Chapter 2

REVIEW OF LITERATURE

The purpose of this chapter is to present a review of literature pertaining to the variables in this study that is Human Resource practices, Perceived Organizational Support, Organizational Trust, Organizational Commitment, Discretionary Behavior and Organizational Performance. The literature available on the topic has been thoroughly reviewed. It would help to understand various dimensions of HR-performance link, thus helping further in formulation of the hypothesis. The knowledge of the research which has already been carried out would help in building a comprehensive research design to carry out the present study. The various relevant studies have been reviewed in this chapter.

**Moorman (1991)** examined the relationship between perception of fairness (organizational justice) and organizational citizenship behavior (OCB) in a sample of 225 employees and their managers drawn from two firms in the mid-western U.S. Two sources of organizational justice, that is distributive justice and procedural justice were taken into consideration. Distributive justice describes the fairness of the outcomes an employer receives and procedural justice describes the fairness of the procedures used to determine those outcomes. Support has been found for a causal relationship between perceptions of organizational justice and OCB. Even though a general relation was found but an analysis of one to one relationship between the three dimensions of fairness and OCB resulted in differential effects attributable to distributive justice, formal procedures and interactional justice. In this case interactional justice was the only dimension of fairness which has been found significantly related to organizational citizenship. Thus employees who believed that their supervisor personally treated them fairly appeared to be more likely to exhibit citizenship behaviors.

**Arthur (1994)** carried out an empirical analysis of the ‘Control HR systems’ (cost reducers) versus ‘Commitment HR systems’ (commitment maximisers) dichotomy in 54 US steel mini-mills. Control oriented human resource systems aimed at reducing direct
labor costs or improve efficiency by enforcing employee compliance with specified rules and procedures. On the other hand, commitment oriented human resource systems aimed at shaping desired employee behaviors and attitudes by forging psychological links between organizational and employee goals. It was found that the mills with commitment oriented HR systems had better manufacturing performance (high productivity and low scrap rates) and lower employee turnover than those with control oriented HR systems.

**Huselid (1995)** undertook a system level research in order to find out the impact of HRM practices on turnover, productivity and corporate financial performance. It was hypothesized that firm performance will be enhanced to the degree a firm adopts HRM practices that complement and support each another (internal fit) and a firm’s high performance work system is aligned with its competitive strategy. Results indicated that the high performance work practices significantly affected both intermediate employee outcomes (turnover and productivity) and short as well as long term measures of corporate financial performance (market value and profits). One standard deviation increase in high performance lead to 7.05 percent decrease in turnover, increase in sales per employee by $27,044, increase in market value by $18641, and increase in profits by $3814. Modest evidence was found for internal fit that is between HR practices and little evidence for external fit that is between HR system and corporate strategy. The simple adoption of high performance work practices were concluded to be more important than any efforts to ensure internal consistency or alignment of these policies with firm strategy.

**MacDuffie (1995)** studied the relationship between interrelated and internally consistent HR practices and economic performance. He opined that bundles of HR practices create multiple mutually reinforcing conditions that support employee motivation and skill acquisition. He used a unique international data set from the MIT Future of the Auto Industry Project based on a survey of 62 automotive assembly plants conducted in 1989-90. He argued for HR bundle to be integrated with firm’s overall business strategy to make it effective. The results of the study strongly supported the use of HR practices bundle in improving performance and also suggested that the integration of the bundle of
HR practices with production/business strategy could further enhance the performance in terms of both productivity and quality.

Delery and Doty (1996) proposed two employment systems; the market type and the internal system, each of which was described in terms of seven employment practices. The market type system consisted of HR practices like, hiring from outside an organization, providing little training, broadly defined jobs, very little employment security and voice, performance measured by quantifiable output and extensive use of profit sharing. The internal system was characterized by the existence of an internal labor market, extensive socialization and training, tightly defined jobs, high degree of employment security and voice, performance assessment through behavior and very little use of profit sharing. The middle-of-the-road system that is the hybrid employment system would stand half-the-way between market system and internal system. These systems were then aligned with the ideal strategic types—the prospector (market system), the analyzer (middle of the road system), and the defender (internal system). These strategic types were propounded by Miles and Snow (1978), where the defender emphasizes on better and more efficient ways to produce a given product or service instead of experimenting with new product. When a defender pursues new product they import technology from outside the organization rather than engaging himself in research and development. On the other end, prospectors are characterized by their constant search for new products and markets. They continually experiment with new product lines and ventures into new markets. Analyzers have characteristics of both defenders and prospectors. They usually operate in both stable product markets like defenders and new changing product domains like prospectors. They do not initiate change unlike prospectors but follow it more rapidly than defenders. Senior HR managers and presidents of 1050 banks were surveyed separately. All the three approaches were studied, where relatively strong support was found for universalistic perspective and some support for both the contingency and configuration perspective. Three individual HR Practices – profit sharing, result oriented appraisals and employment security have demonstrated relatively strong universalistic relationships with important accounting measures of performance including; return on assets (ROA) and return on equity (ROE).
The universalistic, contingency and configuration analysis in this study explained higher level of variation in the financial performance as compared to some other studies.

**Delaney and Huselid (1996)** examined the impact of complementarities or synergies among progressive HRM practices affecting employee skills, employee motivation and the structure of work on organizational performance. Progressive HRM practices included in the study were; staffing selectivity, training, incentive compensation, grievance procedure, decentralized decision making, internal labor market and vertical hierarchy. Perceptual measures of organizational performance had been used to examine the above said relationship. The research was based on secondary data collected by National Organization Survey (NOS), a special module of the General Social Survey which was conducted in 1991 with support from the U.S. National Science Foundation. The findings suggested a positive association between HR practices and perceived organizational performance but the assumption that complementarities among HR practices would improve organizational performance was not supported by the results of the study. Thus, the findings of the study failed to demonstrate any linkage between HR as a system and organizational performance.

**Budhwar and Sparrow (1997)** analyzed the levels of ‘integration’ of human resource management into corporate strategy and ‘devolvement’ of responsibility for human resource management to line managers in India. A survey was conducted in 137 firms from six manufacturing industries and twenty four in depth interviews in the same companies. The results depicted a low degree of integration of HRM into corporate strategy as well as low devolvement of responsibility for HRM to line managers. The findings, thus, positioned India in the low integration- low devolvement quadrant on the ‘integration-devolvement’ matrix established for 10 European nations.

**Huselid et al., (1997)** evaluated the impact of HR managers’ capabilities on HR management effectiveness and the latter’s impact on corporate financial performance. HRM effectiveness was measured in terms of technical and strategic HRM effectiveness. Strategic HRM effectiveness described perceptions of how well the HRM function developed a firm’s employees to support its business needs. While technical HRM effectiveness described perceptions of how well the HRM function performed activities
traditionally associated with personnel management. Financial data was collected for the years 1991 (contemporaneous measures) and 1992 (prospective measures). It was found that the levels of technical HRM effectiveness were higher than the levels of strategic HRM effectiveness among the firms surveyed. Significant relationships were found between strategic HRM effectiveness and financial performance measures such as; productivity, cash flow and market value. But a significant relationship was found to be absent between technical HRM effectiveness and corporate financial performance measures.

**Boxall and Steeneveld (1999)** selected six firms employing at least one hundred staff in the New Zealand engineering consultancy industry to conduct longitudinal research based on case studies. But only three firms allowed interviewing and archival analysis and thus were primary subjects of the study. Data was gathered in two phases that is in 1994 and in 1997. The study affirmed that successful firms deployed those HR strategies which enabled them to face the challenging situations and survive the major business traumas. It is important to distinguish between those strategies which are vital for ongoing viability and which enable a firm to attain competitive advantage. Though no firm could be claimed to have attained enviable heights, but the study suggested that opportunities did exist for professional service firms to develop industry leadership through superior human resource management.

**Harel and Tzafrir (1999)** conducted a survey of human resource managers of 76 organizations including public and private organizations employing 200 or more workers within Israel. Six HR practices; recruitment, selection, compensation, employee participation, internal labor market and training, were identified to be strategic and universalistic HR practices. Further, the relationship of these HR practices with perceived organizational and market performance was probed. Training practices were the single independent variable found to significantly affect perceived organizational performance. But perceived market performance was found to be significantly affected by employee selection practices along with training practices of an organization. Organizations that place greater emphasis on employee training increase the human capital of individual employees and their job satisfaction, which then augments the overall ability of the
organization. The researchers also suggested that training activities could be considered an element in the first stage of attaining competitive advantage. Moreover, employee selection that can properly identify those candidates who fit the needs of the job, the work-team, and the organization can enhance firm performance. The researchers suggested that organizations should simultaneously use many HRM practices that may enhance operational effectiveness, but in order to achieve strategic positioning, they have to combine HRM practices in a way that produces a synergistic effect.

Hoque (1999) examined the HRM-Performance linkage in UK hotel industry from all the three research perspectives; Universalistic, Contingency and Configuration. In a survey of over 200 hotels in the U.K hotel industry, it was found that higher performance can be obtained where HRM is introduced as a mutually cohesive and institutionally supported package. It was further revealed that in larger establishment within the hotel industry, high performance was related to the adoption of a coherent package of HRM practices, aligned with ‘Quality Service’ business strategy. The study supported the applicability of all the three approaches.

Lee and Miller (1999) conducted a survey of top most executives and senior vice-presidents of 129 manufacturing organizations in Korea. The study investigated how an organization’s commitment to its employees’ well being was associated with organizational performance. Organizational commitment to employees’ (OCE) was measured in two parts; 1) how much an organization cares about employees’ well being (based on the concept of perceived organizational support (POS) and 2) CEOs’ relative rating of organizational investment in employee education, competence development and total compensation. The results suggested that the performance impact of OCE would be specially great in the context of an effective positioning strategy. ROA was reported to be strongly and positively influenced by the interaction between OCE and dedicated pursuit of porter’s strategy for achieving competitive advantage; these are cost leadership, market differentiation and innovative differentiation. Hence, evidence was found about the relationship between OCE and organizational performance but this relationship was most strongly pronounced when interacted with strategy.
Wright et al., (1999) examined the impact of the set of HR practices, such as selection, training, compensation and appraisal bundled with participative management system on financial performance of US petrochemical refineries. It was proposed that HR practices or participation alone might be weakly related or even unrelated to performance, but maximal performance could be gained only when they were bundled together. Survey results indicated that appraisal and training were significantly related to workforce skills and that training and compensation were marginally related to workforce motivation. In addition, only training was significantly related to refinery performance, although the relationship was negative. However, selection, compensation and appraisal interacted with participation in determining refinery financial performance such that each of these practices was strongly positively related to financial performance only under highly participative systems. Thus, it was inferred that HR practices positively affected the skills and behaviors of operators and the impact of these practices on refinery performance was strongest when they were paired with a system that allowed operators to participate in the governance of day-to-day activities. Participation was found to play the role of moderator in relation between HR practices and firm performance especially in capital intensive industries for which the reason could be attributed to the more often use of technology to replace human input, thus minimizing the potential for performance variation among human actors. However, participatory systems created a much greater potential for performance variation, thus allowing for the impact of HR practices to be observed.

Barnard and Rodgers (2000) compared policies relating to internal versus external cultivation of human resources. Internal staffing, employee development and employment stability were the three dimensions chosen to represent internal system of human resource cultivation. However, the study failed to demonstrate that the practices chosen to represent internal system of HR cultivation reflect the same underlying construct. It was also examined whether the internally oriented HRM practices chosen were positively associated with successful implementation of high performance work system (HPWS). A strong support could only be found for positive link between implementation of employee development policies and successful implementation of HPWS, whereas internal staffing and HPWS were found to be weakly related and a negative relation was observed between employment stability and HPWS.
**Fey and Bjorkman (2000)** investigated the relationship between the bundle of HRM practices for managers and non-managerial employees and the performance of 101 foreign owned subsidiaries in Russia. Three dimensions of HRM were used for the study; (i) ‘employee development’ dimension comprised of technical and non-technical training, promotion from within the firm, assistance provided for career planning and job security, (ii) ‘feedback’ dimension consisted of information sharing program, complaint resolution system and attitude surveys and (iii) ‘pay/organization’ dimension was made up of performance appraisals, group/company performance in pay, teamwork, decentralized decision making and interdepartmental communication. Both management and employee development were found to be strongly and positively related to firm performance. The pay/organization dimension was positively related with firm performance only for non-managerial employees. Finally, feedback and firm performance were found to be positively related only for managerial employees. The results suggested that investment in HRM practices resulted in better firm performance but a firm need to adopt different HRM practices for managerial and non-managerial employees. The study provided only a limited support for the hypothesized positive relationship between efforts at aligning HRM practices with firm strategy and firm performance.

**Huang (2000)** surveyed 315 Taiwanese firms to determine the association of different approaches to human resource management with different levels of business performances. It has been noted that human resource decisions involve several alternative choices. For instance, with regard to staffing policies, a firm may choose between internal and external recruitment, single and multiple promotion ladders, narrow and broad career paths. This study examined twenty-three alternative approaches in five functional fields of human resource management practices; planning, staffing, appraisal, compensation, and training and development. Human resource strategies and organizational performance were found to be significantly related. The companies performing well were more likely to integrate their HR functions with business strategies, devolve HR activities to line managers, adopt formal and explicit planning procedures and long term planning, and link their HR planning and business-planning closely compared to the poorer performers. For staffing practices, results showed that the company providing all round experience and broad career paths for its employees led to the company’s better performance in
addition to explicit spelling out of job duties for its employees. However, no significant difference could be observed between companies at different performance levels with regard to sources of labour, number of promotion ladders and promotion criteria. As for approaches to performance appraisal, findings indicated that in comparison to the less-effective firms, the highly effective Taiwanese firms tended to integrate the job-appraisal function more thoroughly with other aspects of HR management and to use more long-term and group-oriented criteria. The study also found that firms that performed well emphasized both on external and internal equity when they rewarded their employees and included greater financial incentive in the reward package. In addition, they offered relatively greater employment security to their employees than did the poorly performing firms. Finally, in the functional area of training and development, it was observed that firms performing well were more likely to identify training and development as a highly valued function and address these activities on a long-term basis. However, no clear pattern emerged regarding the provision of training and development in an individual or team format. Although the findings of the study supported the argument that approaches to human resource management were highly correlated with organizational performance, no causal relationship was detected between the two.

Khatri (2000) examined the link between strategy and HR practices and the moderating effect of strategy on the link between HR practices and organizational performance in a sample of about 200 largest companies representing all major industries in Singapore. Six sets of HR practices viz., recruitment and selection, employee relations/participation, performance appraisal, compensation/benefits, training and development, and HR planning, were identified. Organizational performance was measured in terms of percentage growth in sales and profit margin. In addition, non financial performance was measured as public image and goodwill, quality of services and efficiency of operations. Miles and Snow’s typology (1978) of four strategic archetypes: defender, prospectors, analysers and reactors was used in the study. A defender strategy calls for centralized decision making with an emphasis on formalization and standardization of jobs and tasks. Prospectors are virtually the opposite of defenders. It is in a continuous state of development because retrenchments in some of the existing products or markets come with additions of new products or markets. Analysers are a hybrid of defenders and
prospectors. It means that they operate in stable as well as changing markets. Reactors lack a consistent strategy. As a result, HR practices of reactor companies are likely to lack consistency too. Here, in this case, HR practices were found to have significant direct effect on profitability of companies of all strategic types but marginal or insignificant direct effects on sales and non-financial performance. Findings suggested that business strategy had a highly significant moderating influence on the link between HR practices and performance. With regard to link between strategy and HR practices, the results showed that in comparison to companies pursuing other strategies, flexible benefits were significantly higher in prospectors and analyzers, use of performance-based compensation was significantly lesser by defenders. The use of consultative performance appraisal was significantly higher in prospectors and analyzers than reactors. Analyzers showed a significantly greater emphasis on the effectiveness of training programs than did defenders. For the remaining HR practices such as, employee participation, HR planning, use of structured interviews, use of employment tests and amount of training, no significant difference was found between four strategic types.

**Singh (2000)** examined the implementation of some selected HR practices and their relationship both individually and interactively with organizational performance. The addition or grouping of interactions of HR practices provided evidence for the presence of synergistic effect. The results also indicated high variation in use of HR practices across different organizations. The following practices were found to have the highest impact on organizational performance when examined individually:

- Career planning explained the highest variations in turnover.
- Compensation explained the highest variations in productivity and price-cost margin.
- Selection explained the highest variations in Return on Capital Employed (RCE) and Return on Net worth (RONW).

**Smith and Blum (2000)** obtained the data from a national survey of US organizations in order to investigate the relationship between work-family policies and perceived firm level performance. They reported that the organizations with a greater range of work-family policies had higher levels of organizational performance. Eight work family
policies included in the analysis were on-site day-care, help with day care costs, elder
care assistance, information on community day care, paid parental leave, maternity or
paternity leave with reemployment and flexible scheduling. It was also found that the
relationship between work family policies and performance was greater for older firms
and for firms with higher proportions of women employees.

Som (2000) conducted a multiple respondent survey of 69 Indian organizations to
understand firstly, whether changing from conventional to more innovative HRM
practices in Indian firms were associated with improved organizational performance to
face the post liberalization changes in the business environment. Secondly, whether
certain innovative HRM practices would have stronger significant effect than others and
whether synergies among such practices could enhance organizational performance in the
Indian context. The list of innovative HRM practices included the role of HR department,
recruitment, retraining and redeployment, performance appraisal and performance
contingent incentive compensation. It was inferred that all innovative HR practices were
not equally important but role of HR department, selectivity in staffing and incentive
compensation were positively related to perceived organizational performance and hence
more important.

Collins et al., (2001) targeted 78 high technology firms of USA to examine the
association among key HR practices (effective acquisition, employee development,
commitment building and networking practices), three dimensions of knowledge creation
capability (human capital, employee motivation, and information combination and
exchange) and firm performance. The study examined the interaction effects of the three
conditions of knowledge creation capability on firms’ sales growth, the interrelationship
of effective HR practices with the various dimensions of knowledge creation capability
and the role of the dimensions of knowledge creation capability in the HR practices and
firm performance relationship. The results revealed that knowledge creation capability
significantly explained variance in firm performance and its three dimensions interacted
positively to affect sales growth. Only information combination and exchange showed a
significant direct relationship to firm sales growth. Neither human capital nor employee
motivation showed significant direct relationships with firm performance. It was found
that years of education and employee motivation were only related to sales growth through the dimensions of knowledge-creation capability.

Gardener *et al.*, (2001) selected a food service company with a large number of autonomous business units to study the impact of HR practices on employees behavior (absenteeism, turnover) mediated by employee attitudes (job satisfaction, commitment). HR practices were put into three categories, namely skill enhancing, motivation and empowerment enhancing HR practices. Neither direct, nor indirect relationship was found to exist between empowerment enhancing HR practices and turnover. The relationship between motivation enhancing practices and turnover was negative as assumed, whereas a positive relationship was found between skill enhancing HR practices and turnover. Mediation effect of employee attitudes in the relationship between HR practices and turnover was found to be nil. No relationship was found between skill enhancing HR practices, motivation enhancing HR practices and absenteeism. Only empowerment enhancing HR practices were found to be positively related to attitudes that partially mediated the link between these HR practices and absenteeism.

Rhoades *et al.*, (2001) conducted three studies to examine the interrelationships among work experiences (organizational rewards, procedural justice and supervisory support), POS, affective commitment and employee turnover. A diverse sample of 367 employees was drawn from a variety of organizations. In the first study, POS was found to mediate the relationship of work experiences with affective commitment. The second study examined causal impact of POS on affective commitment and the results obtained were positive. In third study the relationship between POS, affective commitment and voluntary employee turnover was examined. Here a negative relationship between POS and voluntary employee turnover mediated by affective commitment was reported. The study established a causal chain between the variables under consideration as follows:

Richard and Johnson (2001) examined the impact of SHRM effectiveness on organizational effectiveness. Organizational effectiveness was measured using three variables namely; annual employee turnover, employee productivity and return on equity. SHRM effectiveness has been defined as ‘perceptions of how well the HRM function developed a firm’s employees to support its business needs which included; teamwork,
communications and involvement, enhancing quality and developing talent to serve the business in the future’. This study also aimed at testing the influence of interaction effects of SHRM effectiveness and the contingency variable of capital intensity on organizational effectiveness. It could be inferred from the results that an effective HR system might reduce employee turnover without depending upon strategy. However, no support was found for the main effect of SHRM effectiveness on the other two measures of organizational effectiveness namely productivity and ROE. An increase in both firm productivity and ROE was shown to be due to positive interaction effects of SHRM effectiveness and capital intensity.

**Chang and Chen (2002)** evaluated the links between human resource management practices and performance of 62 high technology firms of Taiwan. The study found that HRM practices, such as training and development, teamwork, benefits, HR planning and performance appraisal have significant effect on employee productivity. In addition, benefits and HR planning are negatively related to employee turnover. The study also revealed moderating effects of competitive strategies, such as cost strategy and differentiation strategy on the relationship between HRM practices and firm performance.

**Eisenberger et al., (2002)** conducted three studies to investigate the relationship between perceived supervisor support (PSS), perceived organizational support (POS) and employee turnover. Evidence for a positive relationship between PSS and POS was provided by the findings of the first study conducted over a sample of 314 employees drawn from a variety of organizations suggesting that PSS leads to POS. The moderating effect of supervisors’ perceived status in the organization on the PSS-POS relationship was examined in the second study. For this, the survey of 300 retail sales employees revealed that PSS-POS relationship improved with perceived supervisor status in the organization. The third survey aimed at studying the role of POS in the association between PSS and employee turnover. The findings of this study were consistent with the view that POS completely mediated a negative relationship between PSS and employee turnover. It means that employees who believed that the supervisor valued their contributions and cared about their well being showed increased POS, which in turn was related to decreased turnover.
Guthrie et al., (2002) conducted a survey of senior managers (e.g. CEO, MD) of New Zealand business organizations employing at least 100 individuals. The survey aimed at finding out whether or not a differentiation competitive strategy tended to be aligned with greater use of high involvement work practices and whether (mis)alignment affected firm outcomes (productivity). The measure of HIWP was a composite of twelve items; use of internal promotions, use of performance (versus seniority) based promotions, use of skill based pay, group based pay (i.e. gain sharing, profit-sharing etc.), use of employee stock ownership, cross-training or cross utilization, average amount of training provided, use of training focused on future skill requirements, use of employee participatory programs, information sharing, attitude surveys and use of teams. Since HIWPs were presumed to vary across employee groups, questions related to HR practices were asked separately for two categories of employees. Estimates of the proportion of each employee group covered by each HIWP were obtained. It was observed that the firms varied in both the number of practices utilized and the extensiveness of employee coverage. Results indicated a moderate association between an orientation towards competing on a differentiation basis and the use of HIWPs. Except for training and development, no significant difference was found in the use of number of practices by the sets of firms. Further, the use of HIWPs was found to be positively associated with performance in firms competing on the basis of differentiation but showed the absence of such relationship in firms pursuing a strategy of cost leadership.

Rhoades and Eisenberger (2002) reviewed more than 70 studies concerning perceived organizational support (POS). A meta-analysis indicated that 3 major categories of beneficial treatment received by employees (i.e., fairness, supervisor support, and organizational rewards and favorable job conditions) were associated with POS. In turn, POS was related to outcomes favorable to employees (e.g., job satisfaction, positive mood) and the organization (e.g., affective commitment, performance, and lessened withdrawal behavior). POS had strong and positive relationships with affective commitment, job satisfaction, desire to remain with the organization, positive mood at work, and turnover intentions. POS had medium relationships with job involvement, strains, withdrawal behaviors short of turnover (e.g., absenteeism and tardiness), and extra role behavior directed towards the organization. Concerning employees’ treatment
by the organization, the path analysis revealed, as expected, that fairness had the strongest positive relationship with POS, followed by supervisor support and rewards/job conditions. These relationships depended on processes assumed by organizational support theory: employees’ belief that the organization’s actions were discretionary, feeling of obligation to aid the organization, fulfillment of socio-emotional needs, and performance-reward expectancies.

Agarwala (2003) proposed that in an era of heightened competition, effective human resource management (HRM) can no longer be content with simply executing a standard set of practices. There is a need constantly to develop and implement new and improved HR practices so as to remain competitive. The term innovative HR practices has been defined as ideas, programmes, practices or systems related to the HR function and new to the adopting organization. Thus, Progressive/Innovative HR practices are considered similar to administrative innovations instead of technical innovations.

This particular study was conducted in two phases. During preliminary interview experts from 37 organizations were interviewed and Innovative Human Resource Practices (IHRPs) were finalized for the final study. A broad range of HR practices were identified that formed a major focus area for modification and improvements for a majority of organizations in the contemporary business environment. Of all the innovative HR practices identified by the experts, fourteen HR systems/practices that were focused upon in phase two of the study included; Employee acquisition strategies, Employee retention strategies, Compensation and incentives, Benefits and services, Rewards and recognition, Technical training, Management development, Career planning and development practices, Performance appraisals, Potential development, Succession planning, Employee relations with a human face, Employee exit and separation management, and Adopting responsibility for socially relevant issues. During phase II, seven organizations were selected to investigate the relationship between three dimensions of innovative human resource practices (IHRPs) that is the extent to which managers believed that innovative HR practices were important for achieving the goals of the organization, the extent to which employees believed that innovative HR practices had been introduced in the organization, and the extent to which the managers were
satisfied with the implementation of innovative HR practices in the organization. The tentative hypothesis formulated for the study stated that there would be a significant relationship between one or more dimensions of employee perception of IHRPs, that is, the importance, introduction and extent of satisfaction with IHRPs, with organizational commitment (OC). The results showed that the perceived extent of introduction of innovative human resource practices by the organizations was the most significant predictor of organizational commitment.

Lewin (2003) presented the dual theory of HRM and business performance. It was proposed that high involvement HRM (HIHRM) practices present only one way of managing HR to leverage business performance. Another way to achieve enhanced business performance is by managing HR for expense control and this is where low involvement HRM (LIHRM) practices play their role. It was explained by segmenting the business workforce as core and peripheral employees. Members of the core workforce were those who were carefully selected, provided employment security, performance-based pay, employed for full-time, paid a regular salary or wage, and participated in decision-making, etc. On the other hand the peripheral workforce consisted of part-time, temporary, contract, vendored, and outsourced “employees” who were generally paid a fixed wage, salary or lump sum, were partially or not at all covered by fringe benefits, development or promotion opportunities, and did not participate in decision-making, etc.

It was suggested that expenditures on the core workforce be treated as an investment intended to add value to the business by this segment, whereas, the expenditure on the peripheral workforce be treated as an expense to be curtailed but in a prudent manner. A study of 289 US companies, 313 company business units, 457 manufacturing plants and 249 sales and service field offices of a national insurance company was conducted to support the theory. It was found that HIHRM practices were applied significantly (2.5 times) more to core employees than to peripheral employees. Therefore, it is appropriate to treat core employment and peripheral employment as dichotomous with respect to HRM practices. LIHRM practices were also analyzed for their impact on business performance, and found that LIHRM practices also ‘leverage’ business performance, thus confirming the dual theory of HRM. With regard to the
balancing of core (HIHRM) and peripheral (LIHRM) employment in business entities, this study suggested a proximate one-third peripheral employment and two-thirds core employment to be “optimal” from a business performance perspective but cautioned that additional peripheral employment beyond this point could likely retard business performance.

**Purcell et al., (2003)** studied 18 companies, including six from the knowledge-intensive sector. In each company, a cross-section of employees was interviewed twice over the period of the study to collect data on a range of attitudes. The model given in Figure 2 (i) has been used to examine the various relationships. As shown, practices alone do not create performance. However, they do create the building blocks of performance i.e. ability, motivation and opportunity. For people to perform better—beyond the minimal requirements of the job—they must have the ability to do so because they possess the necessary knowledge and skills, including how to work with other people, be motivated to do the work and do it well and be given the opportunity to deploy their skills, both on the job and more broadly by contributing to work-group and organizational success. However, it is upon employee discretion whether or not to take up opportunities, use ability or allow themselves to be motivated.

The researchers found that it was the extent of commitment and job satisfaction that triggered such discretionary behavior, that is if they felt committed and satisfied with the jobs they were doing, they were likely to put in extra effort. Attitudinal data was used to isolate factors that might have a significant effect on the levels of satisfaction and commitment expressed by the individual. It was found that the relationship between ability, motivation and opportunity and attitudes of commitment, satisfaction and motivation was not straightforward. The respondent’s relationship with the line manager and the underlying value system of the organization considerably influenced this relationship.

**Tzafrir et al., (2003)** analyzed the responses of 230 workers in Israel to portray the paths, which link the selected HR practices (communication, procedural justice, empowerment and employee development) to employees’ trust in their managers. The results indicated a significant and positive influence of empowerment, organizational communication and
Figure 2(i) : High Performance Work Systems HR Policy and Practice (Source : Purcell et al., 2003)
procedural justice as determinants of employees’ trust in their managers. However, in the path analysis model an indirect positive effect of employee development, mediated by procedural justice was found to affect employees’ trust in their manager. So, it was suggested that companies and top management should be interested in, and nourish a high trust environment, and thus, need to be committed to open communication, empowerment, and procedural justice.

**Datta and Wright (2003)** surveyed 132 firms and found that the impact of a system of HPWP(s on firm productivity was significantly influenced by the industry conditions of capital intensity, growth and differentiation. It had been argued that investments in human capital via HPWP(s will tend to have a positive and universal impact on human resource outcomes, such as turnover and absenteeism. In contrast, it had been expected that the impact of HPWP(s on outcomes, such as productivity will be contingent on industry (and other contextual conditions) affecting employee discretion. The results indicated that three prominent industry features -- capital intensity, differentiation and growth -- influenced the relative efficacy of high performance work systems. HPWP(s were found to display a stronger association with firm productivity in industries with lower capital intensity, greater differentiation or faster growth.

**Gould-Williams (2003)** surveyed 191 employees comprising front line workers, supervisors and managers from eight service departments of public sector organizations. A list of seven HR practices (employment security, selective hiring, teamwork, performance related pay, training and development, egalitarianism and information sharing) given by Pfeffer (1999) was used to study the relation between bundles of HR practices, workplace trust (interpersonal trust and system trust), attitudinal outcomes (organizational commitment, job satisfaction), behavioral outcomes (intention to remain within organization and discretionary effort) and perceived organizational performance. The results showed that HR practices had a significant predictive effect on both systems and interpersonal trust, with systems trust positively predicting changes in employee satisfaction, organizational commitment and organizational performance. The findings indicated that bundle of HR practices and trust were key factors influencing performance.
Guest et al., (2003) investigated the relationship between HRM and performance in 366 UK companies by using objective and subjective performance measures, cross sectional and longitudinal data. The impact of HRM in service and manufacturing sector was also examined but no significant difference was found. The use of subjective performance estimates showed a strong association between HRM and both productivity and financial performance. While using objective measures of performance, greater use of HRM was found associated with lower labor turnover and higher profit per employee but not higher productivity. After controlling for previous year’s performance the association ceased to be significant. The study could not establish a causal link between HRM and firm performance.

Paul and Anantharaman (2003) examined the role of intervening variables connecting HRM system and organizational performance as shown in the figure 2(ii) below.

![Diagram showing relationship between HR practices and financial performance](image)

**Figure 2.2: Model showing relationship between HR practices and Financial Performance (Paul and Anantharaman, 2003)**

Indian software companies including large scale, small, medium scale and multinational companies were covered in this study. 1200 employees from forty-five software companies were approached, but 410 responses were obtained from thirty-five companies.
and 370 responses from thirty-four companies were found usable. Not even a single HRP could be found to have direct causal connection with organizational financial performance. But an indirect influence on operational and financial performance of each and every HRP was found. Some practices, such as training, job design, compensation and incentives were found to be directly affecting operating performance.

Sels et al., (2003) surveyed business managers from four sectors; construction, service, trade and industrial companies of Belgium. Six domains of HRM practices; Selection policy, Compensation, Training policy, Performance management, Career policy, and Financial participation were used to test the hypothesis based on bankruptcy prediction models. Each domain comprised of three strategic HRM practices. The linkage between HRM intensity and financial performance (value added, profitability, liquidity and solvency) through operational performance (productivity, employee turnover and absenteeism) was examined in the study. The findings were as follows:

- Strong positive impact of HRM intensity on productivity.
- Mediation affects of turnover and absenteeism were found insignificant.
- A strong and positive total affect of HRM intensity on profitability was found by integrating both direct and indirect affects (via productivity and personnel costs/gross margin on profitability).

Singh (2003) probed the relationship between strategic HR orientation of a firm and its performance. HR practices related to manpower planning, recruitment and selection, evaluation, compensation, employee training and staffing were selected based on the pilot study conducted before carrying actual research and literature support. The study was cross sectional in nature and the data was collected from HR heads through questionnaires. The results have shown that the firms with an emphasis on strategic HR orientation performed significantly better than those with lower emphasis.

Wright et al., (2003) used employees engaged in different jobs of 50 autonomous business units of a large food service company as the source of HR practice data.
A predictive design (as given below) of HR - performance linkage was used to shed some light on the causal link between HR practices and profits as shown in figure 2(iii). Eight HR practices divided into four groups (selection and staffing, training, pay for performance and participation) and their linkage with six performance measures - worker’s compensation/sales, productivity, quality, shrinkage, operating expenses and profitability - were examined. The results revealed that each variable of the hypothesized model was strongly linked to the other. It was also found that organizational commitment leads to increase in core competence/in role behavior and extra role behavior, reduces counter-productive behavior further yielding positive operating performance.

**Budhwar and Boyne (2004)** conducted a survey of 137 top personnel specialists from Indian firms having 200 or more employees in six industries in the manufacturing sector. The study aimed at comparing HR practices in Indian public and private sector organizations. HR practices in private sector organizations were anticipated to be significantly different from those existing in public sector organizations. The key areas of analysis included the structure of HR department, the role of HR function in corporate change, recruitment and selection, pay and benefits, training and development, employee relations and emphasis on key HRM strategies. It was observed that in both the sectors a high percentage of organizations had an HR department/manager and a significant number of senior HR specialists were recruited from outside the organization. But the HR managers in 37.5 percent of private sector organizations had a place on board of directors.
as compared to only 14.8 percent of public sector firms and a relatively higher percentage of private sector organizations had HR strategy which is translated into clear work programs. With regard to change management, HR departments in both the sector’s organizations had contributed significantly. HR was equally involved in corporate strategy formulation in both sectors. The results indicated that HR managers in public sector organizations realized the need of devolvement of responsibility for HRM to line managers, whereas, private sector managers preferred centralized decision making and practice tight control. Indian private sector firms emphasized more on talent acquisition strategies but did not follow a professional and formal approach to HR acquisition practices. Where private sector organizations relied more on informal approach to recruitment, adherence to provisions of labour legislation could be found in public sector organizations. Indian private sector firms were found to be more likely to adopt a skill or competency based approach to reward their employees. No significant difference could be observed with regard to training and development function in both sector organizations. Indian organizations, in both the sectors shared less information related to both strategy and financial performance with their blue collar staff in comparison to managerial staff. The hierarchical system is still prevalent in Indian organizations and hence top down communication. Thus, the results showed a number of similarities and differences in the HRM systems of Indian public and private sector organizations. But as against the hypothesis, the gap between HR practices in both sector organizations was found to be insignificant.

**Chan et al., (2004)** conducted a multi-respondent (including HR managers and senior executives) survey in companies that belonged to multiple industries in Hong-Kong. They tested the direct and interactive effects of high performance HR practices and organizational culture on perceived firm performance (perceived organizational performance and perceived market performance). The expected direct effect of high performance HRPs on firm performance could not be supported by the results. However, the moderating effect of differentiation strategy on the relationship between high performance HRPs and firm performance was found to be insignificant and the moderating effect of organizational culture was shown to be negative.
Dolan et al., (2004) investigated the multiple linkages that exist between certain HR policies and practices (staffing, compensation and training), characteristics of the HR department (ratio of professionals, average level of education), some organizational characteristics (size, sector, involvement in mergers, gender distribution and age distribution) and the overall economic performance of the firm as portrayed in the model given below in figure: 2(iv).

![Multiple linkage model between HR practices and Financial Performance](image)

**Figure 2(iv): Multiple linkage model between HR practices and Financial Performance (Dolan et al., 2004)**

Data was collected from senior HR officers of some large firms of Spain. The study was based on a combination of cross-sectional and longitudinal designs and found that HR system and department played an important strategic and operational role in adding value to the firm’s performance. It was concluded that a proper configuration of human resources practices creates a synergy that multiplies the impact of individual HR practices and significantly contributes to firm performance.

Ferres et al., (2004) investigated the influence of co-worker trust on selected organizational perceptions and attitudes. The sample consisted of 299 managerial as well as non managerial employees from a large public health organization. As against the traditional views of exchange relationships in the workplace which customarily consider POS as an antecedent of trust, the findings of this study indicated that POS could also be an outcome of trust, at least at the co-worker level. This indicates that trust amongst peers could well contribute to employees’ perceptions of support from the organization as a
whole. Employees who consider their co-workers to be trustworthy, and are willing to act on the basis of the words, actions, and decisions of their co-workers, may be more likely to feel positive about the support received from the organization. Results provided empirical support for the role of co-worker trust as a significant predictor of perceived organizational support and greater affective commitment.

**Guerrero and Didier (2004)** carried out a survey among 180 HR managers of large French companies. The study focused on four specific HR practices, *viz.* empowerment, compensation, communication and training and combined as high involvement practices. When examined individually, no significant link could be established between compensation and firm performance. However, the other HR practices were found related to financial performance through their impact on social performance (work culture, absenteeism). HR practices affected performance more strongly when combined, as compared to individual impact, thus highlighting the importance of using HR ‘bundles’.

**Guthrie et al., (2004)** explored the pathways leading from HRM to firm performance in a sample of 131 US firms. Specifically, structural equation modeling was used to test a model positing a set of causal relationships between high performance work systems (HPWS), employee retention, workforce productivity and firm market value. Within a set of manufacturing firms, results indicated the primary impact of HPWS on productivity and market value to be through its influence on employee retention.

HPWS → Employee turnover → Productivity → Firm’s Market Value

The study showed that high performance work practices were negatively related to employee turnover which in turn had a negative relation with productivity that positively influenced firm’s market value. Hence, the inference was drawn that higher the degree of HPWS lower will be the employee turnover, lower the turnover greater will be the productivity and finally higher firm’s market value.

**Graafland and Rutten (2004)** investigated the impact of POS on organizational performance among a sample of Dutch construction companies. It was reported that lack of POS measured by complaints concerning six aspects of work was negatively related to firm performance. Especially, complaints related to management and decision making
appeared to be significantly negatively related to profitability. The personality and management style of superiors might influence the willingness of employees to work to the benefit of the organization. Further, it was also found that POS had a causal impact on profitability. The results further indicated that the relationship between performance and POS was stronger for companies that were performing relatively well. If the firms show low profitability employees understand that the company has no financial room for extra-role behavior and therefore do not reciprocate low POS by low effort.

**Karami et al., (2004)** surveyed 114 top executives (including CEOs, MDs and SBU managers) working in electronic manufacturing industry of UK to study their perceptions of HR involvement in strategy development. The study examined the relationship between both HR capabilities and product/services quality and company performance; the relationship between top managers’ attitudes on HR effectiveness as a factor determining competitive advantage of the firm and the level of linkage between HR and business strategy and whether or not the relationship between HR involvement in strategic management and organizational effectiveness is positive and significant. It was found that increasing HR competencies and capabilities of a firm lead to a firm’s success in achieving its goals and objectives. A strong linkage between HR and strategy was found when top management viewed employees as strategic resources. Further, there was a strong and positive relationship between HR involvement in development and implementation of business strategy and organizational effectiveness in the target industry.

**Tzafrir (2005)** evaluated the trust mechanism and the way HRM practices mediate its impact on organizational performance. On the basis of the belief that managers are the primary designers of organizational structure, strategies and activities, it was hypothesized that managers’ trust in their employees could have a great impact on the design of the HRM system which ultimately would be positively related to firm performance. Four formal HR practices, namely incentive compensation; employee participation; internal labour market; and training were identified as both universal and influenced by the degree of managerial trust in employees. One hundred and four HR
managers from the leading companies of the 275 designated companies in the Israeli industrial, service and trade sectors were surveyed. Significant relationships between trust and HRM practices were observed. HR managers with high levels of trust in their employees in general were found to be more likely to shape an HRM system of ‘high performance work practices’ than the managers with low levels of trust. The findings of the study suggested that training should be considered a pivotal factor in terms of the relationships between HRM practices and organizational performance. Moreover, this study also demonstrated that encouraging employees to participate in the organizational effort could be an important tool for increasing perceived organizational performance. Providing employees with opportunities for advancement within the organization and pay-for-performance also had a positive and significant impact on perceived organizational performance. Moreover, HR managers were found to be more likely to offer training and shape the internal promotion system when trust was high. Also, in such cases of high trust the firms exhibited higher organizational performance.

Wright et al., (2005) examined how measures of HR practices correlate with past, concurrent and future operational performance measures. They tested the relationship between both HR practices and collective affective commitment and various operational and financial measures of performance. The respondents were employees involved in core jobs of 45 self-contained business units of a large food service corporation. The study demonstrated that HR practices were strongly related to future, concurrent as well as past performance. But after controlling for past and concurrent performance, no correlation of HR practices with future performance was found. This finding indicated that though HR practices were found significantly correlated with future performance but it could not be said that HR practices cause higher performance. A significant correlation was also found between HR practices and past performance that reverses the causality arrow, which means it, can also be said that performance causes commitment and HR practices. It was concluded that HR practices should be considered as a part of a “high-performance” organization but no proof could be provided to show that these practices cause high performance.
Conway and Monks (2006) proposed a model that highlighted the impact of HR practices on attitudes of employees which further affected organizational commitment and brought changes in behavior of employees resulting in improved performance. 288 employees of three financial service organizations based in Ireland were surveyed. The study explored the impact of employee attitudes towards HR practices on organizational commitment. Three types of commitment – affective, continuance and normative as proposed by Meyer and Allen (1991) were used for the research. It was reported that attitudes affected different forms of commitment with possibly different performance outcomes. The research established that attitudes towards reward, resourcing and integration and employability were significant predictors of continuance commitment. With respect to affective commitment, attitudes towards three broad areas of HR practice; job design, employee involvement and reward, were found significant. On the other hand, it appeared difficult to find any evidence to suggest that attitudes towards HR practices have a considerable impact on levels of normative commitment. A key finding of the research was that attitudes towards HR practices explained a greater proportion of the variance in affective commitment impact on levels of normative commitment. A key finding of the research is that attitudes towards HR practices explained a greater proportion of the variance in affective commitment.

Figure 2(v): Proposed model linking HR system and Improved Performance
(Conway and Monks, 2006)
Green et al., (2006) analyzed data from a sample of 269 human resource professionals from large US manufacturing firms. It has been reported that organizations that vertically aligned with the mission and objectives of the organization and horizontally integrated HR function and practices with other organizational functions performed better and produced more committed and satisfied employees. The direct impact of SHRM on job satisfaction, commitment, individual and organizational performance was found to be positive and significant. Results of the study also supported the relationship between SHRM and commitment through job satisfaction. The same is depicted diagrammatically in figure 2(vi). The fit indices reported in the study like root mean square error of approximation (.07) and values for NFI (.96), GFI (.97) and adjusted GFI (.93) clearly showed that the structural model fitted the data well.

Figure 2(vi): SHRM and its outcomes (Green et al., 2006)

Katou and Budhwar (2006) in their study of 178 Greek manufacturing firms found support with the universalistic model and reported that HRM policies of recruitment, training, promotion, incentives, benefits, involvement and health and safety were positively related to organizational performance. A mediation model was tested to examine the link between HRM and organizational performance. The results of this study supported the hypothesis that the relationship between the HRM systems of resourcing–
development; reward–relations and organizational performance, is mediated through the HRM outcomes of skills and attitudes. Resourcing–development system comprised of recruitment, selection, separation, flexible work arrangements, training, monitoring training, career development, work design, performance appraisal, job evaluation and promotion arrangements and reward–relations system comprised of compensation package, incentive schemes, benefit package, employee participation, employee involvement, communication, and health and safety. The study not only supported the theory that HRM systems have a positive impact on organizational performance but also explained the mechanisms through which HRM systems improve organizational performance. Human resource management outcomes were found to partially mediate the relationship between human resource management systems and organizational performance.

Tsai (2006) examined the relationship between high performance work systems (HPWS) and organizational performance in Taiwan’s semiconductor design industry. Five key dimensions used to examine their association with organizational performance in the study were; recruitment and selection; training and employee development; reward and incentive compensation; work structure; and job security. The measurement of organizational performance included two subjective assessment dimensions of perceived financial performance and perceived non-financial performance. The former included; market share, growth in sales and profitability and the latter covered the quality of the product or service, the development of a new product or service and customer satisfaction. The results of statistical analysis demonstrated the effective use of employee empowerment practices to be positively related to organizational performance.

Ghebregiorgis and Karsten (2007) investigated the relationship between human resource management (HRM) practices and organizational performance. Results based on a sample of 82 organizations from private and public sectors in Eritrea indicated that some of the practices have a significant impact on employee turnover, absenteeism, grievances and productivity. While compensation was the only independent variable found to be statistically significant in affecting grievances, employee selection had no effect across all performance measures. However, the study’s results offered support for
the assertion that investment in HRM practices results in better organizational performance.

**Giardini and Kabst (2008)** conducted two longitudinal studies that linked the degree to which organizations adopted work-family practices to absenteeism, perceived general performance, and perceived financial performance five years later. In both studies, they found that the comprehensive measure of work-family practices was negatively related to absenteeism but unrelated to perceived general performance and perceived financial performance. Work-family practices were defined as organizational human resource policies, or programmes that help employees manage the interface between work and family responsibilities. Organizational work-family practices were grouped into two broad categories with the first category including the practices that directly supported dependent care by providing facilities or financial assistance and the second comprising of the practices that increased employees’ flexibility, such as the provision of flexi-time, home-based work or part-time work.

**Gooderham et al., (2008)** analyzed the impact of HRM practices on perceived firm performance in firms located in European Union countries. HRM practices were categorized into three broad categories, viz. control based or calculative HRM practices—aimed at the efficient use of human resources, commitment based or collaborative practices – aimed at promoting the goals of both employees, and employer and intermediary and those practices that could not be readily categorized in terms of the two generic categories as ‘intermediary’ practices. Calculative HRM is defined as being designed to promote the efficient use of HRM in general rather than just the promotion of employee compliance that is control. The calculative approach emphasized that superior firm performance is dependent on having in place systems for the regular assessment of individual employees included practices like performance related pay, evaluation of HR department, training monitoring, profit sharing, group bonus and share options. The collaborative model of enhancing firm performance emphasized the need for management to recognize employees as significant stakeholders in the enterprise included practices like communication on strategy, finance and employee involvement. The practices like career development, wider jobs, downsizing methods and communication
to management were put in the category of intermediary practices. Five of the six calculative practices and two of the three intermediary practices exhibited a significant impact on performance but none of the six collaborative practices could be observed to show such an impact.

**Katou (2008)** conducted a study for finding the nature of relationship between HRM policies like resourcing and development, compensation and incentives, involvement and job design and organizational performance. The data was collected and analyzed from 178 organizations in Greek manufacturing sector. It was proposed and tested that HRM policies directly influenced HRM outcomes, like skills, attitudes and behavior and thus improved organizational performance indirectly through HRM outcomes. Further the HRM policies were proposed to be significantly, positively and directly related to organizational performance. The results indicated that both a direct and indirect linkage existed between HRM policies and organizational performance. HRM outcomes were found to partially mediate the relationship between HRM policies and organizational performance.

**Nasurdin et al., (2008)** examined the role of perceived organizational support as a mediator in the relationship between three human resource management practices including; performance appraisal, training and career development and organizational commitment. The data was gathered from 214 employees working in Malaysian manufacturing sector in order to examine the direct influence of HRM practices on organizational commitment, and test the indirect effects of HRM practices on commitment via perceptions of organizational support among the employees. Three steps procedure given by Baron and Kenny (1986) was used to test the mediation effects. Results of the statistical analyses revealed that employees' perceptions of HRM practices, particularly those relating to performance appraisal and career development, had significant positive and direct effects on organizational commitment. In this study, training was not able to contribute to greater commitment even though the extent of training engaged by the organization was perceived to be slightly greater than the other two HRM practices. Nevertheless, this lack of support for a positive relationship between perceptions of training and commitment was found to be consistent with the findings of
Meyer and Smith (2000). The respondents surveyed were mainly operational employees and it is highly likely that their jobs required continuous skills training. Since training was normally undertaken in order to upgrade the job-related skills and abilities of these workers, such activities could be deemed as compulsory but not a discretionary action on the part of the organization. Instead, employees were more inclined to perceive training as part of their rights, leading to no increased commitment. In addition, perceived organizational support was found to partially mediate the relationships between two of the three HRM practices; career development and performance appraisal and commitment. Career development and performance assessment practices had been presumed to be related to actions that were designed to prepare employees for a future in the organization. Organizations that were willing to make a long-term investment in their employees were likely to be judged as caring about their welfare and regard them as long-term assets. Such favorable valuation would enhance employees' level of perceived organizational support. In return, beliefs of organizational support would create an obligation for the employees to "repay" their organization by ensuring its well-being through greater effort, involvement, identification, all of which reflected their level of affective commitment. However, perceived organizational support did not mediate the relationship between employees' evaluation of training activities offered by the organization and their commitment.

Vlachos (2008) evaluated the impact of HR practices on organizational performance in the food manufacturing industry. The HR practices; job security, selective hiring, self-managed teams and decentralization of decision making, compensation policy, extensive training, and information sharing were hypothesized to be related to firm performance. Food managers in Greece were surveyed and their perceptions be recorded on HR practices and their relation to firm performance. Results provided an overall support for all HR practices except job security. Selective hiring was found to be a key practice that improved organizational performance. Compensation policy, information sharing, decentralization of decision-making and extensive training were significant predictors for all performance variables.
Yasmin (2008) explored the relationship between HRM systems and performance, direct as well as indirect through HR outcomes. The study was conducted in the manufacturing sector of Pakistan including the practices of participative leadership, job security and training and development. It was found that these practices had a significant impact on performance in isolation but strong support could be reported for the mediation impact of HR outcomes in the relationship between HR systems and performance. The study emphasized the systematic and integrated use of behavior oriented HRM practices in order to achieve competitive advantage as the interaction effects of selected practices on performance were found to be significant. These effects were more significant and profound when the management adopted a behavior (job satisfaction and work motivation) oriented HR policy.

Chenevert and Tremblay (2009) tried to find out the extent to which bundles of empowerment and compensation practices individually influence human resource outcomes and whether the fit between these bundles of practices increase the prediction of the level of discretionary effort, turnover and productivity. The empowerment effort of participating companies was measured by three practices; work teams, quality management, and participatory management. With regard to compensation strategies five dimensions were identified which included the average percentage of individual and collective bonuses, the average relative salary and the average percentage of employee benefits in relation to the base salary. Three variables were used to measure human resources performance; the level of discretionary efforts, voluntary turnover rate, and productivity. The use of an extensive empowerment strategy was revealed to be significantly and negatively related to voluntary turnover when accompanied by a compensation program that rewarded performance. In contrast, a compensation strategy that supported good working conditions or the use of financial incentives seemed sufficient to influence human resources performance. These findings suggested that the voluntary turnover rate increases with organizations’ use of incentive programs and decreases when strong emphasis is placed on working conditions. For discretionary effort and productivity, working conditions improved both. It was ultimately concluded that an empowerment strategy could influence productivity only when combined with good working conditions and incentive programs.
Guthrie et al., (2009) examined the relative effectiveness of HPWS in 165 Irish companies. Respondents were asked to describe their firm’s relative use of 18 HR practices that could be broadly categorized under hiring practices, internal promotions, performance appraisal, compensation, training, information sharing, employee participation and complaint resolution. Since practices vary across employee groups, questions relating to HR practices were asked separately for two categories of employees. Group A employees comprised production, maintenance, service, and clerical employees. Group B employees comprised executives, managers, supervisors, and professional/technical employees. HR outcomes were measured in terms of absenteeism and employee turnover and organizational outcomes included productivity and labour expense. Results suggested that greater use of high performance work systems is associated with positive human resource and organizational outcomes. Specifically, firms utilizing higher levels of HPWS tended to have lower rates of employee absenteeism and voluntary turnover along with higher labor productivity and lower labor costs. The analyses suggested that the observed relationship between HPWS and employee turnover was almost entirely due to the positive association between HPWS and employee retention among Group A employees (i.e. production, maintenance, service, and clerical employees). In contrast, little or no association was exhibited between HRM policies and practices and turnover rates among Group B employees (i.e. executives, managers, supervisors, and professional/technical employees). Greater use of HPWS could be more effective at retaining Group A employees because these HR policies and practices might be relatively unusual at this organizational level – making these firms more of an ‘employer of choice’ for these employees. A supplemental analysis indicated that the nature of the HPWS – outcome relationship varied substantially across industry groups. The analyses indicated that sample firms competing in the retail sector yielded no benefits from increased use of HPWS – in fact employee turnover and productivity both worsened. When these retail sector firms were removed, OLS analyses indicated that the positive benefits associated with greater HPWS use increased substantially among the remaining firms. Thus, industry and other environmental conditions may affect the relative benefit of HPWS use.
**Chand (2010)** investigated the effects of HRM practices including: recruitment and selection, manpower planning, job design, training & development, quality circle, pay system on service quality, customer satisfaction and performance in the hotel industry. The data was collected from 52 HR managers, 260 employees and 260 customers of Indian hotels. The results indicated that HRM practices had a positive influence on the improvement of service quality as well as on customer satisfaction and hotel performance. The findings also indicated that creation of customer satisfaction and value in the hotel could be achieved via increasing responsiveness to customers’ needs and that the creation of customer value which have a positive impact in the firm’s profitability.

**Fabling and Grimes (2010)** examined the impact of human resource practices, especially those considered as parts of high performance work systems, on firm performance. Results indicated that firms that adopt high performance HR practices experience a lift in their profitability and productivity and in their market share relative to their rivals. It was also found that adoption of a suite of high performance practices (and adoption of specific practices pertaining to staff training and performance pay) has a causal impact on firm outcomes. The strength of the relationships differs by firm size and age. Firms that adopt high performance practices are predominantly young and in high-tech related sectors.

**Gould-Williams and Mohamed (2010)** made a cross-cultural comparison of the effects of HR practices using employees from a sample of local government service departments in England and Malaysia. They tested the universal ‘best practice’ thesis, and also
assessed the perceived level of up-take of HR practices in the two samples. The research also considered the effects of the psychological climate and employees’ perceptions of trust on five work-related outcomes, namely job satisfaction, motivation, organizational citizenship behaviour, stress and quit intentions. The research supported the universal thesis, in that the effects of the HR bundle were consistent across both the samples. The size of the effects were largely consistent across the samples, with two exceptions – HR practice had a more pronounced positive effect on Job Satisfaction for England respondents, whereas HR practice had a greater effect on Malaysian respondents’ quit intentions. Within the HR bundle, team working was found to be a powerful predictor of all except one of dependent variables – OCB. In other words, team working had a consistent impact on worker motivation, job satisfaction, stress (inverse) and quit intentions (inverse) in both countries. Also, the effects were similar across the two samples, with the exception of worker motivation, where team working had a more pronounced, positive effect on Malaysian respondents’ motivation in comparison with England respondents.

Summarizing the review, it has been realized that the burgeoning research linking HRM with company performance has resulted in piling up of empirical studies covering various dimensions of HRM-performance linkage. But the research done till date suffers from a lot of limitations, such as reverse causality, lack of consistency, lack of coherence, lack of comparability, methodological problems, etc. While presenting a process model that included intended HR practices, actual HR practices, perceived HR practices, employee reactions, and performance, Wright and Nishi, (2006) noted that the perceived HRM practices and employee reactions are actually individual-level variables that are central to the proposed causal process, yet are currently ignored in unit-level theories of strategic HRM. Thus, one purpose of this dissertation is to address this issue by investigating the effects of employee perceptions of several important elements of HR practices on their attitudes and behavior.

The review of literature also reveals that although there have been two primary perspectives of HRM, the "universal" or "best practices" approach has received more empirical support than the "contingency" approach (Huselid, 1995). Researchers that
adopted the former approach argued that some HR practices are always better than others (Delery & Doty, 1996). The same approach has been adopted in the present study. More than 60 studies conducted in the past two decades in different national contexts have been reviewed and found that only eight studies (13%) are from India of which only five studies have linked HR practices with organizational performance. This justifies the need for more studies in this direction. Specifically, while a few investigations have been initiated in emerging markets and in transitional countries (Ahlstrom et al., 2005; Zupan and Kase, 2005), the literature highlights that most of the studies examining the relationship between HRM and organization’s performance have been conducted in the United States and the United Kingdom (Huselid, 1995; Guest et al., 2003). A number of authors have raised doubts as to the efficacy of these systems, noting that performance effects may be less robust than previously claimed (Guthrie et al. 2009). In addition, noting the need to consider social, political, and economic contextual differences, scholars such as Brewster (1999), have signaled a need for caution in assuming that US-based definitions of ‘high performance’ HR will generalize globally. To fill this gap and to further examine the process through which HRM policies impact organizational performance, it is important to analyze paths that link HR policies and organizational performance.

Further changing employee demographics and psychographics necessitates the inclusion of practices related to enabling employees attain work life balance in their lives. Only two studies have been found to have examined the relationship between work family policies and firm performance but none of the studies have work-life practices in their scope. This highlights the gap in the existing literature and needs considerable attention of researchers not only in India but all over the world. Review also indicates a dearth of literature with regard to role of employee attitudes other than organizational commitment, like organizational trust and perceived organizational support while attempting to unlock the black box of HRM-performance linkage. Especially in Indian context hardly any study could be found to have included individually or altogether variables, namely POS, Trust and Discretionary Behavior in the scope of the research.