

## Parameters of Strategic HRM and Firm Performance - A Review of Indian Manufacturing Industry

Shallu Randhawa<sup>1</sup> and Amanpreet Singh Sethi<sup>2</sup>

<sup>1</sup>(Research Scholar, IKGPTU, Jalandhar, Punjab, India)

<sup>2</sup>(Professor & Dean, B.B.S.B. Engg. College, Fatehgarh Sahib, Punjab, India)

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**Abstract:** Strategic Human Resource practices have substantial impact on the performance of an organization and this provides a positive association sandwiched amid the HR systems and the organizational performance. Specific HRM policies and practices are needed to support generic business strategies; innovation or quality enhancement. The crucial role of strategic human resource management is becoming progressively predominant in both commercial and theoretical literature. This paper identifies some specific parameters of strategic human resource practices (SHRM) and firm performance in Indian manufacturing Industry. This study is of perilous significance against the environment of the liberalization of the Indian economy. The organizational tunings due to liberalization have produced a hyper-competitive and tempestuous situation. Drawing from SHRM and firm performance literature, this research paper discusses some identified parameters of SHRM and firm performance in Indian manufacturing industry.

**Keywords:** Firm performance, HRP, Manufacturing performance, ROI, SHRM.

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### 1. INTRODUCTION

Developments in the field of Human Resource Management (HRM) are well documented in the management literature (Boxall, 1992; Legge, 1995; Schuler and Jackson, 2007; Sisson and Storey, 2000). The roots of HRM go back as far as the 1950s, when authors like Drucker and McGregor stressed the need for visionary goal-directed leadership and management of business integration (Armstrong, 1987). Human Resource (HR) dimensions have considerable impact on the performance of organization and this contributes an affirmative link sandwiched between the HR systems and the organizational performance (Osman, Theresa, Galang, 2011). The business world believes that the human resources of an organization are a source of competitive advantage provided that the policies and practices for managing people are integrated with its goals and objectives. HRM dimensions greatly influence the employee attitude which affects employee performance and development and if HRM systems work effectively, then increase in the organizational performance will be seen (Snape and Redman, 2010).

The developments in the field of HRM highlight the contribution it can make towards business success and an emphasis on HRM to become an integral part of business strategy (Lengnick-Hall and Lengnick-Hall, 1988; Brewster and Larsen, 1992; Bamberger and Meshoulam, 2000; Schuler and Jackson, 2007). The emergence of the term 'strategic human resource management' (SHRM) is an outcome of such efforts. Strategic human resource management (SHRM) emphasizes the importance of establishing congruence between human resource policies and organizational strategic goals. SHRM is the direction the organisation should pursue for achieving its objectives through human resource. It covers broad organisational concerns relating to structure, culture, management of change, organisational effectiveness, performance, competence, matching resources to future business requirements and employee development. It is largely concerned with 'integration' of HRM into the business strategy and 'adaptation' of HRM at all levels of the organisation (Guest, 1987; Schuler, 1992). Dimba and K'Obonyo (2009) investigated the nature of the effect of SHRM practices on organizational performance in Kenya.

The technical human resource management (HRM) or the traditional HRM concerns with the regulatory role and functions while the Strategic HRM involves designing and implementing set of internally consistent policies and practices which ensure that firms human capital contributes to the achievements of its business objectives (Baird & Meshoulam, 1988; Jackson & Schuler, 1995). The Strategic Human Resource Management approach draws on three dominant modes of theorising. First is the *Universalistic approach* which is treated as *best practice* approach to SHRM researchers in this group identified practices, which are universally valid and yield results and improve performance (Delaney, Lewin & Inchniowski, 1989; Huselid, 1995; Osterman, 1994; Pfeffer, 1994). Second is the *Contingency approach* which believes that HR policies must be consistent with other aspects of the organisation. HR practices, if consistent with different strategic positions, will improve firm performance (Balkin & Gomez-Mejia, 1987; Begin, 1993; Gomez-Mejia & Balkin, 1992; Schuler & Jackson, 1987) and third is *Configurational approach* which states that SHRM is concerned with the pattern of planned human resource deployment and activities, intended to enable an organisation to

achieve its goals. In order to be effective HR system, it must be both horizontally and vertically fit, where horizontal fit refers to internal consistency of the organisational HR policies and practices, and vertical fit refers to the congruence of HR system with other organisational characteristics like. firm strategy, structure, culture etc

## **2. REVIEW OF LITERATURE**

**2.1 Manufacturing Sector and HRM:** HR is the only source which makes other factors of production and sources of organization productive. In manufacturing firms, network resources are more likely to represent sources of informality which sit in contrast to the utilised HR managerial knowledge. Industry is therefore a potentially powerful moderator, as is the role of network resources in relation to the impact of HR managers in strategic planning (Peter & Retha, 2011). In manufacturing sector industries excessive behaviour controls may become irrelevant or even detrimental to work performance. The type of activity requires the application of knowledge, intellectual skills, and strong internal motivation. HRM activities are directly related to the most valuable assets of the organization and hence directly related to the ability of the organization to successfully achieve its goals (Harrigan & Dalmia, 1991; Stewart, 1991).

**2.2 Some important studies:** HR practices have significant impact on organisationally relevant performance measures (Huselid, 1995; Arthur, 1994). The relationship between some HR practices and organisational performance are contingent on firm strategy (Delery & Doty, 1996). Those firms which used 7 best practices found 1% to 3% of variations in financial performance (Huselid, 1995). HRM will face ceiling effect in building competitive advantage, which comes from Strategic HRM and not from Technical HRM. The Technical HRM gives limited results in terms of better performance, whereas there is much more meaningful relationship between SHRM and the firms' performance (Huselid, Jackson & Schuler, 1997).

The research of Huselid (1995) used the concept of high-performance work systems linked to organizational performance. Human Resource managers must therefore align some key organisational practices with business strategy for better performance (Jackson & Schuler, 1995). Study of Strategic HRM has to take in to account various other internal and external variables. India has considerable room to improve its business environment (Tokuoka, 2012). A lack of skilled workers can constrain firms ability to carry-out their business strategy, developing and introducing improved products, services, processes and marketing; and including expansion into new markets (Stevens, 2012). There is a meaningful relationship between organizational structure and strategic knowledge management (Akbari, Eslampanah, Baharestan & Mohammadi, 2012). Organizational culture is based on trust raises people to interact and share knowledge with others and it has a great impact on job satisfaction, stress, organizational commitment and productivity (Akbari, Eslampanah, Baharestan & Mohammadi, 2012).

Budhwar and Sparrow (2002) proposed four HR strategies. First is '*talent acquisition*' which emphasises attracting the best human talent from external sources. Second is '*effective resource allocation*' that maximises the use of existing human resources by always having the right person in the right place at the right time. Third is '*talent improvement*' that maximises the talents of existing employees by continuously training them and guiding them in their jobs and career. Fourth is '*cost reduction*' which reduces personnel costs to the lowest possible level. Budhwar and Khatri (2001) examined the impact of these HR strategies on recruitment, compensation, training and development and employee communication practices in matched Indian and British firms. The impact of these four HR strategies varied significantly in the two samples, confirming the context specific nature of HRM. On the same pattern, there is a need to identify and examine the impact of other HR strategies such as high commitment, paternalism, etc. Such HR issues, which have a significant impact on a firm's performance.

Karia and Ahmad (2000) states that Employee participation improves employees morale and skills, which makes them more qualified employees. It is claimed by Bordin et. al. (2007); Spreitzer (1996) that employee participation can increase the psychological empowerment of employees which enable the individual to improve personal capabilities to contribute maximally in organization performance to improve status belongingness. There are some non-monetary needs as creativity, achievement, and the desire for respect can be achieved through participation. Also it is argued by Spreitzer (1996) that this environment is shaped by positive components like acknowledgement, creativity and contribution which leads to these outcomes.

Steers and Porter (1987) states that effective participation can increase the amount and accuracy of information employees have about work practices which also leads to, increase in the level of owning their work practices themselves. Employee participation improves communication and cooperation. Employees working in a participative practice, supervise themselves, which reduces the need for managers and so cuts the overhead labour costs.

Participation increases loyalty and trust within the organization because in a setting where participation and rewards take place, the group may enforce individuals to obey the taken decisions (Lawler et al, 2006). On the other hand, Lewis et al argues about the negative outcomes of participation. The positive outcomes are narrated here in employee involvements in a company in terms of Performance, Effectiveness, satisfaction and flexibility, however, it is also noted that the outcomes are most likely to be enjoyed in the long run for the benefit of the company and its employees. It is narrated by Kathuria et. al. (2010) that employee involvement has an impact on firm performance. Another study conducted by Jayaram et al. (1999) suggested that "deploying strategy-specific bundles of human resource management practices has a significant influence on manufacturing performance, specifically, corresponding dimensions of performance".

Employee involvement definitely creates positive attitudes towards the organisation. It is stated by (Guest and Pecci, 1992) that the key goal is therefore to acquire a high degree of organizational commitment. Another point to consider by (Magjuka, 1993) here is that employee can make suggestions by involving decision making for the improvements in performance but executives have the ultimate decision making power, which they have the right either to implement or veto suggestions made by employees.

It is stated by Vroom and Jago (1988) that when consultation and information are involved which really shows the positive effects of employee involvement on performance and satisfaction. Due to the above literature review it is clear that, the positive outcomes are explained in terms of performance, effectiveness, satisfaction and flexibility, however, it is noted that the positives outcomes are most likely to be enjoyed in the long run.

**2.3 Researches in Indian context:** Prior to the liberalization of the Indian economy, a small group of large-sized family owned Indian firms invested mostly in neighbouring developing countries, opting for Greenfield investments in joint ventures (Thite & Dasgupta, 2011). There is not much work in Indian context in this area. Some researchers have focused on Indian context and tried to see applicability of emerging theories in India (Balasubramanian, 1995; Budhwar & Sparrow, 1997; Ramaswamy & Schiphorst, 2000; Budhwar & Khatri, 2001). One of the conclusions drawn by the researchers is the context specific nature of HRM. It also showed that a shift is taking place in the pattern of HRM practices in Indian organisations from traditional administrative type to a more strategic and proactive type.

Another literature review suggests that employee involvement has an impact on flexibility. Statistical data collected by Kathuria and Partovi (1999) in the study from 483 individuals in 99 different manufacturing companies confirms the "the notion of congruent work force management practices that higher performing manufacturing managers use in environments characterized by a high emphasis on manufacturing flexibility". However, the study was done by Kathuria and Partovi, 1999, the use of problem solving, clarifying, monitoring and informing by manufacturing managers does not have any significant effect on their performance when the situation is characterized by flexibility.

**2.4 Relationship between HRM and Firm Performance:** The concept of 'fit' has emerged as central to many attempts to theorise about strategic HRM (Richardson and Thomson, 1999). 'Internal fit' is the case when the organisation is developing a range of interconnected and mutually reinforcing HRM policies and practices. This implies that there exists a set of 'best HR practices' that fit together sufficiently so that one practice reinforces the performance of the other practices. 'Synergy' is the key idea behind internal fit. Synergy can be achieved if the combined performance of a set of HRM policies and practices is greater than the sum of their individual performances. In this regard, the importance of the different HRM policies and practices being mutually reinforcing is emphasised (Katou and Budhwar, 2006; 2007).

'External fit' is the case when the organisation is developing a range of HRM policies and practices that fit the business's strategies outside the area of HRM. This implies that performance will be improved when the right fit, or 'match', between business strategy and HRM policies and practices is achieved. As discussed above, specific HRM policies and practices are needed to support generic business strategies, for example Porter's cost leadership, innovation or quality enhancement (Schuler and Jackson, 1987). Similarly, Miles and Snow (1984) relate HRM policies and practices with competitive product strategies (defenders, prospectors, analysers, reactors).

### **3. PARAMETERS OF STRATEGIC HUMAN RESOURCE MANAGEMENT**

#### **3.1 HR Planning**

Human Resource Planning (HRP) is the process of forecasting the future human resource requirements of the organization and determining as to how the existing human resource capacity of the organization can be utilized to fulfil these requirements. It focuses on the basic economic concept of demand and supply in context to the human resource capacity of the organization. HRP helps the management of the organization in meeting the future demand of human resource in the organization with the supply of the appropriate people in

appropriate numbers at the appropriate time and place. Further, it is only after proper analysis of the HR requirements can the process of recruitment and selection be initiated by the management. Also, HRP is essential in successfully achieving the strategies and objectives of organization. In fact, with the element of strategies and long term objectives of the organization being widely associated with human resource planning these days, HR Planning has now become Strategic HR Planning.

HR Planning helps the management in strategic decisions in the following ways:

- HR managers are in a stage of anticipating the workforce requirements rather than getting surprised by the change of events victim of dynamic nature of business environment.
- Prevent the business from falling into the trap of shifting workforce market, a common concern among all industries and sectors
- Work proactively as the expansion in the workforce market is not always in conjunction with the workforce requirement of the organization in terms of professional experience, talent needs, skills, etc.
- Organizations in growth phase may face the challenge of meeting the need for critical set of skills, competencies and talent to meet their strategic objectives so they can stand well-prepared to meet the HR needs
- Considering the organizational goals, HR Planning allows the identification, selection and development of required talent or competency within the organization.

An HR Planning process simply involves the following four broad steps:

- *Current HR Supply:* Assessment of the current human resource availability in the organization market is the foremost step in HR Planning. It includes a comprehensive study of the human resource strength of the organization in terms of numbers, skills, talents, competencies, qualifications, experience, age, tenures, performance ratings, designations, grades, compensations, benefits, etc. At this stage, the consultants may conduct extensive interviews with the managers to understand the critical HR issues they face and workforce capabilities they consider basic or crucial for various business processes.
- *Future HR Demand:* Analysis of the future workforce requirements of the business is the second step in HR Planning. All the known HR variables like attrition, lay-offs, foreseeable vacancies, retirements, promotions, pre-set transfers, etc. are taken into consideration while determining future HR demand. Further, certain unknown workforce variables like competitive factors, resignations, abrupt transfers or dismissals are also included in the scope of analysis.
- *Demand Forecast:* Next step is to match the current supply with the future demand of HR, and create a demand forecast. Here, it is also essential to understand the business strategy and objectives in the long run so that the workforce demand forecast is such that it is aligned to the organizational goals.
- *HR Sourcing Strategy and Implementation:* After reviewing the gaps in the HR supply and demand, the HR Consulting Firm develops plans to meet these gaps as per the demand forecast created by them. This may include conducting communication programs with employees, relocation, talent acquisition, recruitment and outsourcing, talent management, training and coaching, and revision of policies. The plans are, then, implemented taking into confidence the managers so as to make the process of execution smooth and efficient. Here, it is important to note that all the regulatory and legal compliances are being followed by the consultants to prevent any untoward situation coming from the employees.

### **3.2 Recruitment and Hiring**

The key to successful recruiting of new employees is the development of a systematic process for developing job descriptions, generating a pool of candidates and selecting the right candidate. The following are the major steps involved:

- Develop a job analysis to identify skills, knowledge and abilities for each position.
- Create your job description and selection criteria based on the most current information available and modify when necessary.
- Develop your recruitment plan in terms of promoting the job opening and generating a pool of candidates.
- Develop a process for interviewing candidates.
- Create a process for selecting the best candidates.

### **3.3 Training & Development**

Human resource management regards training and development as a function concerned with organizational activity aimed at bettering the job performance of individuals and groups in organizational settings by enabling the HR coping with the changing methods, styles and techniques of production.

Training and development is vital part of the human resource development. It is assuming ever important role in wake of the advancement of technology which has resulted in ever increasing competition, rise in customer's expectation of quality and service and a subsequent need to lower costs. It is also become more important globally in order to prepare workers for new jobs. In the current write up, we will focus more on the emerging need of training and development, its implications upon individuals and the employers.

Noted management author Peter Drucker said that the fastest growing industry would be training and development as a result of replacement of industrial workers with knowledge workers. In United States, for example, according to one estimate technology is de-skilling 75 % of the population. This is true for the developing nations and for those who are on the threshold of development. In Japan for example, with increasing number of women joining traditionally male jobs, training is required not only to impart necessary job skills but also for preparing them for the physically demanding jobs. They are trained in everything from sexual harassment policies to the necessary job skills. Training is also necessary for the individual development and progress of the employee, which motivates him to work for a certain organization apart from just money. We also require training update employees of the market trends, the change in the employment policies and other things.

The following are the two biggest factors that contribute to the increased need to training and development in organizations:

- 3.3.1 Change: The word change encapsulates almost everything. It is one of the biggest factors that contribute to the need of training and development. There is in fact a direct relationship between the two. Change leads to the need for training and development and training and development leads to individual and organisational change, and the cycle goes on and on. More specifically it is the technology that is driving the need; changing the way how businesses function, compete and deliver.
- 3.3.2 Development: It is again one the strong reasons for training and development becoming all the more important. Money is not the sole motivator at work and this is especially very true for the 21st century. People who work with organisations seek more than just employment out of their work; they look at holistic development of self. Spirituality and self-awareness for example are gaining momentum world over. People seek happiness at jobs which may not be possible unless an individual is aware of the self. At ford, for example, an individual can enrol himself / herself in a course on 'self-awareness', which apparently seems inconsequential to ones performance at work but contributes to the spiritual well-being of an individual which is all the more important.

### **3.4 Performance appraisal**

The performance appraisal is the process of assessing employee performance by way of comparing present performance with already established standards which have been already communicated to employees, subsequently providing feedback to employees about their performance level for the purpose of improving their performance as needed by the organization. Employees are assumed performing well when they are productive. Productivity implies both concern for effectiveness and efficiency, effectiveness refers to goal accomplishment. However it does not speak of the costs incurred in reaching the goal. That is where efficiency comes in. Efficiency evaluates the ratio of inputs consumed to outputs achieved. The greater the output for a given input, the greater is the efficiency. It is not desirable to have objective measures of productivity such as hard data on effectiveness, number of units produced, or percent of crimes solved etc. and hard data on efficiency (average cost per unit or ratio of sales volume to number of calls made etc.).

In addition to productivity as measured in terms of effectiveness and efficiency, performance also includes personnel data such as measures of accidents, turnover, absences, and tardiness. That is a good employee is one who not only performs well in terms of productivity but also minimizes problems for the organization by being to work on time, by not missing days, and by minimizing the number of work-related accidents.

Appraisals are judgments of the characteristics, traits and performance of others. On the basis of these judgments we assess the worth or value of others and identify what is good or bad. In industry performance appraisal is a systematic evaluation of employees by supervisors. Employees also wish to know their position in the organization. Appraisals are essential for making many administrative decisions: selection, training, promotion, transfer, wage and salary administration etc. Besides they aid in personnel research. Performance Appraisal thus is a systematic and objective way of judging the relative worth of ability of an employee in performing his task. Performance appraisal helps to identify those who are performing their assigned tasks well and those who are not and the reasons for such performance.

Performance Appraisal can be done with following objectives in mind:

- To maintain records in order to determine compensation packages, wage structure, salaries raises, etc.
- To identify the strengths and weaknesses of employees to place right men on right job.

- To maintain and assess the potential present in a person for further growth and development.
- To provide a feedback to employees regarding their performance and related status.
- To provide a feedback to employees regarding their performance and related status.
- It serves as a basis for influencing working habits of the employees.
- To review and retain the promotional and other training programmes.

### **3.5 Compensation**

Compensation is all of the rewards earned by employees in return for their labour. This includes direct financial compensation consisting of pay received in the form of wages, salaries, bonuses and commissions provided at regular and consistent intervals. Compensation is the results or rewards that the employees receive in return for their work.

Compensation includes payments like bonuses, profit sharing, overtime pay, recognition rewards and sales commission etc. Compensation can also include non-monetary perks like a company-paid car, company-paid housing and stock opportunities. Compensation is a vital part of human resource management, which helps in encouraging the employees and improving organizational effectiveness.

From a manager's point of view, the compensation package offered to a company's employees is essential not only because it costs money, but because it is likely to be the primary reason the employees work for the firm. Compensation packages with good pay and advantages can help attract and retain the best employees. A quick survey of employees about compensation is likely to expose an expectation that wages are fair and cover basic living expenses, keep up with inflation, leave some money for savings (perhaps for retirement) and leisure, increment over time. A company's compensation scheme also informs a great deal about the firm's values and cultures. Employees often look at what a company pays rather than what it says. In many aspects, people behave as they are rewarded. A compensation scheme projects what the company expects of its employees. For example, if quality is an essential value, then it should be implemented through some element of the total compensation system.

The objectives of compensation policy may be identified as under:

- Allure suitable staff.
- Keep qualified personnel.
- Develop reward structures that are equitable with logical and fair pay relationships between differently valued jobs.
- Manage pay structures to mirror inflationary effects.
- Assure that rewards and salary costs handle changes in market rates or organizational change.
- Appraise performance, duty, and loyalty, and provide for progression.
- Abide with legal requirements.
- Maintain compensation levels and differentials under review and control salary or wage costs.

### **3.6 Employees' Awareness and Participation**

Employee Awareness is a level to which an employee knows certain policies, situation, documents or any other important information. Policy of systematically increasing of *employee awareness* is an important element of employee engagement strategy. Employee awareness has two important sides:

- Fostering of integrity in the staff: sharing and nurturing corporate culture and ethics, improving communications and commitment, code of conduct, etc.
- Ameliorating practical knowledge on the enacted corporate policies and workplace procedures, comprising routine operations, business processes, emergency actions, etc.

Employee participation is the process whereby employees are involved in decision making processes, rather than simply acting on orders. Employee participation is part of a process of empowerment in the workplace. Employee involvement is not the goal nor is it a tool, as practiced in many organizations. Rather, it is a management and leadership philosophy about how people are most enabled to contribute to continuous improvement and the ongoing success of their work organization. Employee involvement is not the goal nor is it a tool, as practiced in many organizations. Rather, it is a management and leadership philosophy about how people are most enabled to contribute to continuous improvement and the ongoing success of their work organization. This involvement increases ownership and commitment, retains your best employees, and fosters an environment in which people choose to be motivated and contributing. How to involve employees in decision making and continuous improvement activities is the strategic aspect of involvement and can include such methods as suggestion systems, manufacturing cells, work teams, continuous improvement meetings, Kaizen (continuous improvement) events, corrective action processes, and periodic discussions with the supervisor.

Some studies provide a continuum for leadership and involvement that includes an increasing role for employees and a decreasing role for supervisors in the decision process. The continuum includes this progression.

- *Tell*: the supervisor makes the decision and announces it to staff. The supervisor provides complete direction.
- *Sell*: the supervisor makes the decision and then attempts to gain commitment from staff by "selling" the positive aspects of the decision.
- *Consult*: the supervisor invites input into a decision while retaining authority to make the final decision herself.
- *Join*: the supervisor invites employees to make the decision with the supervisor. The supervisor considers her voice equal in the decision process.
- *Delegate*: the supervisor turns the decision over to another party.

### **3.7 Exit Process**

Employee exit management or Off-boarding describes the consciously designed separation process when an employee leaves the company, for which he has previously worked within the scope of a work or service contract. The company should have a formal policy regarding exit process. Exit interviews should be reserved for voluntary separations. Exit interviews to be extended to all departing employees and not just key performers or long-timers. Exit interviews may be conducted for layoffs and terminations as well. Information gathered through exit interviews should be used for strategic planning.

## **4. PARAMETERS OF FIRM PERFORMANCE**

### **4.1 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. The following factors have been identified to measure the financial performance:

- Reduction in additional capital investment.
- Increase in Return on Investment (ROI).
- Increase in competitive image of organization.
- Increase in total sales of firm.
- Reduction in operating cost and energy consumption.
- Increase in overall profits of the firm.

### **4.2 Strategic Performance**

Performance Management is a strategic and integrated approach to delivering sustained success to organizations by improving the performance of the people who work in them and by developing the capabilities of teams and individual contributors. The following factors have been identified to measure the strategic performance:

- Increase in employee empowerment.
- Increase in employee satisfaction related to job.
- Increase in employee satisfaction related to compensation.
- Increase in employee satisfaction related to career growth.
- Reduction in total process defects and rejections.
- Reduction in customer warranty problems.
- Increase in customer loyalty.
- Increase in customer order compliance.
- Increase in customer satisfaction.
- Increase in market share

## **5. CONCEPTUAL MODEL**

From the above discussion a conceptual model has been derived which represents the parameters of both SHRM and firm performance.

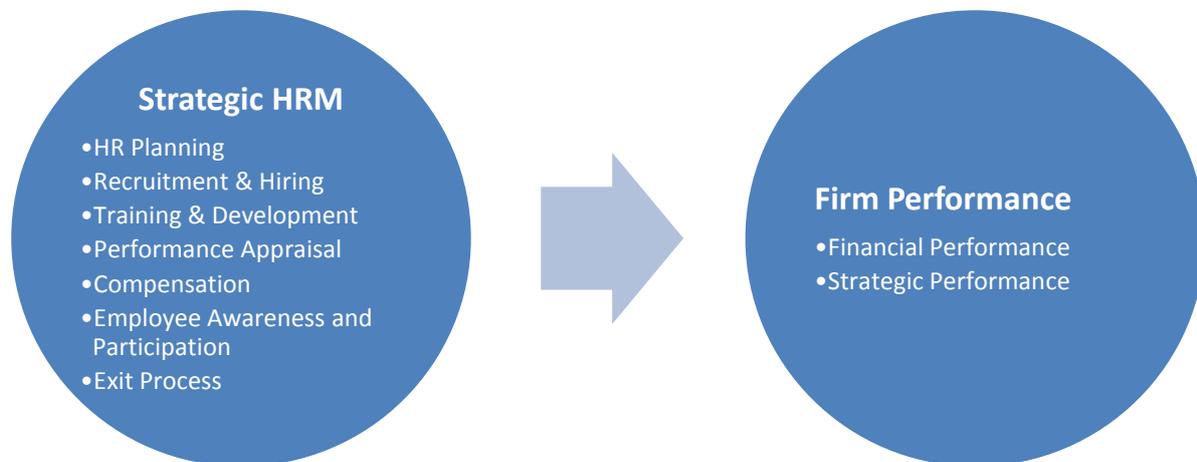


Figure. 1. Conceptual Model

## 6. CONCLUSION

A selective review of available literature in the field brings out a few points relating to SHRM in a logical manner. These include lack of understanding of what to expect and what not to expect from SHRM, and the knowledge of enhancing firm performance for a given organization.

This review is an attempt in this direction in the Indian context to cover a few of these points, particularly those relating to organizational and managerial issues of strategically managing human resource for enhancing firm performance in manufacturing industry. Based on the literature reviewed above, a few important parameters concerning SHRM and firm performance have been identified. Firstly, there are gaps in this area of studies so far as taking other attributes of organisation, while linking HR practices with organisational performance is studied. Secondly, there are very few studies that have tested emerging theories and approaches in Indian context as most of the studies are in western organisations. Thirdly, the methodologies adopted in many such studies are focused on HR practices as apparent in organisation rather than capturing the deep-rooted HR strategy and its linkage with other dependent variables. Finally studies are primarily in service sector and not much work is available in wide spectrum of manufacturing sector industry where human resources are definitely more critical to the performance compared to service sector.

This paper provides valuable insights into the SHRM practices in Indian organizations in general and firm performance in particular. Consistent with prior research, we find that institutional pressures have influenced the adoption of SHRM practices in the post liberalization scenario in India. The study demonstrates that organizations adopt SHRM practices for a variety of reasons. In the post liberalization scenario in India, the hyper competitive business environment has presented a number of challenges and opportunities, both external and internal. External challenges and opportunities being deregulation, governmental incentives, pressure from regulatory authorities to name a few. External challenges and uncertainties are barriers that are difficult to control. Internal challenges like dramatic advances in technology, changing of organizational forms necessitate redesigning of SHRM practices like recruitment and selection, promotion, retraining and redeployment, performance appraisal and rightsizing (Som, 2002). The globalization of business brings with it a global workforce and global practices that need to be adopted and diffused for the global work place. It is true that managerial innovation adoption in organizations takes place at a slow pace and some innovations are slower than others. Potential payoffs, cost of adoption of innovation, power relations and social factors hinder adoption process in organizations and more so in organizations in the emerging economy. Successful adoption, diffusion and implementation of SHRM practices can be critical determinants of organizational success and effectiveness. When innovative SHRM practices are adopted, they may be able to provide a sustainable competitive advantage depending upon how creatively and effectively they are interpreted and executed.

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