Chapter 1

INTRODUCTION

In machine age, people were ancillary and things were central but in information age, things are ancillary and knowledge is central. A company’s value derives not from things but from knowledge, know-how, intellectual assets, and competencies – all embedded in people (Hamel and Prahlad, 1990). Change, complexity and competition are buzzwords in today’s business environment. A turbulent business environment, highly demanding customers, formidable competitors, technological innovations, shortening product life cycles and low barriers to entry, have forced organizations to put a higher emphasis on learning. Organizations are becoming more fluid, facilitating networks of customers, suppliers and business partners. Boundaries of organizations are becoming blurred and departmental barriers are fading. Corporations are becoming flatter and leaner. Empowerment is replacing power and revolutionary change is swapping with incremental change. The companies now have to find and retain their positions not only in local or national market but also have to explore markets worldwide. To survive, prosper and succeed in current business environment, the organizations have to be proactive instead of being reactive. The need of the hour is to think the unthinkable, try what seems to be impossible, put your best to bring forth novel ideas and then implement them to revolutionize the world.

Business people are now increasingly realizing that those having strong intangible asset base can dominate the sky. During the period 1987-1990, a national survey of chief executives in the U.K. was conducted and it was found that company reputation, product reputation and employee know-how, were the most important intangibles contributing to overall success. Reputation is usually built through the use of superior competencies over the years, but can be damaged easily. Management should make sure that every employee is disposed to be both promoter and a custodian of the reputation of organization which employs him (Hall, 1992). Today, firms compete less on the basis of products and markets and more on competencies, relationships and new ideas (Boxall and Purcell,
Barney’s (1991) seminal work on ‘Resource Based View’ of firms, the concept of ‘core competencies’ propounded by Hamel and Prahlad (1994) and the ‘Knowledge Based Theory’ of firm given by Grant (1996) provides a strong theoretical base for strategic importance of human resources.

**Resource Based View (RBV) of the Firm**

The work of Penrose (1959) is marked as a base of ‘Resource Based View’ (RBV) of the firm. Penrose conceptualized the firm as ‘an administrative organization and a collection of productive resources’. She distinguished between ‘physical’ and ‘human resources’ and the latter include the knowledge and experience of the management team. The initial statement about the RBV theory by Wernerfelt (1984) served as its foundation, which states that a resource is ‘anything’ which could be thought of as a strength or weakness of a given firm . . . whose tangible assets which are tied semi permanently to the firm. However, RBV theory was popularized by seminal article of Barney (1991) in which he specified four attributes of a ‘resource’ through which a firm can attain sustained competitive advantage. He redefined a ‘resource’ to include 'all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm and which enable it to conceive and implement strategies that improve its efficiency and effectiveness’. According to Barney (1991) resources fall into three categories: physical, human and organizational.

*Tangible/Physical capital* – includes the physical and financial assets like, plant and equipment, technology, etc. that an organization uses to create value for its customers.

*Human capital* – includes skills, experience, judgment and intelligence of the individual managers and workers in the firm. These are typically embedded in unique routines and practices that have evolved and accumulated over time.

*Organizational capital* – refers to an organization’s capacity to deploy intangible and tangible resources overtime generally in combination with one another (Dess et al., 2005) and includes the firm's structure, planning, controlling and coordinating systems, and the informal relations among groups within the firm.
A resource must have four attributes to provide sustainable competitive advantage to a firm. These attributes with their implications are given in the Table 1. A number of researchers have applied this theory to the field of HRM and posited that it is people who possess these properties of value, rarity, inimitability, non-substitutability and non-transferability (Huselid, 1995; Boxall, 1996; and Wright et al., 1994; 2001; Paauwe et al., 2003). The condition of inimitability is the most important for a firm’s human resources. Barney (1991) specifies three causes of inimitability - path dependence, causal ambiguity and social complexity.

Table 1: Human Resource Attributes and Implications

<table>
<thead>
<tr>
<th>Attributes</th>
<th>Implications</th>
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<tbody>
<tr>
<td>Valuable</td>
<td>Neutralize threats and exploit opportunities</td>
</tr>
<tr>
<td>Rare</td>
<td>Not many firms possess</td>
</tr>
<tr>
<td>Difficult to imitate</td>
<td>- Physically unique</td>
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<tr>
<td></td>
<td>- Path dependency (how accumulated overtime)</td>
</tr>
<tr>
<td></td>
<td>- Causal ambiguity (difficult to disentangle what it is or how it could be recreated)</td>
</tr>
<tr>
<td></td>
<td>- Social complexity (trust, interpersonal relationships, culture, reputation)</td>
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<tr>
<td>Difficult to substitute</td>
<td>No equivalent strategic resources or capabilities</td>
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(Source: Dess et al., 2005)

Unique historical conditions/path dependence can be interpreted from two different but interrelated perspectives. Firstly, a firm’s human resource capability is built up over time. As firms evolve they pick up skills, abilities and resources that are unique to them, reflecting their particular path through history (Barney, 1995). Secondly the practices and policies used by the firms to create, maintain and exploit those capabilities are developed overtime and cannot be simply purchased from the market. A competitor can understand that a particular policy or practice is valuable and would like to adopt it,
but is precluded from immediate imitation by the time required to fully implement the strategy (Huselid and Becker, 1997).

*Causal ambiguity* occurs when competitors are unable to detect how a firm uses its resources to gain competitive advantage. The way the human resources and their competencies build are subject to numerous small decisions and events which contribute to a specific pattern of capabilities not easily understood by competitors.

*Social complexity* occurs when the firm’s capabilities are the result of complex social phenomenon such as interpersonal relationships, trust and friendship among managers, cultural traditions, networks and firm’s reputation with suppliers and customers.

Any one or a combination of the above stated causes may make a resource ‘not easy to imitate’ and thus provide sustainable competitive advantage to those organizations which possess the inimitable resource.

**Core Competency Perspective**

Describing the tyranny of strategic business units, Prahlad and Hamel (1990) state that how strange it is that strategic business unit managers, who are perfectly willing to compete for cash in the capital budgeting process, are unwilling to compete for people – the company’s most precious asset. They further opined that for business growth, executives need to identify, cultivate and exploit the core competencies which are defined as “. . . a bundle of skills and technology that enable a company to provide benefits to customers” (Hamel and Prahlad, 1994). These are a unique package of capabilities distinguished by their centrality to customer value, their resistance to imitation and their ability to extend to new business applications. By focusing on competencies, an organization views today’s output as byproduct of a system that is primarily concerned with recruiting, developing, deploying and organizing around skills, competencies and capabilities (Hagan, 1996). It has been argued that the ability of a firm (a) to use its resources to generate greater opportunities rather than to slash costs, *i.e.* increasing the numerator rather than decreasing the denominator and (b) to fundamentally shape
customer demands and industry structure will be an important determinant of business success in the future.

**Knowledge Based Theory**

The knowledge-based theory of the firm considers knowledge as the most strategically significant resource of the firm. It has been argued that knowledge-based resources are usually difficult to imitate and socially complex, and thus are the major determinants of sustained competitive advantage and superior corporate performance. Grant (1996) asserts that firms exist as institutions for producing goods and services as they can create conditions under which multiple individuals can integrate their specialist knowledge. Production involves the transformation of inputs into outputs, where fundamental organizational activities are creating and acquiring, storing and deploying knowledge. The theory is based on the assumption that the critical input in production and primary source of value is knowledge. All human productivity is knowledge dependent and machines are simply embodiments of knowledge. The primary task of management is establishing the coordination necessary for this knowledge integration. Thus, the role of individuals is emphasized by recognizing knowledge as the primary resource of the firm. Knowledge is owned by employees and most of this knowledge can only be exercised by the individuals who possess it. Individuals are the primary actor in knowledge creation, application and the principle repository of knowledge. This perspective builds upon and extends the Resource-Based View of the firm (RBV).

The theories described above highlight the importance of internal resources, more specifically human resources. Among these theories, RBV is the most widely accepted as it enables a better understanding of the link between HRM and business performance. It shifts the focus from the external environment and how the firm positions itself in a competitive market to the internal resources of the firm and how the firm is able to use these resources to gain a competitive advantage. Growing acceptance of internal resources as a source of competitive advantage brought legitimacy to HR’s assertion that people are strategically important to a firm’s success (Wright et al., 2001).
Strategic Human Resource Management (SHRM)

SHRM is concerned with the relationship between HRM and strategic management in an organization. SHRM refers to the overall direction an organization wishes to pursue in order to achieve its goals through people. SHRM addresses various issues, such as organizational effectiveness and performance, changes in structure and culture, matching resources to future requirements, the development of distinctive capabilities, knowledge management and the management of change. Overall, it considers major people related issues that affect or are affected by the strategic plans of the organization (Armstrong, 2003). Ulrich and Lake (1991) described SHRM as “a process of linking HR practices to business strategy”. Truss and Gratton (1994) defined SHRM as “the linkage of HR functions with strategic goals and organizational objectives to improve business performance and cultivate an organizational culture that fosters innovation and flexibility”. Researchers have defined SHRM in variety of ways, however, they agree in general that the central feature of SHRM involves designing and implementing a set of internally consistent policies and practices to ensure that firm’s human capital contributes to achieve its business objectives (Gratton and Hope-Hailey, 1999; Jackson and Schuler, 1995).

On one hand HR is increasingly becoming strategically important to a firm’s success and on the other a major change can be witnessed on the front of employment contract and choice of HR practices. Corporate employees used to expect reward against loyalty and job security for good work, generous benefits and steady pay increases from their employers. But in the post liberalization period in response to global competition, unfriendly takeovers, leveraged buyouts, etc., corporations began to discard traditional policies on job security, seniority and compensation. They sought to become “lean and mean” by selling off or closing down less profitable businesses, eliminating entire levels of management, replacing permanent employees with temporaries and substituting performance based pay systems for seniority based programs. Today most managers and employees face a world of permanent “temporariness.” These changes have resulted in a sharp decline in employee loyalty. Employees perceive that their employers are less committed to them and as a result employees respond by being less committed to their
companies. Advocates for greater use of HPWPs argue that recent changes in firms’ competitive environments have increased the degree to which human capital will be a source of valuable and inimitable competitive advantage. The arguments extend to suggest that these changes also imply a greater need for HR systems which develop and sustain human capital. For example, drawing upon Pfeffer (1994) and Becker et al., (1997) argue that the current economic environment demands innovation, speed, adaptability, and low costs. They maintain that these environmental demands increase the importance of the core competencies and capabilities of employees relative to more traditional sources of competitive advantage, such as patents, economies of scale, and access to capital and market regulation. Thus, their perspective is that the value of HPWPs is magnified due to the hyper-competitive markets faced by today’s firms.

**Evolution of Human Resource Management in India**

The concept of people management in an organization originated during British rule. Its beginning can be traced back to the appointment of the royal commission on labour in 1929 with focus on welfare activities, like canteen facilities, toilet and change room facilities, etc. By the time of independence, legalistic aspects of labour management were introduced through Industrial Employment (standing orders) Act, 1946 and Industrial Disputes Act, 1947. But the management perspective was found to be missing from the scene which resulted in disturbed industrial relations. By the 1960s, personnel function expanded to include; labour welfare, industrial relations and personnel administration. The focus on the activities required in the area of people management was reflected in the demand for professionals with specific knowledge about people management systems and laws. The need for providing specific knowledge was met by the duo of Indian Institute of Personnel Management (IIPM) and National Institute of Labour Management (NILM) lately merged to form National Institute of Personnel Management (NIPM). In-spite of professional existence, the growth of personnel management was viewed to be slow. The activities related to people management remained restricted to the perspective of the duties of labour and welfare officers. In other words, the need for management perspective could not be met appropriately because understanding of the personnel function was still conventional.
The next transformation came in eighties due to the pioneering work of Pareek and Rao, (1981). They contributed in the area of clarifying HRD focus and developing HRD systems. This can be marked as a beginning of movement towards personnel becoming a strategic management function. Around this time two more institutions - National HRD Network and Indian Society for Training and Development came into existence. They provided constructive assistance in creating awareness and developing the required knowledge and skills in organizations that were willing to adopt the new approach. Then most of the organizations were aware of the developmental philosophical approach to people management though the manner of adoption of those who did it might differ from one another (Mankidy et al., 2003).

Further the liberalization of Indian economy resulted in sudden and increased levels of competition for Indian organizations which further led to burgeoning pressure on Indian organizations to improve their performance. The concept of HRM is subjected to continuous transformation. Even though the process of managing workforce has undergone many phases, from labour management to personnel management to contemporary human resource management, the fast changing socio-economic and political conditions along with the spread of new technologies call for further adaptation of HRM disciplines. Evidently, in the context of intense globalization in twenty first century, the integration of HRM policies with the strategic business planning has become an imperative to strategic management. Strategic management aims to co-ordinate and align company resources, including human resources to fulfill organizational goals (Hubbard, 2000; Kramar, 2001).

One of the major paradigm shifts in HRM research and literatures in the last few decades is the emerging interest of strategic HRM and high-performing HRM systems when people (versus other resources like capital and technology) are increasingly recognized as a source of business competitiveness (Ulrich, 1997; Martin and Moldoveanu, 2003) and when numerous studies have demonstrated the relationship between HR practices and business performance (Huselid, 1995; Wright et al., 2003; Bennett and Bell, 2004). To add value to business competitiveness, it has been argued that HR functions need to realign their resources and activities for higher value-added
contribution (Yeung et al., 1994; Yeung and Brockbank, 1995; Ulrich, 1997). HR practices also must be designed to meet not only short-term operational pressures, but also long-term strategic needs (Ulrich et al., 1990; Ulrich and Brockbank, 2005).

**Human Resource Management Practices**

As a matter of fact, around the globe many HR practices have been imported from the West through American or European MNCs, Western business media, and Western business schools and then diffused to local firms. Such diffusion, or isomorphism, occurs because organizations, especially large-sized firms, have a strong tendency (or are under strong pressure) to copy more progressive management practices from organizations that operate under a similar set of environmental conditions and institutional constraints (DiMaggio and Powell, 1983). As business of firms increases in size and spread, they are more receptive to adopt more systematic or progressive practices in their people management. However, idiosyncrasies do persist due to different stages of economic development, variations in political systems, and cultural differences among countries.

Boselie et al., (2005) show the enormous variety of different practices being reported in 104 articles. There is no comprehensive or a single list of generally applicable HR practices or systems of practices that define or construct human resource management. In total they are able to list 26 different practices of which the top four in order are; training and development, contingent pay and reward schemes, performance management (including appraisal) and careful recruitment and selection. These four practices can be seen to reflect the main objectives of the majority of ‘strategic’ HRM programme, viz., to identify and recruit strong performers, provide them with the abilities and confidence to work effectively, monitor their progress towards the required performance targets, and reward staff well for meeting or exceeding these targets.

As companies in many emerging economies have been growing at a rate of 20–50 percent in sales volume every year, the ability to attract, retain, develop, and engage high-caliber talent to support their business growth while simultaneously deepening their competitive edges in innovation, services, or quality presents one of the greatest business challenges not only for MNCs, but also for local privately owned and state-owned firms. The challenges of talent management are particularly severe in developing and
transitional economies, where demand for high-caliber talent far exceeds supply due to both rapid economic growth and limited talent inventory in place. In addition to the shortage in talent with the required skills, knowledge, and experience, corporations in Asia face the challenges of changing employee mind-sets and mentality to be more performance-driven (rather than egalitarian-oriented), customer-focused (rather than following rules), and to cultivate a stronger sense of integrity (rather than taking advantage of gray areas or unethical behaviours for short-term gains). The legacy of traditional politico-economic systems, especially in economies transitioning from planned economy to market economy, is that employees are used to working in environments where enterprises are supposed to take care of employees no matter whether good or bad, where employees are socialized to play safe and comply with rules, and where getting things done through “informal” channels (or back doors) and “special” relationships, such as guanxi are accepted norms to compete for scarce resources and opportunities. Clearly, such norms and behaviours can prove to be counterproductive to business imperatives to build the transparent, performance-driven, and customer-oriented culture that is increasingly critical for success in a global business environment. Critical HR challenges must be addressed by companies to sustain their growth and global competitiveness, especially in markets where high-caliber talents are hard to source and where employee mind-sets and values need to be realigned due to a legacy of traditional politico-economic systems. Foreign investment has occurred in all of them—not only in the developed and developing economies, but also in the transitional ones. Gender issues are rapidly surfacing in the traditionally male-dominated corporate world. The aging population also has clear implications for corporate HR practices. With an aging workforce, the permanent employment and seniority system burden firms with rising numbers of higher-paid and less productive workers. Recently, growing numbers of companies are explicitly weighting ability and performance over tenure and age in salary decision. Finally, the transition to a service economy combined with socio-cultural and socio-economic changes has had a profound effect on employment institutions of various countries. HR professionals are realizing that they need to update their technological skills and develop systems for managing more virtual organizations. Human resource is also trying to become more of a strategic partner in firms (Yeung et al., 2008).
HR has the potential to create competitive advantage for firms by successfully combining a reputation as being an employer of choice with a high performance work system and an effective set of incentives. HR managers are responding to labour shortages by stepping up recruitment efforts. During the past few decades a significant shift can be noticed from the so-called “hard” HRM, with the focus on employee control, utmost exploitation of their potential and obtaining the maximum benefit from them, neglect of employees’ needs to attending employees as one of the key resources of the competitive advantage. HR managers have to deal with a “new” psychological contract where organizations no longer offer long-term employment and employees accept the responsibility for developing their own employability, both internal and external, but require the help of the organization to achieve their career goals.

In order to respond to cut-throat competition created by opening up of the Indian economy, the organizations have initiated innovative changes in their HR practices. Firms are increasingly realizing the importance of the principle of mutuality in the sense that they know they cannot tread the growth path alone but only with the help of their employees. They need to maintain good relations with employees, treat them fairly, show concerns towards their well-being and adopt a more humane approach. It necessitates that whatever HR practices an organization introduces it must meet both organizational as well as individual goals. The various practices, like Selection and Staffing, Training and Development and Performance Management, enable firms to create a workforce that possesses all the competencies necessary to utilize new technologies and new ways of working effectively (Wright et al., 1999). Employee competencies and their effective use can lead to higher Organizational Performance. Human resource practices must also focus on influencing employee behaviour and satisfying employee needs for security and growth. As job security has been found missing in the present day organizations due to variety of reasons, employee behaviour can also be influenced through well designed Compensation system, Career Development efforts by an organization, promoting relationship building and creating Work Life Balance. Several firms undertook significant organizational changes along with adoption of SHRM practices during the late 1990s. Firms, like Hero Honda, Tata Motors, Bharat Forge, Hindustan Inks, Sundaram Clayton, Essel Propack, BPCL, Maruti, Tata Iron and Steel, Ranbaxy, Infosys, Wipro,
Satyam were able to successfully adapt to the dynamic corporate scenario. The reasons which helped these organizations adapt were their foresightedness, expertise and abilities to adopt innovative SHRM practices (Som, 2007).

Becker et al., (2001) noted that strategic HRM is a goal-directed process and for research to accurately measure effectiveness, it must evaluate the degree to which the process meets the goals set for it. Dyer and Reeves (1995) introduced three organizational effectiveness categories designed to evaluate strategic HRM: HR outcomes, organizational outcomes, and financial/accounting outcomes. In a similar vein, the present study examines how and which of the selected HR practices determine HR outcome variables and their mediating impact on HR practices and corporate performance relationship as shown in Figure 1.

![Figure 1: Conceptual Model](image)

Theoretical evidence on the relationship of HR practices with Organizational Performance indicates that HR practices influence employee commitment and other HR performance measures, which then lead to Organizational Performance (Wright et al., 2003; Paul and Ananthraman 2003). Hiltrop (1996) is of the view that the HR practices of an organization have a powerful influence in motivating employees to exhibit the kinds of attitudes and behaviour that are needed to support and implement the competitive strategy of an organization. Guest (2000) along with his colleagues surveyed 610 organizations in the UK and endorsed that there is a strong link between HRM and performance, but that this link is indirect, through the apparent impact on employee commitment, quality and flexibility. Other than Organizational Commitment researchers have studied certain intermediary variables in the relationship between HRM and performance. These include; Perceived Organizational Support, Employee Motivation,
Job Satisfaction, Organizational Trust, Discretionary Behaviour, etc. The present study exclusively focuses on Perceived Organizational Support, Organizational Commitment, Organizational Trust and Discretionary Behaviour, which are introduced briefly in the text following.

**Perceived Organizational Support (POS)**

Organizations have long been recognized as an important source of material and socio-emotional support for employees. Prior to 1930s, organizational research focused exclusively on the material resources and economic benefits provided by an employer (Taylor, 1911). But the Hawthorne studies revealed organizations as the important source of socio-emotional resources for employees. These studies indicated that employees exhibited higher levels of productivity and better attitudes when organizations paid increased attention or provided favourable treatment to them thus demonstrating that employees are valuable. The employee-organization relationship has increasingly gained importance as organizational interest in developing and retaining productive employees to gain a competitive advantage continued to grow. Research has intensively focused on identification of ‘best practices’ that enhance both Organizational Performance and Employee Commitment (Conway and Monks, 2003). It has been argued that when employees believe that the organization is committed to them, they will also be committed to the organization (Eisenberger et al., 1986; Shore and Tetrick, 1991). POS is a well accepted measure of the degree of commitment of an organization towards its employees. According to Eisenberger et al., (1986) based on the norm of reciprocity in social exchange, employees with higher levels of POS are more likely to repay the organization with positive attitudes and favourable work behaviours (Eisenberger et al., 1990). POS has been described as employees’ global perceptions concerning the extent to which the organization values their contributions and cares about their well-being (Eisenberger et al., 1986). POS has been found to be reciprocated in the form of Affective Commitment (Eisenberger et al., 1990; Shore and Tetrick, 1991; Rhoades et al., 2001), Continuance Commitment (Shore and Tetrick, 1991), Job Satisfaction (Shore and Tetrick, 1991; Eisenberger et al., 1997) and In-role and Extra-role Performance (Rhoades and Eisenberger, 2002). A meta-analytic review by Rhoades and Eisenberger
(2002) also revealed an inverse relationship between POS and withdrawal behaviors, such as absenteeism, tardiness and turnover. POS is considered to be a significant variable with important implications for employee behaviour and attitudes.

**Organizational Trust**

Trust has been associated with the willingness to take a chance on behalf of the organization without fearing exploitation (Eddy, 1981). According to Mayer *et al.*, (1995) Trust is the willingness of a party to be vulnerable to the actions of another party based on expectations that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party. McAllister (1995) defines Organizational Trust as reliability among the employees in terms of each one’s discourses, acts and decisions. Belief in management, assurance about the thoughts of the colleagues, honesty and positive expectations are common components among various constructs of Organizational Trust used by various researchers (Yilmaz and Atalay, 2009). The business organizations are increasingly recognizing the worth of human resources and consider them as the most vital and dependable resource for their success. Not only the availability of competent people but also their willingness to contribute to achieve organizational objectives is necessary for organizational survival and growth. Griesinger (1990) proposed that material resources are claimed to be necessary but not sufficient to satisfy human aspirations for betterment. In addition to material resources the increased mutual trust and cooperation among employees can contribute to economic efficiency as well as the social and ethical betterment of the participants. Trust not only reduces governance costs but also improves productivity due to ongoing mutual cooperation between both parties. Not only does Trust effect employee attitudes but also employee behaviour. Employees cannot be expected to go beyond their defined roles due to their perceived lack of trust in organizational system. Employees seek to reduce their vulnerability by emphasizing only on those performance areas that can be objectively tabulated and defended (Culbert and McDonough, 1986). Promoting trust within organizations has been suggested to influence; affective and continuance commitment (Tan and Tan, 2000), favorable attitude towards change (Anderson and Bateman, 1997;
Rousseau and Tijoriwala, 1999), good citizenship behaviour (Robinson and Morrison, 1995), increased job satisfaction (Cunningham and MacGregor, 2000; Gould-Williams and Mohamed, 2010) and low intention to leave (Mishra and Morrisey, 1990; Konovsky and Cropanzano, 1991). It is also being recognized that trust in the workplace is a critical factor to improve organizational performance. Schein (1995) proposed that the organizations that practice the principle of trust building consistently outperform those who do not. He stated that we casually introduce management practices that undermine trust and then wonder later why our organizations are not more effective. Some researchers argue that the traditional psychological contract characterized by loyalty to an organization in exchange of job security is dead (O’Reilly, 1994). A new contract is emerging in which expectations from employees like loyalty, hard work and “value added” to the organization are still the same but expectations of employees from the organization are changing. Now employees look for the practices that could minimize the loss of job security. Under the new psychological contract employees are offered extrinsic rewards such as pay for performance and training that will secure “employability” as well as intrinsic rewards in the form of a generally pleasant working atmosphere (Rousseau and Aquino, 1993). Breach of psychological contracts can cause problems for organizations, such as loss of trust, anger and litigation. Therefore, it is highly desirable for the organizations to develop and follow HR policies and strategies that reinforce the transition to a new psychological contract. While traditional HRM practices and policies concentrate on improving functions, such as selection, performance appraisal, health and safety, and the practices that ensure justice, like merit based Selection, performance based Pay, growth oriented Training and Development, individual oriented Career Development, development oriented Performance Appraisal, Supervisory Support and Work Life Balance may in turn affect the climate of Trust in organizations and reinforce the validity of the psychological contract. Trust building is a long term and continuous process. Today’s climate of mergers, restructurings, high employee turnover, leadership transitions, troubling team dynamics and frequently changing operational strategies strongly challenges the Trust building process at the workplace.
Organizational Commitment

Traditionally, human resource management has been control oriented in most of the organizations. Employees’ behaviours were being controlled through their output, which was being assessed by standardized performance measures and stringent monitoring by their supervisors. However, organizations have increasingly realized that the effectiveness of control oriented human resource management has diminished over the years. In order to be effective in the rapidly changing markets, the organizations are required to be flexible and adaptable, for which human resource management of these organizations is desired to be commitment oriented rather than control oriented. A commitment oriented HRM focuses on developing employees who can be trusted to their discretion to carry out their jobs in ways that are consistent with organizational goals. Committed employees are more likely to expend their discretionary efforts towards achieving organizational ends and show less counterproductive behaviour than those less committed and also engage in better quality in-role behaviours (Wright et al., 2003).

Organizational commitment has emerged as a key concept in the study of employees’ work attitudes and behaviour. Largely, commitment has been viewed as unidimensional construct focusing only on affective or moral or cost based attachment to the organization (Becker, 1960; Hall and Schneider, 1972; Porter et al., 1974). However, Meyer and Allen (1991) proposed commitment as a multidimensional construct having three dimensions: affective, continuance, and normative. Affective commitment corresponds to an employee’s personal and emotional attachment to and identification with the organization’s goals and values. Employees with a strong affective commitment continue employment with the organization because they want to do so. Continuance commitment is perceived as a tendency to engage in consistent lines of activity based on the individual’s recognition of the “costs” associated with discontinuing the activity. Continuance commitment is associated with the intention to remain with the organization because they need to do so due to the costs of leaving or the rewards for staying. Normative commitment suggests that employees exhibit behaviours solely because they believe it is the right and moral thing to do. It reflects a feeling of obligation to stay employed in an organization indicating that employees feel that they ought to remain
with the organization. They suggested that individuals might display each of these three forms of commitment to varying degrees. Identifying different forms of commitment allows us to identify the specific antecedents associated with each unique form of commitment. Examining the antecedents of the different forms of commitment is important in order to understand the processes through which commitment is developed.

Discretionary Behaviour, Citizenship Behaviours and Extra-role Behaviours have been used interchangeably in this study as observed in the existing literature (Pare and Tremblay, 2007). Citizenship Behaviour has been formally defined as ‘individual behaviour that is discretionary, not directly or explicitly recognized by the formal reward system and that in aggregate promotes the effective functioning of the organization’. It includes any of those gestures that lubricate the social machinery of the organization, but do not directly inherit the usual notion of task performance (Organ, 1988). Shore et al., (1995) suggests that a high level of Organizational Citizenship Behaviour (OCB) reflects employees’ true willingness to be involved in the organization. These behaviours are employee work behaviours, such as helping others, staying late or working weekends, performing at levels that exceed enforceable standards, tolerating inconveniences on the job, and being actively involved in company affairs.

Extra-role Behaviour is the Organizational Citizenship Behaviour that is demonstrated by the individual. This behaviour is not a compulsory part of the job requirements but this behaviour if exists can boost the organizational performance. OCB can be analyzed in both individual and organization perspective. If the OCB of the employee is high then he/she will help the other employees in completion of the tasks, facilitate and support their colleagues in performing effectively. Whereas the other dimension of the OCB with respect to the organization is that the employees who have high OCB are more strategically aligned with the organization goals and objectives. They put their maximum potential and go beyond the limits in achieving the goals and objectives of the organization. So OCB can be termed as the synergistic behaviour that intensifies the employee positive attitude towards the organization and excels the individual effort level that is beneficiary for the organization. Cutcher-Gershenfeld (1991) found that firms emphasizing cooperation and dispute resolution had lower cost,
less scrap, higher productivity and a greater return to direct labour hours than firms with traditional labour relations. Many researchers have proposed that superior organizational performance is achieved when employees exert themselves on behalf of the organization (Guest, 1997; Purcell, 1999) or, to put it another way, when employees work harder, smarter and accept more responsibility (Pfeffer, 1999) or through exhibiting discretionary behaviour that provides value to the firm (Macduffie, 1995). Thus, high performing firms must possess workforce members who are motivated to engage in discretionary behaviour directed towards achieving organizationally relevant goals (Wright and Snell, 1991).

**Human Resource practices and Firm performance**

There is a growing literature on the impact of HR practices on organizational performance. This literature is commonly underpinned by the Resource-Based View of the firm with its emphasis on gaining sustainable competitive advantage by means of effective and efficient utilization of the resources of the organization (Paauwe, 2004). Researchers have used the Resource-Based View as a basis for examining the impact of human resource development on firm performance (Pfeffer, 1994; Huselid, 1995). It is now commonly accepted that employees create an important source of competitive advantage for firms (Barney, 1991; Pfeffer 1994). As a result, it is important that a firm adopts HR practices that make best use of its employees. The above trend has led to increased interest in the impact of HRM on Organizational Performance, and a number of studies have found a positive relationship between so called ‘High Performance Work Practices’ (HPWPs) and different measures of company performance (Huselid, 1995). HRM and firm performance relationship has been examined in three ways; universalistic, contingency, and configuration (Delery and Doty 1996).

*Universalistic approach*

This approach has been advocated by a number of researchers, like Terpestra and Rozell (1993), Pfeffer (1994), Huselid (1995), etc. According to this approach certain HR practices, individually and independent of an organization’s business strategy, lead to higher Organizational Performance termed as Best Practices. Thus, it posits a direct
relationship between ‘Best Practices’ and firm performance. Formal training systems, profit sharing, voice mechanisms, and job definition are examples of such Best Practices. Although support for this view exists, there are notable differences across studies as to what constitutes a ‘Best’ Practice. Work in the universalistic perspective is largely concerned with linear relationships between independent and dependent variables but studying interaction effects among organizational variables is outside its purview. However, the focus is now shifting from individual practices towards bundle of HR practices due to expected synergistic effects of such bundles. Universalistic theories, such as those developed by Osterman (1994), Pfeffer (1994) and Huselid (1995) are concerned with ‘Best Practice’ and work on the underlying assumption that there is an association or linear relationship between HRM practices and Organizational Performance, that ‘Best Practices’ are generalizable and that organizational success is best measured in terms of financial performance.

Contingency approach

Contingency theorists (Fombrun et al., 1984; Dyer, 1985; Golden and Ramanujam, 1985; Schuler and Jackson, 1987a; Hall and Hall, 1988; Milkovich, 1988; Gomej-Mezia and Balkin, 1992) argue that in order to be effective, an organization’s human resource policies must be aligned with other aspects of the organization, usually with organizational strategy. Higher Organizational Performance is an outcome of successful implementation of business strategy, which in turn relies heavily on certain employee behaviours. These employee behaviours can be generated and controlled through HR practices. Therefore, the organization should implement those HR practices which encourage the employee behaviours that are consistent with the organization’s strategy. This alignment of strategy and HR practices allows organizations to achieve superior performance. Contingency arguments are more complex than universalistic arguments because they imply interactions rather than the simple linear relationships involved in the universalistic perspective (Venkatratnam, 1989). Contingency arguments imply potentially complex interactions between HRM variables, between HRM variables and performance indicators, between HRM variables and contingency factors, and between performance and contingency factors.
Configuration approach

This approach is concerned with how different patterns of multiple interdependent variables relate to a given dependent variable. Some researchers have found that bundles or system of HR practices had more influence on performance than individual practices working in isolation (Arthur, 1994; Huselid, 1995; Macduffie, 1995). The purported advantage of the configuration perspective is that it acknowledges system interaction effects—which means the whole may be more or less than the sum of its parts. It was also argued that individual practices have limited ability to generate competitive advantage in isolation of other synergistic practices (Barney, 1995). Thus, individual HRM practices should be viewed as a part of an HR system and a key criterion for judging such system is whether its individual components (HR practices) fit together in a coherent manner.

A considerable amount of research has examined the impact of human resource practices on firm performance, but results are not uniform as some studies have shown significant relationship while others have found no relationship between human resource practices and firm performance. Many scholars, like Banker et al., 1996; Delaney and Huselid, 1996, Delery and Doty, 1996; Harel and Tzafrir, 1999; Khatri, 2000, have focused on one or more of the human resource practices to examine their effect on various performance measures. Studies in the late 90’s examined the effect of different sets of human resource practices on firm performance (Arthur, 1994; Becker et al., 1997). Despite the existence of a significant amount of theoretical and empirical literature on this topic there is absence of consensus among human resource scholars regarding the ways in which human resource practices have an impact on the firm’s outcomes (Becker and Gerhart, 1996) and the set of contingencies that explain the relationship between human resource practices and firm performance (Ferris et al., 1998). Also, there is no general agreement concerning human resource practices that comprise a human resource management system (Beckert and Gerhart, 1996).

Researchers working on HRM-performance link that revolves around universal approach versus best-fit have obtained mixed results during investigation of these approaches individually as well as in combination. Researchers also stand apart on their views regarding whether these approaches are mutually exclusive or complementary to
each other. However, researchers are now looking at these approaches as complementary rather than in opposition, with best practices viewed as an architectural dimension that has generalizable effects, but within each organization the bundles of practices will be aligned differently to reflect the context and contingencies faced by the firm. Boxall and Purcell (2003) argue that both streams – best practice and best-fit– might be right in their own way. Some basic principles, like employee development, employee involvement and high rewards are universally successful, but the actual design of the HR practice depends to some degree on unique organizational contexts. So, the whole debate about universalistic best practices versus best-fit practices actually represents two sides of the same coin and both are relevant in exploring the linkage between HRM and Performance. But the researchers have placed too much emphasis on the alignment of HR system with business strategy, while the current business environment demands that each system in an organization must be highly flexible. Paauwe and Boselie, (2005) have made a strong plea regarding HRM policies and practices as an enabler for a whole range of strategic options instead of being aligned with an organization’s specific strategy. Universalistic theorists have in general employed individual HRM practices and have analyzed the relationship between individual HRM activities and performance. For example, Pfeffer (1994) has identified a series of sixteen HRM practices that he argues will lead to improved performance, including selectivity in recruiting, high wages, incentive pay, participation and empowerment and training and skill development in firms in general. Delaney and Huselid (1996) also examined and confirmed the impact of seven ‘progressive’ HRM practices including; Training and Incentive Compensation on Organizational Performance. However, according to Huselid (1995), Guthrie (2001), Guest et al., (2003) and Alcazar et al., (2005) there are universalistic approaches also in which more than one HRM practice is combined thereby building so-called ‘High Performance Works Systems’. In short, within the universalistic approach to HRM and Performance, it is becoming common to group or combine practices in order to create more coherent explanations of the HRM-Performance link (Goodeham et al., 2010). The same approach has been followed to test HRM - Performance link in the present study.
Need for the Study

Today’s business environment is full of contradictions and ambiguities. The increased level of competition among firms around the world has put a lot of pressure on the human resource function in domestic companies to prove their importance and enable their companies to compete with others’ skill, efficiency and effectiveness. To overcome confusions, ensure clarity, bring consistency, adjust the pace to progress and to be in tune with the world ‘people must realize people power’. Though, it sounds odd but it is true and there is a need to make HR’s contribution visible. Now, HR should be defined not by what it does but by what it delivers (Ulrich, 1998). Performance of an organization is believed to be affected by performance of its employees. Organizations are using various innovative HR practices that affect employee attitudes, control their behaviour and enhance their knowledge and ability, ultimately resulting in improved employee performance. Gerhart (2007) argued that although it was accepted that HRM is positively related to Organizational Performance, there is a great need for additional evidence to support the HRM-Performance relationship from different contexts. It has been argued that while there is a growing body of theory and empirical research demonstrating relationships between HRM policies, collective employee attributes, and firm outcomes, additional studies in this area are needed (Harter et al., 2002; Purcell and Kinnie, 2007). It is argued that instead of studying individual HR practices, ‘bundles’ that is coherent set of HR practices should be considered to examine their contribution to Organizational Performance. Mixed results have been obtained so far about the linkage of HR system with corporate Performance. Therefore, more empirical research is required to probe further the integration effects of HR practices. Though, a growing body of evidence supports the existence of a positive relationship between Human Resource practices and Organizational Performance, but the question of how HR practices lead to higher Corporate Performance has still not been answered satisfactorily.

Although much has been discussed about HRM practices and their impact on the Organizational Performance in the HRM literature (Huselid 1995; Becker and Gerhart 1996; Sparrow and Budhwar 1997; Ratnam 1998; Khatri 2000; Singh 2003; Sani and Budhwar 2004; Budhwar et al., 2006; Bjorkman and Budhwar 2007; Som and Ashok
but the studies could not capture the perceptions of employees who are the targets of every organization’s HR practices. Moreover, very few reports are available for the work relating SHRM and performance in India. This necessitates more empirical studies to be undertaken to examine the linkage between SHRM and company performance, linkage among the various HRM practices, and role of intervening variables in linking SHRM to company performance as an attempt to answer ‘how’ HR practices lead to higher company performance. The present study endeavours to examine the role of various HR practices individually as well as collectively in affecting Corporate Performance. It also proposes to examine the role of various intervening variables which include; POS, Organizational Commitment, Organizational Trust and Discretionary Behaviour.

**Objectives of the Study**

The overall objective of our study is to examine the relationship between Human Resource system and Company Performance. In order to accomplish this broad objective, the study includes following sub-objectives:

1. To examine the prevalence of selected HR practices in selected Indian companies.
2. To study the role of selected HR practices and HR system in affecting performance of the companies.
3. To appraise the selected HR practices as determinants of Perceived Organizational Support, Trust, Employee Commitment and Discretionary Behaviour.
4. To examine the role of Perceived Organizational Support, Trust, Employee Commitment and Discretionary Behaviour as intervening variables between HR practices and Company Performance.

**Organization of the Study**

This study has been divided into six chapters. The first chapter, *i.e.* the ongoing chapter describes the evolution of human resource management, describes the concepts used in the study and introduces different approaches to study HRM-Performance linkage. It also explains the need for and objectives of the study.
The second chapter reviews the available literature on HR practices and its linkage with Perceived Organizational Support, Organizational Trust, Organizational Commitment, Discretionary Behaviour and Organizational Performance.

The third chapter explains the research methodology employed in the present study. It describes the universe of the study, sampling design, data collection, the statistical techniques used for data analysis and also the limitations of the study.

The fourth chapter discusses the HR practices prevailing in selected Indian organizations, their relationship with first level outcomes which include Perceived Organizational Support, Organizational Trust, Organizational Commitment and Discretionary Behaviour. It has been divided into five sections and the first section deals with the assessment of the degree to which the selected HR practices are being practiced. The second section examines how the selected HR practices affect Perceived Organizational Support. The Third Section discusses the relationship between the selected HR practices and Organizational Trust. The Fourth Section scrutinizes the connection between the selected HR practices and Organizational Commitment. The Fifth Section probes the link between the selected HR practices and Discretionary Behaviour. The Sixth Section examines how the selected HR practices affect Organizational Performance. The chapter ends with the conclusions drawn upon the findings of the current study regarding the HR outcomes of the HR practices being followed in the selected organizations.

The fifth chapter investigates linkage between HR practices and corporate performance and the role of Perceived Organizational Support, Trust, Commitment and Discretionary Behaviour as intervening variables between HR practices and Organizational Performance.

The sixth and the final chapter includes summary, conclusions of the present study and directions for future research.