

## Strategic Human Resource Management Practices and Organisational Performance in Indian Manufacturing Companies

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**Abstract:** The study examines the relationship between strategic HRM practices and organisational performance in the Indian manufacturing sector adopting the best practices or universalistic approach. The guiding assumptions of strategic HRM imply a universalistic approach. But studies done from the contingency and configurational perspectives suggest that these assumptions may be unjustified. Furthermore, most empirical studies have been conducted in a United States or United Kingdom context, leaving perhaps a national bias. Therefore, in this study data from India are presented to test whether the basic strategic HRM model holds. To explore the black box mediating between human resource management practices and performance, it is hypothesized that HRM outcomes mediate the relationship between strategic HRM practices and organisational performance. Data were collected through a questionnaire survey from a sample of companies based in the city of Chennai, drawn from different sectors of the manufacturing sector. The strategic HRM variables are found to have a positive effect on both HRM outcomes and organisational performance and HRM outcomes partially mediate the relationship between strategic HRM practices and organisational performance. Training and internal career opportunities are strategic HRM practices that affect both HRM outcomes and organisational performance.

**Key words:** Relationship, strategic HRM, performance, variables, positive effect, Chennai

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### INTRODUCTION

The concept of strategic human resource management evolved over the late 1980's and the 1990's with an increased emphasis on the linkage of human resource management with the business strategy of the firm. Strategic human resource management and its contribution to organisational performance is now consolidated as one of the most important research questions in the field of human resource management.

Among Human Resource Management (HRM) practitioners, the term 'strategic HRM' is used broadly to signal the view that HRM activities should contribute to business effectiveness. Strategic HRM bridges business strategy and HRM and focuses on the integration of HR with the business and its environment. Strategic HRM has grown out of researcher's desire to demonstrate the importance of HR practices for organisational performance (Delery and Doty, 1996).

Two guiding assumptions of strategic HRM are that effective HRM requires an understanding of and integration with an organization's strategic objectives and effective HRM leads to improved organisational performance (Schuler and Jackson, 2005).

Since, its emergence, strategic human resource management has been the focus of debate over whether it exists in reality or is merely rhetoric. Although, supported by theoretical work and empirical evidence,

strategic HRM still needs to prove its contribution in a measurable way to organisational performance (Martell and Carroll, 1995; Budhwar and Khatri, 2001; Andersen *et al.*, 2007). Despite the efforts into strategic HRM research, there is a debate as to whether, organizations actually practice strategic HRM and whether it adds value to the bottom line.

Literature highlights that most of the studies examining the relationship between HRM and organisational performance have been conducted in the United States and the United Kingdom (Huselid, 1995; Guest *et al.*, 2003). To fill this gap and to alleviate the United States/United Kingdom bias in HRM performance research, it is important to conduct studies in emerging economies such as India.

The literature points out that the link between HRM and organisational performance is considered like a 'black box' and it is important to consider the intervening steps in the HRM performance relationship or to consider the variables mediating or moderating the endpoint variables (Katou and Budhwar, 2006). In the present study, it is hypothesized that HRM outcomes mediate the relationship between strategic HRM practices and organisational performance.

According to Delery and Doty (1996) three approaches have been used in previous research to examine the effectiveness of strategic HRM practices on firm performance: universalistic, contingent and

configurational. Richardson and Thompson (1999) redefined the first two approaches as best practice and best fit and retained the word configurational, meaning the use of “bundles” as the third approach. The main proposition in the universalistic perspective is that if successfully implemented, certain HRM practices always contribute to higher organizational performance. The contingency perspective maintains that the relationship between HRM practices and organizational performance is contingent on and moderated by various contextual factors external and internal to firms. The configurational perspective maintains that the relationship between HRM practices and performance is moderated by interactions among the individual HRM practice variables.

The present study adopts the best practices or universalistic approach to examine strategic HRM practices and their influence on performance. The best practice approach is based on the assumption that there is a set of best HRM practices and that adopting them will inevitably lead to superior organisational performance. The practices will be a source of unique and sustainable advantage as they result in skills and knowledge that are largely organization-specific and are therefore difficult to imitate (Barney, 1991; Wall and Wood, 2005). These practices are additive and enhance performance regardless of circumstance (Pfeffer, 1994).

The guiding assumptions of strategic HRM imply a universalistic approach. But studies done from the contingency and configurational perspectives suggest that these assumptions may be unjustified. Furthermore, most empirical studies have been conducted in a United States or United Kingdom context, leaving perhaps a national bias. Therefore, in this study data from India are presented to test whether the basic strategic HRM Model holds.

The present study examines the relationship between strategic HRM practices and organisational performance in the Indian context. There have been very few systematic evaluations of the claims that strategic HRM is linked to organisational performance in India, especially in the manufacturing sector. By carrying out a questionnaire survey in manufacturing sector companies in Chennai City, this study seeks to explore links between strategic HRM practices and organisational performance. It is hypothesized that HRM outcomes mediate the relationship between strategic HRM practices and organisational performance. The direct link between strategic HRM practices and performance is also studied.

Bloom and Reenen (2010) have undertaken a large survey research programme in manufacturing firms to systematically measure management practices across firms, industries and countries. They found significant differences in management practices across countries. The United States firms scored highly in management practices while Greek, Chinese and Indian firms were the

worst performers. Their findings also revealed that firms that apply accepted management practices well perform significantly better than those that do not. In the light of these recent findings, data from India regarding management practices is important and can provide insights in understanding the link between management practices and performance.

Indian economy, after decades of confinement, has experienced a revolutionary change. The liberalization of Foreign investment in India during the 1990's facilitated the integration of Indian economy with the global economy. The reforms during the 1990's made changes such as reduction in tariff barriers, removal of barriers to entry in industry, removal of controls in the financial sector, encouragement to Foreign investment and rationalization of tax structure. Liberalization has resulted in sudden and increased levels of competition for Indian organizations from multinational organizations, globalization and internationalization of domestic businesses, unbridled imports, incentives to export, demographic changes in the employee profile, retraining and redeployment of workforce, focus on performance appraisal and performance based incentive systems and rightsizing (Budhwar and Sparrow, 1997; Som, 2003). Today's business environment in the Indian context after the initiation of economic reforms in 1991 requires that HR function plays a strategic role. This strategic perspective to HR represents a shift from the traditional view of HRM towards a firm level emphasis with focus on HR's contribution to firm performance (Singh, 2003).

The decision to study the manufacturing sector is due to several reasons. Manufacturing is the most dominant sector within Indian industry. Its share in GDP remained in the 14-16% range during the period 1991-92 and 2011-12 (Government of India, 2012). India is a young country with over 60% of population in the working age group of 15-59 years. India will have to create a large number of jobs between now and 2025 if it has to exploit its demographic dividend. It is only the labour intensive manufacturing sector that has the capability to generate employment in adequate numbers to absorb the larger labour pool. There is potential for the sector to account for 25-30% of the country's GDP and create up to 90 million domestic jobs by 2025. Given the lack of systematic studies in strategic HRM practices in the manufacturing sector, it is crucial that immediate action is taken to examine the relationship between strategic HRM practices and organisational performance.

This study was carried out in the city of Chennai. Chennai is the fourth largest metropolitan area in India and is the capital of the Southern coastal state of Tamil Nadu. Chennai is one of the fastest growing cities in the world. It has a diversified economic base anchored by the manufacturing industry. Chennai accounts for 60% of the country's automotive exports and is sometimes referred to

as ‘the Detroit of India’. Chennai is also home to many telecom and electronics manufacturers and chemicals, pharmaceuticals and biotechnology companies.

**Literature review:** The body of research examining the relationship between HR practices and firm performance has grown exponentially over the past few years. The seminal work in this area was produced by Huselid (1995) who examined the relationship between HR practices and corporate turnover, profitability and market value. This was soon followed by similar research conducted by Delaney and Huselid (1996), Delery and Doty (1996), Huselid *et al.* (1997) and MacDuffie (1995). Most of the research which followed on HRM and performance has been undertaken in the United States and United Kingdom. The question which arises is whether United States oriented models, however, appropriate they might be for, the United States, hold in other contexts. Although, there have been a few investigations in emerging economies (Bae and Lawler, 2000; Som, 2007; Akhtar *et al.*, 2008) there is a need for more studies to alleviate the United States bias in HRM performance research.

Early studies in the area of HRM in India mainly analysed issues related to the existence and nature of personnel function in India, challenges before the HR function and the changing role of the HR function in the new economic environment. Recently there has been interest in understanding the linkage between HRM and performance in the Indian context (Budhwar and Sparrow, 1997; Budhwar and Boyne, 2004; Singh, 2003; Rao *et al.*, 2000; Paul and Anantharaman, 2003). With a questionnaire survey of 137 companies, Budhwar and Sparrow (1997) analysed the levels of integration of human resource management in the corporate strategy and devolvement of responsibility for HRM to line managers in India. Budhwar and Khatri (2001) examined the impact of 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. Singh (2003) from his survey of 84 companies found a significant relationship between strategic HR orientation index and firm performance. Paul and Anantharaman (2003) in their study of 35 Indian software companies determined, developed and tested a causal model linking HRM with organizational performance through an intervening process. They observed that not even a single HRM practice has direct causal connection with organizational financial performance, though HRM practices have an indirect influence on the operational and financial performance of the organization. In their comparative study of 137 large manufacturing firms

Budhwar and Boyne (2004) differentiated the HR practices in public sector and private sector companies in India. There have been very few studies in India, so far which have examined the main strategic HRM Model (the universalistic perspective) and its association with organisational performance. The present study aims to fill this gap and look at strategic HRM performance link from the point of view of an emerging economy.

**Research framework and hypothesis:** Figure 1 illustrates the research framework of the study. The framework is adapted from Boselie *et al.* (2005), Katou and Budhwar (2006), Paauwe and Richardson (1997) and Purcell *et al.* (2003) and which argues that HRM outcomes mediate the relationship between HRM activities and firm performance.

A number of human resource management practices that contribute to organisational performance across different organisations have been identified (Huselid, 1995). In a literature review, Delaney and Doty (1996) identified seven such practices that have been consistently considered strategic HRM practices. They defined strategic HRM practices as those that are “theoretically or empirically related to overall organisational performance”. These practices include internal career opportunities, formal training systems, results-oriented appraisals, employment security, participation, job descriptions and profit sharing. These seven practices along with selective staffing and communication were used in the study as measures of strategic HRM practices.

**Strategic HRM practices and HRM outcomes:** According to the resource-based view, HRM practices play an important role in building the organisation’s human capital pool by developing its rare, inimitable and non-substitutable internal resources. HRM policies have a direct impact on employee attributes such as skills, attitudes and behaviour, the HRM outcomes which are subsequently translated into improved organisational performance.

- H<sub>1</sub>: a positive relationship exists between strategic HRM practices and HRM outcomes

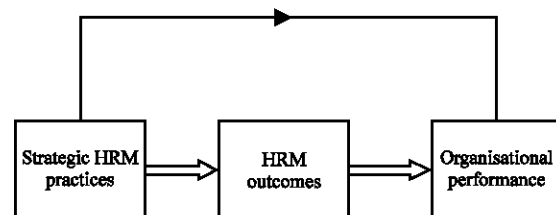


Fig. 1: Research framework

**Strategic HRM practices and organisational performance:** HRM practices influence organisational performance indirectly through HRM outcomes. However, a direct effect of HRM policies on organisational performance may also be present. Huselid and Becker (1996) support that a causal relationship exists from HRM policies to organisational performance. Delery and Doty (1996) assume that the relationship between HRM policies and organisational performance is linear and that the effect of the HRM policies on organisational performance is additive (Becker and Gerhart, 1996).

- $H_2$ : a positive relationship exists between strategic HRM practices and organisational performance

**HRM outcomes mediate the relationship between Strategic HRM practices and organisational performance:** HRM policies encompasses mediating changes in employee's abilities, motivations and opportunities to participate that positively influence organisational performance, illuminating thus the 'black box' in the HRM-performance relationship (Boselie *et al.*, 2005; Purcell and Hutchinson, 2007). In order to bring lasting and better results and to significantly contribute to the success of their organisation, employees must be motivated, committed and satisfied.

- $H_3$ : HRM outcomes mediate the relationship between strategic HRM practices and organisational performance

## MATERIALS AND METHODS

To investigate strategic HRM practices and their impact on organisational performance, a questionnaire survey was conducted on a sample of companies based in Chennai drawn from different sectors of the manufacturing industry during the period January 2011 to September 2011. Three sectors chosen for the study were transport equipment, machinery and equipment and chemicals. The 300 companies present in Chennai falling in these product groups were identified for the study. Each firm included in the sample had at least 50 employees. The questionnaire was taken personally to each firm. The 206 usable questionnaires in terms of completeness were received. Table 1 shows the characteristics of the sample.

To pre-test the questionnaire, twenty human resource executives from the Chennai-based manufacturing companies were chosen. The questionnaires were first administered to these respondents. Issues assessed during the pilot test were face validity, instructions and statement clarity,

Table 1: Sample characteristics

Categories	Frequency	Percentage
<b>Firm age (years)</b>		
3-10	34	16.5
11-20	66	32.0
21-30	69	33.5
>31	37	18.0
<b>Firm size (employees)</b>		
<100	32	15.5
101-500	108	52.4
501-1000	46	22.3
>1000	20	9.8
<b>Sector</b>		
Transport equipment	93	45.1
Machinery and equipment	69	33.5
Chemicals	44	21.4

questionnaire layout and length. Improvements were made to the questionnaire based on the respondent's comments.

The final questionnaire included items for a number of different scales. A number of items were reverse scored. The organisational performance section was left towards the end of the questionnaire so as to limit the possibility of respondents rationalizing their answers.

The survey questionnaire was completed by one person responsible in each firm for the HRM function. This is a limitation of the study as relationships between variables could be influenced by common method variance. Podsakoff and Organ (1986) recommend that researchers should at least report results from a test of single-factor hypothesis as an explanation of inter-correlation of the variables. Harman's one-factor test on SHRM practices showed that the first factor accounted for only 38.707% of the covariance among measures, suggesting that common method variance is not a severe issue (Harman, 1976).

## Measures

**Strategic HRM practices:** This questionnaire elicits information on background characteristics of the organisation and nine strategic HRM practices related to internal career opportunities, training, result-oriented appraisals, employment security, participation, job descriptions, profit sharing, selective staffing and communication. The first seven practices were assessed using items adapted from Delery and Doty (1996)'s survey instrument. Selective staffing was assessed using five items adapted from Snell and Dean (1992).

**HRM outcomes:** Multiple HRM outcome variables were used pertaining to employee skills (competence, creativity, problem solving), employee attitudes (motivation, commitment, satisfaction) and employee behaviours (retention, presence). The 13 item scale was based on Katou and Budhwar (2006).

**Organisational performance:** Subjective measurement for organisational performance was used. Organisational performance was measured using a 12 item scale based on Delaney and Huselid (1996) and Katou and Budhwar (2006). Perceptual measures have been used in several other studies (Delaney and Huselid, 1996; Youndt *et al.*, 1996). Delaney and Huselid (1996) observed that various studies have shown strong relationships between perceptual and hard measures of organisational performance.

**Control variables:** The control variables used were age of the firm, size of the firm, union presence and industry sector.

## RESULTS AND DISCUSSION

**Factorial validity of strategic HRM practices:** The items measuring strategic HRM practices were factor-analysed using principal component factor analysis followed by varimax rotation. This analysis resulted in 9 dimensions of strategic HRM practices accounting for 78.11% variance (Table 2). Factor 1 consists of items capturing aspects of staffing practices such as the amount of resources spent on staffing. This factor accounted for 12.54% of the

variance ( $\alpha = 0.91$ ). Factor 2 contains items reflecting communication and information sharing practices within the organisation. It explained 10.63% of variance ( $\alpha = 0.90$ ). Factor 3 which measures policy on employment security, accounted for 9.42% of the variance ( $\alpha = 0.89$ ). Factor 4 consists of items that reflect frequency and extensiveness of training programs. This factor accounted for 8.93% of the variance ( $\alpha = 0.88$ ). Factor 5 includes items that indicate the extent to which job descriptions are comprehensive and up-to-date, explaining 8.90% of the variance ( $\alpha = 0.89$ ). Factor 6 contains items that reflect the extent to which supervisors recognize career aspirations of their subordinates and the extent to which employees are provided with clear career paths and promotional opportunities. This factor explained 8.70% of the variance ( $\alpha = 0.88$ ). Factor 7 contains items on employee participation in decision making, superior-subordinate communication and opportunities for suggesting improvements. It explained 8.65% of the variance ( $\alpha = 0.90$ ). Factor 8 represents outcome-based performance appraisals, accounting for 5.27% of variance ( $\alpha = 0.91$ ). Factor 9 measures the prevalence of stock ownership and profit sharing and accounted for 5.08% of the variance ( $\alpha = 0.86$ ).

Table 2: Factor structure of strategic human resource management practices

Parameters	1	2	3	4	5	6	7	8	9
<b>Selective staffing</b>									
Our company spends a great amount of money in recruiting top talents	0.858	0.086	0.079	-0.101	0.071	0.117	-0.054	0.111	-0.023
Our organisation makes every effort to select the best person for a given job	0.834	0.148	0.052	0.086	0.079	0.061	0.123	-0.108	0.111
Many people are involved in the selection decisions	0.834	0.079	0.036	-0.030	0.080	0.059	-0.004	0.128	-0.012
In recruiting, our organisation emphasizes the potential of new hires	0.825	0.090	0.101	0.160	0.054	0.044	0.157	-0.010	0.141
Great Emphasis is placed on the staffing process in this organisation	0.819	0.129	0.068	0.147	0.062	0.042	0.089	-0.011	0.096
There is an extensive employee selection process for jobs (for example, use of tests, interviews, etc.)	0.791	0.093	0.067	0.076	0.030	0.113	-0.012	0.008	-0.051
<b>Communication/Information sharing</b>									
Dialogue and debate with staff representatives are held to facilitate effective employer/employee relations	0.066	0.872	0.095	0.063	0.057	-0.005	0.038	-0.081	0.026
Best practices and knowledge are shared in the organisation	0.141	0.852	0.105	0.079	0.033	0.062	0.027	0.050	0.017
Communication needs are identified in the organisation	0.106	0.851	0.075	0.021	0.012	-0.052	0.097	-0.036	0.019
Communication policies, strategies and plans based on communication needs are developed in the organisation	0.131	0.830	0.097	0.125	-0.007	0.079	0.063	0.104	0.080
Various forms of communication channels top-down, bottom-up and horizontal channels are developed and used in the organisation	0.121	0.777	0.096	-0.032	0.111	0.048	0.000	0.018	-0.041
<b>Employment security</b>									
Job security is almost guaranteed to employees in the company	0.068	0.169	0.834	0.094	0.137	0.121	0.194	0.075	-0.010
If the company were facing economic problems, employees would be the last to get downsized	0.067	0.124	0.818	0.105	0.125	0.146	0.172	0.035	0.025
Employees can expect to stay in the company for as long as they wish	0.135	0.106	0.789	0.212	0.094	0.125	0.074	0.074	0.062
It is very difficult to dismiss an employee	0.100	0.120	0.766	0.200	0.152	0.103	0.115	0.094	0.088
<b>Training</b>									
There are formal training programs to teach new hires the skills they need to perform their jobs	0.060	0.103	0.087	0.850	0.051	0.120	0.159	0.016	0.092
Employees will normally go through training programs every few years	0.072	0.129	0.060	0.817	0.141	0.050	0.197	0.056	0.021
Formal training programs are offered to employees in order to increase their promotability in this organization	0.087	0.009	0.316	0.754	0.125	0.081	0.183	0.138	0.098
Extensive training programs are provided for employees	0.098	0.002	0.293	0.732	0.120	0.090	0.217	0.151	0.118
<b>Job descriptions</b>									
Job descriptions are normally up-to-date	0.108	0.018	0.052	0.113	0.841	0.096	0.157	0.132	0.074
The duties of jobs are clearly defined	0.112	0.041	0.089	0.153	0.823	0.115	0.064	0.050	-0.003
Job descriptions contain all of the duties performed by individual employees	0.105	0.098	0.197	0.077	0.811	0.187	0.163	0.120	0.123
The actual job duties are shaped more by the employee than by a specific job description	0.028	0.086	0.238	0.065	0.759	0.217	0.177	0.197	0.103

Table 2: Continue

Parameters	1	2	3	4	5	6	7	8	9
<b>Internal career opportunities</b>									
Employees have clear career paths within the company	0.137	0.016	0.166	0.103	0.142	0.863	0.194	0.068	0.083
Employee's career aspirations within the company are known by their immediate supervisors	0.064	0.015	0.120	0.037	0.185	0.847	0.189	0.050	0.117
Employees who desire promotion have more than one potential position they could be promoted to	0.131	0.094	0.303	-0.041	0.113	0.749	0.154	0.019	0.144
Employees have very little future within the company	0.134	0.015	-0.014	0.305	0.175	0.744	0.132	0.108	0.075
<b>Participation</b>									
Employees are allowed to make many decisions	0.083	0.052	0.183	0.212	0.116	0.182	0.874	0.094	0.076
Superiors keep open communications with employees	0.099	0.087	0.170	0.203	0.204	0.209	0.817	0.152	0.048
Employees are often asked by their supervisor to participate in decisions	0.138	0.078	0.327	0.158	0.085	0.165	0.753	0.144	0.052
Employees are provided the opportunity to suggest improvements in the way things are done	-0.028	0.058	0.029	0.290	0.229	0.188	0.685	-0.012	0.089
<b>Results-oriented appraisal</b>									
Each employee has performance objectives	0.078	0.021	0.117	0.153	0.211	0.091	0.162	0.880	0.083
Performance appraisals are based on objective, quantifiable results	0.017	0.012	0.140	0.131	0.226	0.108	0.124	0.877	0.149
<b>Profit sharing</b>									
Individuals receive cash bonuses based on the profit of the organization	0.075	0.032	0.076	0.089	0.144	0.163	0.060	0.141	0.883
Individuals receive ownership shares as incentive pay	0.111	0.046	0.630	0.169	0.082	1.740	0.128	0.730	0.879
Percentage of variance explained	12.540	10.630	9.420	8.930	8.900	8.700	8.650	5.270	5.080
Coefficient alpha	0.910	0.900	0.890	0.880	0.890	0.880	0.900	0.910	0.860

N = 206; Factor extraction method-principal component analysis; Rotation-varimax; Factor 1 = Selective staffing, 2 = Communication/information sharing, 3 = Employment security, 4 = Training, 5 = Job descriptions, 6 = Internal career opportunities, 7 = Participation, 8 = Results-oriented appraisal, 9 = Profit sharing

Table 3: Descriptive statistics and correlations

Variables	Mean	SD	1	2	3	4	5	6	7	8	9	10	11
Staffing	3.5016	0.62361	-										
Communication	3.3680	0.59620	0.270**	-									
Employment security	3.3519	0.74689	0.237**	0.292**	-								
Training	3.8167	0.69016	0.207**	0.178*	0.449**	-							
Job descriptions	3.8192	0.65033	0.226**	0.169*	0.385**	0.355**	-						
Internal career opportunities	3.5583	0.62684	0.266**	0.137*	0.394**	0.330**	0.432**	-					
Participation	3.5595	0.64660	0.205**	0.190**	0.463**	0.536**	0.441**	0.487**	-				
Appraisal	3.8131	0.66095	0.134	0.083	0.312**	0.344**	0.435**	0.291**	0.367**	-			
Profit sharing	3.1626	0.89115	0.191**	0.109	0.220**	0.312**	0.294**	0.367**	0.295**	0.309**	-		
HR outcomes	3.4160	0.54344	0.312**	0.285**	0.329**	0.408**	0.349**	0.380**	0.370**	0.272**	0.249**	-	
Organizational performance	3.5049	0.63351	0.259**	0.227**	0.432**	0.464**	0.446**	0.488**	0.443**	0.339**	0.381**	0.449**	-

\*\*Correlation is significant at the 0.01 and 0.05 level

The inter-item correlation matrices for the scales used in the analysis are shown in Table 3. Table 3 shows that there are significant relationships among the various factors, lending statistical support to the positive relationship between the specific strategic HRM variables and organisational performance. It can be observed that job descriptions, training and appraisal have relatively high mean scores of 3.819, 3.816 and 3.813, respectively whereas profit sharing, employment security and communication obtained relatively low scores of 3.162, 3.351 and 3.368, respectively. The mean score of organisational performance was higher than the mean score of HRM outcomes.

**Strategic HRM practices, HRM outcomes and organisational performance:** Multiple regression analysis was used to examine the main effects of the nine strategic HRM practices on HRM outcomes and organisational performance. A set of 11 models were tested for both dependent variables. As a first step, the control variables

were entered in Model 1. The individual effects of the hypothesized variables were then tested in Models 2-10. All independent variables along with control variables were tested in the final model (Model 11).

The result of the regression equations on HRM outcomes is presented in Table 4. The findings reveal that all the strategic HRM variables have a positive impact on HRM outcomes (Models 2-10). Strategic HRM practices of training, internal career opportunities, staffing and communication had significant effects on HRM outcomes in Model 11. The effects of control variables on HRM outcomes were not significant.

The result of the regression equations on organisational outcomes is presented in Table 5. All the strategic HRM variables have a positive impact on organisational performance (Models 2-10). The strategic hr practices of internal career opportunities, training, job descriptions and profit sharing have significant effects on organisational performance in Model 11. The effects of control variables were not significant.

Table 4: Regression model of HRM outcomes

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10	Model 11
<b>Control variables</b>											
Age (log)	0.006	0.027	-0.011	-0.001	0.024	0.021	0.027	0.005	0.019	0.022	0.031
Size (log)	0.048	0.017	0.057	0.070	0.047	0.044	0.024	0.057	0.058	0.051	0.033
Machinery	-0.019	0.005	0.017	-0.002	-0.039	0.007	-0.016	0.005	-0.039	0.009	0.012
Chemicals	-0.076	-0.067	-0.086	-0.078	-0.053	-0.067	-0.064	-0.057	-0.073	-0.048	-0.053
Union dummy	0.078	0.068	0.066	0.029	-0.014	0.068	0.018	0.017	0.054	0.039	-0.012
<b>Independent variables</b>											
Staffing		0.310*									0.139*
Communication			0.290*								0.157*
Employment security				0.329*							0.021
Training					0.405*						0.202*
Job descriptions						0.349*					0.094
Internal career opportunities							0.374*				0.156*
Participation								0.367*			0.052
Appraisal									0.272*		0.052
Profit sharing										0.244*	0.024
Constant	3.196	2.298	2.317	2.370	1.986	2.052	2.112	2.104	2.296	2.681	0.525
F-values	0.566	4.030	3.521	4.482	6.954	5.159	5.850	5.580	3.156	2.527	6.247
R <sup>2</sup>	0.014	0.108	0.096	0.119	0.173	0.135	0.150	0.144	0.087	0.071	0.314
Adjusted R <sup>2</sup>	-0.011	0.081	0.069	0.092	0.148	0.109	0.124	0.118	0.059	0.043	0.264

Table 5: Regression model of organisational performance

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10	Model 11
<b>Control variables</b>											
Age (log)	-0.065	-0.048	-0.079	-0.075	-0.044	-0.047	-0.038	-0.066	-0.050	-0.040	-0.032
Size (log)	-0.041	-0.066	-0.033	-0.012	-0.042	-0.045	-0.072	-0.029	-0.028	-0.035	-0.046
Machinery	-0.008	0.012	0.021	0.013	-0.031	0.024	-0.004	0.020	-0.033	0.034	0.029
Chemicals	-0.060	-0.052	-0.068	-0.063	-0.033	-0.049	-0.044	-0.036	-0.056	-0.017	-0.023
Union dummy	0.078	0.069	0.068	0.014	0.005	0.066	0.001	0.004	0.049	0.018	-0.046
<b>Independent variables</b>											
Staffing		0.261*									0.047
Communication			0.234*								0.076
Employment security				0.434*							0.117
Training					0.462*						0.186*
Job descriptions						0.444*					0.138*
Internal career opportunities							0.493*				0.223*
Participation								0.444*			0.051
Appraisal									0.333*		0.037
Profit sharing										0.378*	0.136*
Constant	3.829	2.949	3.003	2.560	2.219	2.132	2.167	2.288	2.545	2.901	0.475
F-values	0.563	2.912	2.396	8.115	9.449	8.778	11.023	8.529	4.668	5.856	10.173
R <sup>2</sup>	0.014	0.081	0.067	0.197	0.222	0.209	0.249	0.205	0.123	0.150	0.427
Adjusted R <sup>2</sup>	-0.011	0.053	0.039	0.172	0.198	0.186	0.227	0.181	0.097	0.124	0.385

\*p≤0.05

Hypothesis 3 postulates that HRM outcomes mediate the relationship between Strategic HRM practices and organisational performance. Mediation was tested by following the three-step procedure outlined by Baron and Kenny (1986). A variable Z is said to be a mediator of a relationship between two variables X (independent variable) and Y (dependent variable) if the following are true: X significantly affects Z when Z is regressed on X, X significantly affects Y when Y is regressed on X, Z significantly affects Y when Y is regressed on both X and Z (Baron and Kenny, 1986). Table 6 shows the results related to the mediating effect of HRM outcomes. Strategic HRM practices is a significant predictor of HRM outcomes, the mediator variable. Strategic HRM practices is also a significant predictor of organisational performance, the dependent variable. When both strategic HRM practices and HRM outcomes are entered

Table 6: Mediating role of HRM outcomes

		Dependent variables	
Variables	HRM outcomes	Organisational performance	Organisational performance
<b>Control variables</b>			
Age (log)	0.027	-0.041	-0.045
Size (log)	0.043	-0.046	-0.053
Machinery	0.025	0.042	0.038
Chemicals	-0.052	-0.032	-0.024
Union dummy	-0.014	-0.028	-0.026
<b>Independent variables</b>			
SHRM practices	0.547*	0.630*	0.542*
HRM outcomes			0.160*
Constant	0.624	0.373	0.256
F-values	14.334	21.782	20.016
R <sup>2</sup>	0.302	0.396	0.414
Adjusted R <sup>2</sup>	0.281	0.378	0.394

\*p≤0.05

simultaneously with organisational performance, HRM outcomes is a significant predictor of organisational

performance and the impact of strategic HRM practices on organisational performance is diminished. This shows that HRM outcomes partially mediates the relationship between strategic HRM practices and organisational performance.

### CONCLUSION

The study examined the relationship between strategic HRM variables and organisational outcomes. The strategic HRM variables are found to have a positive effect on both HRM outcomes and organisational performance. All the strategic HRM practices have a positive impact on HR outcomes. The practices of internal career opportunities, training, staffing and communication have significant effects on HRM outcomes. All the strategic HRM practices have a positive impact on organisational performance as well. The strategic HRM practices of internal career opportunities, training, job descriptions and profit sharing have significant effects on organisational performance. The evidence suggests that effective implementation of key strategic HRM practices should be able to bring in higher levels of organizational performance.

The positive relationship between HRM practices and organisational performance is largely consistent with results obtained in studies of HRM performance linkage conducted in other geographical settings (Becker and Gerhart, 1996; Delaney and Huselid, 1996; Huselid and Becker, 1996). A contribution of this study is in corroborating these results in the context of India, an emerging economy.

Training and internal career opportunities are strategic HRM practices that affect both HRM outcomes and organisational performance. These two practices can act as fundamental constituents while designing HRM systems.

HRM outcomes partially mediate the relationship between strategic HRM practices and organisational performance. Both a direct and an indirect linkage exists between strategic HRM practices and organisational performance. In order to improve organisational performance the levels of satisfaction, commitment and motivation of the employees should be improved.

### LIMITATIONS

Perceptual measures of organisational performance were used in the study. It would be worthwhile for future studies to investigate the influences of strategic HRM on

objective measurements such as the ratio of profit to sales, return on assets and return on equity. Only one managerial response from the HR function was obtained per organization.

### RECOMMENDATIONS

Future research should attempt to gain responses from multiple raters from within and outside the HR function to test the inter-rater reliability of the data. Regression analysis was performed on a cross-section of data gathered at one time. It is important to use some longitudinal data in future studies to examine the causal link between strategic HRM practices and performance. Data were collected from Chennai and future research may extend the study to other major cities in India. Finally, future studies should increase not only sample size but also the variety of firms included in the sample.

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