficiency respectively.

VIII. FINDINGS

The association between Independent variables (Talent Acquisition, Employee Engagement, Career Development, Leadership Development, Training & Development) and dependent variables such as (Organization Productivity, Profitability and Efficiency) was identified statistically significant except Talent acquisition with Profitability (0.134) and Employee Engagement with Profitability (0.061).

Training & development (0.000) (H2e) and leadership development (0.016) (H2d) are showing statistically significant impact on organization Productivity whereas Employee engagement (0.897) (H2b), Talent acquisition (0.234) (H2a), Career development(0.852) (H2c) are showing insignificant impact on Organization productivity.

Leadership Development(0.000) (H03d) is showing statistically significant impact on Profitability and where as Talent acquisition(0.833) (H03a), Employee Engagement(0.543) (H03b), Career Development (0.726) (H03c) and Training & Development (0.269) (H03e) are showing insignificant impact on Profitability.

Leadership Development (0.025) (H04d) is showing statistically significant impact on Efficiency where as Talent Acquisition(0.745) (H04a), Employee Engagement(0.085) (H04b), Career development (0.708) (H04c) and Training & Development (0.131) (H04e) are showing insignificant impact on Efficiency.

IX. CONCLUSION

From the above observations, the study has statistically proved the association between Human Capital Management Practices such as Talent Acquisition, Employee Engagement, Career Development, Leadership Development and Training & Development with Organization Productivity, Profitability and Efficiency except with Talent acquisition and Employee Engagement with Profitability. Similarly, the study has also found that, Training & Development is showing significant impact on Organization Productivity and Leadership Development is also has a significant impact on Organization Productivity, Profitability and Efficiency.

X. SUGGESTIONS/RECOMMENDATIONS.

The success of IT Companies to a large extent depends on HR Practices. It was observed from the study that, the companies need to focus its attention on Talent Acquisition as well as on Employee Engagement because hiring right talent will give added advantage and involving employees in decision making and planning will make organizations to

increase profits. Similarly, effective Training programs are needed for enhancement of employees knowledge and skills so that they contribute for the development of the company and moreover, reforms in Leadership Development is vital to ensure better and efficient leaders who drives organization's Productivity, Profitability and Efficiency.

XI. SCOPE FOR FURTHER RESEARCH.

The present study was carried out to find out the relationship as well as Impact on each of the Human Capital Management Practices Variables such as Talent Acquisition, Employee Engagement, Career Development, Leadership Development and Training & Development on Dependent Variables such as Organization Productivity, Profitability and Efficiency. Besides, the future researchers can focus their research in a new dimension by studying on other HCM Practices and industries such as Manufacturing, Pharmaceutical etc. Research can also be carried out by selecting other IT Companies from IT Industry.

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