2-Literature Review

Literature Review chapter will have a review on literature and related models to the research problem. In this chapter we will introduce the concepts of HRM Practices in Indian SMEs, Approaches in Studying Human Resource Practices, Human Resource Practices and Its Dimensions, Operational Performance and Its Dimensions, Defining Firm Performance, Defining Moderating Variables, Research Model, Construct Measurement in order to give a clear idea about the research area.

Then the problem area will be next discussed to provide a deeper understanding about the research area for readers. The problem discussion ends with a research gaps and specific research questions.
2.1 HRM Practices in Indian SMEs

Kamble (2005) in his study found that the SMEs solely banked on advertisement as a source of recruitment and observed that there is no HR planning, promotion training and development programme for employees in a majority of firms under study.

Panda (2000) made a study on hotel industries under small scale sector and concluded that most of the small and medium noted units are in dark about HR planning policies and labour practices pursued by the study units were heart rending.

The study by Jothi (2004) has identified that small units made recruitment through their own network of friends and relatives; majority do not spend a pie on training and development aspect; there is no HR policy at all; there is no linkage between performance and reward.

Eresi (2001) explored that SSI units are hardly putting in place human resources management policy and wages determination and promotional decisions were utter confusing and arbitrary.

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.

Singh (2003) investigate 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. 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.

There is not much work in Indian context in this area. Reviewing above mentioned researches reveal that, researchers have recently focused on Indian context and tried to see applicability of emerging theories in India. Thereby it shows that, shift is taking place in the pattern of HRM practices in Indian organizations from traditional administrative type to a more strategic and proactive type.
2.2 Approaches in Studying Human Resource Practices:

The relationship between HRM practices and organizational performance has been the subject of significant empirical examination. Jackson, Schuler and Rivero (1989) examined the effects of HRM systems on organizational financial performance through a behavioral approach. They found that it is essential for organizational viability that HRM systems provide the capabilities for firms to acquire, develop, motivate and retain employees who will enhance organizational effectiveness. In explaining the significance of human resources to firm performance, the majority of work in HRM has adopted the resource-based view of the firm (Barney, 1991, Delery, 1998). According to this view an organization can gain a competitive advantage from the human resources it possesses. However, the organization does not actually gain a competitive advantage from the HRM policies, per se, but from the human resources that the organization attracts and retains (Delery, 1998). These theoretical arguments point to the performance potential of a universal approach to HR focus on capital enhancement. However, apart from the theoretical arguments, there were also empirical evidences supporting a positive relationship between universal approach to HRM practices and firm performance. Arthur (1994) adopted a contingency approach to this intra-industry examination of the HRM practices of thirty U.S. steel minimills. In addition to the impact of HRM practices on firm performance, the contingency approach is concern with the congruence or fit between various policies and practices adopted by organizations. Arthur employed an empirical taxonomy identifying two types of HRM systems (i.e. control and commitment) to test the extent to which the specific combination of practices utilized by organizations could predict differences in organizational performance. His findings indicate that minimills using the commitment systems of HRM had higher productivity, lower scrap rates,
and lower turnover than those minimills using control systems. Huselid (1995) examined the effects of the use of thirteen HRM practices on firm performance. Two measures of HRM practices were identified. The first of these were designated “employee skills and organizational structures”; with practices enhancing skills, abilities, and role performance, and the second was labeled “employee motivation”, with practices targeted at evaluating and reinforcing desired employee behaviors. His findings indicated when these two measures were regressed on productivity individually, both measures were positive and significant, but when they were entered simultaneously, only the motivation measure remained significant. Most of the foregoing studies have as their goal to verify the relationship between HRM practices and organizational performance. However, different approaches to these examinations have emerged. The following section provides a critical review of the various approaches taken in the area of HRM, and the assumptions made under each approach. Previous research in HRM has used one of the following three ways to examine the effectiveness of HRM practices on firm performance: universalistic, contingency or configurational approach (Delery & Doty, 1996).

**2.2.1 Universalistic Perspective**

Universalistic perspective is the simplest form of theoretical model in the HRM literature. Universalistic perspective seeks for “best practices”. Researches in the universalistic perspective are micro analytical in nature and posit that some HRM practices are always better than others are and that all organizations should adopt these practices. Huselid (1995) work reflected the “universalistic” approach to HRM. This perspective assumes that there are certain “best” HRM practices that contribute to increased financial performance regardless of the strategic goals of organizations. Further, a universalistic approach to HRM research assumes that HRM...
practices contribute to worker motivation (and thereby increased productivity) as well as increased efficiency (Ichniowski, Kochan, Levine, Olson & Strauss, 1997). While other authors concurred with these assumptions (Osterman, 1994; Pfeffer, 1994), different studies have utilized various assortments of these HRM practices, and there has been little work that provides a definitive description as to which HRM practices should be included in a “best practice” system. Huselid (1995), for instance, utilized thirteen HRM practices. Pfeffer (1994) however, advocated the use of sixteen management practices to achieve higher productivity and profits. In another work, Delery and Doty (1996) identified seven practices that are consistently considered to be strategic in nature. Practices identified were internal career opportunities, formal training system, appraisal measures, profit sharing, employment security, voice mechanism and job definition. Tzafrir (2006) explores that, Universalistic perspective of HRM contribute to enhanced organizational performance. Firms exhibited higher organizational performance when they treated their employees as assets and invested in their abilities, enhanced their power in the decision making process and used them as the main source for new employment. Katou, A. A. and Budhwar, P. S. (2007), investigated that human resource management (HRM) policies have an impact on organizational performance in the Greek manufacturing firms.

The research is based on a sample of 178 firms. The “universalistic model” of HRM is adopted to conduct the investigation. The results show strong support for the model, indicating that the HRM policies of recruitment, training, promotion, incentives, benefits, involvement, and health and safety are positively related with organizational performance. (Budhwar, P. S et al, 2012)
2.2.2 Contingency Perspective

Contingency theorists posit that an organization needs to adapt specific HRM practices for different firm strategies. A number of researchers, however, have argued that contingency perspective is the more appropriate approach to HRM (Butler, Ferris & Napier, 1991; Dyer, 1985; Jackson & Schuler, 1995; Lengnick-Hall, 1988; Schuler, 1989; Schuler & Jackson, 1987). The contingency theorists argue that, in order to be effective, an organization’s HRM practices must be consistent with other aspects of the organization.

The contingency approach differs from the universalistic perspective in that these studies have attempted to link variations of HRM practices to specific organizational strategies (Hoque, 2000; Khatri, 2000; Youndt, Snell, Dean & Lepak, 1996). Schuler (Schuler & Jackson, 1987; Schuler, 1989) argued that HRM practices which are not synergistic and consistent with organizational strategy and, which conflict with other HRM practices are confounding in effect and create ambiguity which can inhibit both individual and organizational performance.


2.2.3 Configurationally Perspective

The configurationally perspective is concerned with how patterns of multiple, planned human resource deployment and activities achieve the organization’s goals. A closely related body of work calls for a configurationally approach to HRM, and argues that it is the pattern of HRM...
practices that contribute to the attainment of organizational goals (Wright & McMahan, 1992). According to the configurationally perspective, in order to be effective, an organization must develop its HRM system that achieves both horizontal and vertical fit. Horizontal fit refers to the internal consistency of the organization’s HRM practices, and vertical fit refers to the congruence of the HRM system with other organizational characteristics, such as firm’s strategy (Delery & Doty, 1996).

Sree Rama Murthy et al, (2011) study on 87 companies indicates that, in configurationally perspective high involvement human resource management practices were positively related to subjective organizational performance and an objective measure of performance, ratio of market value to book value.

2.3 Human Resource Practices and Its Dimensions

HRM is defined as involvement of all management decisions and practices that directly influence people who work for an organization. (Fisher, et al. 1990) Traditionally HRM was used to deal with personnel functions (Fulmer, 1990) and it has never paid much attention as main driving force of organization to succeed in business. In post 1990’s the importance of HRM practices, functions and policies spread widely among academicians and practitioners hence among few researchers like, (Chang & Chen, 2002; Youndt, Snell, Dean, Jr & Lepak, 1996; Huselid, Jackson, & Schuler, 1997, Pfeffer, 1998, Wan, Kok, & Ong, 2002; Becker & Gerhart, 1996, etc) have chosen the topic on How HRM practices improve the performance of firm. They have concluded in their empirical research that, HRM plays a proactive role in organization building and considered to be a strategic partner in organization’s strategic formulation and implementation. (Schuler & Macmillan, 1984, Ulrich, 1987). Drawing on the past studies by different
researchers, the present study identifies, HR Planning, Staffing, Incentives, performance appraisal, Training Program, Team Work and Employee Participation.

1) HR Planning: HR planning is a process of investigating supply and demand of current and future labour situations. Firms need to predict supply of labor to match with demand condition in the coming years. What is the rate of availability of future workforce? Are there enough potential young workers in labour market, in the next two years or five years? What is the level of education of those potential workers? Do firms need to help invest in educational system to help upgrade education of the potential workers or not?

Whether investment in national training and development is required? (Schuler & MacMillan, 1984) Without these preparations, firms will not be able to respond to labor fluctuations. Hence, HR planning is the process by which management ensures that it has the right personnel, who are capable of completing those tasks that help the organization reach its objectives. It covers parameters like forecasting personnel requirements, incurring expenses for selecting staff, and involvement of people in HR planning & planning structured and standardized interviews.

2) Staffing Practices: Staffing is a process of searching for new people, selecting employees and assigning the new hires to particular jobs in an organization (Schneider & Schmitt, 1986). Staffing is very important and should be implemented carefully to get right people for right places to help bring growth to the organization through increasing in employee’s productivity. An organization needs to take into consideration the fitness of potential employees into an organizational culture (Pfeffer, 1998); otherwise, demoralization in a workplace and disgruntled and low productive employees will lead an organization to troubles. Socialization is about
introducing culture and ways of doing works of an organization to new employees. When it’s done successfully, it constitutes enormously loyal employees who are committed to the company (Schuler & MacMillan, 1984). Few questions are proposed by Ulrich(1987) to understand staffing activity. It covers parameters like selectivity in hiring, focus on manual, physical, technical & problem solving skills.

3) Compensation or Incentives Practices: There are three types of compensation plan: First is base compensation (fixed pay to employees). Second is pay incentives (Bonuses and profit sharing). Third is indirect compensation (health insurance, vocation, unemployment compensation) (Gomer-Meja, et al. 2004). Commonly, compensation is based on two categories: Financial incentives and non-financial incentives. The purpose of compensation offering is to motivate employees to work harder and help an organization to achieve goals. Compensation can be used to explore competitive advantage (Gomer-Mejoa & Wellbourne, 1988). The reason why compensation policy can ensure better organizational performance is because it can attract and retain talented employees (Pfeffer, 1998). So, decision on how firms pays to employees is vital; it can absorb high skill people or bring down motivation of current employees. It covers parameters like fair & favorable incentives like Bonus, Overtime, ESI, PF, and Allowances.

4) Performance Appraisal Practices: Appraisal process is used to evaluate employee performance. The appraisal system helps top level of management to be able to clarify organizational objectives and expectation to internal employees and helps understand ability of its own workforce. Application of appraising into an organization is to make the entity able to identify poor performances, skill deficits, room for improvements, and training and development needed for internal employees. Performance appraisal system, as Gomer-Mejia, Balkin & Cardy (2004) mentioned, can be used for
administrative purposes which are related to employee’s work condition, including promotion, termination and rewards. Ulrich (1987) raised three questions associated with appraisal system: What sort of work standards are provided to employees, behavioral or outcome standard? What kind of feedback to employee, positive or negative? What processes are adopted to ensure continuous feedback to employees on regular basic, monthly, quarterly and yearly? One thing which an organization needs to do is to ensure that feedbacks are not bias and help encourage commitment. Some scholars and managers argued that performance appraisal brings demoralization to a workplace and low productive, and should be eliminated from practices (Williams, 1997). Appraisal system is considered as bias process because it is related to rater error and bias, the influence of liking, organizational politics (value of worker’s performance depends on the agenda or goals of supervisor), and legal issue (Gomer-Mejia, et al, 2004). That is why appraisal system is used in the most careful way.

5) Training Program: It is a learning process that involves the acquisition of knowledge, sharpening of skills, concepts, rules, or changing of attitudes and behaviors to enhance the performance of employees. The purpose of training is to improve current skill of workers and to correct skill deficits (Gomer-Meija, et al 2004). Training can influence performance in two ways: first, training increases employees’ satisfaction with their current jobs and workplace (Harel & Tzafrir, 1999). The aim of training is to build competencies of employees through job rotation, counseling, cross-functional exchange, or task assignments (Ulrich, 1987). Coaching, mentoring and instructing are crucial parts of training tool. Schuler and Jackson (1987) mentioned about choices of training whether it is for short-term or long-term, narrow application or broad perspective, productivity focus or quality of work life emphasis. Kydd and Oppenheim (1990) said that HR managers facing with respects to formal training were how much
and in what areas. There are several kinds of training criteria. Training consists of on job-training, off- job training, formal training, skill training, cross functional training, team training etc. (Gomer-Meija, et al, 2004). Computer –based training (CBT) is very attractive in research and practical areas. Most practitioners suggested that computer based training is a very useful way to promote productivity of employee’s learning. Recommendation of new direction of HRM research should take information system into account (Ferris, et al., 1999)

6) Team Work Practices: Group of employee is created on purpose of doing a particular job or solving problems is called team work. Teamwork involves the combined efforts of two or more people contributing different skills but sharing the same view point and working towards common aims and goals. The idea of team work is people share knowledge, skill, judgment and idea among one another to get better results. Chang and Chen (2002) found positive relationship between team building and employee productivity. Team-building and problem-solving group are very important link strategies to operational goals (Steven, 1995). According to Pfeffer(1998) team work provide many advantages: first teams depend on peer-based work rather than hierarchic which leads to more effective achievement; second, team work facilitates flows of idea from team members and finally, comes up with innovating solution; third, teams help save some administrative costs resulted from paying specialists to watch people. It covers parameters like team’s opinion, ability of team & availability of resources and powers to team to solve various problems.

7) Employee Participation: The most powerful achievement of workplace of organization is when employees participate in the work process. Employee participation is the process whereby employees are involved in decision making processes, rather than simply acting on orders (Verma, 1995). Involvement can be more effective when resources are provided by top
management along with authority. It covers parameters like participation, suggestion & open communication.

8) CSR Practices towards Employees: The concept of corporate social responsibility (CSR) has grown tremendously in the last decades and is gradually becoming a global trend. Companies are now expected to take explicitly into account all aspects of their performances including financial results, social and environmental concern. Many authors have defined corporate social responsibility or CSR as operating a business in a manner that accounts for the social and environmental impact created by the business. It means a commitment to develop policies that integrate responsible practices into daily business operations (Jarutirasarn, Piyachat, & Aiyeku, Joseph F.et al, 2010). Kotler and Lee (2005, p. 3) gave a definition of CSR as a duty of a corporate to make the involving society become better using their knowledge, business experiences and also resources. According to Hopkins (2007, pp. 15-16) CSR was a moral approach that a corporate contribute to its stakeholders both internal and external toward a better way of living while maintaining the corporate profitability. Vogel (2005, pp. 4-6) defined CSR as an ethical action that a corporate initiated to solve social problems of its stakeholders. –Werther and Chandler (2006, p. 6) gave a general definition of CSR as an operation that a corporate do to its society. Corporate Social Responsibilities have become moral duty of the firm to follow and CSR towards its employees will make firm more responsible in providing ethical environment for the firm and also make their employees sensitive towards their responsibilities and their vital role in delivering firm’s performance. (Puja, Dr. Reddy et al, 2010, p.1-12)
Table No.4 Dimension of HRM Practices:

<table>
<thead>
<tr>
<th>Authors HRM Practices</th>
<th>Authur ('92)</th>
<th>Pfeffer ('94)</th>
<th>Mac Duffy ('95)</th>
<th>Deleany Huesli d ('97)</th>
<th>Pawan S Budhawar ('00)</th>
<th>Ashok Som ('08)</th>
<th>Shikh a Khera ('10)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appraisal</td>
<td></td>
<td></td>
<td>✅</td>
<td></td>
<td></td>
<td>✅</td>
<td>✅</td>
</tr>
<tr>
<td>Communication</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Employee Participation</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Empowerment</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incentive practices</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Job Description</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recruitment</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Selection</td>
<td></td>
<td></td>
<td>✅</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Teamwork</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HR Planning</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training &amp; Development</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Motivation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.3.1 Summary of Several Indian Studies on HRM Practices

Sarbapriya Ray & Ishita Aditya Ray (2011) in their study on Small and Medium Sized Iron &Steel Firms in India, explored that, factors like performance appraisal, participation in decision making, training and development, empowerment, compensation influencing human resource management(HR) practices have significant association with job satisfaction (JS).
Shikha Khera (2010) in her studies on HRM Practices and its impact on productivity found that through the use of strategy-based HR policies and practices, firms create a more competent and committed workforce, which in turn provides a source of sustainable competitive advantage.

A.Khandekar(2005) in his studies on Organizational learning in Indian organizations: a strategic HRM perspective reveals that, there is a positive relationship between organizational learning, strategic HRM and sustainable competitive advantage.

HRM and Indian epistemologies: A review and avenues for future research M.Singh & NVohra (2009) integrates and discusses research on HRM in India with a focus primarily on the past fifteen years. It is within this complexity that research on India and its workforce is presented by illuminating HRM as embedded in the Indian environment with its intricate epistemologies and transitions in a period of dynamic change.


P.Budhawar (2000) in his study on 137 Indian manufacturing firms have suggested that, number of significant correlations between a set of contingent variables (i.e., age, size, ownership, life cycle stage and HRM strategies of an organization, type of industry and union membership) and four HRM functions of recruitment and selection, training and development, compensation and employee communication. Similarly, four national factors (namely national culture, institutions, dynamic business environment and business sector) are suggested, which influence Indian HRM policies and practices.
M.Chand (2010) in his study on Human resource management practices in Indian hospitality enterprises revealed that, harmonized terms and conditions, formal manpower planning, flexible job description, formal system of induction, production/service staff responsible for their service, social appreciation and recognition may constitute the most important HRM practices in the Indian hospitality enterprises.

S. Kundu & D. Malhan (2009) in his study on “HRM practices in Insurance Companies: A Study of Indian and Multinational Companies” concluded that, Competitive advantage of a company can be generated from human resources (HR) and company performance is influenced by a set of effective HRM practices.

A.Paul & R.Anantharaman (2004) “Influence of HRM practices on organizational commitment: A study among software professionals in India” reveals that HRM practices such as employee-friendly work environment, career development, development oriented appraisal, and comprehensive training show a significant positive relationship with organizational commitment.

P.Kasturi, et al, (2006) " HRM systems architecture and firm performance: Evidence from SMEs in a developing country “In their study has shown that the attitude of the firm’s owner(s) towards its employees is a major determinant of the firm’s profitability. The effect of HRM philosophy on productivity is smaller, albeit still highly significant.

A. Som (2008) in his study on, “Innovating Human Resource Practices and Corporate performance in the context of Economic liberalization in India” has shown that, innovative recruitment and compensation practices have a significant relationship with firm performance. It was observed that, recruitment, role of the HR department and compensation practices seem to be significantly changing within the Indian firms in the context of Indian
M. Joshi & N. Vohra (2009) in their research work on, Level of Formalization of Human Resource Management in Small and Medium Enterprises in India reveals that, level of formalization of HRM systems in SMEs was low and owner-managers played a central role in the HR functions of their enterprises. Compared to small enterprises, the level of formalization was found to be higher for medium enterprises.

N. Akhuri & R. Sharma (2010) “HR Determinants of Organizational Success amongst Small & Medium Enterprises in Indian Automobile Sector” Three scales have been developed by the researchers- Engaging Leadership (from the leader’s perspective), Engaging Leadership (from the subordinate’s perspective) and Employee Engagement. At a later stage a full scale research can be carried out on a larger sample size and in more number of firms. One of the direct uses could be 360 degree feedback based on these scales in these SMEs for developmental purposes.

2.4 Operational Performance and Its Dimensions

In the past years, scholars argued a number of criteria of operational performance measures used to find a relationship between HRM practices and operational performance. Authors including Wheelright, Schmenner, Hays, and Hill have contributed various dimensions of operational measures such as cost, quality, delivery, product launching, innovation, flexibility, dependability, efficiency and time duration. The present study covers operational performance measures as, Product Quality, Product Cost, and Delivery & Flexibility. Later on Vickery has introduced rate of new product launching, so called “Speed” as another dimension of the measures (Vickery et al, 1997). Skinner (1974) mentioned short delivery, superior quality, dependable delivery, fast new product development, volume flexibility, and

Besides those scholars, there are more contributors to the operational performance (manufacturing performance) measures (Krajewski & Ritzman, 1987; Ferdows & DeMeyer, 1990; Droge et al, 1994; Vokurka et al, 1998; Youndt et al., 1996 and; etc) Youndt et al.(1996) suggested four dimensions: Cost, quality, delivery flexibility and scope flexibility. Delivery flexibility was a timing of the introduction of new products and ontime delivery. Scope flexibility was about variety of things: adjusting product mix, handling non-standardized orders and producing product in small lot (Jayaram, et al., 1999)

1) Product Quality: Product quality is strongly required by customers. Product quality includes several dimensions such as product specifications (standard product), Product performance (Product functions), Product reliability, Product serviceability (reparability of service), and Product durability (time period of product), etc.(Kotler, 2003, Hill and Jones, 2007). “A product is said to have superior quality when customers perceive there to be greater value in the attributes of a specific product, compared to the same attributes in rival products,” said Hill and Jones (2003, p.88). In order to produce high quality product for suiting customer needs, most organizations currently adopt total quality management for better results. Based on research Mayer, Nakane, Miller & Ferdows (1989), they listed top ten manufacturing concerns of firms in Europe, Japan, and North America. Firms in Japan and US concerned the most quality issues where as European gave cost problem as their first priority.
2) Low Cost Production: Low cost production is the ability to reduce costs through efficient operations, process technology and/or scale economies (Vickery, Droge, & Markland, 1997). Cost is one the two main generic strategies, pursued ad adopted to gain competitive advantage (Porter, 1985). Porter used value chain system to explain how costs can be saved from procurement till delivery processes. With careful management organizations can save raw material handling costs, inventory costs, input utilization cost, and overhead costs, etc. according to Hill and Jones (2003), cost leadership provides two advantages: first, if its closest competitors compete in the same price range or market segment, the total cost leader is able to capture more benefits due to its low cost structure. Second, cost leader can charge low price than competitors as a result, gaining more market share.

3) Product Delivery: The act of transferring or delivering the goods and services through any mode of transportation to ultimate consumers or buyers. Service organizations can differentiate from others by designing fast delivery network (Kotler, 2003). Zeithaml and Brinter (2003, p.472) comment, “The best opportunity for surprising customers is when services providers and customers interact during delivery.” The idea of product and service delivery is not much different. Service-buying customers demand on-time or even fast, so do product-buying consumers. No matter what kind of industry organizations operate in, on time and fast delivery is very important to keep existing customers. It covers parameters like on-time delivery, time from order to delivery & cycle time.

4) Flexibility: Flexibility is about the reduction of production lead times and set-up times, the development of new processes for new products and offering workers a variety of tasks (Meyer, Nakane, Miller, & Ferdown, 1989). According to the work of Vickery, Droge & Markland (1997), flexibility is divided into three parts: Product flexibility is the ability to handle difficult, non standard or special orders; process flexibility is ability to change
product mix quickly and easily and achieve efficient cost production: Volume flexibility is the ability to scale product process up and down quickly to meet market demand. An ability of a system to respond to potential internal or external changes affecting its value delivery, in a timely and cost-effective manner. It covers dimensions like adopting changes, handling difficult orders, customized products, adjusting capacity.

Table No.5 Dimension of Operational Performance

<table>
<thead>
<tr>
<th>Author Operational measure</th>
<th>Wheel right (’78)</th>
<th>Arthur (’94)</th>
<th>Youndt, Snell, Dean Jr.&amp; Leepak (’96)</th>
<th>Vickery Droge &amp; Markland (’97)</th>
<th>Jayaram Droge &amp; Vickery (’99)</th>
<th>Ahmed &amp; Schroeder (’03)</th>
<th>Fons Kortekaas (’07)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Efficiency</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Flexibility</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dependability</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Innovation</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Cost</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.4.1 Summary of Several Indian Studies on Operational Performance

An empirical investigation on relationship between total quality management practices and quality performance in Indian service companies by, Talib, F., Rahman, Z., & Qureshi, M. N. (2013) revealed that TQM practices were found to be partially correlated with quality performance of the Indian service companies. It was also found that quality culture was perceived as the dominant TQM practice in quality performance. The other
practices such as quality systems, training and education, teamwork, and benchmarking showed a positive relationship with quality performance.

Study on Auto Component Business in India by Majumdar, S. (2010) reveals that The entrepreneurs choose ‘relationship based strategy’ as well as ‘technology based strategy’ as entrepreneurial vision towards strengthening relationship is the basis for growth planning. Trust, cooperation, community and society benefit are important dimensions to achieve excellence in product and process performance, and need investment and risk bearing capability.

2.5 Defining Firm Performance

Defining firm’s performance is a very broad term as many researchers in past have used various indicator to measure firm performance. Firm performance or organizational performance can be defined as “firm’s progress in achieving increase in productivity (employee as well as production), employee efficiency, employee turnover, financial performance (Return on investment, Return on asset, Profitability, Turnover) and market share, economic performance & customer satisfaction level. Some non-financial indicators also used to define firm’s performance such as employee absenteeism, employee turnover, rework cost, defective rate, scrap rate & sales per employee.
Table No.6 Dimension of Firm Performance

<table>
<thead>
<tr>
<th>Authors Financial &amp; Non-financial indicators</th>
<th>Huselid ('95)</th>
<th>Delery &amp; Doty ('96)</th>
<th>Richard &amp; Johnson ('01)</th>
<th>Chen &amp; Chang ('03)</th>
<th>Koys ('03)</th>
<th>Tzafrir ('05)</th>
<th>Normala Binti Daud ('06)</th>
<th>Ashok Som ('08)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee productivity</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Employee absenteeism</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee turnover</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Profitability</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Market Share</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Rate of return</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Sales growth</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

2.5.1 Summary of Several Indian Studies on Firm Performance

There is not much work in Indian context in this area. Some researchers have recently focused on Indian context and tried to see applicability of emerging theories in India Budhwar & Sparrow, 1997; Sparrow & Budhwar, 1997; Ramaswamy & Schiphorst, 2000; Budhwar & Khatri, 2001). One of the conclusions drawn by the researchers is the context specific nature of HRM. It also showed that a shift is taking place in the pattern of HRM practices in Indian organizations from traditional administrative type to a more strategic and proactive type.
Empirical research studies have found a significant relationship between HRM practices and organizational outcomes such as employee turnover, return on investment, and profits. (Sivasubramanyam and Venkataratnam, 1998).


S.Tzafrir (2005) in his study on, “The relationship between trust, HRM practices and firm performance” have used firm performance as dependent variable in which he used set of questions pertaining to quality of product/service, new product development, the ability to attract and retain employees, customer satisfaction, market share, & profitability.

Oya Erdil & Ay e Günsel (2006) In his study on 63 SMEs in turkey found that there is strong link between HR practices, human resources management (HRM) - firm strategy fit and the firm Performance. In their study the firm performance was measured by, Success, Market share, Growth, Profit, Innovativeness and Size.

May-Chiun Long (2009) research uses a sample of 85 firms surveyed in Sarawak, Malaysia. The findings suggested that incentives and information technology are positively related the firms’ performance. The proposed study will measure firm’s performance; the indicators used in this study are increase in employee productivity and reduction in employee absenteeism as non financial parameters where as financial performance indicators used in this study are Market share percentage, Rate of sales growth, Rate of return, Rate of profit growth and Overall performance.
2.6 Defining Moderating Variables

Moderating variables are indicators which help in identifying firm’s outcome. Present study aims to identify impact of HRM practices on firm’s performance hence; in present study the researchers have used three moderating variables as Management style (Centralization Vs Decentralization), Social capital (Trust Vs Distrust) and Culture (Proactive Vs Reactive).

2.6.1 Management Style: Centralization Vs Decentralization:

The quality and style of managerial leadership is crucial in shaping perceptions which will support cultural values and an organizational strategy (Milkovich & Boundreau, 1991) The two authors mentioned about how to identify personality characteristics which can be determine successful leaders. The book postulates three kinds of supervisors or leaders: First, authoritarian leader is a person, who decides everything and asks others, especially subordinates to follow. This type of supervisor or leader sticks to his/her own idea of how to get jobs done. It is likely to be called centralization, which is perceived currently as not a wise way to do business.

Centralized leaders can bring about demoralization in work place, disgruntled employees, high turnover rate, and unproductive workers, leading to low productivity as a final result. Second, democratic supervisor is a leader who pays attention to subordinates’ idea and contribution. He/she involves everyone below into decision making and sharing information as inputs in doing works or solving problems. Comparing the democratic leader to the concept of decentralization, we can find compatibility. Decentralization is about sharing power to lower level, encouraging team work, motivation of transferring and broadening responsibilities to lower level, and authorizing greater involvement in
communication and decision making etc. (Hoogendoorn & Brewster, 1992; Vancevic & Donnelly, 1975).

Everyone has his/her own responsibility for doing jobs. So, decentralizing line of authorities to low level of management becomes an effective tool of management. Another advantage of decentralization is power dissemination to low level management, so top level management can take time and effort to think of drivers of success of an organization rather than spending much time to deal with some negligible staff activity. Unlike centralization, decentralization can encourage employees to work. It covers dimensions like transfer of responsibility & communication among employees.

2.6.2 Social Capital: Trust Vs Distrust

Social capital (SC) is defined as the combined value of the relationship with customers, suppliers, industry association and markets, and SC represents the potential an organization possesses as a result of external intangibles (Bontis, 1999). The social capital construct has evolved rapidly into a complex account of people’s relationships and their values. Having achieved considerable, even worldwide salience, it has been regarded as a constructive element in the creation and maintenance of economic prosperity (Fukuyama, 1995), regional development (Grootaert & Bastelaer, 2002), collective action (Burt, 1992) and democratic governance (Putnam, 1993; 2000). Social capital literature and the literature on trust, (Sigrid De Wever, et al, 2005) seek to develop propositions that detail the relationships among trust, inter organizational network characteristics, strategic resource acquisition/network effectiveness and performance. (Dan Ofori & Jocelyn Sackey, (2010) describes social capital as good quality social relations that can lead to mutual benefit. in his findings says social capital is critical to knowledge sharing in the organization; that it helps to get things done and helps in the attainment of organizational objectives. The findings also
suggested that three determinate variables of social capital: reciprocity, trust and institutional ties, have the most significant positive relationship with organizational performance. Study has proposed and rigorously examined a set of social capital variables that seem appropriate for explaining expatriate adjustment and performance. (Xiangyang Liu et al. 2004) Social capital is associated strongly with trust. Relationship and collaborative environment norm and beliefs created by social capital effort among employees just to explore and build trust and cooperative work tasks. By gaining trust from one another, employees seem more productive than those who do not. According to Shockley-Zalaback, Ellis and Wonograd (2000), trust significantly influences on change processes and risks: whereas the lack of trust results in poor communications and quality (Owen, 1996). Erden, Ozen and Atsan (2003, p.337) say, “A climate or culture of trust which is built by the ongoing intensive relationships among the organization’s members is much more likely to provide the required levels of trust and flexibility.” In their study of 28 teams across four organizations is likely to derive from trust team among players. They therefore, add that selection, training, development and so on should take trust factor into account. Trust can be played as a moderating role to ensure successful selection, training and development to improve performance. Another similar study by the same two authors Erdem and Ozen (2003, p.131.) mention that, “A first requirement for a team to perform well is that should be strong social interaction between its member. The most important factors creating the interaction among the team members is the existence of a climate of trust. “Therefore, trust moderates the relationship between team and performance.
2.6.3 Culture: Proactive Vs Reactive


Even though a lot of researchers have provided multiple definitions of culture, those are subject to ambiguity (Schneider, 1988). So, based on the author, there are no common definitions of culture and its construct measurement or operationalization. The topics on relationships between culture and firm performance and culture between other outcomes are amassed by the field of researchers. Saffold (1988 p.546) says. “The powerful, pervasive role culture plays in shaping organizational life lends plausibility to speculations that cultural factors may be linked with exceptional levels of organizational performance. “ Other works shed light on the importance of culture to achieve goals and outcomes. Chow, Haddad, and Wu (2003) found the partial relationship between culture and performance. Sadri and Lees (2001) say that positive culture can have significant impact on competitive advantage. Lim (1995) have proposed the relationship between culture and firm performance in his research. Quick (1992) tends to suggest that culture moderates between culture can help boost organizational performance. Irani, Sharp and Kagioglou (1997) say that one fundamental item of TQM is organizational culture. Organizations need to have correct culture to attain TQM is organizational culture. The author seems to suggest that culture is likely to influence organizational performance. Again culture is about beliefs, norm and assumption of people inside organizations. It means that people understand their roles and do their jobs based on the perceptions, beliefs, and the ways they think of the responsibilities. If those people have similar understandings and adoptions of those characteristics, work flow will become smooth, and this dramatically facilitate team work process. Strong culture can help firm
improve performance because it is about motivation, commitment and information shared among employees (Schneider, 1988). When people feel fit into the organization culture, they are inspired to work harder. So having a right culture is a strategic issue which requires deep care and careful considerations. However. Creating a new culture is difficult and a time-consuming task (Lysons, 2000) Guerra, Martinez, Munduate, and Meidna (2005) found goal oriented culture moderates the impact of task conflict in private organization.

2.6.4 Summary of Several Indian Studies on Moderating Variables

Decentralization is the delegation of decision making authority throughout the organization. Decentralization creates an environment that increases communication and commitment among the employees in the organization. The central idea of decentralization is to provide greater opportunities for participation in decision-making and for the better interactions among the employees. Greater participation in decision-making also destroys the boundary between those who make decision and those that are affected by the decision, facilitating easy interaction and socialization (Islam, Ahmad & Mahtab, 2010).

The importance of trust as a social capital and driver of knowledge sharing has been most widely recognized (Adler 2001; Andrews & Delahaye 2000; Ciborra & Andreu 2001; De Cremer, Snyder, & Dewitte 2001; McEvily, Perrone, & Zaheer 2003; Newell & Swan 2000). Interpersonal trust facilitates effective knowledge-creation through removing knowledge-sharing barriers in an organization (Cross, Rice, & Parker, 2001; Holste & Fields, 2010; Tsai & Ghoshal, 1998) suggested that trust builds a healthy atmosphere and acts as a moderator.
Ria Mardiana Yusuf (2012) et al test that the influence of organizational culture on organizational performance is Positive and significant, results obtained showed that the manufacturing industry employees perceived cultural factors in the implementation of HRM practices as a factor driving the performance of the company.

Sinha, J. B. et al (1999) on their study on Indian and Canadian managers, reveals that environment affects the internal work culture, which in turn influences human resource management practices and performance of the firm.
2.7 Research Model

Figure No.3 Research Model
2.8 Construct Measurement

2.8.1 Independent Variable

An independent variable is the variable that the researchers systematically manipulate in the experiment. An independent variable is measured, manipulated, or selected by the experimenter to determine its relationship to an observed phenomenon. An independent variable is the presumed cause. In the current study the researcher used Set of HRM Practices and Operational performance as independent variables.

HRM Practices: This study tends to identify eight HRM practices. Table (3.2) below presents previous literature review conducted by different authors. They used measurement to test the relationship between HRM practices and organizational performance. Present study has selected questionnaire measures based on the past studies conducted by below mentioned researchers in table No.7. All items of HRM practices are measured based on 5-point Likert scales of degree of agreement, 5 strongly agree to 1 strongly disagree.

Table No.7 Measurement of HRM Practices by different authors

<table>
<thead>
<tr>
<th>Researchers</th>
<th>HRM practices</th>
<th>Likert Scales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delaney &amp; Huselid (1996)</td>
<td>Training &amp; staffing &amp; selectivity practices</td>
<td>5 points</td>
</tr>
<tr>
<td>Delery &amp; Dotty (1996)</td>
<td>Training, Employee Participation, Employment security.</td>
<td>5 points</td>
</tr>
<tr>
<td>Smeenk, et al. (2006)</td>
<td>Compensation, career mobility, training, positional tenure</td>
<td>5 points</td>
</tr>
<tr>
<td>Researchers</td>
<td>HRM practices</td>
<td>Likert Scales</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>-------------------------------------------------------------------------------</td>
<td>---------------</td>
</tr>
<tr>
<td>John O. Okpara (2007)</td>
<td>recruitment, selection, performance appraisal and training and development</td>
<td>5 points</td>
</tr>
<tr>
<td>Pfeffer (1998)</td>
<td>Status Barrier, HR Planning, Recruitment, Selection, Training &amp; Development, Employee Participation, teamwork.</td>
<td>5 points</td>
</tr>
<tr>
<td>Kenneth A. Merchant (2011)</td>
<td>Performance Measurement and Incentive Compensation:</td>
<td>5 points</td>
</tr>
<tr>
<td>Álvaro López-Cabrales, (2011)</td>
<td>Selection, development, appraisals and rewards;</td>
<td>7 points</td>
</tr>
<tr>
<td>Zulfqar Ahmad Bowra,(2011)</td>
<td>Performance evaluation , compensation practices and promotion practices</td>
<td>5 points</td>
</tr>
<tr>
<td>Md. Tofael Hossain Majumder (2012)</td>
<td>Recruitment and selection systems, compensation package, job security, career growth, training and development, management style, job design and responsibilities, reward and motivation and working environment.</td>
<td>5 points</td>
</tr>
<tr>
<td>Prachi Pandey, Sanghamitra Bhattacharyya, Arshinder Kaur, (2012)</td>
<td>Training, reward alignment, collaborative performance</td>
<td>5 points</td>
</tr>
</tbody>
</table>

**ii. Operational Performance:** By following and modifying from some previous authors’ works, operational performance items are designed. This study proposes four dimensions of operational performance to be tested, product quality, cost, flexibility and delivery. And it is measured
by using 5 point scale of achievement, which 5 represents very high and 1 is very low. The questionnaire items of operational performance are as follow.

**Product Quality:** Most dimensions are taken from the work of Dean and Snell (1996)
- High Product reliability
- Conformance to specifications
- Zero defects
- Product service
- Durability etc.

**Product Cost:** Part of item is extracted from Butler and Leong (2000) and Meyer, Bakane, Miller & Ferdows (1989) such as:
- Ability to reduce inventory cost
- Ability to hold down cost of products/services
- Ability to reduce overhead costs etc.

**Delivery:** Criteria are from Christiansen, Berry and Ward (2003) and Butler and Leong (2000) such as:
- Product’s on-time delivery to your customers
- Dependable delivery of products to your customers
- Cycle time
- Service specific geographic market of your company.
- Standard customer lead-time
- Short lead time from order to delivery of your company.

**Flexibility** includes scope and volume flexibility. The dimensions of questionnaire are from the work of Dean and Snell (1996)
- Adapt to changes in product mix of your company
2.8.2 Dependent Variable

Dependent variable is the factor which is observed and measured to determine the effect of the independent variable; dependent variable is the presumed effect. Proposed study is focusing on one dependent variable that is Firm’s Performance which is further divided into Financial and Non financial performance. In financial performance, there are 8 contents, Market Share, Rate of sales growth, rate of return, rate of profit growth, Research and Development, New product development, cost reduction programs and overall performance. Non financial outcomes include, employee productivity, absenteeism, employees’ relations, health & safety, and personnel development. By following the works of Beard and Dess (1981), Youndt et al. (1996), Chang and Chen (2002), the questionnaire is designed to ask respondents to assess their firm performances relative to competitors according to degree of achievement, ranging from 1 to 5 which 5 is very high and 1 is very low. The reason for comparison is due to unavailability of financial data of firms and it is difficult to ask for the data. Based on the following difficulties, the study is followed by two previous researches by asking respondents to compare their performance with competitors.

i. Financial Performance:

Compared to your competitors what is firm’s Market Share Percentage?
Compared to your competitors what is firm’s Rate of sales growth?
Compared to your competitors what is firm’s rate of return?
Compared to your competitors what is firm’s rate of profit growth?
Compared to your competitors what is firm’s Research and Development investments?
Compared to your competitors what is firm’s New product development budget?,
Compared to your competitors what is firm’s cost reduction programs and
Compared to your competitors what is firm’s overall performance?

i. Non Financial Items:
Compared to past year, rate the change in employee productivity?
Compared to past year, rate the change in absenteeism?
Compared to past year, rate the change in employee relations?
Compared to past year, rate the change in employee health and safety policy?
Compared to past year, rate the change in personnel development program.?

2.8.3 Moderating Variable
A moderating variable represents a process or a factor that alters the impact of an independent variable X on a dependent variable Y. The moderating variable may take the form of an indicator variable (0/1 values), a categorical variable, or a continuous variable. Moderation of the effects of X on Y is usually of interest in the context of a well-theorized area of research. There are three moderating effects in this study. One is Management Style (Decentralization Vs Centralization), and second is Social Capital (trust) and third is Corporate Culture (Proactive Vs Reactive culture). In this section respondents are asked to rate Management Style- Decentralization versus Centralization (Hoogendoorn & Brewster, 1992; Ivancevich & Donnelly, 1975)
- Transferring responsibility to lower level
- Encouragement of team development
Motivation and interest of transferring and broadening responsibilities to lower level

Greater involvement in communication and decision making.

Social capital - Trust versus Distrust (Gainy & Klaas, 2005)
- People in organization understand each other’s behavior well
- People share sense of loyalty to one another
- People feel sense of responsibility to each other
- People have never take advantage of each other

Corporate Culture - Proactive culture versus Reactive culture (extracted from Chow, Haddad, and Wu, 2003, p.67)
- Whether or not accompany is a pacesetter
- Timeliness of decision making
- Innovativeness of decision making
- Overall vitality: sense of urgency and rapid pace of activities.
- Responsiveness to change in business environment

2.8.4 Defining Relationships between Constructs and Hypothesis Development

In ever changing market environment, business can survive because of superior performance. This is achieved by capabilities and resources and effectively competitive strategies of firms to defend and attack competitors for cumulative market share. A variety of resources and capabilities are being explored and pursued in order to respond to the variety of resources and capabilities are being explored and pursued in order to respond to the turbulent market environment, ranging from tangible assets to intangible assets. Among those resources, HRM practices have been proved as very effective weapon to compete and
sustain competitiveness of firms (Boxall, 2003, Lado & Wilson, 1994, etc).

Many scholars have studied the effectiveness of human resource management practices and proved that the HRM practices is positively related to firm performance to operational performance and HRM competitive advantage. (Chang & Chen, 2002; Delery & Doty, 1996; Youndt et al, 1996; Ahmed & Schroeder, 2003; Jay arm, et al, 1999; McDuffie, 1995; Schuler & Jackson, 1987; Schuler & Macmillan 1984).

### 2.8.5 Relationship between HRM Practices and Firm Performance

Assets which are valuable, rare, imitable and non-substitutable can help firms to obtain sustainable competitive advantage (Barney, 1991), product and process technology, access to capital and other traditional tangible assets cannot make firm performance better than competitors in the dynamic environment because those assets can be copied by other firms (Pfeffer, 1994). Human resources are more effective and efficient to get job done. This intangible resource can help firms improve performance and achieve and retain competitive advantage (Chang & Chen, 2002, Boxal, 2003) so, an organization should start the very first things of getting the right places at the right time before other things taken into account. People come first and later do tangible assets.

As already mentioned above, overall performance has many types, ranging from financial performance (ROI, ROA, cash flows, etc) and non-financial outcomes (Productivity, defect rate, supply chain management performance, customer satisfaction and so on) These criteria are argued to have positive relationships with HRM. It means that good HRM practices can help promote firm performance. Morgan & Schiemann (1999) indicates relationship between people metrics and returns on assets by assessing people measurement practices in high-performing and low-performing organizations. The article shows that organizations
in which people measure is part of measures used by leadership to help manage businesses, five-year ROI is 146% compared to 97% in others, and one year ROA is 4.6% compared to 1.9% in others. In organizations where executives value their employee survey as source of information for decision making, five year old ROI is 136% compared to 71% in others, and one year ROA is 3.7% compared to 0.7% in others. The article mentions that high performers are more likely to measure performance in terms of culture, values, leadership, and employee commitment than others (Morgan & Schiemann 1999). The purpose of applying HRM into practices inside an organization seems to help improve firm performance. This is proved by empirical studies and theoretical researches by many scholars in the past years.

Delery and Doty (1996) identifies seven dimensions of HRM practices used to observe the relationship between HRM and financial performance based on three dominant modes of theories of contingency, universalistic and configurational perspectives. The seven practices are, career opportunities, training, results-oriented appraisals, profit sharing, employment security, participation and job description. The results show that profit sharing, result oriented appraisal and employment security conveyed strong universalistic association with accounting measures of performance. Contingency relationships between strategy and three HRM items participation result oriented appraisals and internal career development, demonstrated significant portion of variation in the same performance measures (Delery and Doty, 1996), so it means that each perspective, contingency, configurational and universalistic explains remarkable relationship level between HRM practice dimensions and variation in financial performance.

Chang and Chen (2002), in their study seeking to understand the linkage of human resource management and firm performance in Taiwan’s high
tech industry with 197 participating firms, show the significantly positive relationship between the two. Chang and Chen selected six criteria of HRM practices, training and development factor, teamwork factor, benefits factor, human resource planning factor, performance appraisal factor, and employment security factor and two items of firm performance – employee productivity and employee turnover. The result identifies that, training and development was positively associated to employee productivity. Teamwork had significant impact on employee productivity. Incentives positively influenced firm performance. Human Resource Planning had significant effect on firm performance; Appraisal was positively related to employee productivity.

Delaney and Huselid (1996) studied in 590 for-profit and non-profit firms from National Organization Survey to find out the impact of HRM practices on firm performance. They developed two hypotheses to test the relationship between progressive HRM practices and organizational Performance. The result show that progressive HRM practices including Selectivity in staffing, training and incentives compensation had positive relationships with measures of firm performance; the result did not support the assertion that complementarities among HRM practices enhance organizational performance.

Inchniowski and Shaw (1999) conducted a research on international human resource management issue by comparing performance between steel making firms in U.S and Japan. Which were applying HRM systems. The research finding mentions that Japanese plants implemented abundant HRM practices comprising of problem-solving teams, extensive orientation, training throughout employees, careers, extensive information sharing, job rotation, employment security and profit sharing than the U.S counterparts. They found that Japanese lines were remarkably more productive than the U.S lines.
Huselid et al. (1997) evaluated the effect of HRM on corporate financial performance of 293 U.S firms. They divided HRM effectiveness into two parts (1) Technical HRM effectiveness: compensation, recruiting and training, employee/industrial relations, selection tests, appraisal, employee attitudes etc. And (2) Strategic HRM effectiveness: teamwork, employee participation and empowerment, employee and manager communications, management and executive development and so on. The result shows that there is a positive link between HRM effectiveness and firm performance but technical HRM effectiveness as not related to firm performance. However many large firms are more proficient in their technical HRM effectiveness rather than their strategic HRM effectiveness. The summarized findings are that there is a relationship between HRM effectiveness and productivity, cash flows and market value of firms.

Besides these authors, other researchers have contributed the findings and evidences on the relationship between HRM and firm performance. Like Storey (2002) chose education, training and development policies and Practices to study the relationship on firm performance in medium sized companies in UK. The result shows that education, training and development variables appear to be associated with middle sized firm performance. Guest (1989) pointed out HRM policies, such as reducing employee turnover, absenteeism, grievance and maximizing individual job performance. it leads to improvement in firm performance. Koys (2003) conducted a study to identify the relationship between human resource goals and restaurant performance, There is strong evidence proving that HR results influence business performance, financial performance and customer satisfaction. Chen, et al. (2003) studied pattern of HRM to examine productivity. Tyson (1999) shares ideas of how HR knowledge can help to promote firm performance etc. Based on
those findings of relationship between HRM practices and organizational performance, the present study intends to test the following hypothesis.

**H1: HRM practices are positively related to firm’s performance.**

Even though HRM practices apparently help improve performance, the specific form of the association is still in debate among HRM-specialized scholars. Some authors argued that highly significant HRM-firm performance relationship was result oriented when manufacturing strategies are used to align with the linkage (e.g. Youndt et al., 1996) whereas some researchers have proved that substantial relationship between HRM practices and firm performance could be yielded without requiring any contribution from moderating effects, manufacturing strategies (e.g. Pfeffer, 1994, 1998).

### 2.8.6 Relationship between HRM Practices and Operational Performance

The association between HRM practices and operational performance (Manufacturing performance is part of operational performance, the use of criteria of manufacturing performance measures by scholars in researches are almost similar to operational performance one) has not been studied by many researchers. This topic did not draw much attention in the past years. Now a day, it has been significantly increasing in numbers in both empirical evidences and theoretical concept.

Ahmad and Schroeder (2003) found that all HRM practice dimensions proposed by Pfeffer (1998), except employee security and status differences, are significant to operational performance. By testing canonical analysis to see the correlation between the HRM practices and operational performance, they found that other five criteria of HRM,
selective hiring, self-managed team, high compensation contingency, extensive, and information sharing, are significantly related to operational performance. Moreover, by following the same method, they tested the impact of operational performance measures on HRM practices, the results are; the linkages between, cost and HRM, quality and HRM, delivery and HRM, speed (new product introduction rate) and HRM practices are significant, but the relationship between flexibility and HRM practices is not significant.

Jayaram, et al. (1999) used top management commitment, communication of goals, employee training, cross function teams, other HRM practices to test the relationship, by choosing the similar items of manufacturing performance measure to the authors above, such as quality, cost, flexibility and time. They found that there are positive linkages between individual HRM practices and manufacturing performance. The article mentions that HRM practices can be grouped into various categories related to manufacturing strategy, like HRM-quality (means that HRM practices are directed to support quality strategy), HRM-cost, HRM-flexibility, and HRM-time. Each of these four special HRM practices was positively associated with any dimensions of manufacturing performance measures.

Corbett and Harrison (1992) conducted a study on employee involvement and manufacturing performance, with responses from 106 manufacturing executives in New Zealand and Australia. They found that work force related programs promoted great improvement in quality and communication throughout an organization could help maintain this achievement, and well trained workforce would help firms to gain market share because such firms would produce high quality of products, meeting customers’ expectation. Additionally, communication among top
and low level management improved inventory turnover and profitability of firms in both countries.

McDuffie (1995) used the survey of 62 automotive assembly plants to identify the effect of HRM bundles on manufacturing performance. He suggested that innovative HRM bundles affected performance. And assembly plants using flexible production system, with bundle HRM practices integrated with manufacturing policies under the organizational logic, performed well better than the ones using traditional mass production systems in terms of quality and productivity. The importance is that commitment from top management to flexibility or quality control can affect manufacturing performance on those dimensions.

According to those researchers, we can see that operational performance can be improved by HRM practices. Some of the practices need to be integrated with business strategies or functional strategies in order to have significant impact on firm’s operational performance. But some articles did rise that HRM practices alone could still improve firm’s operational performance. (e.g. Alberto & Javier, 2002). We can see that each author mentioned some dimensions of HRM practices to improve operational performance of firms. So, it means that each item of the practices must own specific characteristics that firms can exploit to yield outcomes.

i. **HR Planning**: Firms need to consider how many technicians required for in-house work process in the coming years and also need to know how many existing workers will retire in next three or five years. Understanding such situation, firms can adjust labor demand needed for the near future. By doing planning, a firm can ensure that troubles from labor surplus or shortage can significantly be reduced, and it becomes
less affected by any sudden change in labor market. Chang and Chen (2002) found that HR planning had significant effect on performance. Their finding indicates HR planning is important for manufacturing to accommodate fluctuation in demand.

**ii. Staffing:** Staffing is important to improve operational performance. One study by Ahmad and Schroeder (2002) found that recruitment and selection processes moderate the relationship between quality management and competitiveness of firms. The idea is that behavior traits of employees are vital to the effectiveness of firms’ quality management practices. So that’s why staffing activities are considered as the first right thing to do to bring right people into an organization.

**iii. Teamwork:** In JIT system, pioneered by Japanese automobile plant, team work helps promote performance. Team work is group of people working together in collaboration to deal with problems. Team work can be decomposed into several functions, such as quality control inspector (quality team) or problem solving agent (problem solving group). Team work can help improve operational performance in many ways if each team member comes from different background (cross department). Firms must guarantee the existence of team work. By attaining this, a firm is necessary to ensure there is: small barriers inside, encouragement, experimental support and acceptance of idea (Feurer, et al., 1996).

**iv. Incentives:** Employees in operations play significant roles they deal with customers every day (customer service center) and they are the frontline workers in production line (Production house). So firms need to pay them appropriately. Ahmad and Schroeder (2003) found contingent compensation has significant effect on operational performance.

**v. Training:** Continuous training is importantly required for firms that want to pursue differentiation strategy. (Schuler & Jackson, 1987).
Training, of course, spends much money, but in exchange for high skill workers, flexible employees, and creative people inside an organization.

**vi. Performance Appraisal:** Correct feedback can help increase employee commitment. Feedback is double-edged. One side it can help firms to get more commitment from employees, and on the other side it constitutes disgruntled employees, low productive workers, and high employee turnover. To make employees work hard towards achievement of organizational goals, the firm must provide employees a positive feedback.

**vii. Employee participation:** Rights for employees to work and resources given to them to do their job are very vital for success of an organization. Employee empowerment is critical for improving performance. (Daily & Huang, 2001). In logic, employee participation should help promote responsiveness of firms. Production workers can deal with unusual process occurred on production line with resources and power given to them immediately without waiting for decisions from upper level. This can ensure that small error will never become big and big problem will become an insignificant concern. Firms need to provide employees to certain level of resources and power. But too much empowerment is not a wise way too.

**viii. CSR practices towards employees:** The evolution and growth of CSR in large corporations in India have been well documented (BCCI, 2007; Mitra, 2007; Sood & Arora, 2006; Arora & Puranik, 2004; British Council et al., 2002; Kumar et al., 2001). In recent years, CSR in SMEs in India has been gaining increased attention from practitioners, NGOs and international agencies, but not significantly from scholars. (Srinivasan, 2011).

In a comparative study conducted on CSR practices of Dutch Multinationals and SMEs operating in India, it was found that while
large multinationals had formulated a CSR policy, which they make public, CSR is not at all institutionalized in SMEs. The reasons attributed to the lack of institutionalization of CSR include limited resources to do CSR, lack of pressure from the customer or NGOs to do CSR and finally, the inability to see any direct benefit in doing CSR. (P.Bhatt & Reddy.S, 2010)

Proactive policies and practices towards employees reflect a company’s intention to address the interests of its employees and satisfy their needs. Policies and practices towards union relations, employees’ participation in decision making, remuneration policy, working conditions, and elimination of forced/child labor, portray a firm’s CSR towards employees. By adhering to such standards, firms can satisfy employees, enhance their job performance, and improve performance. The Energy Research Institute’s report mentions that Indian stakeholders including workers, company executives, and general public feel that Indian companies should adhere to higher labor standards and reduce human rights abuses at the workplace (Kumar et al., 2001). Working conditions that respect human dignity, equality, and social protection result in a productive workplace (Somalia, 2000). Social responsibility of a company is a reputation factor and is an attractive force for potential and current employees (Turban and Greening, 1997). Ethical reputation contributes to job satisfaction and lower employee turnover by evoking positive reactions from employees’ families and friends (Riordan et al., 1997). As satisfied employees have higher morale and job motivation, they will work more effectively and efficiently (Berman et al., 1999) and contribute to higher levels CSR and Firm Performance of organizational effectiveness (Koys, 2001). Past studies have established that better human resource management practices such as, training and development, employee participation, progressive
remuneration and grievance mechanism reduces employee turnover in the firm. It also increases employee productivity and performance of the firm. (Huselid, 1995; Youndt et al., 1996).

A better CSR towards employees which includes wider issues compared to human resource management issues also improves a firm’s Performance (Berman et al., 1999).

This study has hypothesis as under:

**H2: HRM practices are positively related to operational performance.**

### 2.8.7 Relationship between HRM practices and Firm Performance (Financial & Non Financial).

When researchers conducted studies on the impact of operational performance on business performance, most of them had directed to financial yield as firm performance outcome. Different results shared different perspectives on the effect. Some results have shown that the linkage between operational performance and financial performance on non-financial performance was found close relationship (e.g. Outers, et al., 1999) Some of researchers found that there is relationship between total quality management (TQM) (TQM is part of operational performance) and financial performance (York & Mire, 2004). The article mentioned that there are two possibilities that TQM could help firms to increase financial performance: First TQM focuses on the efforts to attracts and retain customers, which allows firms to increase revenue. Second TQM centers on the efforts to improve processes of producing products and services, allowing increase in revenue through product reliability (York & Mire, 2004). Another study emphasizes the use of operational process leads to improvement in performance which are measured by inventory speculation, lead times, and turnover ratios (Rabinoich, et al., 2003). In

Based on the empirical findings above, we can see that operational performance tends to have a positive relationship with non-financial items rather than financial measures. Despite of that, financial performance measures are still popular among researchers in conducting researches related to firm performance. Based on that, firm performance may be improved if operational performance of firm is performed well. So, other hypotheses are proposed as follow:

**H3:** HRM practices have impact on firm’s non financial performance.

**H4:** HRM practices have impact on firm’s financial performance.

### 2.8.8 Moderating Effects of Management Style, Social Capital and Corporate Culture

#### i. Management Style (Decentralization Vs Centralization)

Decentralization is about sharing power to lower level, encouraging team work, motivation of transferring and broadening responsibilities to lower level, encouraging team work, motivation of transferring and broadening responsibilities to lower level, and authorizing greater involvement in communication and decision making (Hoogendoorn & Brewster, 1992; Ivancevich & Donnelly, 1975) Decentralization is currently preferred by most companies because many managers believe that decentralized management style may result in committed and motivated employees, leading to increase in high productivity. However, this doesn’t mean that decentralization is naturally superior to centralization. A research, by Kim and Burton (2002) suggests that the adoption of decentralization or centralization depends on task uncertainty and project team
performance measured by cost, time and quality of team output. The result shows that under low task uncertainty, centralized team performances better than decentralized team in terms of project quality; whereas under high task uncertainty, decentralized team provides better results of shorter time and low cost of projects than those of centralized team. From this point of view, adoption of decentralization or centralization has to take into account market environment, industry type, and pattern of market trend, etc.

Present market situation, nowadays, changes rapidly and unlimitedly. There is no clear signal where the market trend might go. Just one significant event in political or business issue can turn certainly stable, predictable market into uncertainty. Customer behavior, product preferences, ways of competition keep on changing. In order to survive, companies must decide the accurate answer to this fast environment change by putting effort to increase flexibility and decentralization. (Hoogendoorn & Brewster, 1992;) According to authors decentralization firms can formalize localized initiatives drawbacks resulted from central policies and can reduce people and organizational level which hinder the process of decentralized units.

Based on this, this study has two hypotheses to test the effects Decentralization on operational performance and as well as organization performance:

**H5:** Management Style (Decentralization Vs Centralization) moderates the relationship between HRM practices and operational performance.

**H6:** Management Style (Decentralization Vs Centralization) moderates the relationship between HRM practices and organization performance.
i. Social Capital (Trust Vs Distrust)

Social capital is essential to protect organizational investments in knowledge and guarantees information flow among people inside (Youndt & Snell. 2004) The idea is that organizations need to invest in knowledge to develop human capital to ensure success in business Competitions. Human capital, by organizational theorists, does not belong to organizations but with employees. So, it means that when employees leave for new places, human capital goes along and the organization bears costs of its investment without yet capturing pay-offs. In order to ensure the outflow of human capital to competitors, the organization needs social capital to secure the loss. Social capital is identified as opportunities which every individual can receive by building relationships with others (Burt, 1992). Social capital can guarantee free flow of information among people inside organizations; this is supported by a growing consensus (Youndt & Snell. 2004). Social capital should be embedded in the concepts of mutual acquaintance and recognition (Bourdieu, 1986) to ensure relationships and trust among people. Nahapiet and Ghosal (1998) say that network of relationships embedded in the operating system enhances interactions and communications. From this point of view, social capital helps moderate communication among people inside an organization.

As mentioned above, social capital is associated strongly with trust. Relationship and collaborative environment norm and beliefs created by social capital effort among employees just to explore and build trust and cooperative work tasks. By gaining trust from one another, employees seem more productive than those who do not. According to Shockley-Zalaback, Ellis and Winograd (2000), trust significantly influences on change processes and risks: whereas the lack of trust results in poor communication and quality (Owen, 1996). Shockley-Zalaback, Ellis, and
winograd (2000) states that because of globalization, diversity workplace, culture differences, decentralization of decision making, and so on, trust becomes important in dealing with these rising issues. Erdem, Ozen and Atsan (2003, p.337) says, “A climate or culture of trust which is built by the ongoing intensive relationships among the organization’s members is much more likely to provide the required levels of trust and flexibility.” In their study of 28 teams across four organizations, Erdem, Ozen, and Atsan (2003) suggest that better team performance of those organizations is likely derived from trust among team players. They, therefore, add that selection, training, development, and so on should take trust factor into account. Trust can be played as a moderating role to ensure successful selection, training, and development to improve performance. Another similar study by the same two authors Erdem and Ozen (2003, p.131.) mention that, “A first requirement for a team to perform well is that there should be strong social interaction between team and performance. According to Politis (2003), interpersonal trust helps facilitate communication/problem understanding. Irani, Sharp, and Kagioglou (1997) suggest that trust plays a major role to influence the achievement of total quality management (TQM).

Based on the above description, trust helps improve team-performance relationship by creating connections among people inside organizations, and this can help boost productivity, resulting in better firm performance. It’s very crucial to have contingency fit between social capital, in terms of trust, and HRM practices to improve team – performance relationship by creating connections among people inside organizations, and this can help boost productivity, resulting in better firm performance. It’s very crucial to have contingency fit between social capital, in terms of trust, and HRM practices to improve organizational performances (operational performance and non-financial and financial
outcomes). So, this study has two hypotheses to test the moderating effect of trust on firm performance and operational performance.

**H7: Social Capital (Trust Vs Distrust) moderates the relationship between HRM practices and Operational Performance.**

**H8: Social Capital (Trust Vs Distrust) moderates the relationship between HRM practices and firm performance.**

**ii. Corporate Culture (Proactive Culture Vs Reactive Culture)**

According to Lim (1995, p.16), “The term, ‘culture’ refers broadly to a relatively stable set of beliefs, values and behaviors commonly held by a society,” though lot of researchers have provided multiple definitions of culture, those are subject to ambiguity (Schmeider, 1988). So, based on the author, there are no common definitions of culture and its construct measurement or operationalization.

The topics on relationships between culture and firm performance and culture between other outcomes are amassed by the field researchers Saffold (1998, p.546) who says, “The powerful, pervasive role culture plays in shaping organizational life lends plausibility to speculations that cultural factors may be linked with exceptional levels of organizational performance.” Other works throw light on the importance of culture to achieve goals and outcomes. Chow, Haddad, and Wu (2003) found that there is partial relationship between culture and firm performance. Sadri and Lees (2001) say that positive culture can have significant impact on competitive advantage. Deal and Kennedy (1982) say that strong culture can help boost organizational performance. Lim (1995) tends to suggest that culture moderates the relationship between culture and firm performance. Quick (1992) tends to suggest that culture moderates the relationship between leadership and Performance. Sharp, and Kagiorlou (1997) say that one fundamental item of TQM is organizational culture.
Organizations need to have correct culture to attain TQM objectives. The authors seem to suggest that culture should be based on key enablers of organizational goals. From these ideas, culture is likely to influence organizational performance. It is possible that culture is likely to influence organizational performance. Again culture is about beliefs, norms, and assumption of people inside organizations. It means that people understand their roles and do their jobs based on the perceptions, beliefs and the ways they think of the responsibilities. If those people have similar understandings and adoptions of those characteristics, work flow will become smooth, and this dramatically facilitate team work process.

Strong culture can help firm performance because it is about motivation, commitment, and information shared among employees (Schneider, 1988). When people feel fit into the organization culture, they are inspired to work harder. So, having a right culture is a strategic issue which requires deep care and careful consideration. However, creating a new culture is difficult and a time-consuming task (Lysons, 2000). Gueera, Maritnez, Munduate and Medina (2005) found goal oriented culture moderates the impact of task conflict in private organizations.

Based on that, there is a strong need to contingency fit between human resource management and culture. HR department will find easier to implement any HR policies under a group with common characteristics and pattern rather than the distinct one. Culture helps produce this kind of group. The results of having a similar group of working employees results into less administrative costs, low turnover rate, effective team work, and smooth communication. These lead to better organizational performance in terms of cost saving and high productivity. That’s why culture is likely to moderate the relationship between HRM-performance relationships. Therefore, this study applies corporate culture into seeking
its moderating effect on the HRM practices-performance relationship. Two hypotheses are:

**H9: Corporate culture (Proactive Vs Reactive culture) moderates the relationship between HRM practices and operational performance.**

**H10: Corporate culture (Proactive Vs Reactive culture) moderates the relationship between HRM practices and organizational performance.**

### 2.8.10 Control Variable

A control variable is a variable that is held constant or whose impact is removed in order to analyze the relationship between other variables without interference. Control variable should not be confused with controlled variable, which is an alternative term for independent variable. In this study, the researcher have taken ‘how old the firm is’ (Year of operation) as control variable to see the impact of HRM practices on Firm’s Performance.

#### i. Year of Operation: Number of year’s firms has operated in one of the main concerns and is inserted to see its effect on HRM practices. Old aged firms tend to have strong HRM practice rather than infant firms.

**H11: There is no difference in of HRM Practices, Firm Performance, and Operational Performance across year of operation of the firm.**

### 2.8.11 Combined effect independent variables and moderating variables:

As the present study is to explore and describe the role of HRM in SMEs, an effort has been made to make it holistic study by measuring
combining effects of HRM practices and Moderating variables on firm performance. The following hypothesis is proposed.

**H12:** HRMP, SC, MS and CC (treated as an independent variable) have impact on Firm Performance and Operation Performance.
## 2.9 Summary of Research Hypothesis

Table No. 8 Summary of Research Hypothesis

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>H1</strong>: HRM practices are positively related to firm’s performance</td>
<td>H2: HRM practices are positively related to operational performance.</td>
</tr>
<tr>
<td><strong>H3</strong>: HRM practices have impact on firm’s non financial performance.</td>
<td>H4: HRM practices have impact on firm’s financial performance.</td>
</tr>
<tr>
<td><strong>H5</strong>: Management Style (Decentralization Vs Centralization) moderately affects the relationship between HRM practices and firm’s performance.</td>
<td>H6: Management Style (Decentralization Vs Centralization) moderately affects the relationship between HRM practices and firm’s operational performance</td>
</tr>
<tr>
<td><strong>H7</strong>: Social Capital (Trust Vs Distrust) moderately affects the relationship between HRM practices and firm’s performance.</td>
<td>H8: Social Capital (Trust Vs Distrust) moderately affects the relationship between HRM practices and firm’s operational performance.</td>
</tr>
<tr>
<td><strong>H9</strong>: Corporate culture (Proactive Vs Reactive) moderately affects the relationship between HRM practices and firm’s performance.</td>
<td>H10: Corporate culture (Proactive Vs Reactive) moderately affects moderately affects the relationship between HRM practices and firm’s operational performance.</td>
</tr>
<tr>
<td><strong>H11</strong>: There is no difference in of HRM Practices, Firm Performance, and Operational Performance across year of operation of the firm.</td>
<td></td>
</tr>
<tr>
<td><strong>H12</strong>: HRMP, SC, MS and CC (treated as an independent variable) have impact on Firm Performance and Operation Performance.</td>
<td></td>
</tr>
</tbody>
</table>
2.10 Problem Discussions

Post liberalization India has poised itself to be the World’s 12th largest economy. It is also the fastest growing major economy of the world. With the opening of markets and easy access to Global platform India’s dream ‘Vision 2020’ of becoming the leading economies of the world slowly seems a reality.

The SMEs in India has emerged as the most dynamic sector of Indian industrial economy accounting for over 55 percent of the total value of industrial production. Over 76,000 crores (40%) of the total country’s exports and more importantly providing employment opportunities to over 59 million people in registered and unregistered SMEs.

One of the significant characteristics of a flourishing and growing economy is a booming of small and medium enterprises (SMEs) sector. These SMEs play an important role in the development of a country. Human Resource is widely recognized as an important cog in an organization as it is involved in strategic business planning process. In order to maximize organizational effectiveness, human potential—individual capabilities, time, and talents—must be managed. Human resource management works to ensure that employees are able to meet the organization’s goals. But despite the awareness of its strategic importance, SMEs place only a limited focus on increasing the effectiveness of HR processes. Human resource is one of the main drivers of economic growth. The management of this resource (HRM), is therefore an important issue for them.

SME sector world over is getting less attention in terms of research is concerned and especially in the area of Human Resource Management,
it become very scarce, the reason for less interest in this area from researcher could be informal practices, informal organization structure, Impersonal communication, & informal HRM practices (Gilbert and Jones 2000). While examining HRM practices into SMEs (Alan Coetzer et al, 2007). Stage of organization growth also increases the challenges of HRM, as while organization is in initial stage (Micro to Small size), It is less formal and less number. of employees which lead to informal HRM practices but effective which become complex & challenging when organization grows to Medium Size enterprise, by that time organization have large no of employees and organization becomes decentralized but the entrepreneur is still having same inherent practices of managing HR by himself which creates lots of confusion.

Another challenge faced by SMEs is attracting the talented employees as SMEs are constrained by financial resources and usually failed to provide conducive work environment to the employees hence talent pool goes to large companies than to SMEs. Hence attractive recruitment & selection policy is challenge for SMEs. Training is very important component of HRM practices which lacks in HRM practices of SMEs as, SMEs being a small, hardly have any concept of training employees even when they require any training related to job, they train them on the job where concept of formal training is not in practices. But importance of this skilled & knowledge based function can’t be ignored by even SMEs today, as Moreover there are very less studies showing training as HRM practices in SMEs. As Cosh, Duncan and Hughes (1998) conclude that training may influence business survival and performance for SMEs of a certain size, or in certain time periods. Hence effective training & management practices are another challenge for SMEs.
SMEs are considered to be launch pad for larger organizations. SMEs faces huge turnover of talented employees as they work with SMEs till they get an opportunity in larger organizations. Hence SMEs are failed to retain the workforce thereby facing acute shortage of talented workforce.

There is a growing body of evidence supporting the relationship between Human Resource Management (HRM) practices and perceived benefits in organizations. However, most of these studies have been limited only to large enterprises and carried out in western societies. Although some studies have tried to rectify this situation, serious inadequacies in these studies have questioned the validity of their findings.

Basic nature of SMEs is directly or indirectly catering to the needs of large firms by providing quality products and services as intermittent products. Operational practices of SMEs has to be matched with their large firms, where operational practices like product cost, product quality, product delivery as well as flexibility in the operations differentiate one SME from the other. As SME consists of skilled, semi skilled and unskilled employees to a large extent, thus the Human resource practices like training, incentives, performance appraisal, employee participation and teamwork can create an impact on firm’s operational performance.

Only few studies (Nguyen and Bryant, 2004; Welbourne and Andrews, 1996) identified the link between adoption of HRM practices and small firm performance. Research explains acute shortage of identifying and validating human resource practices in small firms, and even less research focusing on the relationship between strategy, human resource practices, and small firm performance (Chandler and McEvoy 2000). Furthermore, in larger firms only recently research has begun to
document the relationship between HRM practices and organizational performance (Boselie et al. 2001; Delaney and Huselid, 1996; Delery and Doty, 1996; Huselid, 1995; Paauwe and Richardson 1997; Pfeffer, 1998; Youndt et al., 1996). According to Chandler and McEvoy (2000) ‘most of the studies seek to investigate the human resource/performance relationship using large companies as research sites. It is important to note that research has suggested that smaller organizations present a “unique opportunity for studying human resource management” and its relation to firm performance (Welbourne and Andrews, 1996). Delery and Doty’s (1996) contingency mode explains that the relationship between the relevant independent variable and the dependent variable will vary relevant to such influences as company size, company age, technology, capital intensity, the degree of unionization, industry/sector, ownership and location. However, where there was a focus upon SMEs, such studies tended to examine the existence of HRM practices without examining the impact of the HRM practices on firm performance. While there has been very little research into the performance effects of HRM adoption on SMEs, a common thread in the arguments presented in prior studies on HRM in SMEs is that as SMEs grow, unsophisticated people management approaches become increasingly inadequate (Kaman et al., 2001; Kotey and Slade, 2005; Zheng et al. 2006). When this occurs, SME owners- managers may come to realize the importance of formally adopting HRM systems (may be called step towards development of HRM sophistication) and the associated benefits of nurturing people’s creativity, and even the creation of competitive advantage, growth and success through people (Kaman et al., 2001; Kotey and Slade, 2005; Zheng et al., 2006). Even though there appears to be recognition of the importance of HRM among SMEs, the empirical evidence on the extent of the impact of HRM practices on SME performance is inconclusive (Zheng et al., 2006), and there appears to be no empirical testing in the context
of Indian SMEs. It is crucial to address the development of HRM practices in Indian SMEs working in a different cultural, political and legal context.

Thus, looking at the above discussions in reference to prevailing scenario in SMEs, The research problem emerges due to the limited use of Human Resource Management practices for acquiring the desired business performance. If firms explore the untapped potential of Human Resource by adopting practices like training, incentive, employee participation, CSR activities towards employee to achieve their business goal than, HRM practices can play a pivotal role in improving operational practices and firm performance.

2.11 Research Gap

2.11.1 HRM Practices & Firm Performance.

Impact of human resource management practices on organizational performance has been a wide research area for years. Results of studies, from developed countries to developing countries, have been time and again showing that HR practices have significant impact on organizational performance (Delaney & Huselid, 1996; Katou & Budhwar, 2007; Sing, 2004; Tzafrir, 2006). But surprisingly, very limited number of studies has been conducted on HR practices in the context of developing countries in general and India in particular., especially in the Small & Medium Enterprises. Though, a growing body of evidence supports the existence of a positive relationship between Human Resource Practices and Organizational Performance.

As previous researches conducted by, Kenneth A. Merchant (2011), Md. Tofael Hossain Majumder (2012), Prachi Pandey, Sanghamitra
Bhattacharyya, Arshinder Kaur, (2012) & M. Kaveri and Dr.G. Prabakaran (2013) have taken Training, reward alignment, collaborative performance, compensation package, job security, career growth, management style, job design and responsibilities, reward and motivation and working environment as HR practices to study the impact on job satisfaction, employee motivation, firm’s excellence and output. Though, it sounds odd but it is true and there is a need to make HR’s contribution visible. HR should be defined by not what it does but by what it delivers (Ulrich, 1998). Performance of an organization is believed to be affected by HRM practices.

Prior research on HRM practices explained above are revolving around training, motivation, reward and so on but there are hardly any study which uses HR practices as holistic practices starting from Man power planning to teamwork, even concept of CSR practices towards employee which consists various policies related to equal opportunity employer, health & safety, application of various legal compliances is not being practiced by contemporary researchers except (Jarutirasarn, Piyachat, & Aiyeku, Joseph F.et al, 2010). Kotler and Lee (2005, p. 3) Werther and Chandler (2006, p. 6) and Vogel (2005, pp. 4-6).

**2.11.2 HRM practices and Operational Performance**

Fons Kortekaas ('07) have taken product quality, flexibility and innovation as operational practices for studying the employee behavior and HRM practices impact on firm performance, similarly Ahmed & Schroeder ('03) & Pffer (1998) have taken Quality, efficiency, dependability, cost and time as operational practices and found positive impact of HRM practices on operational performance. Youndt, Snell, Dean Jr. & Leepak('96),Arthur
‘94)& Wheel right (‘78) have taken product quality, efficiency and flexibility as operational practices to establish the role of HRM practices in improving firm performance by using operational performance.

### 2.11.3 Moderating variables and its impact on HRM-Operational/ Firm Performance.

Moderating variables are the variables that influences, or moderates, the relation between two other variables and thus produces an interaction effect. Firms strategy, Management style, uncertainty, trust, employee engagement & employee behavior are taken as moderating variables in various researches conducted by, Milkovich & Boundreau, 1991, (Hoogendoorn & Brewster, 1992; Vancevic & Donnelly, 1975). (Bontis, 1999). . (Dan Ofori & Jocelyn Sackey, 2010), and (Lysons, 2000) Guerra, Martinez, Munduate, and Meidna (2005) used moderating variable mentioned above for establishing HRM- Firm performance link.

Despite considerable advances in recent years in our understanding of how human resource management (HRM) might be linked with organizational performance, studies have highlighted two areas in particular where more research is needed. First, the importance of distinguishing between intended, implemented and perceived HRM practices has been noted.

Second, although prior studies have introduced employee attitudes as mediating variables in the HRM-performance chain, they have so far failed to take into account of how moderating variables might affect these relationships. Identifying moderators can help to explain more about the circumstances and processes through which HRM practices are contributing into Firm performance.
The impact of human resource management (HRM) practices popularly known as HR practices on organizational performance and productivity has been a leading area of research in the developed world for years. Therefore, despite valuable contribution supported by empirical evidence in this regard mostly from manufacturing companies in the United States, Taiwan, Malaysia and the other developed countries, the above mentioned pertinent research gaps in Indian context after a thorough and careful review of literature have led me to undertake this study.

This study has been conducted to fill the existing research gap and to explore the relationship between HRM practices and its impact on the firm performance and productivity with special reference to SMEs. This study would expand the contemporary research and practice of human resource management. Furthermore, it would also be useful for the developed countries as they find developing countries like India as attractive platform for investment.

The present study is designed to examine the relationship between Human Resource Practices and its impact on firm Performance & Productivity. Though, a growing body of evidence supports the existence of a positive relationship between Human Resource Practices and Organizational Performance, but the question of how HR practices lead to higher Organizational Performance has still not been answered satisfactorily. Gerhart (2007) argued that although it has been accepted that HRM is positively related to Organizational Performance, there is a great need for additional evidence to support the HRM-Performance relationship from different perspectives. Moreover, during the present course of work, a thorough review of more than about 300 studies conducted in the past two decades in different national contexts, could reveal only eight studies (13 percent) from India. Most of the studies
which have examined this relationship have been conducted in the United States and the United Kingdom (Huselid, 1995; Guest et al., 2003). To fill this gap and to examine further the process through which HRM practices create an impact on Organizational Performance, it is important to investigate these linkages in holistic perspective in Indian context.

Hence this study will investigate the relationship between HRM and firm performance, as well as operational performance taking into account moderating variables of business operations, culture and social capital and control variables like, firm size and firm’s age. Dependent variable used for study is, Firm performance which includes financial and non financial performance.

### 2.12 Research Questions

This study is conducted to address the gap in the existing literature on HRM- Firm performance linkage. It offers ten important questions that had not been previously investigated together in other studies and in the SMEs of India to be particularly.

1. Is there any relation between HRM practices and firm performance?
2. Is HRM practices relation with Operational performance of the firm?
3. Does HRM practice have any impact on firm’s non financial performance?
4. Does HRM practices have any impact on firm’s financial performance?
5. Does Management style moderating HRM – Firm performance relationship?
6. Does Management style moderates HRM-Operational relationship?

7. Does social capital moderating the relationship between HRM – Operational performance?

8. Does social capital moderates the relationship between HRM-Firm’s Performance?

9. Does Corporate Culture play a moderating role in the relationship between HRM – Operational performance?

10. Does Corporate Culture play a moderating role in the relationship between HRM – Firm performance?


12. Does any impact of HRMP, SC, MS and CC (treated as an independent variable) on Firm Performance and Operation Performance?

Based on the above research questions, research methodology is being defined in the next chapter.