



# THE CHARACTERIZATION OF HUMAN RESOURCE MANAGEMENT STRATEGIES ON ORGANIZATIONAL PERFORMANCE

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## ABSTRACT

The study aims to understand the relationship among Business strategy, SHRM activities, HR Outcome and Organizational Performance variables in the context of an Indian industry. For this purpose qualitative and quantitative data were collected from various the largest public sector steel making company of India. The result illustrates importance of business strategy in planning and implementing SHRM practices. It also agrees that SHRM variables are primarily based on the business strategy adopted by the organization. Further, the study also supplements the existing literature on SHRM by agreeing to a fact that SHRM practices are designed to achieve some deliberately identified HR outcomes such as commitment, satisfaction, motivation etc. Further, the paper also witnessed that relevant HR outcome always contributes to the company in the form of better organizational performance. The structure of the paper is as follows. First we briefly review the dominant perspectives in this field as per the available literature. We note that almost all of the published theory-building as well as empirical research in this area is conducted in societies other than the Indian society. On the other hand, the socio-cultural context of organizations in India is uniquely different. Hence in the next section we propose a framework to examine HR and firm performance linkage suitable for the Indian conditions.

**Key words:** Indian steel industry; corporate strategy; human resource restructuring; commitment; delivering; productivity.

## 1. INTRODUCTION

The Human Capital approach to Human Resource Management proposes that, unlike traditional sources of competitive advantage, a quality, motivated work- force is a source of competitive advantage that is difficult for competitors to replicate (Luthans and Sommer, 2005). Over the past decade, there has been an increasing emphasis by researchers and practitioners alike on the importance of human resources as one of the key ways of gaining a competitive advantage for a firm (Chew and Chong, 1999). Consequently, numerous research has been conducted on business strategy and its effect on human resource management within the context of firm performance (Bird and Beechler, 1995; Huselid 1995; MacDuffie, 1995; Delery and Doty, 1996; Huang, 2001; Ghebregiorgis and Karsten 2007). The link between human resource management (HRM) practices and organizational performance is well researched. With this paper we hope to contribute to a better understanding of the role of human resource practices in creating and sustaining organizational performance, specifically in the Indian context. The study aims to understand the relationship among Business strategy, SHRM activities, HR Outcome and Organizational Performance variables in the context of an Indian industry. Extensive literature survey was conducted to understand the relationship among the said variables. Qualitative and quantitative data were collected from the largest public sector steel making company of India by using multiples sources.

## 2. BUSINESS STRATEGY AND HUMAN RESOURCE RESTRUCTURING OF THE COMPANY

Steel Authority of India Ltd.(SAIL), a Maharatna company, is India's largest steel producer, holding 20 percent market share of domestic crude steel production. The company catered to almost the entire gamut of the mild steel business – Flat products in the form of Plates, HR coils/sheet, CR coils/ sheets, Galvanised plain/Corrugated Sheets and Long products comprising Rails, Structural, Wire-rods and merchant products. Established in the year of 1973, the company had gone through a bad weather in 1990's, particularly after the economy was opened and control over price and distribution lifted. Subsequently, action was initiated to improve the company's profitability and ensure long term competitiveness, with internal formulation of a Turnaround and transformation plan. At the 275th meeting of the company's Board of Directors held on October 31, 2001, SAIL, adopted a vision statement: "To be a respected world class corporation and the leader in the Indian steel business in quality, productivity, profitability, and customer satisfaction." To achieve the vision, the company prepared a business strategy which aimed at Gaining competitive advantage over other firms by: sustaining a lower overall cost of doing business, offering a superior production and service, often, but not always, built around superior brands and brand image, and by building special relationship, special understanding, special products and special features of production, service and delivery which enable firms to 'own' some niche of the market. SAIL realized that implementation of business restructuring measures such as restructuring of assets, cost cutting measures, marketing initiatives, operational improvements, and restructuring through Strategic Business Units requires restructuring the HR practices also. This resulted in framing and implementing a number of HR practices such as delayering of the structure, downsizing the workforce, developing the skill through training and development programme etc. which are expected to align with business strategy of the company. This results in a long leap of Sales turnover of the company, which has increased from Rs.15630.79 crore in 2001-02 to Rs. 47041 crore in 2010-11. The net reportable profit has gone up

from Rs. -1706.89 in 2002 to Rs.4904.74 crore in 2011.

## 3. HR PRACTICES AND OP OUTCOMES: THE STRATEGIC HR MANAGEMENT PERSPECTIVE

The relationship between HR practices and firm performance outcomes is discussed best in the SHRM literature. What HR practices are and how they impact on firm performance are the central themes in the discussion of a strategic HR system. Different HR configurations are needed to achieve a high level of firm performance [1]. Also different types of HR practices generate different firm outcomes. For example, some HR practices are related to financial outcomes, while some others may relate more to staff turnover [2]. Although the literature suggests that the link between HR practices and firm performance is quite positive [3, 4], it is nevertheless not necessarily a direct relationship. Guest presented a model that provides the theoretical linkages between HR and firm performance [5]. He suggested that there are different types of fit among HR practices. The fit or integration of these practices leads to different HR outcomes and subsequent firm performance. Similarly, others have suggested that in order to have effects on firm performance, there must be a certain alignment of different components of an organization, including different HR practices (as an HR system), the necessary skills and knowledge possessed by employees, a motivated workforce, and a value-added strategy [6, 7]. From a resource-based view, De Saa-Perez and Garcia-Falcon demonstrated that an appropriate HR system creates and develops organizational capabilities that become sources of competitive advantage [8]. Wood reviewed several SHRM studies and noted that previous empirical works focused mainly on the link between HR practices and performance, but not on the mechanisms linking them [9]. In another study of HRM and corporate performance, it was found that although there was an association between HRM and firm performance, the causation effect was not established [10].

### 3.1. Conceptualization and Hypothesis

A strategy is an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage (Liao 2005). Business strategy implies a series of systematic and related

decisions that give a business a competitive advantage relative to other business (Schuler and Jackson 1987). SHRM involves designing and implementing a set of internally consistent policies and practices that ensure a firm's human capital contributes to the achievement of its business objectives (Baird & Meshoulam, 1988). As indicated in the framework (Figure-1), Business strategy of a firm determines the SHRM practices, SHRM practices are designed to achieve higher level of HR Outcomes, leading to higher organizational performance (Boselie et al., 2001; Fey et al., 2000; Guest, 2001; Park et al., 2003; Paul and Anantharaman, 2003).

### 3.2. HR Outcomes and Organizational Performance

The relationship between HR Outcomes and Organizational performance has been the subject of significant empirical examination (Katou and Budhwar, 2006; Khatri, 2000; Guest, 2001; Delery and Doty, 1996; Huselid and Becker, 1996; Huselid, 1995; Kalleberg and Moody, 1994). Effective utilization of human resources brings out positive employee outcomes which has direct implication for organizational effectiveness (Rothmann et al, 2002). According Guest, (2001) HRM activities influence directly or indirectly organizational performance by creating a workforce that is 'competent and cooperated, motivated, committed and satisfied'. In SHRM models, generally company performance is measured by some profit or market-value-related measures. So far, researchers have been more eager to use market-based measures of financial performance because accounting-based profitability indicators seem to be subject to numerous biases (Huselid, 1995; Huselid et al., 1997). In order to test the impact of human resource practices on a company's performance, Kalleberg and Moody (1994) used eleven variables (Investment payback, Larger dividends, Company capitalization, Financial return, Economic return, Product quality, Increase in market share, Innovation, Strategy success, Customer loyalty, Capacity to attract/retain talented personnel) as a subjective performance measure. Based on an extensive literature survey, Katou and Budhwar (2006) covered six variables such as Effectiveness, Efficiency, Development, Satisfaction, Innovation, and Quality to refer organizational performance. Khatri (2000) used two financial

indicators (percent- age growth in sales in the last three years and percent- age profit margin in the last three years) and three non financial indicators (public image and goodwill, quality of services and efficiency of operations) for measuring organizational performance. Chand & Ka- tou (2007) used multiple organizational performance variables (sales growth, productivity, profitability, goal achievement, good services) to measure Organ- isational performance.

Thus, on the basis of the above literature survey, we accepted the following indices as indicator of organizations performance:

- Profit Maximization
- Market Leadership
- Improved Productivity

### 3.3. A Conceptual Framework for HRM and OP Research

The conceptual and empirical work relevant to the question of firm-level linkage between HRM and organizational performance in the Indian context has not progressed much. Indeed, in order to provide a convincing explanation of the association between HRM and organizational performance in the Indian context we need to improve our theoretical and analytic frameworks in three key areas. These are the nature of HRM, and especially the rationale for the specific lists of HR practices; the nature of organizational performance; and the linkage between HRM and performance. In this paper we focus on the last linkage. We attempt to synthesize and organize concepts from SHRM literature into a more coherent and relevant framework for the Indian context. A comprehensive model is developed on these lines within which to explore these linkages. A number of specific, testable propositions are derived from the model to guide empirical work. Tiwari and Saxena discuss a framework that indicates how external and internal factors affect HRM practices which in turn generate certain benefits for the organization and ultimately lead to overall corporate performance [11]. The authors list some "innovative" HR practices being followed by seven selected companies, namely J K Lakshmi Cement, Grasim Industries Ltd, Tata AIG General Insurance Co Ltd, Maruti Udyog Limited (MUL), HCL Technologies Ltd., LG India and Pantaloons (India) Ltd. Noting that these companies are performing "well" in their sectors,

they attribute their success to these so-called “innovative” HR practices and conjecture that the latter must have helped in building image of the company in the minds of the employees and hence contributed to their respective “good” business performance. Anil K Singh took a sample of 95 respondents from two private sector organizations in India and reported positive correlations between HRM practices and variables of organizational culture [12].

#### 4. METHODOLOGY

The various methods that have been used for the purpose of the study include: the case study method, the survey method and the historical method. The study in this context assumes three forms:

- I. Use of available material on various dimensions of Human resource management,
- II. Collection of relevant information through inter- views with cross section of management representatives and key union leaders and,
- III. Eliciting the opinion of sample executive and non executives about the effect of SHRM on the existing HR policies and practices through a questionnaire.

The case study method was used by the researcher for an in-depth analysis of the business strategy and HRM practices adopted by the organization. The survey method was used to understand the inter relation- ship between Business Strategy and SHRM, SHRM and HR Outcome and HR Outcome and Organizational Performance. The study entailed a good deal of preparation and planning in order to obtain meaningful and reliable data. Broadly, the inquiry progressed through the following the phrases.

##### 4.1. Reconnaissance

The personnel department of the plant was of great help at this stage in obtaining the detailed list of dif- ferent categories of employees employed in the plant. At this stage, some preliminary discussions were held with some of the managerial personnel and trade union leaders of the plant. All the available literature, both published and unpublished, was monitored by the researcher and the same was studied by him to get theoretical grasp of the subject and to attain conceptual clarity.

##### 4.2. Planning

In this phase the research design was finalized. A formal letter was addressed to all the Heads of Department of the plant, the supervisors and officials of trade unions functioning in RSP for the purpose of the study and seeking their cooperation. It was also assured that the study was academic and strict secrecy and confidentiality of the information supplied would be maintained.

##### 4.3. Preparation of tools

An elaborate schedule for collection of relevant in- formation from the management was designed cover- ing such aspects as historical background , manpower position, technology, products, production process, HRM policy and practices in the pre liberalization and post liberalization period, etc. Another Schedule was prepared for gathering information from the trade union officials regarding such aspects of the unions as origin and growth of the unions, finances, membership, unions’ attitude towards management policies etc. The information gathered through interviews conducted for Management representatives and Trade unions were compiled and a questionnaire was developed for eliciting the opinion on the effect of Business Strategy on the existing SHRM activities. Before finalization of the questionnaire, pre-testing of the questionnaire was carried out for the qualitative investigation. Fifteen percent of the total sample was administered the questionnaire for this purpose. Subsequently, the language was simplified, unnecessary questions were deleted and counter checks were added in the questionnaire.

#### 5. STATISTICAL ANALYSIS AND DISCUSSION

For the purpose of analysis of data, descriptive analysis, correlation analysis and multiple regression analysis were used on a standardized data set using SPSS version 19.0. Table 2 presents the descriptive statistics and zero-order correlations among variables in the study. As shown in the table, Business Strategy is related to SHRM practices (.581), HR Outcome (.400) and to the Organization performance (.423). SHRM practices are related to HR Outcome (.550) and the Organization performance (.375) and Finally, HR Outcome is strongly related with the Organization performance (.368). In all the above cases, the p

value for two tailed test of significance is 0.000 which shows strong positive relations between the variables. Agreeing with the past research (Delery 1998; Baird and Meshoulam , 1988; Liao, 2005; Huang 2001; Ghebregiorgis, and Karsten, 2007), the Business strategy of SAIL is found strongly related to SHRM practices (.581). Results of regression analysis (Table 3.a.) shows that the R square value is 0.334 and  $F=105.984(p=0.000)$ . This reveals that 33% of total variance in SHRM is explained by TPM activities. Further, significance of individual regression coefficients was examined to identify whether TPM is significantly related to the dependent variable (SHRM). As shown in the section labeled “coefficients,” significant levels for coefficients of SHRM was found to be 0.000. It is concluded that Business strategy had positive and significant effects on SHRM. This means that Business strategy adopted by SAIL is strongly related with SHRM practices adopted by the company. In other word, the drive for cost leadership, innovation, and quality enhancement as Business strategy has played an important role in planning and implementing delivering, rationalization, human resource development, empowerment, and communication as important SHRM areas through which the company leverage in the new era of competition. Supporting this findings, Muduli (2002) wrote “in the context of the new external environment, SAIL has considered HRM Strategy as an integral part of Corporate strategy to achieve the goal of the organization”. The restructuring package, as approved by the government of India on February 15, 2000 identified HR as an important factor of business restructuring. Over the years, there has been an unwavering focus on the development and management of HR of SAIL, with emphasis on creating a committed workforce (SAIL News, 2002). ‘With the decision to restructure, the focus was on trimming the fat simultaneously increasing efficiencies at all levels. The plant firmly believed that only the collective involvement of the people in this programme can really help the company to turnaround’ (Muduli, 2002). For example, the business strategy of SAIL was supported by the Delaying practices adopted by the company. As part of Delaying, SAIL was able to reduce the existing levels in to 4 clusters. This has helped the organization in speedier disposal of work, greater empowerment for the employees and rationalized work flow. It

has further strengthened the inter personal relationships, increased confidence and enhanced Productivity.

### 5.1. Limitations

A limitation of the proposed mediation model is that it does not propose any specific operationalizations of the constructs of organizational culture, market orientation and strategy used in the model. This is an important gap which needs to be bridged before the validity of the model can be verified by HR—firm outcome research in Indian cultural context. Also the methodology used to develop the framework is purely qualitative in nature, being based on the review of previous published work as well as outcome of a focus group discussion. Another limitation is that the data was self reported. The participants may have completed the survey to the best of their knowledge and ability, but the responses may not have been completely accurate. This might have created the potential problem of common method variance in the variables examined. Direct involvement of the researcher in the data collection may result in more accuracy of responses.

### 5.2. Directions for Future Research

Developing a “good” theory or conceptual framework which describes and explains the phenomenon of interest as comprehensively as possible is always important. Here we attempted to do the same in case of the HR-firm performance relationship in the Indian context. However, one needs both a theoretical framework as well as empirical work to establish and examine relationships. The conceptual framework embodied in the model above is critical to attract the researchers’ interest in empirical work in this area. Perhaps future research may focus attention on generating a cumulative body of accurate and meaningful estimates of effect sizes in this model. We hope future empirical work in the Indian context will provide better and more meaningful tests of the theoretical framework developed here. However, with in the said limitation the study attempts its level best to help the readers to understand the relationship between Business strategy and SHRM practices in an Indian context through a case.

## 6. CONCLUSION

The study primarily aimed at understanding the effects of business strategy on SHRM practices through an examination of how (Datta et al., 2005) and why SHRM practices are related to organizational performance (Collins & Smith, 2006). Thus, attempt was made to understand the relationship between Business strategy and SHRM practices, SHRM practices and HR Outcome and HR Outcome and Organisational Performance. To accomplish these objectives, we made an in depth study of HRM practices of Steel Authority of India Ltd, the largest public sector steel making unit of India. Data and information were collected through various quantitative and qualitative methods. We found strong positive relationship among Business strategy, SHRM practices, HR Outcome variables and Organizational performance. The result illustrates importance of business strategy in planning and implementing SHRM practices. The case is evidence to a fact that these outcomes are company specific and may vary from organization to organization depending upon a number of internal and external factors. Further, the paper also witnessed that relevant HR outcome always contributes to the company in the form of better organizational performance. HRM practices must be married with not just the strategic objectives and market orientation of the organization but also the organizational culture, especially in the Indian context. Reflecting a multidisciplinary interest, we emphasized through this paper looking into the mechanisms by which human resource practices ultimately impinge upon the organizational performance. We derived some propositions and hope that validity of this conceptualization may be verified in the Indian context by future empirical research.

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