

# A Study on HRM Practices and Their Effectiveness in Indian Public Sector Undertakings (PSUs)

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## Abstract:

Human Resource Management (HRM) plays a crucial role in improving organizational performance, especially in Public Sector Undertakings (PSUs) in India. Indian PSUs operate in a complex environment characterized by government regulations, social responsibilities, union presence and increasing competition from the private sector. This study examines the major HRM practices followed in Indian PSUs and evaluates their effectiveness in enhancing employee performance, organizational commitment, productivity and overall institutional development. This paper focuses on key HRM dimensions such as recruitment and selection, training and development, performance appraisal, compensation management, employee welfare and industrial relations. It also explores how reforms after economic liberalization influenced HR practices in PSUs. This article indicate that while PSUs have structured and formal HR systems, challenges remain in flexibility, performance-based incentives, talent retention and modernization of HR strategies. Strengthening strategic HRM, encouraging participative management, adopting digital HR systems and aligning HR policies with organizational goals can significantly improve effectiveness. This article concludes that HRM practices in Indian PSUs are gradually evolving from traditional administrative systems to performance-oriented strategic frameworks, though further reforms are essential to meet global standards.

**Keywords — Human Resource Management, Public Sector Undertakings, HRM Practices, Employee Performance, Strategic HRM, Industrial Relations, Organizational Effectiveness**

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## I. INTRODUCTION

Public Sector Undertakings (PSUs) have been central to India's economic planning and industrial development since independence. After 1947, the Government of India adopted a mixed economic model in which public enterprises were expected to lead industrialization, infrastructure creation, employment generation and regional balance. Major organizations such as Steel Authority of India Limited, Bharat Heavy Electricals Limited, Oil and Natural Gas Corporation and Rashtriya Ispat Nigam Limited have significantly contributed to national income, employment, exports and technological growth. Unlike private enterprises, PSUs were created not

only to earn profits but also to fulfill social objectives such as reducing inequality, promoting industrial growth in backward regions and ensuring job security (Government of India, 2011).

Human Resource Management (HRM) plays a crucial role in achieving these objectives because human capital is the backbone of any organization. In the early years, HRM in PSUs was largely administrative and rule-driven, focusing on compliance, seniority-based promotion and job security. However, after the economic liberalization reforms of 1991, PSUs were exposed to competition, market pressures and accountability standards similar to private organizations. This shift demanded modernization of HR practices, performance orientation and

strategic alignment of workforce policies (Rao, 2010). Scholars have emphasized that effective HRM improves productivity, employee commitment and organizational sustainability (Armstrong, 2014; Dessler, 2017). Therefore, understanding HRM practices in Indian PSUs is essential for evaluating their effectiveness in the changing economic environment.

## **MAJOR HRM PRACTICES IN INDIAN PSUs**

### **1) Recruitment and Selection**

Recruitment and selection in Indian PSUs are structured, transparent and governed by clearly defined rules and regulations. Most PSUs follow open advertisement systems through national newspapers, official websites and employment portals to ensure equal opportunity. Selection procedures generally include written examinations, group discussions, interviews and verification of qualifications. Reservation policies for Scheduled Castes, Scheduled Tribes, Other Backward Classes, Economically Weaker Sections and persons with disabilities are strictly implemented as per government norms. This approach reflects social justice and inclusiveness, which are key principles of the public sector framework.

One of the strengths of PSU recruitment is fairness and merit-based evaluation. Competitive examinations help in selecting technically qualified and competent candidates. Many large PSUs also recruit through national-level examinations such as GATE scores for engineering posts. However, the recruitment process can sometimes be lengthy due to procedural formalities, administrative approvals and compliance requirements. Delays may affect organizational efficiency, particularly when there is an urgent need for skilled manpower.

In recent years, several PSUs have adopted digital recruitment platforms, online applications and competency-based interviews to improve efficiency and transparency. Despite these reforms, balancing social obligations with the need for speed and flexibility remains a challenge. Effective recruitment practices contribute directly to long-term organizational performance by ensuring that the right talent

enters the system at the right time (Rao, 2010; Dessler, 2017).

### **2) Training and Development**

Training and development are among the most emphasized HRM functions in Indian PSUs. Since many PSUs operate in technical and capital-intensive sectors such as steel, power, petroleum and heavy engineering, continuous skill upgradation is necessary. Most large PSUs have established dedicated training institutes and management development centers to enhance employee competencies. Training programs are conducted at various levels, including induction training for new recruits, technical skill enhancement for operational staff and leadership development programs for executives.

Training in PSUs often focuses on technical knowledge, safety standards, quality control and regulatory compliance. In addition, behavioral training programs such as communication skills, team building, stress management and leadership effectiveness are also conducted. Executive development programs are sometimes organized in collaboration with reputed management institutes.

However, the effectiveness of training depends on proper need assessment, evaluation of outcomes and linkage with career growth. In some cases, training becomes routine rather than performance-driven. Experts argue that training should be strategically aligned with organizational objectives and future competency requirements (Armstrong, 2014). When properly implemented, training and development enhance employee confidence, reduce errors, improve productivity and prepare future leaders within the organization (Armstrong, 2014; Bhatia, 2008).

### **3) Performance Appraisal Systems**

Performance appraisal systems in PSUs have evolved significantly over time. Traditionally, employee evaluation was based on Annual Confidential Reports (ACRs), which were largely subjective and focused on seniority. Over time, many PSUs have shifted to Performance Management Systems (PMS) that incorporate measurable targets, Key Performance Indicators (KPIs) and result-oriented evaluation criteria.

Performance appraisal in modern PSUs generally includes goal setting at the beginning of the year, mid-term review and final evaluation. In some organizations, Performance-Related Pay (PRP) has been introduced to link compensation with performance outcomes. This system encourages accountability and motivates employees to achieve defined targets.

Despite these improvements, challenges remain in ensuring fairness, objectivity and timely feedback. In certain cases, appraisal may still be influenced by hierarchical bias or limited communication between supervisors and subordinates. A strong feedback culture, transparency in evaluation criteria and employee participation in goal setting can significantly improve appraisal effectiveness. Research suggests that performance management systems enhance organizational effectiveness when aligned with strategic goals (Dessler, 2017).

#### **4) Compensation and Reward Management**

Compensation in Indian PSUs is structured according to government-approved pay scales and recommendations of pay commissions. Salary structures are standardized, transparent and periodically revised. Employees receive various benefits such as medical facilities, housing allowances, pension schemes, gratuity, leave travel concessions and social security benefits.

One of the major strengths of PSU compensation systems is job security and long-term financial stability. Employees often prefer public sector jobs because of predictable income, retirement benefits and welfare provisions. These factors contribute to employee loyalty and reduced turnover.

However, rigid pay structures sometimes limit differentiation between high and average performers. Compared to private sector organizations, PSUs may face difficulty in attracting and retaining highly specialized talent due to limited flexibility in offering market-driven salaries. The introduction of Performance-Related Pay is an attempt to address this issue, but its impact varies across enterprises. A balanced reward system that combines financial incentives

with recognition, career growth and skill development can enhance motivation and commitment (Tripathi & Reddy, 2006; Government of India, 2011).

#### **5) Employee Welfare and Industrial Relations**

Employee welfare is a distinctive feature of Indian PSUs. Many enterprises provide comprehensive welfare facilities such as residential colonies, hospitals, schools, recreational centers and cooperative societies. These facilities create a sense of community and belonging among employees. Welfare measures extend beyond statutory requirements and reflect the social responsibility orientation of public enterprises.

Industrial relations in PSUs are generally stable but strongly influenced by trade unions. Collective bargaining, grievance redressal mechanisms and joint consultative committees play important roles in maintaining industrial harmony. While union participation ensures employee representation and protection of rights, excessive union pressure may sometimes slow down decision-making and reforms.

Effective industrial relations require open communication, mutual trust and participative management. When employees feel heard and respected, workplace conflicts reduce and productivity improves. Maintaining a balance between management authority and union participation is essential for sustainable organizational growth (Bhatia, 2008; Rao, 2010).

#### **6) Strategic HRM and Digital Transformation**

In recent years, Indian PSUs have started adopting Strategic Human Resource Management (SHRM) practices. Strategic HRM focuses on aligning HR policies with long-term business objectives. Workforce planning, succession planning, competency mapping and leadership pipeline development are gradually becoming part of HR strategies.

Digital transformation is another emerging trend. Many PSUs are implementing Human Resource Information Systems (HRIS), e-performance appraisal platforms, online leave

management systems and digital payroll processing. These systems improve efficiency, transparency and data-driven decision-making.

However, successful strategic HRM requires cultural change, leadership commitment and continuous modernization. The transition from traditional administrative HR to strategic partner role is still in progress. Strengthening digital infrastructure and analytical capabilities can further enhance HR effectiveness in PSUs (Armstrong, 2014; Dessler, 2017).

#### **EFFECTIVENESS OF HRM PRACTICES IN PSUs**

The effectiveness of HRM practices can be evaluated through employee satisfaction, productivity, organizational commitment and financial performance. Structured HR systems ensure fairness and stability. Welfare measures improve employee loyalty. However, limited flexibility, bureaucratic procedures and slower decision-making sometimes reduce competitiveness.

Research indicates that strategic alignment of HR practices with business goals significantly improves organizational performance (Armstrong, 2014). Similarly, performance-based systems enhance employee motivation when implemented transparently (Dessler, 2017). In PSUs, balancing social objectives with efficiency remains the central challenge.

#### **CONCLUSION**

Human Resource Management in Indian Public Sector Undertakings has undergone a significant transformation over the past three decades. Initially designed as administrative and compliance-driven systems, HR practices in PSUs are gradually evolving into strategic tools for organizational development. The introduction of structured recruitment processes, systematic training programs, formal performance appraisal mechanisms and employee welfare initiatives has strengthened workforce stability and institutional continuity.

However, effectiveness cannot be measured only by stability and job security. In today's competitive environment, PSUs must focus on innovation, productivity, accountability and responsiveness. While traditional HR systems

have ensured transparency and equity, they often lack flexibility and speed. Performance-linked incentives, leadership development, succession planning and talent management require greater attention.

The success of HRM in PSUs depends on balancing three essential dimensions: social responsibility, employee welfare and organizational competitiveness. PSUs must adopt modern HR technologies, strengthen competency-based management, encourage employee participation and integrate HR planning with corporate strategy. Strong industrial relations must continue, but with greater emphasis on productivity and shared accountability.

Furthermore, capacity building, digital transformation and transparent evaluation systems can enhance efficiency. Reform-oriented HR policies that align employee goals with organizational objectives will improve performance outcomes. Sustainable growth of PSUs requires not only financial investment but also strategic investment in human capital.

In conclusion, HRM practices in Indian PSUs have created a stable and socially responsible workforce. However, to compete globally and meet emerging challenges, these organizations must continue to modernize HR frameworks, promote merit-based growth and adopt innovative people management strategies. Effective HRM will remain the foundation for strengthening public sector competitiveness and contributing to national development.

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