

Human Resource Management Practices and Organizational Performance: An Indian Perspective

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1. Introduction

The link between human resource management (HRM) practices and organizational performance is well researched. With this paper we hope to contribute to a better understanding of the role of human resource practices in creating and sustaining organizational performance, specifically in the Indian context. The structure of the paper is as follows. First we briefly review the dominant perspectives in this field as per the available literature. We note that almost all of the published theory-building as well as empirical research in this area is conducted in societies other than the Indian society. On the other hand, the socio-cultural context of organizations in India is uniquely different. Hence in the next section we propose a framework to examine HR and firm performance linkage suitable for the Indian conditions. In the last section we point out some limitations and propose directions for future research.

2. HRM and Organizational Performance (OP) Research

It is well understood that human resource management (HRM) decisions and practices are likely to have an important and unique influence on organizational performance. The obvious linkage must be either through improved efficiency or contribution to revenue growth. However, the views on the exact transmission mechanism or model linking the two have undergone much change over time. This change has happened alongside change in the perceptions about human resources themselves from being a cost to be minimized and a potential source of efficiency gains to a source of value creation, or what Hamel and Prahalad termed "numerator management" [1].

Peters and Waterman [2] described and assessed "excellent" organizations. This seminal 1982-work inspired writing of many testimonials to the value of progressive

HRM practices and systems of such practices. In particular, employee participation and empowerment and job redesign, including team-based production systems, extensive employee training, and performance-contingent incentive compensation, are widely believed to improve the performance of organizations [3]. The interest in human resources since late 1980s as a strategic lever inspired several works published in the *Academy of Management Journal*, *Journal of Accounting and Economics* and *Industrial Relations*, among others, over the past three decades or so on the theme that HR can have economically significant effects on a firm's bottom line. A developing body of research has reported positive associations between firm-level measures of HRM systems and organizational performance in numerous studies conducted in contexts other than Indian [4, 5, 6, 7, 8, 9, 10, 11, 12 and 13]. Marchington and Grugulis, however, emphasize that in order to determine the effectiveness of HR, the context in which HR is practiced must be included in the analysis [14].

3. HR Practices and OP Outcomes: the Strategic HR Management Perspective

The relationship between HR practices and firm performance outcomes is discussed best in the SHRM literature. What HR practices are and how they impact on firm performance are the central themes in the discussion of a strategic HR system.

Different HR configurations are needed to achieve a high level of firm performance [15]. Also different types of HR practices generate different firm outcomes. For example, some HR practices are related to financial outcomes, while some others may relate more to staff turnover [16]. Although the literature suggests that the link between HR practices and firm performance is quite positive [16, 17], it is nevertheless not necessarily a direct relationship. Guest presented a model that provides the theoretical linkages between HR and firm performance [13]. He suggested that there are different types of fit among HR practices. The fit or integration of these practices leads to different HR outcomes and subsequent firm performance. Similarly, others have suggested that in order to have effects on firm performance, there must be a certain alignment of different components of an organization, including different HR practices (as an HR system), the necessary skills and knowledge possessed by employees, a motivated workforce, and a value-added strategy [10, 18]. From a resource-based view, De Saa-Perez and Garcia-Falcon demonstrated that an appropriate HR system creates and develops organizational capabilities that become sources of competitive advantage [19]. Wood reviewed several SHRM studies and noted that previous empirical works focused mainly on the link between HR practices and performance, but not on the mechanisms linking them [20]. In another study of HRM and corporate performance, it was found that although there was an association between HRM and firm performance, the causation effect was not established [21].

We may, therefore, conclude that HR system is likely to contribute to competitive success when it is introduced as an integrated package (or bundle of practices) and fits into the context of the organization concerned.

4. A Conceptual Framework for HRM and OP Research in India

The conceptual and empirical work relevant to the question of firm-level linkage between HRM and organizational performance in the Indian context has not progressed much. Indeed, in order to provide a convincing explanation of the association between HRM and organizational performance in the Indian context we need to improve our theoretical and analytic frameworks in three key areas. These are the nature of HRM, and especially the rationale for the specific lists of HR practices; the nature of organizational performance; and the linkage between HRM and performance. In this paper we focus on the last linkage. We attempt to synthesize and organize concepts from SHRM literature into a more coherent and relevant framework for the Indian context. A comprehensive model is developed on these lines within which to explore these linkages (FIG. 1). A number of specific, testable propositions are derived from the model to guide empirical work.

Tiwari and Saxena discuss a framework that indicates how external and internal factors affect HRM practices which in turn generate certain benefits for the organization and ultimately lead to overall corporate performance [22]. The authors list some “innovative” HR practices being followed by seven selected companies, namely J K Lakshmi Cement, Grasim Industries Ltd, Tata AIG General Insurance Co Ltd, Maruti Udyog Limited (MUL), HCL Technologies Ltd., LG India and Pantaloons (India) Ltd. Noting that these companies are performing “well” in their sectors, they attribute their success to these so-called “innovative” HR practices and conjecture that the latter must have helped in building image of the company in the minds of the employees and hence contributed to their respective “good” business performance. Anil K Singh took a sample of 95 respondents from two private sector organizations in India and reported positive correlations between HRM practices and variables of organizational culture [23].

However, we must go beyond simplistic views and conjectures and delve deeper into the exact transmission mechanism or model linking HR practices and firm performance in the Indian context. An HR system, existing in any cultural context, is likely to contribute to competitive success when it is introduced as an integrated package (or bundle of practices) and fits into the context of the organization concerned. The ‘internal fit’ concept is particularly salient here when we examine the organizational processes leading to good firm performance [24] in the Indian context. One needs to examine closely the missing links between HR practices and performance. What intervening process factors are at work here?

5. Our Work

We conducted a series of focus group discussions with top and middle-level managers at 24 Indian private (10 manufacturing sector and 14 service sector) organizations on the plausible links between HR practices and performance. Several potential intervening process factors were considered during these discussions. The discussions concluded by asserting that HR practices seldom lead directly to a high level of firm performance. Instead three intervening process factors, namely, market orientation,

strategy and organizational culture were proposed as links between HR practices and performance. On the basis of our literature review and FG discussions we posit, therefore, that HR practices influence firm performance outcomes through effectiveness of the HR system and employee commitment and performance. HR practices also share a two-way relation with organizational culture, strategic objectives and market orientation of the organization which are ultimately linked to OP outcomes.

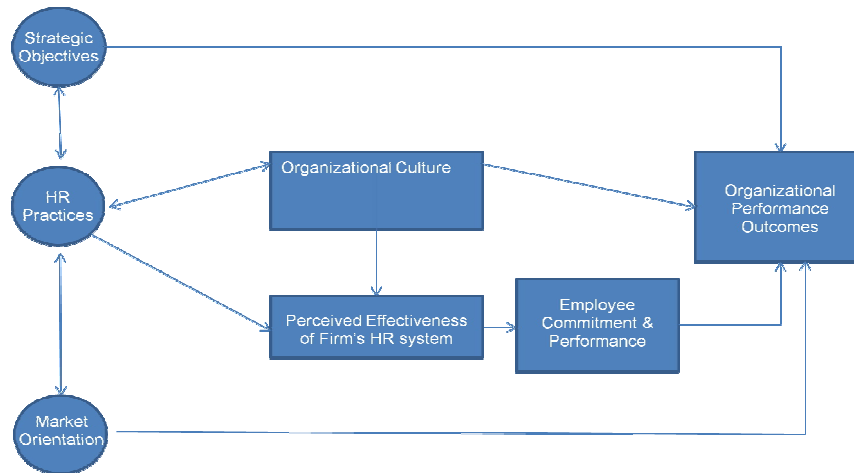


Fig. 1: A Firm-level Model linking HR Practices and Firm Performance Outcomes.

A comprehensive literature review highlights three sets of HR practices that would support a healthy and innovation-oriented HR system. They are: (1) training-focused—an emphasis on skills enhancement and human capital investment; (2) performance-based reward—an emphasis on rewarding employees' contributions and outcomes; and (3) team development—leadership and team-based activities are extensively developed and carried out. HR Practices in our model refer to these three bundles of practices. OP outcomes are the ultimate dependent variables in the model. These are organizational outcomes/ their indicators such as shareholder return, profits, productivity, organizational survival and product (and services) innovation.

Proposition 1: The selected set of HR practices positively influences the (employees') perceived effectiveness of the firm's HR system.

Proposition 2: The organizational culture positively influences the (employees') perceived effectiveness of the firm's HR system.

Proposition 3: The (employees') perceived effectiveness of the firm's HR system positively influences employees' commitment and performance.

Proposition 4: The employees' commitment and performance positively influence the desired OP outcome.

Proposition 5: The selected set of HR practices positively influence the desired OP outcome through the mediating role of organizational culture.

Proposition 6: The selected set of HR practices positively influence the desired OP outcome through the mediating role of the firm's market orientation.

Proposition 7: The selected set of HR practices positively influence the desired OP outcome through the mediating role of the firm's strategic objectives.

The firm-level conceptual framework above is proposed for explaining how HR is related to firm performance, specifically in the Indian context. The direct as well as indirect effects of HR on organizational outcomes are examined by considering the integration and perceived effectiveness of the three complementary HR practices as an HR system, and the fit of HR practices with organizational culture, the organization's market orientation as well as its business and operative strategy.

6. Limitations

A limitation of the proposed mediation model is that it does not propose any specific operationalizations of the constructs of organizational culture, market orientation and strategy used in the model. This is an important gap which needs to be bridged before the validity of the model can be verified by HR—firm outcome research in Indian cultural context. Also the methodology used to develop the framework is purely qualitative in nature, being based on the review of previous published work as well as outcome of a focus group discussion.

7. Directions for Future Research

Developing a “good” theory or conceptual framework which describes and explains the phenomenon of interest as comprehensively as possible is always important. Here we attempted to do the same in case of the HR-firm performance relationship in the Indian context. However, one needs both a theoretical framework as well as empirical work to establish and examine relationships. The conceptual framework embodied in the model above is critical to attract the researchers' interest in empirical work in this area. Perhaps future research may focus attention on generating a cumulative body of accurate and meaningful estimates of effect sizes in this model. We hope future empirical work in the Indian context will provide better and more meaningful tests of the theoretical framework developed here.

8. Conclusion

HRM practices must be married with not just the strategic objectives and market orientation of the organization but also the organizational culture, especially in the Indian context. Reflecting a multidisciplinary interest, we emphasized through this paper looking into the mechanisms by which human resource practices ultimately impinge upon the organizational performance. We derived some propositions and hope that validity of this conceptualization may be verified in the Indian context by future empirical research.

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