

Human Resource Management in India Strategy, Performance and Complementarity

Abstract

This study seeks to explore which types of HR practice are associated with better organisational performance (OP). Whilst the core finding—that specific HR practices lead to better organisational outcomes may not be surprising—we also found an absence of complementarity. Normally, the absence of complementarities would suggest limitations in institutional supports; on the one hand, however, institutional shortfalls are not unique to India and may be encountered in many emerging market settings. In contrast, the great internal diversity of the Indian setting, with strong variations recognised amongst institutions, along with enforcement capabilities, might suggest that these tendencies are particularly pronounced. We also found a strong link between the intrinsic rewards and performance—an unexpected result in a low-income country, where wages are generally low. We suggest that this may reflect the nature of the labour market and the limited (and possibly proportionately shrinking) pool of good jobs, making exit a difficult option for all but the best qualified. Whilst this puts employees in a poor bargaining position in bidding-up pay (making pay rises seem unfeasible), the intrinsic attributes of the job become more important.

Keywords: HR practices, organisational performance, institutions, complementarities, factor analysis, sequential regressions.

Introduction

There is a considerable body of literature studying the relationship between HRM and organisational performance (OP); however, the bulk of this literature is centred on advanced societies. Accordingly, this study brings bear fresh evidence from the Indian context—notably, a large BRIC emerging economy. We seek to explore the types of HR practice associated with better organisational performance, whether such practices work better together than individually, and whether the optimal practices encountered reflect the specific dynamics of the Indian context. In contexts where institutional supports are less developed or fluid, it has been argued that particular sets of practice are less likely to dominate, reflecting less developed complementarities (Hall and Soskice, 2001; Amable, 2003). The latter will also mean that practices working together are unlikely to yield better outcomes than the sum of their component parts might suggest (*ibid.*). Alternatively, it has been argued that, within more fluid or changing settings, there is greater room for innovation, with norm entrepreneurs driving innovative new practices that will challenge and ultimately marginalise traditional ways of doing business (Dore, 2008). Although there has been growing interest on HRM in India, the body of empirical research remains limited, especially given that much of it deals

with the particular challenges faced by MNEs (Budhwar and Varma, 2010; Sparrow and Budhwar, 1997b; Bjorjmann et al., 2008).

In the best practice strand of the Strategic HRM (SHRM) literature, it has been held that specific HR practices are likely to ‘universally’ serve as a major source of competitive advantage; others see optimal practices as contingent upon the circumstances in which the firm finds itself (Dewar & Werbel, 1979; Osterman, 1994; Pfeffer, 1994, 1998). However, there is considerable debate as to which specific HR practices are likely to enhance performance—either generally or within a particular setting (Becker and Gerhart, 1996; Dyer and Reeves, 1995; Wright and Gardner, 2003; Paauwe, 2009; Guest, 1997, 2011; Darwish et al., 2014) and, indeed, how performance may best be measured (c.f. Paauwe & Boselie, 2005; Guest, 2011; Singh et al., 2013). It has further been argued that sets of practice may be complementary, with one practice encountered on its own not inducing the same result as when encountered in combination with others (Ichniowski and Shaw, 1999; Mohamed et al., 2013). Contingency approaches suggest that the viability of specific practices is closely related to the strategy and sector of the operating firm, whilst institutional ones are associated with national and regional institutional configurations (see Dyer, 1984; Miles and Snow, 1984; Schuler & MacMillan, 1984; Jackson & Schuler, 1995; Amable, 2003). The latter approach would suggest that completely different sets of practice may be equally viable in principal, with one better suited to a specific setting than another (Hall and Soskice, 2001).

The paper is structured as follows: first, we introduce the Indian HRM context; secondly, we highlight key theoretical perspectives of the existing HR literature that seeks to link together specific sets of HR practices with performance; thirdly, we describe our methods, and fourthly, our results; and finally, we move on to our conclusions, discuss their broad relevance, and draw out the implications for practice.

Human Resource Management India: Existing Evidence and Debates

In comparing HRM in India with a panel of other countries, Budhwar and Sparrow (1997a) found that, whilst each country pursued a distinctive national HRM recipe, India emerged as an island, with distinct features in organisational culture and practice. It has been argued that India not only faces wide-ranging political and developmental challenges, but also a wide range of practical HR problems, spanning relatively low productivity to high absenteeism

(Budhwar and Varma, 2011). Again, despite a large pool of graduates, Indian firms have to contend with chronic skills gaps (in part, a reflection of limitations in vocational training (ibid.)). Finally, the liberalisation of product and labour markets, and divestments in the public sector together have forced organisations to seek efficiency gains and, in the case of better capitalised players, to move over to more capital intensive production paradigms (ibid.). In turn, such tendencies may lead to greater job insecurity, with the likelihood of fewer and better rewarded jobs in medium and larger firms, as well as increasing numbers being relegated to insecure, and contingent, work. Again, Pio (2007) argues that HRM in India is moulded not only by specific contextual features, but is in a state of flux owing to structural systemic changes.

Writing in 1997, Sparrow and Budhwar (1997b) found a low degree of integration and devolvement of the HR function in Indian organisations, although some similarities were noted with the practice of HRM in the advanced societies. Budhwar and Varma (2010) argue that, although the HR function in India has rapidly evolved, there is much diversity within the Indian context, with approaches to people management ranging from traditional administrative approaches to more modern strategic ones. However, Stumpf et al. (2010) argue that there has been increasing emphasis placed on the latter and, more particularly, on performance management and professional career development. It was found that, when such practices were perceived as effective, employees had more positive attitudes in regard to their career prospects within the organisation. Nonetheless, they found much variation according to both region and sector (ibid.). Again, Bjorkman et al. (2008) found that, within MNEs operating in India, the usage of expatriates, and individual HR manager's backgrounds played an important role in determining the HR policies and practices of the subsidiary; again, this would suggest that firms have considerable room for manoeuvre within the Indian context. Once more, Holtbrugge et al. (2010) found that the specific resources of the organisation had a considerable impact on recruitment and retention. Budhwar and Sparrow (2002) further found that, within India, similar HR strategies often led to very different outcomes. Again, there is evidence to suggest that, whilst innovative recruitment and compensation practices enhance performance, there often appeared a lack of synergy between key practices (Som 2008).

Theoretical Insights and Hypotheses

Universalistic perspective

These approaches suggest that a particular ‘universal’ set of HR practices is always better than others, and that all organisations could adopt these practices so as to outperform their competitors. The rationale behind this it is that the adoption of particular HRM policies is expected to lead to competitive advantage, and accordingly may result in increased OP (Kochan and Dyer, 1993; Osterman, 1994; Delery and Doty, 1996; Pfeffer, 1998; Brewster *et al.*, 2008). Proponents of best practice approaches are divided: on the one hand, there are more hardline approaches seeking to manage workers through performance-monitoring, with over-performers being financially rewarded and underperformers ejected; on the other hand, softer approaches, such as that suggested by Osterman (1994), argue that a specific set of innovative people practices, such as job rotation, quality circles and total quality management, result in productivity gains for all organisations in the US; however, these two sub-schools of thought have more in common than would initially appear. For example, Pfeffer (1998), who is generally identified with the soft camp, has argued that the greater use of seven HR practices, such as selective hiring, extensive training and high compensation contingent upon performance, will always lead to enhanced OP. He has further argued that organisations should heavily invest in people because they are valuable assets and the main source for competitive advantage. The best practice model needs to be viewed as a product of a specific time—the 1980s and 1990s—when there was an intensification of the emphasis placed on shareholder value maximisation in liberal markets. Those in favour of the model either sought to identify HR strategies that would instrumentally deploy people to maximise shareholder value or would otherwise mitigate the worst consequences by pointing out the financial benefits of investing in people and making work more intrinsically rewarding.

Propositions related to universalistic perspective

Delery and Doty (1996) note that the universalistic propositions are the simplest form of theoretical statement in the SHRM literature as they imply that the HRM–performance relationship is universal across the population of organisations, and it can be simply tested in a direct way. The literature on HPWS suggests that these encompass recruitment and selection, training, internal career opportunities, extrinsic incentives and reward, and intrinsic incentives and rewards (Darwish et al. 2014). As noted earlier, the best practice camp is somewhat divided in terms of the relative importance of each of these variables, with some prioritising control, monitoring, and extrinsic rewards, as well as other intrinsic rewards and

investment in people. Hence, prior to testing the hypothesis, we explore whether these items are correlated.

Hence, we hypothesise the following:

Hypothesis 1: The use of specific set of HR practices encompassing the areas of recruitment and selection, training, internal career opportunities, extrinsic incentives and reward, and intrinsic incentives and rewards will be positively related to financial performance.

Researchers within the universalistic perspective have further argued that HR practices, as comprehensive, mutually supporting complementarities, would better impact OP on the presumption that they are the appropriate level of analysis for examining the impact of organisation-level performances (see Delaney and Huselid, 1996). It has been held that HR complementarities should generate greater effects owing to the whole being greater than the sum of its parts. This is in contrast to individual HR practices, which, in isolation, may produce only a limited amount of competitive advantage (Barney, 1995). Hence, we hypothesise the following:

Hypothesis 2: HR complementarities will be positively related to financial performance, and that the former will have greater impact on financial performance than the single HR practice.

Contingency perspective

This group of researchers claim that the achievement of high performance is contingent upon the achievement of fit between people management practices and other aspects of the organisation (Dyer, 1985; Butler et al., 1991; Schuler & Jackson, 1987). Contingency theorists suggest that organisations usually progress through different stages in their lifecycle, with HR practices and policies contingent upon such stages. For instance, contingency theorists claim that HR practices should be consistent with the specific organisation's strategy so as to ensure enhanced financial gains (see Schuler & Jackson, 1987; Begin, 1993; Miles and Snow, 1984; Arthur, 1994; Huselid, 1995; Delery and Doty, 1996). As a result, organisations could make changes in their strategies, and HR practices and policies could be changed accordingly in order to achieve successful results. As stated earlier, it was held that firms adopting a particular strategy would need a specific set of people management practices that are different from those required by firms adopting alternative strategies (Dyer, 1984;

Schuler & MacMillan, 1984; Jackson & Schuler, 1995). Hence, the variation in firms' performances rather can be explained by a high level of external or vertical fit between their HR practices and organisation's strategy (Miles and Snow, 1984; Arthur, 1994; Huselid, 1995).

Propositions related to contingency perspective

It has been held that contingency propositions are more complex than the universalistic propositions, as the former implies interactions rather than the direct and simple linear relationships incorporated in universalistic theories (see Venkatraman, 1989; Delery and Doty, 1996). This means that contingency theories postulate that the HRM–performance relationship varies based on the different levels of the critical contingency variable. Notably, the organisation's strategy is recognised as the principal contingency variable in the SHRM literature; therefore, a contingency perspective requires selecting a theory of firm strategy and accordingly determines the way in which people management practices will interact with this particular strategy in order to improve organisational performance (Delery and Doty, 1996).

Following prior work, the theory of strategy, as devised by Miles and Snow (1978), has been chosen to test the contingency perspective for the present work. Doty et al. (1993) and Delery and Doty (1996) highlight the advantages of Miles and Snow's theory as a relatively powerful predictor of OP, with implications for HR practices and policies, owing to which it has been widely used in SHRM literature. Furthermore, its results lend themselves to be interpreted as a contingency theory (see Hambrick, 1983; Golden, 1992). The theory requires researchers to identify a single organisation strategy that distinguishes the alternative strategies specified in the original theory (Delery and Doty, 1996). Prior work has employed product, service or market innovation as the primary contingency variable (see, for example, Hambrick, 1983; Shortell & Zajac, 1990; Huselid, 1995; Delery and Doty, 1996). The choice of innovation strategy, as opposed to cost-leadership strategy, is explained by the fact that the former would require more intensive investments in people management practices than the latter (see Huselid, 1995).

In the same vein, behavioural and agency theories also have implications for the contingency perspective within the SHRM literature. The behavioural perspective (Jackson et al., 1989) implies that there should be a high degree of fit between employees' behaviours and a particular organisation's strategy; this would ensure successful strategy implementation. The

role of people management practices in this vein is to elicit employees' behaviours that are consistent with organisation's strategy. Organisations accordingly should ensure a high degree of fit between HR practices and policies, and the particular organisation's strategy. Therefore, the contingency proposition suggests that the relationship between a specific set of HR practices and OP would be contingent upon the organisation's strategy. Agency theory (Fama & Jensen, 1983) also holds implications for this proposition: if employers are aware of the particular behaviours required for organisational success, then they could simply provide the platform that enacts practices and the policies that provoke these behaviours; in other words, organisations could align the interests of the 'principal' and the 'agent' in an effort to ensure enhanced OP (Delery and Doty, 1996). Therefore, the contingency proposition suggests that the relationship between a specific set of HR practice and organisational performance would be contingent upon organisation's strategy. Hence, based on the above reasoning, we hypothesise the following:

Hypothesis 3: The relationship between HR practices and financial performance will be contingent on an organisation's strategy.

The Research Context

This research has been conducted in the context of India—the largest democracy in the world—presently with a population of over a billion people. The literacy rate in 2011 was 71%; 40% of the population is younger than 15 years old, which provides a huge pool of human resources. Over a thousand years of rich culture that has embraced rulers from the Iranian plateau, Central Asia, Arabia, Afghanistan and the West, an astonishing racial and cultural mix has been produced. This factor should be taken into account when interpreting the work system, work ethics and HRM policies adopted by companies. With this in mind, historical literature on Indian HR practice is scant and scattered around a number of disciplines. India also has a large public sector, which gives government regulation and has its own 'unique' HR attributes (longer term employment, structured compensation policies, set promotion and retirement practices, etc.). The private sector can be broadly demarcated into small, medium and large-scale enterprises. This study focuses on the HR practices of large-scale enterprises in the private sector.

Methodology

Data and sample

Data for this study is gathered from a cross-section of large scale enterprises across various industries. Following the majority of previous HRM–performance work, the unit of analysis in the present work is the organisation, with the targeted respondents HR Directors in the targeted companies. A detailed questionnaire was drafted with the objective to gather the primary data. A professional company (Synovate) was entrusted the task of employing random sampling to choose a sample size of 300 companies, which were approached in person. The survey, which was conducted after pilot testing, yielded 252 usable replies. A professional firm was entrusted with this task as initial attempts to approach companies in private individual capacity were not successful. *Post-hoc* checks and balances (see below) tell us that the data collected is highly reliable.

Methods

In order to test the stated prepositions, various methods were adopted. In order to test the reliability and validity of the variables under consideration, confirmatory factor analysis was carried out. The descriptive analysis of data (Table 1) includes mean, standard deviation, and zero-order pairwise correlations. Sequential regression analysis is adopted for modelling the data.

Construction of variables

HR practices: Scales were built in order to measure HR practices, innovation strategy and perceived financial performance. Any mixture of HR practices essentially encompasses an element of selectivity (Guest, 1997; Brewster *et al.*, 2008; Darwish *et al.*, 2014). Given the intensity of work on HR practices in the literature, the measures of HR practices were developed based on existing measures. The present focus on HR practices has been developed based on the works of Delery and Doty (1996), Pfeffer (1998) Darwish *et al.* (2014), with the former having identified a set of HR practices of strategic import. In turn, their work is based on the theoretical and empirical work of Miles and Snow (1984), Osterman (1987), Kerr & Slocum (1987) and Sonnenfeld & Peiperl (1988). Recruitment and selection posed questions on formal and informal qualifications, and the personal characteristics companies considered when appointing an employee to a middle-grade general management role. The training question related to the most applicable methods adopted when training staff. Internal career opportunities were referred to as the main criteria of individual or group performance used in assessing cases for promotion. All questions were measured on

a 5-point Likert scale, ranging 1 ‘not applicable’ to 5 ‘always applicable’. Finally, in the incentives and rewards section, questions were asked to cover both extrinsic and intrinsic incentives and rewards. The questions and their items were measured on a Likert scale, ranging from 1 ‘not important’ to 5 ‘very important’. All items measuring HR practices have proven to be reliable and valid measures, as shown in Tables 1 and 2. We will further discuss the reliability and validity of our measures in coming sections.

Innovation strategy: The design of the present study required a single strategy measure as we aim to test the contingency perspective (see Hambrick, 1983; Delery and Doty, 1996). Following prior contingency interpretations of Miles and Snow’s (1978) theory, our strategic contingency variable is focused on product/market innovation (see Hambrick, 1983; Shortell & Zajac, 1990; Delery and Doty, 1996). Further, the choice of innovation, rather than cost-leadership strategy, is explained by the fact that the use of such strategy would require more intensive investments in high-performance work practices than the cost-leadership strategy (see Huselid, 1995). Innovation was measured through the use of 4 Likert-type items adapted from Segev (1989) and Delery and Doty (1996). Like other measures, the strategy measures/items met all the criteria when tested in terms of convergent, discriminant and predictive validities.

Perceived financial performance: In the context of the HRM–performance link, a significant number of studies employed subjective measures to assess performance (see, for example, Delaney and Huselid, 1996; Macky and Boxall, 2007). Taking a clue from the strategy literature, scholars have supported the use of subjective measures to assess financial performance (see, for example, Dess and Robinson, 1984; Geringer and Hebert, 1991; Powell, 1992). For instance, Dess and Robinson (1984) and Tzafrir (2005) claim that self-reported measures of performance are acceptable and as equally reliable as objective measures. Further, on a subset of 52 companies from the US, Powell (1992) highlighted various positive connections between the subjective and objective measures of organisational performance, namely sales growth and profitability. Following previous work, perceived financial performance was measured by four items on a Likert scale, which directly asked the respondents to rate their main financial criteria compared with their rivals. As shown in tables 1 and 2, results emphasise reliable and valid items for measuring this construct, namely profitability (post-tax rate of return on assets), growth of total sales, growth of market share, and maximise the share price.

Control variables: We have taken into consideration numerous control variables owing to their possible association with firms' performance. Firm size is employed as a control variable, measured in natural logs (see also Kimberly, 1976; Huselid, 1995) by the number of employees in each company. Further, results may vary by industry as this study covers companies across all industries in India; therefore, we controlled for this factor as well. In order to do so, we created dummy codes representing six industries. The percentage of sample firms in each industry were noted as follows: services industry (20%), manufacturing industry (18%), financial industry (15%), oil, gas and petrochemical industry (13%), media and communication industry (12%), construction industry (12%) and retail and wholesale industry (10%). The services industry was selected as the benchmark industry variable in the analysis, reflecting the highest percentage from the sampled firms, and would be considered more interesting when compared with other groups/industries against the majority one (Field, 2009).

Convergent validity:

Scales were created for measuring HR practices, innovative strategy and perceived financial performance. Confirmatory factor analysis was conducted based upon the covariance matrix. Hair et al. (2010) suggest three main indicators to establishing convergent validity, which are factor loadings, average variance extracted (AVE) and the reliability of the construct. Table 1 presents the values of these three indicators. The factor loadings of each construct indicator are significant, ranging from 0.565 to 0.823, thus demonstrating a strong association between constructs and their respective factors. AVE values were higher than the threshold value of 0.50, thus demonstrating adequate convergence of the constructs. AVE values indicate that the variances are greatly explained by the constructs in relation to the variance due to measurement error. Finally, the results of Cronbach's alpha indicate that the scales satisfy the reliability criterion, with values ranging from .70 to .86. Overall, the results provide sufficient confirmation of the convergent validity. In addition, we have used the covariance matrix in confirmatory factor analysis, which provides some fit indices for evaluating the model. Markedly, a fit index value of more than 0.90 and means squared error values between .05 and 0.08 indicate a close fit of the model. The chi square value was significant at 0.05 level; the residual mean squared error RMSEA (0.08) and the root mean squared residual RMR (0.009) were good enough to indicate an acceptable fit of the model. Other fit indices were computed; the normed fit index (NFI = 0.970) goodness of fit index (GFI = 0.956) and the

comparative fit index (CFI = 0.981). Based on these values, it could be concluded that all the fit indices indicate a close fit of the model (see Bentler & Bonett, 1980; Joreskog & Sorbom, 1989; Bentler, 1990).

Discriminant validity:

Discriminant validity can be established if the square root of the average variance extracted for a specific construct is greater than the absolute value of the standardised correlation of this specific construct with any other construct (Fornell and Larcker 1981). As a result, the square roots of average variance extracted values were compared with the constructs' correlations from where the results showed that the squared roots of the AVE values were higher than any correlation of the study constructs, thus indicating an acceptable level of discriminant validity as shown in Table 2.

Predictive validity:

Ahire et al. (1996) and Garver and Mentzer (1999) suggest establishing predictive validity by determining whether the scales of interest correlate as expected with other measures. In the present work, values for each scale were computed by averaging across scale items. Table 1 presents zero-order correlations for the scale averages. As can be seen from the correlation results, all correlation coefficients are positive and significant, as expected. This would also establish a predictive validity for our scales.

Common method variance:

As data for both the predictor and outcome variables have been collected from single respondents, common method bias may lead to inflated or deflated estimates of the relationship between HRM and performance, thus leading to both Type I and Type II errors. Podsakoff and Organ (1986) claim that 'scale reordering' could be a useful method for minimising common method variance. This method requires that items related to the independent variables precede items measuring the outcome variable. Our survey instrument has been structured in a way that it first places questions on HRM practices and innovation strategy, and positions performance questions in the last section.

In addition, as recommended by Podsakoff and Organ (1986), Harman's one-factor test was used *post-hoc* to assess whether or not common method variance is a serious concern. All

variable were entered into principal components factor analysis. A considerable amount of common method variance is signalled if a single or one general factor emerges, and accounts for the majority of the total variance (Steensma et al., 2005). Principal component analysis, with varimax rotation, revealed the presence of eight distinct factors with eigenvalue greater than 1.0, rather than a single factor. The eight factors accounted for 63% of the total variance. Notably, the first factor did not account for a majority of the variance (25%), which explains why no general factor is apparent. The results of Harman's one-factor test suggest that common method variance is not of great concern; thus, it is unlikely to confound the interpretations of results (Podsakoff & Organ, 1986).

Table 1: Convergent validity (factor loadings, average variance extracted, reliabilities)

Items	Recruitment & selection	Training	Internal career opportunity	Extrinsic incentives & rewards	Intrinsic incentives & rewards	Innovation	Perceived financial performance
Qualifications (previous experience of a similar job)	.743						
Qualifications (school and university qualifications)	.725						
Qualification (command of languages)	.699						
Qualifications (wide range of work experience)							
Personal characteristics (self-motivation)	.684						
Personal characteristics (single-minded dedication to each task)	.675						
Personal characteristics (independent judgment)	.632						
	.609						
Personal characteristics (potential to grow with the job)	.605						
Personal characteristics (willingness to travel)	.601						
Personal characteristics (commitment to the company)	.565						
Training provided by a third party- organisation but tailored to company needs		.800					
Formal instructions in-house		.778					
Induction into a group by socialization and imitation		.770					
Informal apprenticeship to an experienced member of the organisation		.671					
			.801				
Contribution to profit			.780				
Overall professionalism			.736				
Effort—independent of final results			.703				
Value of output-independent of profit margin			.698				
Quality of output			.674				
Keeping within budget							
Annual salary increments above the rate of inflation				.806			
Basic pay above the industry norm				.802			
Basic pay above the local norm in the area				.796			
The opportunity to earn large bonuses through greater efforts				.752			
Valuable fringe benefits				.729			
Better career prospectus than other firms in the same industry				.662			
The prestige of working for one of the top firms in the industry					.823		

Interesting and challenging work							.798
Job security							.753
Friendly and supportive colleagues							.718
Continuous innovation of new and improved-products							.802
Sophisticated advertising & promotion							.744
Good long term relations with major customers and suppliers							.675
Commitment to basic research							.637
Profitability (post-tax rate of return on assets)							.797
Growth of total sales							.747
Growth of market share							.723
Maximize the share price							.751
Average Variance Execrated (AVE)	.81	.62	.74	.81	.67	.66	.67
Reliability	.86	.74	.83	.85	.77	.71	.70

Note: All deleted items (not reported in this table) had factor loadings below .55, which is considered the minimum significance level in comparison with our sample size (Hair *et al.*, 2010).

Results

Descriptive results:

Table 2 presents the means, standard deviations and zero-order correlations of all variables. Correlation coefficients indicate that the relationship between HR practices is significant. A certain amount of correlation between the independent variables is expected; in fact, it is considered a good sign. This suggests that the HR practices are not completely independent. However, the coefficients indicate the variables as not being highly correlated; in other words, no multicollinearity is evident (Tabachnick and Fidell, 2007). This also suggests that, whilst different bundles of HR practices may be complementary (McDuffie, 1995; Hall and Soskice, 2001), it is probable that the optimal configuration may not only be reliant on national context, but also to the industry and the specific characteristics of the firm (Darwish *et al.*, 2014).

Table 2: Means, standard deviations, discriminant validity and zero-order correlations

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13
1. Recruitment and Selection	4.48	.47	.90												
2. Training	4.32	.59	.75**	.78											
3. Internal Career Opportunities	4.47	.54	.74**	.76**	.86										
4. Extrinsic Incentives and Rewards	4.27	.66	.63**	.72**	.69**	.90									
5. Intrinsic Incentives and Rewards	4.47	.57	.66**	.62**	.70**	.57**	.82								
6. Innovation	4.48	.54	.62**	.63**	.69**	.56**	.66**	.81							
7. Perceived Financial Performance	4.50	.53	.61**	.64**	.67**	.58**	.60**	.65**	.82						
8. Log. Firm Size	2.82	.51	.42**	.49**	.46**	.47**	.38**	.41**	.39**						
9. Financial Industry	.16	.37	-.01	.01	.02	.01	.02	.08	-.01	.09					
10. Media & Communication Industry	.12	.32	.07	.06	.04	.01	-.01	.07	.11	.06	-.18**				
11. Manufacturing Industry	.18	.38	-.10	-.05	-.06	-.01	-.11	-.05	-.07	-.05	-.22**	-.18*			
12. Construction Industry	.11	.32	.02	.01	-.02	.03	.01	.01	-.01	.11	-.17**	-.14*	-.17**		
13. Retail & Wholesale Industry	.12	.33	.10	.09	.19**	.07	.16*	.03	.07	.06	-.18**	-.14*	-.18**	-.14*	
14. Oil, Gas & Petrochemical Industry	.09	.29	.08	-.04	-.01	.02	.05	-.01	.00	-.09	-.19**	-.13*	-.15*	-.11	-.13*

Notes: $n = 252$.

Services industry is the omitted benchmark industry variable.

** Correlation is significant at the 0.01 level (two-tailed).

* Correlation is significant at the 0.05 level (two-tailed).

^a diagonal elements in bold are square roots of average variance extracted.

Universalistic propositions

We decided to run sequential regression through multiple steps in order to test our hypotheses. Bae and Lawler (2000) argue that this method is deemed appropriate and widely used in HRM–performance research. With regards to our first hypothesis, as recorded in Table 3, R^2 for this model is significant ($R^2 = .57$, $F = 25.842$, $p < .001$). It can be noted that the predictors account for 57% of the variation in perceived financial performance. In the first step, when only controls (first size and industries) are included, the coefficient for firm size turns out to be significant and positive ($b = .380$, $p < .001$). Such a finding is somewhat expected as employees prefer to work in large firms in India as these firms have established themselves in the market, achieved substantial financial returns, and distinguished incentives and rewards, and career progression. This may also be explained by the fact that such firms in India can always secure the finest talents and skills, which obviously has positive impacts on their financial returns. As the results show, with firm size and industries controlled, significant changes in R^2 beyond what the controls significantly explained provide preliminary support for the first hypothesis in the second step of the sequential regression ($\Delta R^2 = .40$, F for $\Delta R^2 = 39.950$, $p < .001$). However, of all the HR practices analysed, internal career opportunities ($b = .288$, $p < .01$) and intrinsic incentives and rewards ($b = .244$, $p < .01$) are the only practices significantly related to perceived financial performance. This may reflect firms' efforts to achieve their objectives or for considerable attention to be devoted to promotion from within, and social and psychological rewards. With regard to the rest of the HR practices, the results indicate no unique contribution in terms of their relationship with firms' financial performance; in other words, it seems that the firms have effective broad policies to promote from within, insuring the optimal intrinsic incentives and rewards for those who stay committed to their employers. However, other areas—including monetary rewards and willingness to invest in people—appear to have little impact. In short, the first hypothesis is confirmed only partially.

With regards to our second hypothesis, as discussed in the literature, scholars believe that HR practices will have the optimal impacts on performance when only considered as complementarities of practices—not in isolation. In theory, this seems logical and convincing; however, this we know less about in practice. We decided to complete the other side of the story and test the impacts of HR complementarities on financial performance in

the same model in an effort to examine whether or not a single “magic bullet”, on its own, would have the most pronounced effect on performance (Ichniowski and Shaw, 1999).

Markedly, it is commonly assumed that the impact of HR complementarities on performance must be more than simply the additive sum of each practice’s independent effects (see Macky and Boxall, 2007; Darwish et al., 2013). Instead, the concept of the complementarities of HR practices implies that such practices must have a synergistic or mutually reinforcing impact on performance (Huselid, 1995; MacDuffie, 1995; Macky and Boxall, 2007). Hence, researchers who have tested this argument consider the interaction effects (Venkatraman, 1989) amongst HR practices as an indicator of effective HR complementarities (Huselid, 1995). Therefore, we tested for interaction affects. Table 3 presents the standardised regression coefficients for the interaction effects amongst HR practices. Notably, the variance inflation factor (VIF) for the interaction terms was computed to make sure that HR complementarities are not highly correlated. As a rule of thumb, a value greater than 10 is a value at which there should be concern and which would merit further investigation (see Kennedy, 1992; Hair *et al.*, 2010). However, other scholars (e.g., Rogerson, 2001) recommend a maximum VIF value of 5. In our case, as recorded in Table 3, VIF values were all acceptable, ranging from around 1 to 4.

As recorded in Table 3, we entered HR complementarities in the third step. Results show that, although significant, a slight change in R^2 occurred beyond what the controls and the individual HR practices significantly explained ($\Delta R^2 = .04$, F for $\Delta R^2 = 2.037$, $p < .05$). However, only one statistically significant interaction effect is found to impact perceived financial performance: the interaction between training and extrinsic incentives and rewards ($b = 3.185$, $p < .05$). No significant interaction effects were identified with regards to the rest of the practices. It is worth noting that we have also run an additional regression test, including only the controls and HR complementarities (without the individual HR practices in the equation), and expectedly the test revealed the same results in terms of the interaction effects. It is possible that the optimal configuration may not only be contingent upon national context, but also due to the sector and specific characteristics of the firm. In short, these results failed to confirm that HR complementarities positively impact performance to a greater degree than their individual effects; hence, the second hypothesis is rejected. We discuss these results further in the discussion section.

Table 3: Sequential regressions for the Universalistic prediction

	Model 1	Model 2	Model 3
<i>Variables</i>	<i>Perceived Financial Performance</i>		
	Coefficient	Coefficient	Coefficient VIF
<u>Step 1: Control Variables</u>			
Log. Firm Size	.380***	.012	-.015
Financial Industry	-.003	-.007	.022
Media & Communication Industry	.111	.083	.094†
Manufacturing Industry	-.004	-.002	.014
Construction Industry	-.012	-.005	-.017
Retail & Wholesale Industry	.079	-.033	-.029
Oil, Gas & Petrochemical Industry	-.110	.066	-.005
<u>Step 2: HR Practices</u>			
1. Recruitment and Selection		.074	-.628
2. Training		.141	-.961
3. Internal Career Opportunities		.288**	-.048
4. Extrinsic Incentives and Rewards		.113	.526
5. Intrinsic Incentives and Rewards		.224**	.602
<u>Step 3: HR Complementarities^c</u>			
Recruitment and Selection x 2			2.484 2.35
Recruitment and Selection x 3			-.760 2.34
Recruitment and Selection x 4			2.475 1.37
Recruitment and Selection x 5			2.103 1.31
Training x 3			1.845 3.36
Training x 4			3.185* 2.38
Training x 5			2.295 3.35
Internal Career Opportunities x 4			2.437 1.35
Internal Career Opportunities x 5			2.044 1.32
Extrinsic Incentives and Rewards x 5			-.042 1.34
R ²	.17 (.15)	.57 (.55)	.61 (.57)
ΔR ²	---	.40	.04
F for ΔR ²	7.487***	39.950***	2.037*

Notes: ^a *n* =252. Standardised regression coefficients are shown. Adjusted R² in parentheses.

^b Services industry is the omitted benchmark industry variable.

^c Numbers refer to HR practices listed above.

† *p* < .10, **p* < .05, ***p* < .01, ****p* < .001.

Contingency proposition

Our third hypothesis states that the HRM–performance relationship will be contingent upon an organisation’s strategy. Following prior work (e.g., Huselid, 1995; Delery and Doty, 1996), these contingency predictions can be assessed by determining whether or not an HR practice-strategy interaction term significantly increases the level of explained variation in sequential regression analysis. As stated earlier, the design of our study required a single measure of strategy to test the contingency hypothesis (see Delery and Doty, 1996). Innovation strategy was chosen as a strategic contingency variable following prior work (e.g., Huselid, 1995; Delery and Doty, 1996) and its interpretations based on the theoretical perspectives of Miles and Snow (Hambrick, 1983; Shortell & Zajac, 1990). Further, the choice of innovation as opposed to the cost-leadership strategy is explained by the fact that

the use of such a strategy would require more intensive investments in high-performance work practices than the use of a cost-leadership strategy (see Huselid, 1995).

Table 4 presents the results of the sequential regression analysis. In the primary step, firm size, industries, the strategy measure and HR practices¹ were included. In the second step, the interaction terms between each of the HR practice measures and the strategy measure was added to the regression equation. VIF values indicate that no multicollinearity is evident. The increase in the level of explained variation was significant for perceived financial performance ($\Delta R^2 = .02$, F for $\Delta R^2 = 2.365$, $p < .05$). However, only one statistically significant interaction effect is found to impact perceived financial performance—the interaction between extrinsic incentives and rewards and innovation strategy ($b = 2.230$, $p < .05$). In addition, two interaction terms were only partially significant: the interaction between recruitment and selection and strategy measure ($b = 1.800$, $p < .10$), and between training and strategy measure ($b = 1.797$, $p < .10$). No significant interaction effects were identified with regards to the rest of the practices. An analysis of the interaction terms demonstrated that firms in India had higher financial returns when using the effective system of extrinsic incentives and rewards combined with careful selection procedures and effective training methods that are consistent with the organisation's strategy. The results support some of the contingency relationships posited in the third hypothesis; hence, the contingency proposition should not be rejected out of hand. In short, the hypothesis is partially proved. We will further discuss these findings in the next section in light of theory and practice.

¹ We entered all HR practices simultaneously as the combination of HR practices a firm uses is more important than individual practices. A more accurate and valid assessment of the HRM–performance relationship can be made when all HR practices are simultaneously entered into the regression equation (for more details on this particular issue, see Huselid, 1993, 1995; Delery and Doty, 1996).

Table 4: Sequential regressions for the Contingency prediction^a

	Model 1	Model 2	
<i>Variables</i>	<i>Perceived Financial Performance</i>		
	Coefficient	Coefficient	VIF
<u>Step 1: Control Variables^b</u>			
Log. Firm Size	.000	-.013	
Financial Industry	-.018	-.020	
Media & Communication Industry	.076	.068	
Manufacturing Industry	-.001	-.023	
Construction Industry	.000	-.019	
Retail & Wholesale Industry	-.008	-.007	
Oil, Gas & Petrochemical Industry	-.004	-.001	
Innovation	.249***	-.415	
<u>HR Practices</u>			
1. Recruitment and Selection	.046	-.879	
2. Training	.124	-.355	
3. Internal Career Opportunities	.212*	.270	
4. Extrinsic Incentives and Rewards	.100	.250	
5. Intrinsic Incentives and Rewards	.152*	-.146	
<u>Step 2: Interactions^c</u>			
Innovation x 1		1.800†	3.85
Innovation x 2		1.797†	3.02
Innovation x 3		-.061	2.07
Innovation x 4		2.230*	3.57
Innovation x 5		.527	2.10
R ²	.60 (.57)	.62 (.59)	
ΔR ²	---	.02	
F for ΔR ²	26.247***	2.365*	

Notes: ^a $n = 252$. Standardised regression coefficients are shown. Adjusted R² in parentheses.

^b Services industry is the omitted benchmark industry variable.

^c Numbers refer to HR practices listed above.

† $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$.

Discussion and Conclusions

This is a study carried out with the objective to understand the interplay of factors between HRM practices, organisation strategy and organisational performance within the context of a powerful emerging BRIC economy. Two dominant propositions were tested with regards to the HRM–performance link: the universalistic and contingency perspectives. The results indicate partial support for both perspectives in the HRM–performance relationship. With regard to our first hypothesis, of all the HR practices, internal career opportunities, and intrinsic incentives and rewards are found to be statistically significant in terms of their impact on perceived financial performance. This is an important result; it tells us that, in the cultural context of India—or, for that matter, in the South East economies of similar cultural attributes—firms' performance depends on management treating its employees with intrinsic rewards, as opposed to monetary rewards and providing the employees with the chance to progress within the company through internal career opportunities. Intrinsic

rewards consist of providing psychological rewards (e.g., giving an employee due recognition for a good job done) and devising opportunities to grow with the job. These findings are consistent with the theoretical work to date (see, for instance, Arthur, 1994; Huselid, 1995; Delaney & Huselid, 1996; Guthrie, 2001; Guest *et al.*, 2003; Guthrie *et al.*, 2009; Darwish *et al.*, 2014). It may then be questioned why intrinsic rewards are so important in a poor country where wages are generally low. This may reflect the nature of the labour market and the limited (and possibly proportionately shrinking) pool of good jobs, making exit a difficult option for all but the best qualified. Whilst this puts employees in a poor bargaining position in bidding-up pay (making pay rises seem unfeasible), the intrinsic attributes of the job become more important.

Scholars within the universalistic perspective have also argued that HR practices, as comprehensive, mutually supporting complementarities, would better impact organisational-level performance than a single HR practice. In order to test this proposition, we considered the internal fit or horizontal interaction between the HR practices on the presumption that the systematic adoption of related sets of HR practices—rather than a single “magic bullet” on its own will have the pronounced effect on performance (Ichniowski and Shaw, 1999). However, the results of our second hypothesis related to this proposition indicate no support for this argument. Our findings provide better support for the impacts of the individual HR practices and not HR complementarities.

Results of our third hypothesis indicate a partial support for the contingency perspective, thus indicating that the universal adoption of all people management practices is not appropriate. HR practices can be effective under certain strategic circumstances and less effective under others (Delery and Doty, 1996). This is an important result, which suggests that HR managers would do better to align their firms’ HR practices with business strategies in order to achieve a better firm-level performance (Jackson and Schuler, 1995). We found the interaction to be significant between three practices (extrinsic incentives and rewards, recruitment and selection, and training) and organisational strategy. It seems that firms can achieve better financial returns for their business by adopting a contextually appropriate mix of practices, taking due care in selecting appropriate employees for the jobs, training them well and rewarding them for the job done.

Whilst the core finding—the fact that specific HR practices lead to better organisational outcomes—may not be surprising, we also found an absence of complementarity; in other

words, rarely when practices were encountered together did they yield better results than the sum of their component parts. This highlights the limitations of strategic HRM in an Indian context; there is little immediate benefit in developing sophisticated mutually supporting HR system if particular practices on their own might work just as well. At the same time, the broad range of strategic HR practices identified in this study appeared to be compatible with each other; in other words, when encountered together, they did not reduce the benefits associated with a single practice. Normally, the absence of complementarities would suggest limitations in institutional supports: on the one hand, institutional shortfalls are not unique to India and may be encountered in many emerging market settings; on the other hand, however, the great internal diversity of the Indian setting, with strong variations in institutions and enforcement capabilities, might suggest that these tendencies are especially pronounced. Finally, we found that the range of strategic HR practices examined—recruitment and selection, training, internal career opportunities, extrinsic incentives and reward, and intrinsic incentives and rewards—were generally correlated. This would suggest that, contrary to assumptions that firms practice hard or soft HR, within the Indian setting, it appears that firms mix aspects of both models. This may make complementarities even more elusive, but at the same time, also highlights an inherent pragmatism in seeking solutions, which appears to be a departure from the Indian tradition of bureaucratic paternalism.

The present study employs a cross-sectional design, which is a limitation to be acknowledged. Although we have argued that some of the specified people management practices would lead to enhanced organisational performance, our cross-sectional design does not allow us to rule out the possibility of reverse causation (Wright *et al.*, 2001). The issue of causality can be better addressed in research, adopting longitudinal designs (Delery and Doty, 1996). Secondly, although our tests indicate that the common method variance is not a concern, we encourage future researchers to use multiple respondents rather than single respondents for the gathering of HRM and performance data. Additionally, future researchers can gather HRM data at a level of detail allowing them to determine whether or not specific sets of HR practice are consistent with each other (see Delaney and Huselid, 1996). Finally, we could not identify ‘configurations’ or unique patterns of factors posited as maximally effective to test the third (dominant) theoretical perspective on strategic HR. Future work could consider testing the configurational perspective in order to reflect a clearer picture.

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