

# Antecedents of HR Governance – An Insight

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## Abstract

HR practices is an essential component of Corporate Governance and includes the internal oversight and management of an organization's HR strategy, programs, practices, and outcomes, through clearly defined roles, responsibilities, and accountabilities both down and across the enterprise. It implies existence and adoption of CSR practices by the employees in the organization. Though every organization has a HR business model oriented towards management and measurement of HR function; it is not essential that employees are considered as an essential building block for effective CSR and governance. The structure of CSR perceptions is not established; concerns embedded in corporate governance should include interpersonal treatment and/or policies and practices that also drive employee engagement as one of the outcomes. In view of these it is pertinent to identify the antecedents of good governance and CSR. Good governance tends to influence employees' behavior only if they are aware of the practices intended by the organization. The diffusion of these practices and subsequent adoption by the employees is influenced by many factors, social as well as psychological. Knowing about past practices and communicating them inside the corporation influences employees' perceptions. Employees who are unaware may be unsupportive of these practices as adoption of these is an individual phenomenon. Conversely, employees who are aware and engaged encourage the adoption of and are more likely to be influenced by these actions.

For this organizations need to ensure that contemporary HR governance is formally embedded in existing structures and practices, and there is proper implementation of effective internal HR governance framework and strategies that reflect relevant industry economics, desired culture, workforce dynamics, and leadership preferences.

In the existing economic climate, management is forcing employees with additional pressures for ensuring compliance as per the government mandate this may result in disengaged employee with increased absenteeism, attrition and organization fails to retain engaged employees. To resolve this issue, employee engagement should be one of the HR strategies and managers must not regard it as HR fad and pay lip service to its value, rather for the management and effective implementation of engagement strategy a right climate and culture in the organization should be established.

In the study undertaken employee is the unit of analysis. The study is empirical; the purpose is to identify the linkages between HR Governance, Employee perception and Employee engagement. The mediating role of employees is the dominant theme of the research.

**Key Words:** Employee, HR, Governance, Perception, Engagement, Factors

## Introduction

Corporate Governance being an economic ideology, seeks to establish and safeguard the assets of the organization by its effective use through executing systems of guidelines. Though employees are not the part of its inner circle, they are important component and are involved in day to day decision making that impacts the identity and profitability of the corporate. Employees are the grass roots of every organization (Laura Jack, 2015) and represent the image of the corporations which is why organization needs to identify ways to pollinate the workforce with their values, and enthusiasm. Realizing the importance of people element of corporate governance leaders have started acknowledging the relevance of HR governance for management of people issues that helps the organization in treating their employees fairly, consistently in compliance with legal and ethical obligations and also adapting best practices framework of systematic processes,

*knowledge and support to enable the business to optimize its human capital by aligning it with overall, strategy vision, mission and values.*

*HR governance facilitates the process and practices in determining the roles, responsibilities, decision making and accountability of management and employees for the interest of the stakeholders.*

### **Purpose of the Study**

Ample studies have been conducted on corporate governance, none has investigated the link between governance and employee engagement. There exists study on relationship between corporate governance and organizational performance, (Chiange, 2005) and corporate governance and customer satisfaction (AlQudah, 2012; Duke II & Kankpang, 2011). However, literature on empowerment reveals the importance of employee power in organizational engagement (Claydon & Doyle, 1996). Further through research it has been identified that employees are one of the important stakeholder and has the biggest power in terms of stakeholder engagement (Greenwood, 2007) In view of this, the emphasis of this study is to provide an insight to leaders of the organization, the factors to be considered while formulating and executing the strategy and HR business model, that drives employee engagement and to suggest the ways to include employee as an essential building block for effective governance.

### **Literature Review**

The objective of corporate governance is to manage and control the organization in achieving its goal. It deals with laws and procedures that allows the organization to take managerial decisions in the interest of its shareholders, creditors, the state and employees in particular (Mouli and Veena, 2012). It includes the process and procedures which manages and directs organization to improve long term values of shareholders and respects their legitimate rights in the context of its corporate mission (Alo, 2001). In the views of Parker (2006), corporate governance is founded on the premise that organizations should not just be well-managed but run effectively and internally regulated, both formally and informally (Parker, 2006). In the words of Sulaiman (2003) corporate governance includes the power to balance and direct, manage and make the organization accountable. It basically deals with doing the right things in an organization and encourages people to willingly drive the organization towards success. Corporate governance has engaged the attention of scholars in the research world in contemporary times. The performance of organizations has been attributed to good corporate governance (Love, 2011).

The study conducted by UNESCAP (United Nations Economic and Social Commission for Asia and the Pacific) (2009), demonstrates that there are eight major characteristics of good governance, i.e. participatory, accountability, consensus oriented, responsible, effective and efficient, equitable and inclusive and the compliance with the law of the country. Though all these characteristics reflect their relation with human relation management of the organization, there is lack of empirical research as well as conceptual research dealing with this aspect in practice. Thus it becomes necessary to explore the contribution of HR in creating effective and good governance in the organizations.

A study conducted by Deloitte (2011) suggests that HR governance is a core component of good corporate governance like any financial or risk governance. HR governance formally includes risk management as well as policy and program governance that involves the internal oversight and management of an organization's HR strategy, programs, practices, and outcomes, through clearly defined roles, responsibilities, and accountabilities both down and across the enterprise. It also involves the HR business model, and the organization, measurement and management of the HR function, along with the related implications for its management and employees.

The concept of HR Governance deals with a management approach that takes into consideration the true value of human capital by operating in a manner that encourages and motivates them to take initiative and productive, creating a greater value for society.

It is evidenced that employees are not just part of expense; they are involved in decision making that affect the corporate identity and profitability. The organization need to acknowledge that there is lot to gain from the "bottom up". The active involvement of employee in decision making reduces the communication gap between superior and subordinates. Employees understand that company values their idea and empowers them to influence the outcome of their work leading to increased job satisfaction and positive attitude towards their position and company itself.

As can be evinced from the above literature employees in all areas and at all levels are an integral building block for implementation of HR Governance. In most studies on relationship between corporate governance and customer satisfaction the focus is on external customers; the internal customers, employees are not the pivot point of study. In other words employee satisfaction which stems from employee engagement and HR practices has not been explored in the context of HR governance. The present study is an attempt to bridge this gap and identify the building blocks of HR Governance vis-à-vis Employee Engagement practices. The main objective is to explore the link between HR Governance and Employee Engagement and reposition employees as an important stakeholder in establishing good governance in organizations. Exploratory approach was employed to unveil the elements of employee engagement that may lead to better HR Governance and therefore inculcate a sense of ownership towards governance practices. The primary data has been collected from employees of manufacturing company through a self-administered questionnaire. The implications can help identify the factors that can lead to HR governance; it is implied that HR is a facilitator for good governance in organizations.

### Research Methodology

The study is exploratory; primary data has been collected from employees from a manufacturing company of tinsplate, through a structured questionnaire comprising of 35 statements scaled on a 5-point Likert scale. The statements pertain to employee perception of the employee engagement practices being practiced by the organization.

A pilot study was conducted to finalize the self-administered questionnaire. The data has been collected from employees of a manufacturing

organization in Delhi/NCR. The method of sampling is convenient sampling; the total questionnaires included in the study is 501. The method of descriptive statistics is used to profile the employees; EFA is carried out using Principal Component Analysis. The factors have been rotated using Equimax Rotation as the basic premise is to extract factors that are completely uncorrelated to each other.

### Findings and Discussion

It can be observed from table 1 that 53% of the employees in the age group of 36-50 years (table 1). It can be observed that 35.5% of employees have work experience ranging from 16-25 years (table 2). The graph in figure 1 shows that employees in the age category of 41-45 years have work experience ranging from 16-25 years. This is important as HR governance is a post-2000 phenomenon in India. It is quite probable that they have been a part of the learning curve and may have reservations about these practices.

The calculated Cronbach alpha for the 35 statements is 0.942 which proves that data is reliable. EFA technique is used to reduce this data set into factors. From table 4 it is observed that KMO value at 0.941 shows that sampling is adequate; Bartlett's Test of Sphericity value (95% level of Significance,  $\alpha = 0.05$ ) shows the p-value (Sig.) of  $.000 < 0.05$ , therefore the Factor Analysis is valid.

It can be observed from table 4 that the initial communalities are all above 0.30 which is good; table 5 shows that 57.254 percent of variation has been captured and 7 factors have been extracted which is acceptable for an exploratory study. The tables 6 show the rotated matrix.

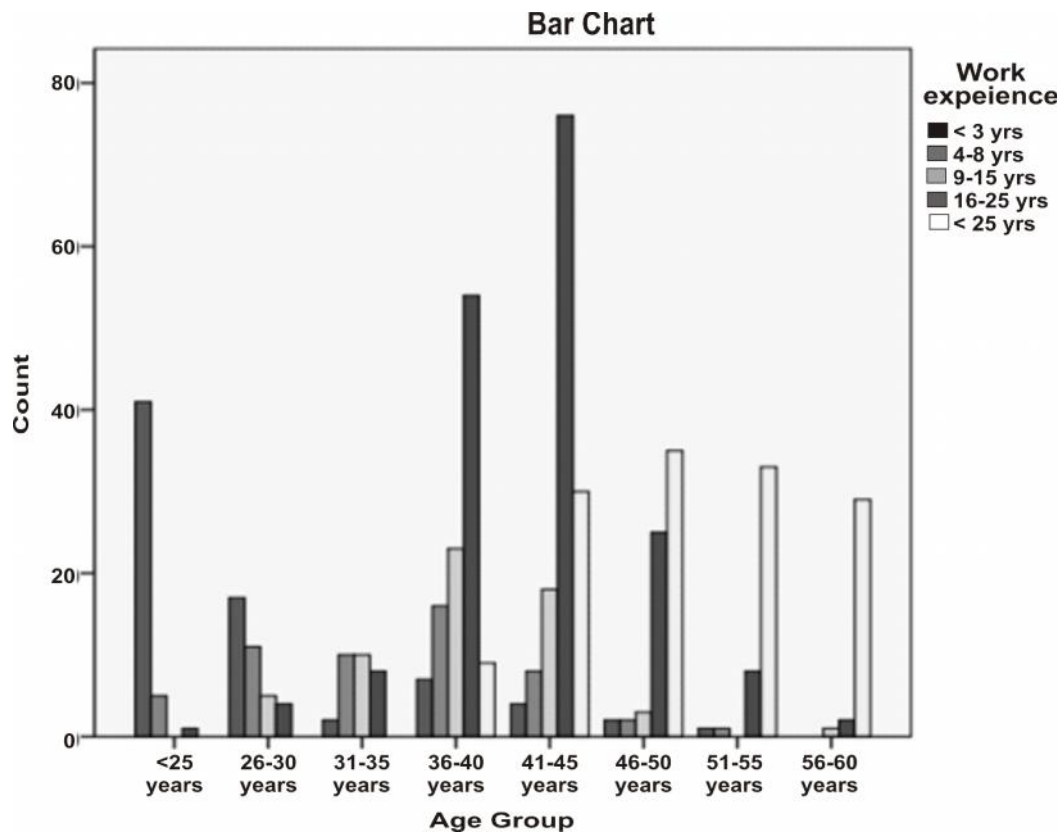
Factor discussion and factor loadings have been tabulated in table 8.

**Table 1 – Frequency Distribution of Age Group**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid <25 years	47	8.0	9.4	9.4
26-30 years	37	6.3	7.4	16.8
31-35 years	30	5.1	6.0	22.8
36-40 years	109	18.5	21.8	44.5
41-45 years	136	23.1	27.1	71.7
46-50 years	67	11.4	13.4	85.0
51-55 years	43	7.3	8.6	93.6
56-60 years	32	5.4	6.4	100.0
<b>Total</b>	<b>501</b>	<b>85.1</b>	<b>100.0</b>	

**Table 2- Cross Tabulation of Age Group \* Work Experience**

Age group	< 3 yrs	4-8 yrs	9-15 yrs	16-25 yrs	> 25 yrs.	Total
<25 years	41	5	0	1	0	47
26-30 years	17	11	5	4	0	37
31-35 years	2	10	10	8	0	30
36-40 yeras	7	16	23	54	9	109
41-45 years	4	8	18	76	30	136
46-50 years	2	2	3	25	35	67
51-55 years	1	1	0	8	33	43
56-60 years	0	0	1	2	29	32
<b>Total</b>	<b>74</b>	<b>53</b>	<b>60</b>	<b>178</b>	<b>136</b>	<b>501</b>



**Figure 1 –Graphical Representation of the Cross –Tabulation Between Age Category and Wok Experience**

**Table 3-KMO and Bartlett’s Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.941
Bartlett’s Test of Sphericity	Approx. Chi-Square	7591.987
	df	595
	Sig.	.000

Table 4-Communalities

	Initial	Extraction
V1. Helping the organisation in achieving goals	1.000	.563
V2. Know what is expected	1.000	.588
V3. Have equipment and material	1.000	.495
V4. Look forward to work	1.000	.524
V5. Orgn. open to suggestions	1.000	.626
V6. Supervisors/ colleagues care	1.000	.483
V7.Job is interesting	1.000	.490
V8. There is openness and transparency in company communication	1.000	.527
V9. I am able to take decision in my area of work.	1.000	.515
V10. Chance to give my opinion in company plans and policies give me sense of high involvement.	1.000	.569
V11. I am able to learn about my job while working in the organization.	1.000	.522
V12.My organization provides me training where there is a need for it	1.000	.587
V13. I get a chance to participate in the discussions about my training and development.	1.000	.667
V14 It excites me to talk and hear good things about my organization outside	1.000	.489
V15. I believe that the company's leaderships are doing what is required for society's growth.	1.000	.542
V16. My organization provides me safe working condition.	1.000	.742
V17 Timely action by management on work environment issues helps me in my jobs.	1.000	.699
V18. In my organization inter departmental cooperation creates congenial working conditions.	1.000	.667
V19. People in my company treat each other mutual trust and respect	1.000	.635
V20. I have a best friend at work	1.000	.629
V21. My organization has forum to give publicity to understanding achievement.	1.000	.408
V22. In my organization outstanding performance is rewarded by increased responsibilities.	1.000	.552
V23. My organization enhances my performance by reviewing my progress objectivity	1.000	.632
v24 At work there are persons who encourage my development	1.000	.628
V25. In the last six month, I have some one at work to talk to me about my progress	1.000	.543
V26. I have received recognition/praise for doing good work	1.000	.577
V27. In my organization the quality of product is seen as very important factor.	1.000	.556
V28 There is a concrete plan for reducing defects and errors in our work.	1.000	.552
V29. I am aware about the needs of our internal and external customer.	1.000	.598
V30 My company is providing adequate housing facilities to me in township	1.000	.551

V31. Recreation avenues are available in township.	1.000	.679
V32 Company provides proper medical care for my dependents and me	1.000	.532
V33. In my organization there is sufficient awareness of standards and norms among the employees	1.000	.535
V34. Existence of systems and procedures helps departmental functioning.	1.000	.535
V35. If organization interest is harmed by any employee; sufficient steps are taken to discipline him.	1.000	.599

**Extraction Method:** Principal Component Analysis.

**Table 5- Total Variance Explained**

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	11.963	34.181	34.181	11.963	34.181	34.181
2	2.141	6.116	40.297	2.141	6.116	40.297
3	1.571	4.488	44.784	1.571	4.488	44.784
4	1.216	3.475	48.259	1.216	3.475	48.259
5	1.078	3.081	51.340	1.078	3.081	51.340
6	1.064	3.041	54.381	1.064	3.041	54.381
7	1.006	2.873	57.254	1.006	2.873	57.254
8	.997	2.848	60.102			
9	.878	2.509	62.611			
10	.845	2.414	65.025			
11	.831	2.374	67.399			
12	.773	2.208	69.607			
13	.735	2.099	71.706			
14	.713	2.039	73.744			
15	.663	1.895	75.639			
16	.643	1.837	77.476			
17	.578	1.651	79.127			
18	.572	1.634	80.762			
19	.537	1.535	82.296			
20	.524	1.497	83.793			
21	.514	1.468	85.261			
22	.491	1.402	86.663			
23	.483	1.381	88.044			
24	.448	1.279	89.323			
25	.422	1.205	90.527			
26	.415	1.184	91.712			
27	.410	1.170	92.882			

28	.388	1.110	93.992			
29	.359	1.025	95.017			
30	.337	.962	95.979			
31	.323	.923	96.902			
32	.312	.891	97.793			
33	.297	.848	98.641			
34	.247	.706	99.347			
35	.229	.653	100.000			

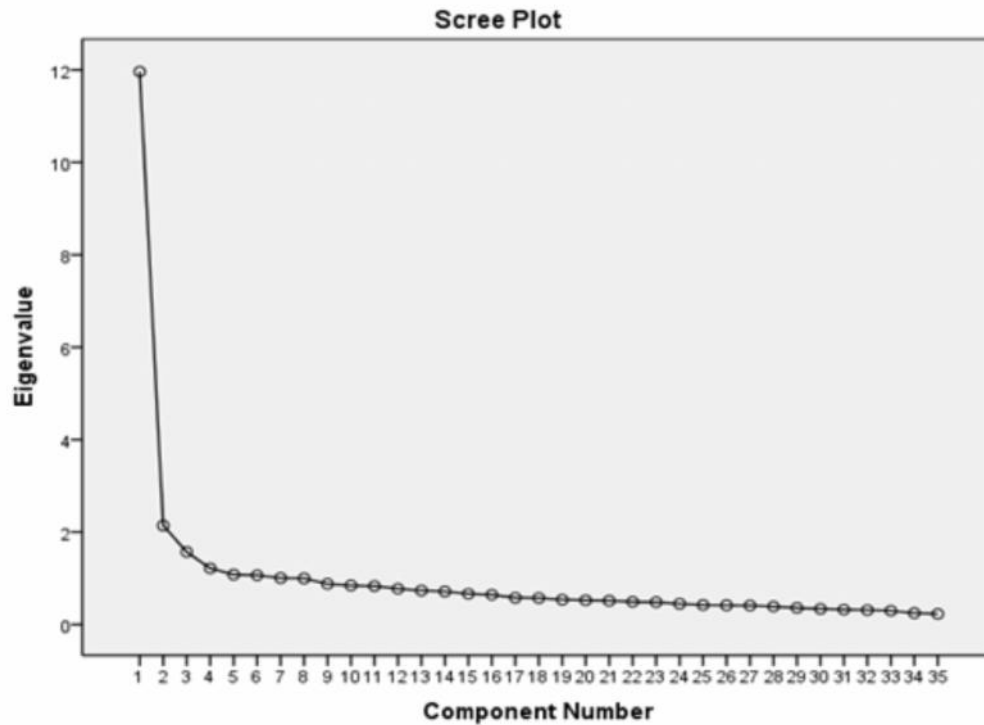


Figure 2- Scree Plot

Table 6- Rotated Component Matrix<sup>a</sup>

	Component						
	1	2	3	4	5	6	7
v16	.793	.114	.137	.152	.017	0.162	.179
v18	.677	.216	.256	.189	.188	.086	.134
v17	.669	.126	.222	.013	.312	.261	.148
v8	.482	.280	.224	-.031	.270	.241	.187
V6	.383	.351	.135	.345	.237	.126	.058
v13	.125	.666	.272	.169	.255	.141	.143
v12	.278	.575	.214	.217	.040	.256	.138
v25	.186	.498	.310	.334	.177	.088	.117

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V3	.285	.490	.273	.050	.099	.1345	.262
v23	.333	.446	.269	.309	-.024	.392	.003
v26	.355	.439	.242	.318	.218	.222	.045
v22	.346	.419	.225	.228	.203	.316	.116
v31	.135	.252	.745	.026	.097	.152	.095
v30	.198	.210	.626	.200	.125	.142	.033
v32	.352	.153	.560	.145	.152	.165	-.006
v34	.323	.050	.437	.213	.368	-.002	.239
v24	.163	.078	.034	.744	.069	.131	.136
v19	.116	.184	.062	.733	.045	.162	.135
v20	-.051	.093	.122	.732	.187	.031	.177
v29	.113	.206	.305	-.007	.647	.102	.145
v27	.066	-.121	.010	.320	.635	.102	.145
v10	.082	.320	.163	-.007	.529	.298	.253
v14	.224	.013	-.275	.184	.455	.251	.243
v28	.380	.259	.203	.292	.425	.176	.058
v33	.249	.277	.406	.150	.407	.183	.100
V5	.219	.336	.053	.215	.103	.611	.180
v9	.104	.325	.151	.073	.293	.533	.029
V7	.144	.036	.080	.077	.173	.530	.381
v35	.060	-.286	.228	.379	.215	.515	-.083
v15	.120	.023	.389	.018	-.022	.503	.349
V1	-.008	-.156	.058	.104	-.020	.129	.712
V2	.191	.188	.118	.066	.211	-.130	.660
v11	.009	.226	-.137	.206	.163	.357	.506
V4	.109	.241	-.261	.187	.249	.317	.434
v21	.147	.228	.236	.187	.310	.131	.360

**Table8: Factor Matrix**

Variables	Factor Loadings	Factor Name
V 16 My organization provides me safe working condition v18 In my organization inter departmental cooperation creates congenial working conditions v8 There is openness and transparency in company communication	.793 .677 .699	<b>Factor1 Transparency and Team Work</b>
V 13 I get a chance to participate in the discussions about my training and development. v12 My organization provides me training where there is a need for it	.666 .575	<b>Factor 2 Training and development</b>
v31 Recreation avenues are available in townshipv	.745	<b>Factor 3</b>



30 My company is providing adequate housing facilities to me in township	.626	<b>Valued Employee</b>
v32 Company provides proper medical care for my dependents and me	.560	
v24 At work there are persons who encourage my development	.744	<b>Factor 4 Trust and Fair treatment</b>
v19 People in my company treat each other mutual trust and respect	.733	
v20 I have a best friend at work	.732	
v29 I am aware about the needs of our internal and external customer.	.647	<b>Factor 5 Quality Product and Sense of involvement</b>
v27 In my organization the quality of product is seen as very important factor	.635	
v10 Chance to give my opinion in company plans and policies give me sense of high involvement	.529	
Orgn. open to suggestions	.611	<b>Factor 6 Empowerment and Discipline</b>
v9 I am able to take decision in my area of work.Job is interesting	.533	
v35 If organization interest is harmed by any employee, sufficient steps are taken to discipline him	.515	
Helping the organization in achieving goals Know what is expected	.712	<b>Factor 7 Work knowledge</b>
v11 I am able to learn about my job while working in the organization	.508	

Source: author

**Factor Discussion**

**Factor1: Transparency and Team work**

The first factor with strong factor loading and 34.181% of cumulative variance suggests that good HR governance provide employee safe working condition. It enables the organization to create an environment full of harmony and support among different departments which leads to congenial working conditions. Employees are motivated to work in team where there is open and transparent communication.

**Factor 2: Training and development**

From the study it was identified that training and development (40.297 % of cumulative variance) is an important variable from employee’s point of view. Employee’s likes training in relevant areas where there is need for it and would like to participate in the discussions related to their training and development.

**Factor 3: Employee Value**

The third factor with 44.784 % of cumulative variance suggests that employees can be involved in implementation of HR governance if they feel they are valued by the organization. Research suggests that employees would like to be associated with the organization that provide facilities for recreation avenues in township, housing and proper medical care for them and their dependents.

**Factor 4: Trust and Fair treatment**

The next variable trust and fair treatment with cumulative variance of 48.259 % depicts that employees are motivated to work in that organization where they are appreciated and encouraged for their performance. The employees can be encouraged to be a part of HR governance by providing an environment of trust and fair treatment.

**Factor5: Quality Product and Sense of involvement**

The next factor with cumulative variance of 51.340% suggests that employee’s are attracted to work in the organization that focuses in providing quality product to the customers as an important social responsibility. Employees would like to get involved in making of company plans and policies.

**Factor6: Empowerment and Discipline**

The next factor with cumulative variance 54.381% suggests that for effective governance organization should be empowered to take decision. They should be provided with interesting job and necessary steps should be taken against employees who harm the interest of the organization.

**Factor 7: Work knowledge**

The last factor suggests that engaged employees helps the organization in achieving goals. They know what is expected from them and are able to learn their job

while working in the organization. They value work knowledge.

### Conclusion

The study reveals that it is important to align all employees at all levels irrespective of the generation gap with the organizations' vision. It is important to build HR Governance by bringing in employee perspective; good HR governance should focus on congruence between employee commitment and organizational commitment. Typically, in a manufacturing set up, personal and social factors such as having a friend at work-place, relation with superior, opportunities for training are seen as critical factors to build HR capabilities that lead to engagement and motivation.

Employee engagement is a means but not the end. There is evidence about positive relation between employee engagement and good governance. But organizations often want to improve engagement with the organization rather than with their work.

### Implications

It can be seen from the above study that organizations must treat every employee equally and fairly irrespective of age and work experience. They can encourage employees to be a part of the HR Governance if they are involved and valued; employees cultivate a sense of belongingness if they feel they are not only working for the organization but also they are doing something good for the society.

### Limitations

The data has been collected from all employees; some belong to the baby boomer generation and some belong to the millennial generation. The study is exploratory and the data has been collected from a manufacturing organization; therefore it cannot be generalized. However, it has identified key factors that lead to HR governance practice.

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