2.1 Introduction:

The entire literature review has been conducted keeping in view the specific objective of the study to keep it compact and concise and for this attempt has been made to disseminate the review in the following category:

- Literature Review of Research with reference to Indian firms.
- Findings and framework for study

2.2 Literature Review of relation between Human Resource Development (HRD) practices and firm performance.

The fact that HR practices are related to firm performance has well been documented. In the last 20 years; researchers have built the evidence that links the HRD activities with outcomes or corporate performance. A

Studies have examined multiple industries, within a single industry (e.g. MacDuffe,\(^11\) 1995) or even within a single corporation (Wright et al,\(^12\) 2003). While the observed effect sizes may differ across the studies, it is well established that in almost all cases HR practices are found to be at least weakly related to performance (Boselie, Dietz & Boon,\(^13\) 2005).

Organizations are realizing that the success of their long range planning and strategic approaches rests on corresponding analysis and planning by human resources (Buller\(^14\), 1988).

This conclusion is supported by a recent meta-analysis concluding that the mean effect size for the HR practices-performance relationship is approximately (Combs, Ketchen, Hall & Liu\(^15\), 2006) implying that a one standard deviation increase in the use of high performance work systems is associated with a 4.6% increase in return on assets.
1. Arthur, J. B.\textsuperscript{16}, (1994) conducted cross sectional study of 30 US steel mini mills taking 10 variables – decentralization, participation, general training, skilled workers, level of supervision, social events, due process, wages, benefits, bonus,, percentage unionized as HR measures clustered into two systems: control and commitment. Outcome measures were taken manufacturing performance (labour efficiency, scrap rate) and employee turnover. Using Regression methods he found commitment based HR systems associated with lower scrap rates and higher labour efficiency than control-based systems.

2. MacDuffie, J.\textsuperscript{17}, (1995) conducted cross sectional study taking 62 automotive assembly plants in 16 countries (volume plants). HR measures were identified as HR policies (index of four items - hiring criteria, incentive pay, presence of status barriers and level of training), Production organisation measures were use of buffers (3 items) (e.g. incoming and work in progress inventory), work systems (6 items – including employment involvement (production-related suggestions, job rotation and quality tasks), total automation, production scale, model mix complexity, parts complexity, production design age and Outcome measures were taken as labour productivity (hours of actual effort to build a vehicle), quality (consumer perceived,
defined as defects per 100 vehicles). He used hierarchical regression and found that innovative HR practices affect performance not individually but as interrelated elements in an internally consistent HR system and these systems contribute most to plant productivity and quality when they are integrated with manufacturing policies of a flexible production system.

3. Huselid, M.A.\(^{18}\), (1995) also conducted cross sectional study of 968 US-owned firms with over 100 employees. The HR measures taken were high performance work system scale. 13 items elicited two factors - (i) employee skills and organisational structures - items: formal job design, enhanced selectivity, formal training, quality of work program, quality circles, labour-management teams, information sharing programmes, formal grievance procedures, profit and gain-sharing plans, enhanced communications, (ii) Employee motivation - items: formal appraisal, linked to compensation, merit in promotion decision rules; outcome measures were taken as turnover, productivity (log of sales per employee), corporate financial performance - market based measure Tobins’ q, and accounting based measure - gross rate of return on capital employed (GRATE); controls variables were taken as firm size, capital intensity, firm and industry levels of union
coverage, industry concentration, growth in sales, R&D intensity, firm-specific risk, industry levels of profitability, net sales and total assets. Using Regression analysis he concluded that high performance work systems have an economically and statistically significant impact on turnover, productivity and corporate performance. One standard deviation increase in HPWS is associated with a relative decrease of 7.05% in turnover, and on a per employee basis, a $27,044 more in sales and $18,641 and $3,814 more in market value and profits respectively.

4. Delaney, J.T. and Huselid, M.A.\(^{19}\), (1996) conducted cross sectional study of 727 organizations taking HR measures: Staffing selectivity index (3 items), training index (3 items), incentive compensation (3 items), grievance procedure, decentralised decision making, internal labour market index (5 items), vertical hierarchy; Outcome measures: Perceptual measures of organisational performance assessing organisational performance over the last three years relative to similar organisations (on product quality, customer satisfaction, new product development) and on perceived product market performance (profitability, market share) over three years relative to product market competitors and Controls: profit /
not-for-profit, subsidiary, number of employees, form age, market competition, union pressure, percentage of managers. He also used regression analysis and found that progressive HRM practices are positively related to perceptual measures of organizational performance, but do not support the assertion that complementarities among HR measures enhance performance.

5. Youndt, M.A., Snell, S.A., Dean, J.W. and Lepak, D.P.20, (1996) on their Cross sectional study using Single industry: 97 manufacturing plants and applying regression analysis found that HR system focused on human capital enhancement directly related to multiple dimensions of operational performance. This was predominately so for links to a quality manufacturing strategy, giving broad support for contingency perspective.

6. Huselid, M.A. Jackson, S.E. and Schuler, R.S.21, (1997)’s cross sectional study of 293 publicly held US firms found significant relationship between strategic HRM and employee productivity, cash flow, and market value. They concluded that on a per employee present value basis, a one standard deviation increase in overall HRM effectiveness corresponds to an estimated increase in sales per employee of 5.2 %, a cash flow of 16.3 %, and a market value of 6%.
7. Ichniowski, C., Shaw, K., and Prennushi, G. (1997)’s Cross-sectional study of 36 finishing lines in 17 US owned companies matched with 2190 monthly observations of productivity data taking HR measures: Identified 8 HR variables (incentive pay, recruitment and selection, employment security, flexible job assignment, communications and labour relations) and identified 4 distinctive combinations of HR practices it was found that innovative HRM practices raise worker productivity and systems of innovative HRM practices had large effects on production workers’ performance while changes in individual employment practices have little or no effect.

8. Patterson, M.G., West, M.A., Lawthorn, R., and Nickell, S. (1997) did longitudinal study on 67 single site single product manufacturing firms with less than 1000 employees. HR measures were identified as acquisition and development of employee skills (selection, induction, training and use of appraisals); job design (skill flexibility, job responsibility, job variety and use of formal teams); quality improvement teams, communication, harmonization, comparative pay, incentive compensation systems and outcome measures were selected as labour productivity, real profits per employee (profits before
tax, deflated by the producer price index of the industry and controlling for size of firm).

They used Qualitative and quantitative data collection, multi-level and found that HR practices account for 19 per cent of variation between companies in change in profitability and 18 per cent of variation between companies in change of productivity. The acquisition and development of skills and job design are significant determinants of change in both productivity and profitability.

9. Guest, D.E., Michie, J, Conway, N & Sheehan, M. 24, (2003) conducted both cross sectional and longitudinal taking 366 firms with over 50 employees. They selected 48 items on HRM covering nine main areas: recruitment and selection, training and development, appraisal, financial flexibility, job design, two-way communication, employment security and the internal labour market, single-status and harmonisation, and quality as HR measures and found that using objective measures of performance, greater use of HR practices was associated with lower labour turnover and higher profit per employee, but showed no association with HR and productivity. There was a strong association between subjective estimates of HR and productivity and financial performance. The study supports the
association between HRM and performance but does not show that HRM causes high performance.

10. Guzzo, Jettle and Katzell, 25 (1985) also found that HR interventions have a significant positive effect on productivity / firm’s performance. Better strategic HRD practices contribute for harmonious industrial relations scenario, increased trainability, and low need for employment externalization and downsizing of manpower.

The impact of human resource practices on firm-level outcomes has gained dominance as a research issue in the human resource management field. Previous studies; Becker and Huselid26, (1997) show that human resource practices are related to business performance, especially those known as ‘best’ or ‘high performance’ practices, whose objective is to increase employees’ abilities and motivation.

11. According to Watson Wyatt’s27 (2002) Human Capital Index Study, strong HR practices are the leading indicators of financial success, responsible for as much as 47% increase in market value. The study analyzed selected HR practices to measure and found that companies with the best ‘human capital’ record had a three times greater return to shareholders over five
years- 68% compared to a 21% - return for companies with the weakest practices.

12. Ferris et al.28, (1999) suggest that perhaps one of the most integral issues for our understanding of the human resource practices - firm performance relationship is that of the ‘black box’. More specially, if there is indeed an impact of human resource systems on firm performance, how does this effect occur?

   An attempt to articulate these intermediate linkages and processes was proposed by Snell et al.29, (1996), who begin by noting the lack of any theoretical explanation as to how human resource systems influence organizational effectiveness. They argue that human resource practices may be crucial for developing organizational learning, which in turn is ultimately related to competitive advantage.

   A number of scholars tried to link the effect of certain HR practices to specific organizational outcomes. The adoption of training programmes was positively associated with financial performance. Job security, compensation, culture and demographics have an impact on turnover.

   It is found that there is an established a link between the adoption of training programmes and productivity. Guzzo, Jette
and Katzell’s\textsuperscript{30} (1985) meta-analysis demonstrated that training and goal setting had significant and positive effects on productivity.

13. Brown and Medoff’s\textsuperscript{31} (1978) study also finds relation between employee turnover and organizational productivity.

14. Stavrou-Costea\textsuperscript{32}, (2005) also argued that the effective human resource management can be the main factor for the success of a firm. HR practices on business performance namely training and development, teamwork, compensation/incentive, HR planning, performance appraisal and employee security help improve firms’ business performance including employees’ productivity, product quality and firms’ flexibility.

Using cross sectional survey data, Nkomo Stella M.\textsuperscript{33}, (1987) examined the link between HR planning and business performance, and found no correlation.

These results were supported by another survey based study (Delaney, Lewin and Ichinowski\textsuperscript{34}, (1989)) into HR practices and financial performance and found no link.

15. Work by Ulrich and colleagues on the OASIS research programme used the PIMS database and found positive relationships between specific HR practices and business results
(Ulrich, Geller and DeSouza\textsuperscript{35}, 1984, Cowherd & Kaminski\textsuperscript{36}, 1986).

A later study found that the manner of alignment between HR and business strategy had an impact on organizational performance. This work built on a previous study by Schuler and Jackson who, with cross sectional data, showed how HR practice varied depending on the business strategy profile (Jackson, Schuler & Rivero\textsuperscript{37}, (1989), Schuler & Jackson\textsuperscript{38}, (1987).

16. Ruwan\textsuperscript{39}, (2007) empirically evaluated six HR practices (realistic job, information, job analysis, work family balance, career development, compensation and supervisor support) and their likely impact on the Executive Turnover.

17. Along the same line, Abang, Maychiun and Maw\textsuperscript{40}, (2009) found that two components of human resource practices namely training and information technology have direct impact on organizational performance.

18. Yong, Syed, Zaini and Niufar\textsuperscript{41}, (2009) found four HRD practices i.e. training and development, team work, HR planning and performance appraisal have positive and significant influence on business performance.
19. Ball & Colvin\textsuperscript{42}, (2002) finds that ‘high involvement’ practices such as autonomy, team collaborations and training are related to reduce employee turnover and increased productivity.

   Along the same line Huselid, Jackson and Schular\textsuperscript{43}, (1995) finds that an increase in high performance work practices decrease turnover.

20. Further, Hequent\textsuperscript{44}, (1993) clarifies the negative correlation between training and turnover in a number of companies.

21. Petrescu, Simmons and Bradely \textsuperscript{45}, (2004) explain that creating on-going learning as well as training in work place has a highly significant impact on job satisfaction and organizational performance.

22. Ballot, Fakhfakh and Taymaz\textsuperscript{46}, (2006) researchers have found evidence on the impact of training on productivity.

23. Mudor \& Tooksoon\textsuperscript{47}, (2011) examined the relationship of HR practices with job satisfaction and turnover and found they are positively associated.

24. Altarawmneh and al-Kilani\textsuperscript{48}, (2010) examine the impact of HRD practices on employees’ turnover intentions. The results showed that HRD practices had a significant effect on employees’ turnover intentions. However, no statistical
evidence was found regarding the effects of other HR practices on employees’ turnover intentions.

25. Becker et al.\textsuperscript{49} (1997) similarly argued that HR practices operate most directly through employee skills, motivation, and work design, resulting in behavioural outcomes such as creativity, productivity, and discretionary effort, which are expected to work through operational and eventually through financial market outcomes. Hence in order to assess the most immediate consequences of an HR system, Becker et al.\textsuperscript{50}, (1997) and Dyer & Reeves\textsuperscript{51}, (1995) would suggest examining employee outcomes as they are predicted to be affected most directly.

26. More recently, Wright and Nishi\textsuperscript{52}, (2006) offered further justification for examining outcomes of HR below the organizational level. Specifically, these authors argued that, while most of the research to date has focused on the links between business level HR practices and performance, the theoretical explanations offered for these relationships cross multiple levels of analysis, including individuals and job groups. They noted that empirical research has focused only on the business unit linkages between practices and performance, and has virtually ignored the lower level mechanisms through which these linkages are purported to occur.
27. Richard & Johnson\textsuperscript{53}, (2001) examined the impact of HR effectiveness on a number of performance variables and found that HR effectiveness was directly related to employee turnover and return on equity.

This is exemplified by Terpstra & Rozell’s\textsuperscript{54} (1993) study of the relationship between recruitment / selection practices and firm performance. They found a significant and positive link between extensiveness of recruitment, selection and firm performance.

The use of performance appraisals and linking such appraisals with performance has also shown strong relationship in most research works (Gerhart, Minkoff & Olsen\textsuperscript{55}, 1990).

28. Koch and McGrath\textsuperscript{56}, (1996) reported that firms using more sophisticated staffing practices (planning, recruitment and selection) had higher labour productivity.

HR practices can influence firms’ performance through provision of organizational structures that encourage participation among employees and allow them to improve and redesign how their jobs are performed.

29. Green, Wu, Whitten and Medlin\textsuperscript{57}, (2006) reported that organizations that vertically aligned and horizontally integrated HR functions and practices performed better and produced more
committed and satisfied HR function employees who exhibited improved individual and organizational performance.

Several researchers have examined the relationship between HR practices and organizational commitment. For example, in an individual – level analysis, Paul and Ananthraman’s\textsuperscript{58} (2004) study of software professionals showed that HR practices had a significant positive relationship with organizational commitment. Payne and Huffman\textsuperscript{59}, (2005) found in a longitudinal study that organizational commitment mediated the relationship between mentoring, an HR practice in the organization studied and employee turnover over time. In a unit-level study, Wright, Gardner & Moynihan\textsuperscript{60}, (2003) found a positive relationship between HR practices and organizational commitment and performance in a study of 50 business units from a large food service corporation.

30. Deepak et al.\textsuperscript{61}, (1989) Organizational performance and competitiveness can be enhanced by utilizing high performance work system. Through universalistic and contingency approach using regression (189 at 95% level of confidence) analysis, it is identified that relative use of HR practices displays stronger association with organizational performance.
31. Along the same line Ahang, Maychiusn and Maw (2009) concluded that two components of HR Practices namely training and development and information technology have direct impact on organizational performance. Planning, performance appraisal and team work and found their positive and strong influence on business performance.

32. Altarawmneh and al-Kilani (2010) examined the impact of HR Practices on employees’ turnover intentions. The result showed that job analysis has a significant impact on employees’ turnover.

33. Ballot, Fakhfakh and Taymaz (2006) have found evidence of the impact of training on productivity. Mudor and Toocksoon (2001) found strong and positive relationship between HR practices and Job-satisfaction and turnover. Arthur, J. B. (1994) conducted a cross sectional study of 30 US steel mini mills to study the impact of HR practices taking 10 variables on the performance (labour efficiency, scrap rate and employee turnover). Using the method of regression he found that commitment based HR systems is associated with lower scrap rates and higher labour efficiency than control-based HR systems.
34. Bailey⁶⁷, (1993) contended that human resources are frequently “underutilized” because employees often perform below their maximum potential and that organizational efforts to elicit discretionary effort from employees are likely to provide returns in excess of any relevant costs. Bailey argued that HR practices can affect such discretionary efforts through their influence over employee skills and motivation and through organizational structures that provide employees with the ability to control how their roles are performed. HR practices influence employee skills through the acquisition and development of a firm’s human capital. Recruiting procedures that provide a large pool of qualified applicants, paired with a reliable and valid selection regimen, will have a substantial influence over the quality and type of skills new employees possess.

Providing formal and informal training experiences, such as basic skills training, on-the job experience, coaching, mentoring, and management development, can further influence employees’ development.

35. Ichniowski, Shaw and Prennushi⁶⁸, (1997) found the impact of “cooperative and innovative” HR practices to have a positive and significant impact on organizational productivity. Similarly Arthur⁶⁹, (1994) found in 30 steel mills that those with
committed HR systems, emphasizing the development of employee commitment, had lower turnover and scrap rates and higher productivity than firms with control systems, emphasizing efficiency and the reduction of labour costs.

**A number of authors have explored the links between individual HR practices and financial performance.**

Substantial research on the HR practices-performance relationship has demonstrated that HR practices are related to number of firm performance measures such as Market Value (i.e. Tobin’s Q), Return on Equity (Delery and Doty, 1996), and operational measure of performance (MacDuffe, 1995).

36. Cascio (1991) and Flamholtz (1985) argued that the financial returns associated with investment in progressive HR practices are generally substantial. Similarly, work in the field of utility analysis (Schmidt, Hunter, MacKenzie, & Muldrow, 1979) has concluded that the value of a one-standard deviation increase in employee performance is equivalent to 40 percent of salary (per employee) and that that the organizational implication of HR practices that can produce such an increase are considerable. Becker and Huselid (1992) presented field
data suggesting that standard deviation may in fact well be in excess of 40 percent of salary. Similarly Terpstra and Rozell\textsuperscript{76}, (1993) found a significant and positive link between the extensiveness of HR practices and firm profits. Russell, Terborg and Powers\textsuperscript{77}, (1985) demonstrated a link between the adoption of employee training programme and financial performance. The use of performance appraisal and linking such appraisals and compensation have also been consistently connected with increased firm profitability (Gerhart & Milkovich\textsuperscript{78}, 1992).

37. Huselid’s\textsuperscript{79} study (1995) of the relationship between HR practices and corporate performance serves as probably the seminal and definitely most cited work in this area. He developed and validated indexes of high involvement HR practices through factor analysis and found them to be strongly and positively linked to various methods of organizational performance and productivity.

38. Delaney and Huselid\textsuperscript{80} (1996) found that practices consistent with a high-involvement HR strategy were positively linked to organizational performance.

Follow up empirical works have shown reasonably strong positive relationships between the extent of a firm’s adoption of high-involvement HR practices and organizational
performances (MacDuffe\textsuperscript{81}, 1995; Delery & Doty,\textsuperscript{82} 1996; Snell, Youndt, Dean & Upak\textsuperscript{83}, 1996; Huselid, Jackson and Schuler\textsuperscript{84} 1997; Chadwick & Cappelli\textsuperscript{85}, 1998).

39. Lam & White\textsuperscript{86}, (1998) reported that firm’s HR orientations; measured by the effective recruitment of employees, above average compensation and extensive Training & Development; were related to Return on Assets (ROA), growth in sales and growth in stock values.

40. Wan et al.\textsuperscript{87}, (2002) examined the relationship between HR practices and firm performance. HR practices were creating positive effect on organizational performance. Results calculated through regression suggested that effective implementation of key HR practices increases organizational performance.

On the other hand, companies interested in enhancing HR performance may emphasize the need for empowerment and training.

41. Schimidt et al.\textsuperscript{88}, (1979) explored that increasing one unit of employee performance is equivalent to 40% of salary increase.

42. Cascio\textsuperscript{89}, (1991) argues that the financial return associated with investments in progressive HR practices is generally substantial.
Russel, Terborg and Powers\textsuperscript{90}, (1985) demonstrated the link between the adoption of employment training programmes and financial performance.

In a similar cross sectional study of 62 automotive assembly plants in 16 countries, MacDuffe, J.\textsuperscript{91}, (1995) studied the impact of HR policies (index of four items- hiring criteria, incentive pay, presence of status barriers and level of training) on Performance. The findings based on hierarchical regression revealed that innovative HR practices affect performance not individually but as interrelated elements in an internally consistent HR systems and these systems contribute to plant productivity and quality when they are integrated with manufacturing policies of a flexible production system.

In a major cross sectional study of 968 US owned firms with over 100 employees Huselid, M.A.\textsuperscript{92}, (1995) studied the impact of hr practices on firm’s performance. The independent variables included employee skills and organizational structures-formal job design, enhanced selectivity, formal training, quality of work programme, quality circles, labour management teams, information sharing programmes, formal grievance procedures, profit and gain sharing plans, enhanced communication, employee motivation-formal appraisal, linked
to compensation, merit in promotion decision rules. The outcome measures were turnover, productivity, corporate financial performance market based measure, Tobin’s q, and accounting based measure- gross rate of return on capital employed. The findings based on regression analysis revealed that high performance work systems have an economically and statistically significant impact on turnover, productivity and corporate performance. One standard deviation increase in HPWS is associated with a relative decrease of 7.05% in turnover, and on a per employee basis, a $ 27,044 more in sales and $ 18641 and $ 3,814 more in market value and profits respectively.

Delaney, J.T and Huselid, M.A. (1996) took 727 organizations and examined the relationship on HR practices-corporate performance. The HR measures taken were staffing selectivity index (3 items), training index (3 items), incentive compensation (3 items), grievance procedure, decentralized decision making, internal labour market index (5 items) and vertical hierarchy. The outcome measures included perceptual measures of organizational performance assessing organizational performance over the last 3 years relative to similar organizations (on product quality, customer satisfaction,
new product development) and on perceived product market performance (profitability, market share) over three years relative to product market competitors. The regression analysis concluded that progressive HRM practices are positively related to perceptual measures of organizational performance, but does not support the assertion that complementarities among HR measures enhance performance.

In another cross sectional study of 97 manufacturing plants, Youndt, M.A., Snell, S.A., Dean, J.W. and Lepak, D.P.\textsuperscript{94}, (1996) enumerated that HR system focused on human capital enhancement directly related to multiple dimensions of operational performance. They also relied on regression analysis.

45. Delery, J.E. and Doty, D.H.\textsuperscript{95}, (1996) surveyed 114 banks from a single industry. The independent variables chosen were internal career opportunities (4 items), formal and informal training (4 items), appraisal (2 items), profit sharing (1 item), employment security (4 items), employee participation (4 items), job description (4 items). They studied the impact on two financial measures- return on average assets and return on equity. The method used was hierarchical regression analysis and the findings read as; three individual HR practices-profit
sharing, results oriented appraisal and employment security had relatively strong universalistic relationships with important accounting measures of performance. Contingency relationships between strategy and three HR practices - participation, results oriented appraisals and internal career opportunities explained a significant portion of the variation in the same performance measures. Similarity to the market type employment system was positively related to firm performance. The study demonstrated that universalistic, contingency and configurationally perspectives can explain significant levels of variation in financial performance.

46. Ichniowski, C., Shaw, K., and Prennushi, G.96. (1997) conducted cross sectional study of 36 finishing lines in 17 US owned companies matched with 2190 monthly observations of productivity data. They identified 8 HR variable sand identified 4 distinctive combinations of HR practices. The outcome measures were taken as productivity, quality. Using OLS regression they found that innovative HR practices raise worker productivity and systems of innovative HR practices had large effects on production workers’ performance.

with less than 1000 employees. The HR measures were taken as Acquisition and development of employee skills, job design, quality improvement teams, communication, harmonization, comparative pay and incentive compensation systems. The outcome measures were identified as labour productivity, real profits per employee. They adopted qualitative and quantitative data collection method and used regression analysis to come out with the findings that HR practices account for 19% of variation between companies in change in profitability and 18% of variation between companies in change of productivity.

2.4 Literature Review of relation between HRD practices and firm performance: researches conducted worldwide:

Numerous researchers outside US have built upon this foundation over the last few years to add to this literature.

48. Harel and Tzafrir98, (1999) found that among public and private organizations within Israel, HRD practices were related to perceived organizational and market performance.

49. Katou and Budhwar99, (2006) in their study of 178 Greek manufacturing firms found support with the Universalistic model and reported that HR policies of recruitment, training,
promotion, incentives, benefits, investment and health & safety are positively related to organizational performance.

50. Lee & Chee\textsuperscript{100}, (1996) found no relationship between HR practices and firm performance where as Bae & Lawler (2000) found a significant relationship between HR and firm performance in their sample of 138 Korean firms.

51. Morishima\textsuperscript{101}, (1998) found support for the contingency perspective in a sample of Japanese companies. Firms with well-integrated high-involvement work practices and firms with well-integrated practices consistent with more traditional Japanese employment strategies both did better than firms with poorly integrated practices.

52. Lopez, Peon and Ordas\textsuperscript{102}, (2005) examined the relationship between high performance human resource practices, organizational learning and business performance taking a sample of 195 Spanish companies employing over 200 people using structural equation modelling as a statistical technique. The findings show that high performance human resource practices have a positive effect on organizational learning, which in turn has a positive influence on business performance. Nevertheless, a direct effect of human resource practices on business performance has not been observed. They concluded
that human resource practices by themselves are not a source of competitive advantage, since this will depend on their capacity to provide incentives for employees to put their knowledge into practice and thereby promote active cooperation.

53. Ngo, Turban, Lau & Lui\(^{103}\), (1998) investigated the linkage between HR practices and organizational performances in Hong Kong and found them to be strongly and positively related.

54. Tessema and Soeters\(^{104}\), (2006) examined how, when and to what extent HR practices affected performance in Eritrea; Africa’s youngest and poorest country. They reported that successful implementation of HR practices is strongly and positively related to organizational performance.

55. Tsai’s\(^{105}\), (2006) study in Taiwan reported that effective use of employee empowerment practices is positively related to organizational performance.

56. Findings obtained from Huang’s\(^{106}\), (2000) study of 315 firms in Taiwan demonstrate that organizational performance is significantly related to training and development, performance appraisal and other HR functions.

57. Zheng, Morrison and O’Neil\(^{107}\), (2006) explored high performance HR practices in Chinese Small and Medium Enterprises and with parameters such as performance based pay,
participative decision making, free market selection and performance evaluation, only high-level employee commitment was identified a as the key HRM outcome for enhancing performance.

58. Huselid\textsuperscript{108}, (1995), in his study of 968 US companies, identified a positive link between HRM practices and firm performance. One standard deviation increase in HRM practices increases firm performance by 25%.

2.5 Literature Review of relation between HRD practices and firm performance - Indian Context:

A considerable amount of interest has gained ground on understanding the link between HR and performance in Indian context in the past few years (Budhwar & Sparrow, \textsuperscript{109} 1997; Singh\textsuperscript{110}, 2003; Paul & Ananthraman \textsuperscript{111}, 2003; Budhwar & Boyne\textsuperscript{112}, 2004). The linkage with specific reference to Indian scenario have been explored in the work of Lawler, Jain, Venkata Ratnam & Atmiyananda\textsuperscript{113}, 1995; Sparrow & Budhwar\textsuperscript{114}, 1997; Venkat Ratnam\textsuperscript{115}, 1998; Ambarao, Petreck, Gupta & Von der Embse\textsuperscript{116}, 2000; Ramaswamy & Schiphorst\textsuperscript{117}, 2000; Budhwar & Khatri\textsuperscript{118}, 2001; Budhwar & Sparrow\textsuperscript{119}, 2002; Paul & Ananthraman\textsuperscript{120}, 2003; Singh\textsuperscript{121}, 2003; Budhwar & Boyne\textsuperscript{122}, 2004; Bhatnagar & Sharma\textsuperscript{123}, 2005.
59. T V Rao\textsuperscript{124} conducted a survey on HRD practices in India in 1975. The survey of 53 public and private sectors revealed that 30\% of the companies had HR Department, a proper HRD policy is framed only by 32\% of the company, a performance appraisal system is followed by 26\% of the companies, a definite training policy is followed by more than half (55\%) of the companies, team building is focused by almost 50\% of the companies and most of the companies (almost 80\%) has encouraged employees’ counselling. A similar study by the same researcher in 2001 reveals that most organizations seem to have well developed performance management system or are in the process of having the same; feedback and counselling is the second system mostly followed; there is no potential appraisal in most of the companies, 360 degree feedback is being tried out in 75\% of the organization under study; employees satisfaction surveys, TQM interventions, total productivity management, team building workshops, visioning exercises, train the trainer programmes etc. are some of the OD interventions being used by those organizations.

In a HRD climate study of fifty three Indian organizations conducted by Rao and Abraham\textsuperscript{125}, (1986), forty nine per cent organizations were found to claim to give very
high importance to HRD processes and sixty eight per cent organizations were found to have specifically designated manager to look after HRD function.

In his study of Indian Organizations, it was concluded that forty three percent cases of the organizational performance could be explained by the HRD profile and its components; HRD climate is a significant contributor of organizational performance.

Perceived extent of introduction of innovative HR practices was found as the most significant predictor of organizational commitment (Agrawal, 2003). A better ethical environment of the organization leads to better HRD climate for an organization (Sharma and Pooja, 2001). Employees perceive different dimensions of climate with different intensities (Gani and Shah, 2001).

In a perception based study of HR heads of eighty four Indian Organizations, Singh, (2000) found high variation in the use of HR practices across different organizations.

In their study of forty four large companies of various sectors, Wognum, Lam and Jo, (2000) found that involvement of various stakeholders in the strategic HRD process has a positive effect on perceived HRD effectiveness.
The findings of a recent study carried out by Singh et al. (2008) showed that the best HR practices have a positive relationship with organizational performance; motivational HR policies have a positive impact on generic performance; if HR Policies are updated on a regular basis, there is a high likelihood that the organization will be high on morale, adaptability, quality of product and services, learning and growth, and overall impact on industry. In an another recent study conducted by Purang (2008), it was found that there exists a positive relationship between the dimensions of HRD and the organizational commitment of the managers; the results of the study showed that four dimensions of HRD, viz., Career Planning, Employees’ performance appraisal, Job Enrichment and Organization Development were found as strong predictors of organizational commitment.

60. Rao (1986) in “A Schematic Presentation of linkage between HRD Instruments, Process, Outcomes and Organizational Effectiveness” has suggested that all the subsystems / process mechanisms (e.g. Employees’ Training, Employees’ Performance Appraisal, Employees’ Career Planning etc.) have inter linkage with one another as well as are well linked with organization’s plans and strategies.
61. Further, Kandulla\textsuperscript{134}, (2001) developed “Strategic HRD Framework” which may be perceived as a modified / enlarged version of the Rao’s Schematic presentation.

62. Paul and Ananthraman\textsuperscript{135}, (2004) found that each and every HRD practice has an indirect influence (not having direct casual connection) on the operational and financial performance of the organization; further, HRD subsystems based practices such as training, job design etc. directly affect the operational performance parameter, viz., employees’ retention, employees’ productivity, product quality, speed of delivery and operating cost.

In a study of eighty nine selected Indian institutes of higher education, Jain, Chatterjee and Jain\textsuperscript{136}, (2007) found the motivational climate of such institutions to be “strong in the dependency motive” and as such it was perceived as less favourable.

In an in depth study of performance appraisal systems (PAS) of eight manufacturing organizations of India, Jain and Kamble\textsuperscript{137}, (2005) revealed that HRD department does follow up work on training needs as identified through PAS. In the study of Jain and Chatterjee\textsuperscript{138}, (2006), “HRD oriented institutional climate across the selected eighty eight academic institutions of higher education sector” was found as
‘moderately favourable’ and communication as regards to the selected seven dimensions was also found as ‘moderately favourable’.

In the survey of fifty three Indian organizations (made by Rao and Abraham\textsuperscript{139}, 1986), it was found that fifty five per cent of organizations surveyed have a definite and formal policy as regards to employees’ training which indicates towards the commitment of top and senior executives for training function.

With a relatively large questionnaire survey of 137 companies; Budhwar & Sparrow\textsuperscript{140} (1997) analyzed the levels of integration of HR in the corporate strategy and development of responsibility for HR to line managers in India.

63. Singh\textsuperscript{141}, (2003) from his survey of 84 companies found a significant relationship between strategic HR orientation index and firm performance.

64. Amba-Rao et al.\textsuperscript{142}, (2000) in his empirical study compared performance appraisal practices and management values in India among foreign and domestic firms in India.

65. Paul & Ananthraman\textsuperscript{143} (2003) in their study of 35 Indian companies determined, developed and tested a causal model linking HRM with organizational performance through an intervening process. They observed that no single HR practice has direct causal connection with organizational financial
performance, though HR practices have an indirect influence on
the operation and financial performance of the organization.

In their study of 137 large manufacturing firms, Budhwar and
Boyne (2004) differentiated the HR practices in public sector and
private sector companies in India. Their findings suggest that against the
established notion, the gap between the Indian Public Sector and Private
Sector HR policies (structure of HR department, role of HR in corporate
change, recruitment and selection, pay and benefits, training and
development, employee relations and key HRM strategies) is not very
significant, but in few functional areas (Compensation and Training &
Development), private sectors firms have adopted a more rational
approach their public sector counterparts.

66. Ashok Som (2008) in his study of 194 organizations in India
found that innovation of HR practice is positively related to
organizational performance.

**Literature Review on HRD Practices and Labour productivity:**

Productivity is a widely considered concept in overall analysis of
industrial success. In order to achieve organizational goals and enhance
organizational productivity, flexible and capable employees play a crucial
role. Further, it is extensively accepted that labour productivity is likely
to be the outcomes of creative HR strategies. It is now commonly
accepted that employees create an important source of competitive
advantage for firms. Recent years have witnessed burgeoning interest in the degree to which human resource systems contribute to the organizational effectiveness. Pfeffer\textsuperscript{146}, 1998 argues that success in today’s hyper competitive market depends less on advantages associated with economies of scale, technology, patents and access to capital and more on innovation, speed and adaptability. He further argues that these later sources of competitive argue are largely derived from firm’s human resources. Based on these and similar arguments strongly advocates greater investment in high performance or high involvement human resource practices. This trend has led to increased interest in studying the impact of HRM on organizational productivity. Sauian\textsuperscript{147}, (2002) has emphasized that production processes in manufacturing should be the most productive as well as to get such kind of enormous productivity there should be an efficient HR system. Most firms use productivity as a measure of organizational success. Sauian\textsuperscript{148}, (2002) has mentioned number of measures of productivity including capital productivity, labour productivity, profitability indices as well as total output productivity. But along with the HR literature, this study has considered only labour productivity, which is an important element used to determine competition among manufacturing firms. Especially in manufacturing estates, labour is the crucial input comparing to other variables (Datta, Guthrie and Wright\textsuperscript{149}, 2003). Many researchers have pointed out that HR
practices impact on the outcomes such as employee satisfaction, employee commitment, employee retention, employee presence, relationship between workers and management, employee involvement, employee trust and employee loyalty. They have also indicated that these outcomes and HRD practices can lead to a firm’s performance such as profit, market share, increase in sales, productivity, product service quality and customer satisfaction. Further, a number of studies have found a positive relationship between “high performance HR practices” (Huang, 2000) and different measures of firms’ productivity. 

As a result it is important for a firm to adopt Human Resources Development (HRD) practices that make best use of its employees. The practices of the HRD heavily affect productivity of the organization. There is a growing research literature on the area of management and organizational science which has been dominated by the question of whether HR practices make a difference to company performance (Patterson, West, Lawthom and Nickell, 2003). As such various authors put step forward to make a link between specific HRM practices and firm productivity. Heynes and Fryer (2000) found a positive relationship between the HRM policies, practices, service quality and firm’s overall performance. Further, they explained that positive relationship between HRM and organizational performance on the manufacturing paradigm too. Goel (2008) has stated clearly with the
justification of number of scholars that resources lead to sustain competitive advantage when they are valuable, rare, inimitable, and non substitutable. While technology, natural resources, and other economic indicators such as economies of scale can create value, but these sources of value are increasingly available to almost anywhere and they are easy to copy, especially when compared to complex human resources system. The firm’s productivity varied in the extent to which they had well developed policies covering the human resource planning, job analysis, recruitment and selection, induction, training, compensation and welfare, performance appraisal, industrial relation, and discipline handling. The transparency and maintaining equity of these policies reduce feeling of alienation at work and such practices create trust in the minds of the employees which in turn may promote productivity of the employees. Therefore, these areas of HRM practices were explored in this research.

The effective implementation of the HRM policies can deal with those productivity issues in the firm. Huang\textsuperscript{154}, (1999) has identified in his study that companies which closely coordinate with good HRM practices achieve better performance than companies do not. Schuler and Jackson\textsuperscript{155}, (1997) note that businesses require employees to possess specific skills, knowledge, and abilities needed to implement their competitive strategies and the development of the desired behaviour and abilities depends on the design and implementation of specific HRM
methods. Firms adopting an innovation strategy must be prepared to adapt to rapid market change and technological progress. Their employees need to be creative; to be cooperative with each other; to be able to pursue long-term objectives; to devote proper consideration to the quality and the quantity of products and services provided; to be able to take risk; and to cope successfully with ambiguity and uncertainty. To develop employees with those qualities, job descriptions should be bold, employee interaction should be strongly encouraged, career options should be extensive, training and career development should be emphasized and pay scales should be based on internal equity and also there should be excellent job security and performance evaluations should stress teamwork and long-term orientation. Schuler and Jackson\textsuperscript{156}, (1997) defined this series or related HRM practices and methods as enhancing the overall performance of the firms in general, HRM involves the design and implementation of a set of internally consistent policies and practices that ensure a firm’s human capital to contribute to the achievement of its business objectives. In the research by Schuler and Jackson\textsuperscript{157}, (1997) statistically significant results were obtained between HRM practices and labour productivity. In that study they found that HRM practices such as training and development, compensation and performance management having a positive effect on the firm’s profit and productivity. Efficiency and productivity are essential concepts in almost
every organization's tool kit. Labour productivity that measures the amount of goods and services produced by one hour of labour - is a revealing indicator of several economic indicators as it offers a dynamic measure of economic growth and competitiveness within an organization or industry.

Labour productivity is equal to the ratio between a volume measure of output and a measure or input use (the total number of hours worked or total employment)

Labour productivity = volume measure of output / measure of input used

The volume measure of output reflects the goods and services produced by the workforce. Numerator of the ratio of labour productivity, the volume measure of output is measured by total production. The measure of input use reflects the time, effort and skills of the workforce. Denominator of the ratio of labour productivity, the input measure is the most important factor that influences the measure of labour productivity. Labour input is measured either by the total number of hours worked of all persons employed or total employment (head count).

While most of the research works have established a direct bearing of HRD practices on organizational performance some have questioned
the degree of relationship. A selected number of such studies are presented below:

There have been some researchers who have questioned the degree if not the nature of relationship between HRD practices and performance/productivity. Furthermore, the literature does not agree about the reason why, once these practices have been implemented, they are not always successful. This raises the question of whether human resource systems have the capacity to generate competitive advantages by themselves or they must be sustained or reinforced with other variables (Barney and Wright\textsuperscript{158}, 1998). Nevertheless, the relationship tends to be relatively small in statistical term.

67. Cappelli and Newmark\textsuperscript{159}, (2001) identified that HR practices may raise productivity slightly but they also raise labour costs.

2.7 Literature Review on HRD Climate and firm performance:

A number of research studies have been conducted to determine the level of HRD climate in an organization and the factors affecting it. Some of the reviewers are mentioned below:

68. Solkhe and Choudhary\textsuperscript{160}, (2010) analyzed and examined the relationship and impact of HRD climate on job satisfaction as an organizational performance measure in selected public sector
organizations. The findings indicate that HRD climate has a definite impact on job satisfaction which in turn leads to the increased organizational performance.

69. Sharma & Purang\textsuperscript{161}, (2000) in their study on “Value institutionalization and HRD climate: A case study of Navaratna Public sector organization” found a positive relationship between value institutionalization and HRD climate, meaning there by a better and more ethical environment of the organization shall lead to a better HRD climate for the organization.

70. Jain, Singhal & Singh\textsuperscript{162}, (1997) conducted a study on HRD climate in two PSUs, i.e. BHEL and NFL and concluded that the HRD climate is mainly a function of the effectiveness variables including individual efficiency, organizational efficiency and productivity and HRD variables including management policy on HRD, Organizational development, role analysis and training.

71. Eisenberger, Fasolo and Davis-LaMasto\textsuperscript{163}, (1990) found that the increased performance and positive work attitudes came from those employees who perceived that the HR Department is concerned about them. From a practical point of view, this
suggests that job satisfaction can be an important barometer of HRM effectiveness.

72. Little and Little\textsuperscript{164}, 2006 states that companies must realize that the "Health of the organizational climate will determine their ability to sustain high performance". Research has identified statistical correlations between specific elements in the organizational climate and four performance measures, profitability, customer loyalty, productivity and employee retention. Climate works with key performance levers like clear understanding of organization’s strategy and developing high potential people to form an integrated people’s strategy. These levers shift the performance and climate sustains the shift.

Various studies have looked into the congruence between individual needs, organizational climate, job satisfaction and performance. Studies indicate job satisfaction as a function of the interaction between personality characteristics of the individual and the perception of the environment by the employee. The interaction effects of personality and climate dimensions were less related to pay and promotion satisfaction, instead they were more so to co-worker and supervisory satisfaction.

All the organizational climate dimensions (which include HRD climate dimensions as a part) were found positively correlated with job
satisfaction (Kumar Sravan and Ravichander\textsuperscript{165}, 1998). All the dimensions of organizational climate dimensions were found to have positive correlation with organizational commitment (Reddy et al.\textsuperscript{166}, 2000).

The researchers conducted studies to know the influence of the HRD climate on the individual’s attitudes and behaviours. Eisenberger, Fasolo and David-LaMastro\textsuperscript{167}, (1990) found that increased performance and positive work attitudes came from those employees who perceived that the HR department is concerned about them. Rohmetra\textsuperscript{168} (1998), Kumar and Patnaik\textsuperscript{169} (2002), Locke et. al\textsuperscript{170}, (1976) conducted similar studies and found the impact of HRD climate.

Centre for HRD, Xavier Labour Relations Institute (XLRI) developed a 38-item HRD climate questionnaire to survey the extent to which development climate exists in organisations. Using this instrument the first survey of HRD climate in Indian organisations was carried out by Rao and Abraham\textsuperscript{171}, (1986). They found that the general HRD climate in the organizations appears to be at an average level (54%). The most important factor contributing to this seems to be a general indifference on the part of the employees on their own development. In another study, Arvey et. al.\textsuperscript{172} (1989) observed that HRD climate is a powerful intervening variable in translating HRD practices into profit.
73. Mishra & Bhardwaj\textsuperscript{173}, (2002) concluded that the HRD climate in a private sector undertaking in India was good.

**Conclusion:**

An exhaustive review indicates that while a direct relation and exact degree of relation between the two variables under study (Independent HRD practices and Dependent Organizational Outcomes) is not so visible, nevertheless the impact is there. On the basis of the literature review it can thus be suitably argued that 4 levels of outcomes of HR practices can be identified - employee, organizational, financial and market, suggesting that the impact of HR is likely to work outward through these levels.

- Employee outcomes consist of effective affective reactions such as satisfaction and commitment as well as behavioural reactions such as absenteeism and turnover.
- Organizational outcomes focus primarily on operational performance measures such as quality, productivity and customer satisfaction.
- Financial outcomes, such as, accounting profits, represent the next step in their casual chain.
- Market outcomes consist of measures of the market value of firms based on stock price.
Effective HRD practices results in higher organizational performance. Enhancement of effectiveness of HRD practices is likely to result in an increase in the organization’s productivity and also in the reduction of employees’ turnover. It also points out the significance of the intervening variable HRD climate. Thus it could be hypothesized that various HRD practices if applied in it its true sense as a religion rather than mere rituals do impact directly the HRD climate of the organization concerned. This better HRD climate, in turn, enthuse motivation, willingness, commitment, belongingness among the Human Resources associated that coupled with effective and efficient training and development pedagogy improves the ability and skill of the human resources. The ultimate effect is on the productivity that harbingers production, profit, reduced labour turnover, reduced loss time, more congruence between plan and actuality.
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