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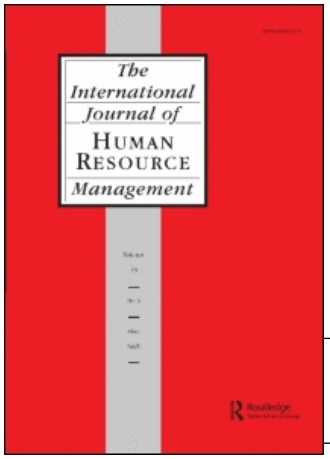

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Ashok Som

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What drives adoption of innovative SHRM practices in Indian organizations?

Ashok Som

Abstract The crucial role of adoption of innovation in strategic human resource management is becoming increasingly prevalent in both business and academic literature. However, few such studies have been undertaken in a liberalizing country scenario such as that of India. This article attempts to understand the adoption of innovative strategic human resource practices (SHRM) practices in the Indian context. It identifies, analyses and tries to underline the drivers of adoption of innovative strategic human resource SHRM practices in Indian organizations. This study is of critical importance against the backdrop of the liberalization of the Indian economy. Although the liberalization process started in 1991, the effect of the process took a decade for Indian organization to respond to such a structural adjustment. Drawing from SHRM literature, this research report discusses five main propositions of adoption of innovative SHRM practices in Indian organizations. The generalizability, applicability, acceptability and diffusion of practices are discussed.

Keywords Diffusion; India; innovation; liberalizing; scenario; SHRM.

Introduction

The topic of adoption of innovative practices has come into existence as an outcome of progressive developments in management science and practice. Theoretical research argues that it is important to analyse organizations' work practices as a coherent system. This systems perspective is based on the notion that human resource management (HRM) practices often complement each other, so that the adoption of one HRM practice is only effective when it is adopted in combination with one or more supporting work practices (Ichniowski and Shaw, 1999). Continuing with this line of thought, Colbert (2004) argued that 'this system is a coherent whole, and that this system is of critical strategic importance – it includes the skills, behaviours, and interactions of employees that have the potential to provide both the foundation for strategy formulation and the means of strategy implementation. The firm's HRM practices are strategic and are instrumental in developing the strategic capability of its pool of human resources'. The innovative strategic human resource (SHRM) practices are defined within the system of strategic human resource management. Ichniowski and Shaw (1999) had observed that more research is required on the limited adoption of innovative HRM practices. This article tries to understand and explore the adoption of strategic human resource management practices in the Indian context. Adoption of innovative SHRM practices within the framework of SHRM systems occur in highly complex social, political and economic environments (Kossek, 1987). Liberalization, growing competition and changing

Ashok Som, Associate Professor, Management Area, ESSEC Business School, Paris, Avenue Bernard Hirsch - B.P. 50105, 95021 Cergy-Pontoise Cedex, France (e-mail: SOM@essec.fr).

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environments make adoption of innovative practices inevitable prerequisites for growth, success and survival of an organization (Kossek, 1987; Som, 2006b). Analysis of the adoption of innovative SHRM practices in organizations, therefore, requires a better understanding of the environment in which the skills, behaviours and interactions among employees within an organization function. For this article, innovative SHRM practices are defined as:

> Any intentional introduction of HRM programme, policy, practice or system designed to influence or adapt employee the skills, behaviors, and interactions of employees and have the potential to provide both the foundation for strategy formulation and the means of strategy implementation that is perceived to be new and creates current capabilities and competencies. (Som, 2006b)

This definition implies that not all changes involve innovation, since whatever an organization adopts is not perceived to be new. It also reflects the wide scope of innovative practices, from functional activities to wide ranging strategic initiatives aimed at building capabilities and competencies that organizations need in a competitive environment. The definition also implies that adoption of such practices that are *perceived* to be new in the current context and that are in the domain of HR systems which creates current capabilities and competencies would be considered as innovative.

Indian context

Fifteen years have elapsed since the Indian government enacted economic reforms, effectively bringing one-sixth of the world's population into the global economy. After decades of protectionism, India experienced a revolutionary change when it shifted from a regulated to a 'free market' economy. The liberalization of the foreign investment climate in India especially facilitated the integration of Indian economy with the global economy (Khandwalla, 2002; Som, 2002). This liberalization resulted in sudden and increased levels of competition for Indian organizations. Among other things, liberalization brought globalization and internationalization of domestic businesses, unbridled imports, concerns for total quality management, incentives to export, demographic changes in the employee profile, retraining and redeployment of workforce, focus on performance appraisal and performance based incentive systems and rightsizing (Budhwar and Sparrow, 1997; Sparrow and Budhwar, 1997; Som, 2006b). Som (2002), in his study of 54 Indian corporations, revealed that out of eight items of rated change in the business environment over the past five years, the four largest perceived changes were greater turbulence in the product market environment characterized by many unexpected changes; more intense competition; greater buoyancy and growth potential; and greater requirement for technological sophistication. Liberalization created opportunities for technology upgrading and sophistication, resource mobilization from new sources, highly competitive input/output market, high growth and buoyant environment and HRM issues associated with strategic initiatives of diversification, mergers and acquisitions, restructuring, joint ventures, strategic alliances and for overall internationalization of the economy. With liberalization, there had been an increasing pressure on organizations in India to change from indigenous, costly, sub-optimal technology to performance-based, competitive and higher technology provisions.

The changing business environment within India that started with the liberalization process needs better understanding to comprehend the functioning of organizations and the factors that lead to adopting innovative SHRM practices in the Indian context.

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India was chosen as a context of analysis because of the following reasons. First, India (in 2006) is the second largest and the second fastest growing economy in the world. India has grown at an average rate of 8 per cent for the past three years. Its savings rate is now over 29 per cent of GDP and the investment rate is about 31 per cent of GDP. Together with this a growing young population and a vibrant marketplace, the Indian economy has become more hospitable to foreign direct investment. Continuing with liberalization, in 2005, policies relating to investment, taxation, foreign trade, FDI, banking, finance and capital markets have evolved to make Indian industry and enterprise more competitive globally. Sector-specific mega-investment regions with investments of up to US$10 billion in each location are being promoted, beginning with telecommunications, chemicals, petrochemicals and the entire energy sector including petroleum, natural gas, power and captive coal mining offer exciting opportunities.

Second, due to this change in environment, organizations are adopting innovative practices either to gain market share or to save their businesses. This phased liberalization created intensive competition through easier entry and greater foreign participation. For example, multi-national companies (MNCs), like Hyundai Motors, Ford, Renault, Toyota, Honda, Volvo, Cummins, Daimler Chrysler, Wal-Mart, GAP, Hilfiger, Asian Paints, Delphi, Eli Lilly, General Electric, Hewlett Packard, Heinz and Daimler Chrysler, GE Plastics, Monsanto, Whirlpool, HP Labs, Microsoft, Oracle are in India. India has slowly become a competitive battleground for more than 15,000 MNCs. This entry of MNCs into the Indian market has changed the dynamics of doing business in India. Liberalization enabled these organizations to expand, diversify, integrate and globalize more freely.

As a result, several Indian firms undertook significant organizational changes along with adoption of SHRM practices during the late 1990s. Firms like Hero Honda, Tata Motors, Bharat Forge, Hindustan Inks, Sundaram Clayton, Essel Propack, BPCL, Maruti, Tata Iron and Steel, TVS Steel, Ranbaxy, Infosys, Wipro and Satyam were able to successfully adapt to the dynamic corporate scenario. The reasons that helped these organizations adapt were their foresightedness, expertise and abilities to adopt innovative SHRM practices.

Third, factors adopting innovative SHRM practices have not been studied at depth in an emerging country scenario, especially India, where liberalization has initiated a competitive environment that was not the case before. Researchers to date have mainly confined themselves to the USA, Japan (Ichniowski and Shaw, 1999; Kossek, 1997) and some countries in Europe (Gooderham *et al.*, 1999; Som and Cerdin, 2004). The extensiveness of the typology of managerial innovation has been confined mainly to the west and has not penetrated many developing countries and their organizations. It is no surprise then that even less research has been conducted in the field of SHRM and its innovative practices in India. There has been very little empirical research to understand how organizations adopt managerial innovation and inculcate strategic human resource practices to make organizations more competitive. Even though there has been accumulating evidence of the economic impact of strategic HRM (e.g. Harel and Tzafrir, 1999; Huselid, 1995; Schuler and Jackson, 1999), cross-cultural equivalence is paramount in order to meaningfully apply the implications for management practices and the concepts of SHRM.

This article attempts to understand the drivers of adoption of innovative SHRM practices in the context of economic liberalization. The research questions that the article focuses on are: what are the drivers of adoption of innovative SHRM practices in the Indian context? How universal are the adoptions i.e. how relevant are they to most sectors and industries in the world wherever there is a competitive market economy or

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a movement towards it? The research tries to develop five propositions of adoption of innovative SHRM practices in Indian organizations.

Literature survey

Insights offered by organizational theories reveal that innovative practices are adopted by organizations mainly to improve organizational performance. Walston *et al.* (2001) argue that innovative practices promise to enhance efficiency, are particularly attractive to organizations facing intense competition and/or performance deficiencies and can be thought of as either driven by economic efficiency or by non-economic factors. Adoption and diffusion occur as they encompass generation, development and implementation of new ideas or behaviours (Damanpour, 1991) and are influenced by characteristics of individual people, of the organization itself and of the context in which it operates and out of which it emerges (Kimberly, 1981; Kimberly and Evanisko, 1981).

Management researchers like DiMaggio and Powell, (1983) and Scott (1995) have emphasized that organizations tend to adopt innovative practices due to institutional factors such as normative and regulatory pressures. Within these organizational pressures, the capacity to adopt innovative practices is determined by the HRM practices (Gooderham *et al.*, 1999; Kossek, 1987; Wolfe, 1995). These strategic HRM like other organizational functions contribute to new organizational demands, requirements and organizational performance. Researchers (Ulrich, 1999) have been increasingly studying how HRM can be used to plan activities strategically and how to effectively manage HRM. Research (Schuler and Jackson, 1999, Schuler *et al.*, 1993) suggests that not only innovative SHRM practices result in tangible organizational results (Huselid, 1995; Inchinowski *et al*., 1996) but also assist organizations in developing innovative solutions as the need arises.

To attend to the question why organizations adapt SHRM practices, the SHRM literature has debated and discussed a variety of perspectives drawn from organizational theory, including institutional theory (Wright and McMahan, 1992), contingency theory (Lengnick-Hall and Lengnick-Hall, 1988), universalistic, contingency and configurational perspectives (Delery and Doty, 1996), behavioural perspectives (Schuler and Jackson, 1999) and complex systematic perspective (Colbert, 2004). The basic premise of the institutional approach is that many structures, programmes and practices in organizations attain legitimacy through the social construction of reality. The contingency theory argues that the adoption of SHRM practices are dependent on both the internal and external environment that the organization operates in it allows for interaction effect on the presence of a contingent variable such as strategy. Universalistic or 'best-practice' approach assert that certain HR practices are found to consistently lead to higher organizational performance, independent of an organization's stated strategy. Configurational perspective on the other hand tries to focus on patterns of HR practices that are holistic and mutually reinforcing and have a correlation with organizational performance. The behavioural perspective has its roots in contingency theory and focuses on employee behaviour as the mediator between strategy and firm performance. The complexity perspective assumes that system-level, path-dependent resources and capabilities only emerge out of the dynamic interplay within a given system and allows for the creation of creative and adaptive SHRM capabilities of the organization. Some of these approaches are central to this research in understanding the adoption of SHRM practices in Indian organizations.

A wide array of SHRM practices such as recruitment, selection, training, appraisal and reward systems (Fornbrum, 1984) can be construed as an innovation, when practiced for

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the first time in an organization. Wolfe (1995) interviewed and surveyed a sample of 60 US HR professionals and over 40 different innovations were named. Participants were asked to name an HR innovation and then to identify an innovation they had actually implemented or helped implement. Examples provided included human resource information systems; 360-degree appraisals; internet recruiting; online access to employee information; telecommuting; Six Sigma; People Soft; realistic job previews; training, re-training and redeployment, outsourcing; and competency-based compensation.

Gooderham *et al.* (1999) reported in their study of adoption of SHRM innovations in six European countries that it might be determined to a considerable extent by the imperative of maintaining external legitimacy through adherence to institutional structures, rules, and norms at the national level-and may vary as a result of dissimilar national contexts. Geary and Roche (2001) in their study of Irish SHRM practices argue that foreign owned firms are distinctive in their practices in comparison with indigenous firms. The compliance with local laws and regulations lead to differentiated and innovative practices. In other instances, foreign firms may seek to resemble local firms to compete more effectively in the local market to 'fit in' by imitating local practices.

SHRM literature individually have identified the linkage of adoption process and institutional environment (Wright and McMahan, 1992); however, detailed discussion regarding the adoption of innovative SHRM practices and the institutional variables has not been addressed adequately for liberalized economies. Gooderham *et al.* (1999) in their findings highlight the need to incorporate country-specific, institutional factors in studies of patterns of organizational practices in general and SHRM practices in particular. Their analysis indicates that the national institutional embeddedness of firms plays a far more important role in shaping SHRM practices than their industrial embeddedness. In this context, it is believed that a study of the adoption of innovative SHRM practices by Indian companies will add to the nascent body of knowledge in the context of liberalizing economies.

Evolution of SHRM practices in India

Formalized personnel functions have been common in Indian organizations for decades (for a detailed history of development of personnel and human resource development (HRD) in India, see Budhwar, 2001; Rao, 1999; Sen Gupta 2004). HRD, in the Indian context, had two meanings. One necessarily meant training, where training was defined in terms of learning experience, building employee competence, commitment in building a strong organizational culture and organizational development (OD). The second essentially meant a normative model of man-management or personnel management. HRD differed from HRM in that in HRM the line managers take primary responsibility for HRM while the responsibility for HRD in the organization seems to lie primarily with the HRD department (Sen Gupta, 2004). Rao (1999: 9–10) had argued,

> The emphasis during the pre-liberalization period was more on HRD as a philosophy and as a value and culture of corporation. Profits were taken for granted and the argument was that since the employees contribute so much to the corporation the corporation should take care of them. When the corporation took care of its people, they, in turn will also took care of the corporation. Thus people were put first in HRD and business goals were taken for granted. However, in the post-liberalization period, the focus of HRD has shifted to establishing direct links with business improvement. If the corporation did not survive, there is little it can do to take care of its employees. Hence business survival has become a significant and a non-negotiable goal and all HRD efforts have to be redirected towards business goals.

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The last 20 years have seen radical changes take place in the HRM function in India (Rao, 1999). Rao *et al.* (2001), in their in-depth HRD audit study of Indian organizations, reported that HRD function in India is not well structured, inadequately differentiated and poorly staffed. In the last 10 years, HRM specialists and departments were under severe pressure to bring about large-scale professionalized changes in organizations in order to cope with the challenges brought about by the challenges thrown by the new economic environment (Som, 2002, 2006b). Indian organizations needed to cope with the need to develop a highly diverse workforce into well-trained, motivated and efficient employees with the subsequent de-skilling, re-retraining and multi-skilling problems, workforce reduction policies, retention and career development issues (Venkata Ratnam, 1995). A study of 54 organizations (Som, 2002) reported that more and more Indian organizations are creating a separate HRM/HRD department and adopting innovative SHRM practices. The HR department has been more open to changes, suggestions, more flexible, fair and focused on building employee–employer relationship while playing a definitive role in the success of the organization. The HR department utilized modern technologies and HR personnel were well trained in those technologies. The HR departments were no longer being labelled as 'a cost centre and a place for maintenance, administration, salary processing, paper pushing and sending personnel to training programmes'. Line managers were delegated HR functions and HR department is concerned about business needs and reduction of costs. The study also noted a significant increase in recruiting specialists and professionally trained personnel. Recruitment strategies included fair, open systems with discussion, orientation and induction programmes built into the overall programme. Promotion policies were attuned with recruitment policies and favoured personnel with needed competencies. Promotions were no longer time bound and reflected emphasis on the capabilities. Competent people were promoted faster. Organizations were practicing job rotation, re-training and re-deployment to develop the necessary competencies and skills of their personnel. Retraining was being provided to both managerial and non-managerial staff. Selection to special teams and training personnel for special teams were seen to be a motivator. Career paths involving retraining and redeployment options were seen as reward mechanisms. There were indications of a movement towards performance related pay and compensation policies. Organizations were designing innovative performance appraisal systems that were linked to compensation. HR departments were reported to be explaining and communicating to personnel about the new performance appraisal system. Roles were being clarified, which made workers more accountable. Compensation policies and reward mechanisms were being linked directly to performance and contribution to work. Remuneration policies and its implementation were being clarified and acted as a motivator for enhanced organizational performance. Organizations were getting more and more cost conscious and tended to outsource non-essential functions.

In another recent survey of the trends and emerging practices in SHRM, Belout *et al.* (2001) point to the importance of the adoption of SHRM practices. They point out that organizations are asking their HRM departments for innovative approaches and solutions to improve productivity and the quality of work life, while complying with the law in an environment of high uncertainty, energy conservation and intense international competition. The structural change from a regulated environment to a free market environment had direct implications for SHRM practices in India (Budhwar, 2001; Krishna and Monappa, 1994; Rao, 1999; Som, 2006).

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Status of labour regulations and unionization

At present, there are over 150 state and central laws in India that govern various aspects of HRM at the enterprise level (Budwar, 2001; Venkata Ratnam, 1995). The legislation still dictates most HRM policies and practices. Some of the prominent labour laws are: (a) The Factories Act, 1948; (b) The Industrial Employment (Standing Orders) Act, 1946; (c) Industrial Disputes Act, 1948; (d) Trade Unions Act, 1926; (e) Minimum Wages Act, 1948; (f) Payment of Wages Act, 1936; (g) Payment of Bonus Act, 1965; (h) Employee State Insurance Act, 1948; (i) Compensation Act, 1923; (j) Apprenticeship Act, 1961; and (k) Maternity Benefit Act, 1961.

In mid-2001, the India government changed labour legislation to promote workplace flexibility – and this announcement was accompanied by a policy of increasing separation benefits, in line with employment-income protection logic. At least three states – Maharashtra, Kerala and Uttar Pradesh – had changed their labour laws to make it easier for employers to deal with unions, an important issue in attracting foreign investment (Frenkel and Kuruvilla, 2002). With increasing competition and continuous restructuring to remain competitive, Indian organizations were restructuring, reducing their workforce through voluntary retirement schemes (VRS) and increasing subcontracting. The existing labour laws in India prevent employers from terminating the services of the employees easily. According to Section 25(O) of Industrial Disputes Act, 1947, employers are required to take prior permission of the appropriate government for retrenchment of workers where the number of employees is 100 or more. Such permission is rarely granted in India due to socio-political considerations. Socially, the implementation of VRS in India carries many concerns. In a country characterized by one of the highest unemployment rates in the world, employment is also a status symbol in the society. Domestic business groups have for decades taken a generous paternalistic view towards labour, providing housing and other welfare benefits. For example, in 2001, State Bank of India (SBI), the largest public sector bank of India, offered voluntary retirement scheme (VRS) to trim its workforce as recommended in a report by FICCI (Federation of Indian Chamber of Commerce and Industry) that the banking industry in India was overstaffed by 35 per cent. In 2002, TISCO, one of largest steel makers, laid-off about 30,000 workers and it emerged as one of the lowest-cost producers in the world. The unions protested and organizations were forced to question a culture as old as their existence.

The influences of trade unions on HRM practices are still significant. With liberalization, Indian unions are now playing a more co-operative and less militant role (Venkata Ratnam, 1995). Nevertheless, they still greatly influence HR policies and practices in Indian companies, for example, in the recruitment of new employees, payment of bonuses and internal transfers. The unions are strong due to the political support they enjoy and the existence of pro-labour laws in India (Budhwar, 2001; Frenkel and Kuruvilla, 2002; Venkata Ratnam, 1995).

Cultural values and institutional environment

Hofstede (1991) scores indicate that India has a low to moderate uncertainty avoidance, high power distance, low masculinity, and low individualism. Although it is only indicative, yet it reveals that Indians are probably risk-averse, reluctant to make important decisions in work-related matters, probably lacks initiative, probably not inclined to accept responsibility for job-related tasks and an indifference to job feedback. It also reflects that the hierarchical nature of Hinduism (Budwar, 2001), the early socialization process that highlights the importance of the family structure, respect for

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age and seniority which might have a direct bearing on decisions about promotion and pay. Low masculinity might indicate that most Indian organizations follow a paternalistic management style and preference for personalized relationships rather than a more divorced performance orientation. Low individualism probably implies that family and group attainments take precedence over work outcomes.

In early 2000, many organizations across a variety of industries were beginning to introduce new forms of work organization, including teams and performance-related or skill-based pay, and to apply those pay criteria in appraisal systems that were borrowed from the West. Worker training was receiving increased attention, particularly in the software industry, which had been experiencing chronic labour shortages. In most sectors, firms had recently reduced their headcount. This was accomplished through negotiated voluntary retirement programmes (VRS), for which it was difficult to lay off or retrench workers in India. While labour–management relations remained conflictual, employers were successfully avoiding strikes by pursuing aggressive anti-union strategies, including, as indicated above, an increase in the number of non-union workplaces. This was a significant departure from the pre-liberalization period (Frenkel and Kuruvilla, 2002).

In this changing scenario, together with this diverse cultural workforce, managing organizations efficiently and competing globally, organizations had started institutionalizing systems and processed and adopting and institutionalizing innovative SHRM practices. The Indian organizations were geared to develop a constant awareness of their vision, mission, goals, ensure continuous appraisal of internal strengths, enhance innovation, improve compensation schemes, introduce more informal communication and develop better employee relations (Budhwar, 2001; Som, 2006). For example, during the late 1990s, many Indian organizations, such as State Bank of India, Mahindra & Mahindra, Wipro, ICICI Bank, Infosys, Modi Xerox, TCS, BPCL, Clariant India, Tata Group of companies and Aditya Birla Group, implemented 360-degree performance appraisal systems, merit-based recruitment and promotion systems, incentive-based pay systems, team building, re-training and redeployment within the group companies, web-based training and integrated knowledge management systems, career and succession planning, voluntary retirement schemes etc. in their organizations to enhance productivity and performance. Most of these practices, which were not practiced before, though created an awareness of strategic HRM in Indian organizations but most organizations failed to implement them due to lack of commitment from the top management and an un-integrated approach towards adopting these practices. Post 2000, these SHRM practices were more adopted by Indian organizations due to benchmarking exercises and interventions of foreign consultants to make Indian organization competitive in the face of liberalization.

In the light of the above-mentioned discussion, the need for adoption of innovative SHRM practices in Indian organizations had become a necessity.

Hypotheses and discussion

The differences in the adoption of SHRM innovation can be attributed to external environmental conditions that often distinguish organizations from one industry to another (Kossek, 1987). Most of the innovation scholars (Kimberly, 1981; Gooderham *et al.*, 1999) have studied external environmental and institutional forces in developed nations but very few have studied the context of transition nations. In the post-liberalization India, these conditions are national environment, organizational restructuring, legitimizing, ownership structure, and culture and role of HRM department. Figure 1 summarizes the propositions of this study.

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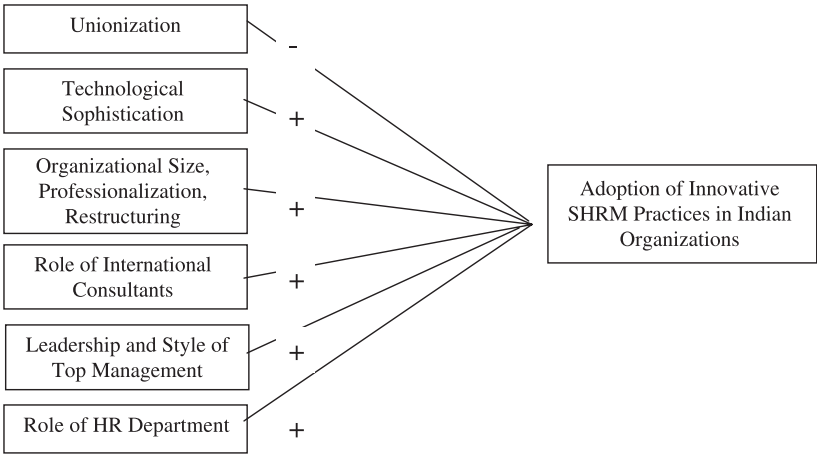

Figure 1 *Propositions for adoption of innovative SHRM practices in Indian organizations*

National environment for innovative SHRM adoption

'National environment' refers to the influence possessed by aspects such as the institutional framework, culture and incentive structures for innovative practices. Recent research has suggested that national factors can have an impact on the type of innovative SHRM practices adopted (Gooderham *et al.*, 1999). In addition to SHRMs' vulnerability to legislative changes, the function is also susceptible to changes in the socio-political landscape. Economic liberalization on the one hand intensifies competition by lowering barriers to entry and on the other opens up many opportunities for growth through removal of regulations and artificial barriers on pricing and output decisions, investments, scale economies, M&As, technology imports, joint ventures, etc. (Khandwalla, 2002). The multi-faceted competition from diverse sources (Khandwalla, 2002; Som, 2002) has to cope with the changes of developing a diverse work force with competitive skill sets. The development of competitive skill-set is challenging in the face of hyper-competition. This is so because the Indian work force has a very diverse socio-economic background and the antagonistic nature of trade unions makes it very difficult to make them work as a team (Budhwar and Sparrow, 1997; Venkat Raman, 1995). Kossek (1987) postulates that external environmental forces such as unions, technological change and labour market conditions distinguish HRM innovation across industries.

Extent of unionization and sector characteristics

In general, the literature examining the impact of trade union activity suggests a positive effect on the adoption of innovative SHRM practices (Ng and Maki, 1994). In fact, a considerable research contradicts the popular perception that trade unions hinder or resist the implementation of innovative practice (e.g. Wagar, 1997). Rather unionized workplaces tend to demonstrate greater degree SHRM practice sophistication and are more likely to possess a more formalized model of HRM (Jackson *et al.*, 1989; Ng and Maki, 1994).

On the other hand, Ramaswamy and Schiphorst (2000) suggest that the presence of an active labour union in companies restricts HR managers to innovate their processes.

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The high degree of resistance that comes through the legitimate labour institutions in India act as a hindrance for managers (to innovate) and new processes such as SHRM.

Even though managers might innovate such processes, their adoption remains indeterminate as it depends upon the collective bargaining of labour unions. Each process, which reflects changes in the workforce management, needs an approval from the union leaders before it can be implemented. Long negotiation processes often tend to weaken the innovative process because of the time lag between the conception of innovative measure and approval by the management in conjunction with the union leaders. The rate of diffusion of such processes is also affected by approval or non-approval of new HR strategies by unions. For example, during the liberalization process, SBI implemented a VRS or the 'Golden Handshake' system. The vast work force that was once regarded as one of SBI's strongest assets became a liability following the computerization of the bank. The introduction of this scheme led to strong protests from officers and staff unions that claimed that the bank had taken a hasty decision without undertaking correct manpower planning measures. The ensuing struggle and media debate took a year to solve the issue amicably between the management and the unions. After prolonged discussion, the eligibility criterion of the VRS scheme was modified to personnel above the age of 55. During this time in 2002, a large number of competent employees accepted the offer and joined competitor banks. SBI was faced with a prospect of losing its talented employees and be left with less efficient employees. Hence, in the Indian context:

Proposition 1A: The higher the extent of unionization in an organization, the lower is the adoption of innovative SHRM practices.

The differences among sectors are also often cited as possible determinants of adoption of innovative practices (Kimberly and Rottman, 1987). Sector or industry characteristics influence adoption decisions by providing the context within which 'meanings are construed, effectiveness is defined, and behaviours are evaluated' (Jackson and Schuler, 1995: 252). The desire of organizations to be seen as 'good corporate citizens', socially responsive, or 'employers of choice' is also a powerful driver of innovation adoption (Kossek, 1987, 1989; Tannenbaum and Dupuree-Bruno, 1994). In the Indian context, labour unions are more prominent in the manufacturing sector than in the services sector. For example, Mahindra and Mahindra Ltd, the flagship company of the Mahindra Group, was suffering from manufacturing inefficiencies, low productivity, an over-stretched production cycle and poor output. The primary reason behind this inefficiency was the under productive and excessively unionized labour force. In 1995, the company introduced Business Process Reengineering (BPR), focusing on a total overhaul of the style in which the company was organized. The unions were made a party to the decision- making process and some specific innovative SHRM practices, like working in cross-departmental and cross-functional teams, regular meetings amongst workers and HR personnel, and hiring training, re-training and redeploying the workforce were adopted. The unions understood the urgency and the BPR programme achieved success after five years. On the other hand, adoption of innovative SHRM practices in the software services sector in companies like Infosys, Wipro, Tata Consulting Services, Mindtree Consulting, etc., started right from their inception. Hence in the Indian context:

Proposition 1B: The extent of adoption of innovative SHRM practices is lesser in the manufacturing sector than in the service sector.

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Technological sophistication

Like unionization, technology affects SHRM innovation in a number of ways (Kossek, 1987). The impact of rapid structural changes in India saw evolution and development of technological sophistication. Som (2002), in his study of 54 Indian organizations, reported that there was a sharp rise in the establishing of comprehensive, computer-based information systems, technical vendor development and use of sophisticated technology for business. Tasks had been subdivided, job contents had enlarged and access to information had increased. Increased access enabled employees to be privy to information that was once only a managerial prerogative, which has ramifications for power relations and task environments that encourage additional SHRM innovations (Kossek, 1987). Increased technological sophistication in the job redefined work environments where employees had more time and information for experimentation and innovation. Regular personnel functions such as administration, paper work, salary processing needed less time due to the sophisticated use of technology. The adoption of innovative SHRM practices had long-term implications in the Indian scenario. The administrative expert role of HR (Ulrich, 1997; Som, 2006) were getting reduced or often outsourced while the strategic partner and change agent role were being redefined. For example, in organizations like BPCL (Som, 2003), an Indian Government owned company, the HRM function was redefined, became strategic and embedded in 'shared services' at the corporate HQ whereas the administrative functions were more delegated at the SBU level. With implementation of SAP, BPCL faced surplus manpower in areas of dispatch, logistics, projects and HRM. To tackle this situation, BPCL adapted innovative re-training and redeployment practices to absorb the excess workforce giving a chance for the workforce to build new competencies. It was practically impossible for BPCL, being a Government owned company, to take the route of retrenchment. Another example to note is the private banking industry that had witnessed a sea change in technological sophistication. With the advent of ATMs and Internet banking, new-age organizations like ICICI Bank have begun gaining competitive advantage compared to the nationalized banks. Hence in the Indian context:

Proposition 1C: The higher the extent of technological sophistication in organizations the higher the chance of adoption of innovative SHRM practices.

Organizational restructuring and ownership structure as drivers of innovative SHRM practices

In the post-liberalization scenario, organizational structures seem to be changing to cope with greater competition and to avail of growth opportunities afforded by globalization (Som, 2002, 2006b). Corporate restructuring – by involving the services of international management consultants – had become more frequent (Khandwalla, 2002). The main reason for restructuring is usually unsatisfactory corporate structure and business processes. Intensive scanning of the national and the international environment for growth opportunities has been on the rise, and so has been comprehensive strategy making that is integrated with human resource management strategy (Som, 2002). Economic and market pressures influenced the adoption of strategic HRM during the organizational restructuring process. Large, diversified, family-owned business houses, such as the Duncan Goenka Group, regrouped their varied product lines spread over diverse companies into synergistic product clusters for sharper focus; while Godrej graduated its product divisions into 'strategic business units' with more freedom given to make financial and investment decisions and to enter into alliances; Modi Xerox

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converted its functional departments into profit centres via the transfer pricing mechanism for greater bottom line consciousness; Tata Consultancy Services and Wipro Infotech, in the business of executing projects, resorted to a matrix structure in which staff members were grouped both by areas of core competencies, principal markets or industries served. Most of the large organizations, like the TATA Group of companies (TISCO, TELCO), Aditya Birla Group, undertook restructuring programmes with the help of foreign consultants. The objective was to achieve an increase in organizational differentiation through decentralization through setting up of self-contained, autonomous units with bottom line responsibility, increasing integration through a system of apex co-ordination, use of co-ordinating committees and cross-functional teams, internal communication, participative decision making, and institutionalization of core values (Som, 2002). The SHRM systems were characterized by an increasing emphasis on professionalism, skills development, incentives, accountability, flexibility, openness and rightsizing (Som, 2002). For example, the Aditya Birla Group, the third largest business group in India, grew from a US$1.5bn diversified conglomerate in 1995 to a US$7.59bn in 2006. With this growth came the necessity to restructure its businesses. The Group started restructuring its businesses to compete in the liberalized environment focusing on larger investments in fewer businesses. To manage the increasing size of the Group, it built systems and processes and institutionalized the Corporate Centre. The HR was a key player in this change process. The top-management and the HR department understood that to manage growth and size focus would have to be in building competencies and meritocracy. The growth necessitated push on the people front. The HR department institutionalized innovative HRM practices like created a management talent pool that identified over 200 managers as performers and put them on a fast track. With a view to provide for systematic and structured processes for career growth, the HR department trained more than 100 managers as job analysts and another 100 as job evaluators. With this evaluation, 5,000 jobs had been evaluated, resulting in the formation of 11 distinct job bands. These now embrace the entire life cycle of the employees' engagement with the organization. New initiatives were taken towards the well-being of the employees, particularly in the area of healthcare, education of their children and other critical aspects that could have a significant bearing on the employees' performance. For this, the Group started practising bigger challenges and providing incentives to achieve them, which were thought to be the key in preparing the organization for growth. Consistently, the Aditya Birla Group contemporized a talent pool through lateral inductions across all levels. The HR department had established a Group Management Trainee Scheme that helped recruit entry level managers from reputed business schools and academic institutions. To track employee satisfaction, the Group has institutionalized the process of an Organizational Health Survey, which is a well-regarded tool globally. The process that linked rewards to performance and encourage excellence had been institutionalized both at the individual and at the team level (Som, 2006a).

These were some of the SHRM practices that were thought to be innovative within the Indian context, as they were never practised before in business groups, like Aditya Birla Group in a formal manner. Hence,

Proposition 2A: The greater the size of the organization, the greater is the likelihood of adoption of innovative SHRM practices

Sparrow and Budhwar (1997) in their study of 137 fully-owned Indian organizations with more than 200 employees, located in north, central and western states in six

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manufacturing sectors, like food processing, plastics, steel, textiles, pharmaceuticals and footwear, suggest that they are still not geared to adopt innovative SHRM practices. Their findings state that 48% of the Indian HRM professionals see little or no value in adopting 360-degree performance appraisal systems, 48 per cent see no role of using new technology to promote corporate-wide communication and 45 per cent see no role in providing employees with more access to information systems. The National Management Forum of All India Management Association conducted a survey in 1995 to study the responses of Indian organizations to the change *vis-à-vis* corporate restructuring. The study surveyed 32 public sector organizations and 60 private sector organizations. It observed that in order to cope with uncertain and competitive environment, 65 per cent of the public sector organizations were undergoing restructuring and another 25 per cent were planning to restructure compared to 75 per cent and 10 per cent in the private sector respectively. Public sector organizations deemed abolition of license regime, end of monopoly, reduction of import duties and the need for upgrading and technological sophistication as causes for restructuring. The reasons for restructuring cited by the private sector organizations ranged from new economic policies, opportunities in the local as well as international markets, shrinking of domestic markets for existing products and scarce resources. Private sector organizations, mostly family owned, wanted to concentrate on core competencies and focus on capacity enhancement while the main aim for public sector was to gear themselves to face competition. Participants such as Mahindra and Mahindra, during their restructuring process adopted innovative HRM practices, such as group work, flat structure and formation of inter-departmental teams that used the 'churning effect' to change the traditional mind-set of the employees. The participants also cited improving customer focus, reducing hierarchies in organizations to obtain a 'flat' structure for faster response in decision-making and communication, as reasons for restructuring. Aditya Birla Group initiated a well-orchestrated internal and external communication process along with intense training, re-training and re-deployment programmes. It started with 300 Senior Managers at Management Development Institute, Gurgaon for Strategic Leadership programme, building '*Ganyodaya*' which is the Aditya Birla Institute of Management Learning akin to Corporate University that offered a variety of programmes like multi-tier programmes, functional programmes, role-specific programmes, competency-based programmes, and business focus programmes to the Group's employees.

The reasons for restructuring differed between the public and private sector. For public sector organizations, the chances of adoption of innovative SHRM practices will be lower and time consuming and these will hamper their adoption process – as the degree of bureaucracy and red tape is high, in addition to large power distance between the management and employees, low level of empowerment (Ramaswamy and Schiphorst, 2000) and the presence of unions. In the case of private sector organizations, mainly family owned organizations, the process of adoption of innovative SHRM practices will also be slow and tedious, as the adoption process will depend on the motivation, style of leadership and management of the business head, financial resources, cost of adoption and implementation of innovative SHRM practices and pressures originating from institutional forces (Abrahamson, 1991; Abrahamson and Rosenkopf, 1993; Walston *et al.*, 2001). For example, the adaptation of innovative practices in the Aditya Birla Group took about five–six years. It was a slow process and the innovative practices were adopted in a phased manner.

The reasons for restructuring of Indian corporations as suggested by the two studies (National Management Forum, 1995; Sparrow and Budhwar, 1997) include adopting of innovative, professional management practices and policies. Restructuring of Indian

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companies was necessitated to build partnerships with foreign firms – looking for growth by way of new products, new market development, M&A, JV and strategic alliances. Foreign investors usually recruit a consulting firm in their home country that assesses potential partners in India. Such firms offer additional services to ensure a smooth integration of the two partners, conduct training to transfer innovative practices in general and SHRM in particular to partner firms in India. Through such transfer of managerial innovation techniques, adoption of processes occurred. Indian organizations that have foreign partnerships exhibit a greater extent of managerial innovation techniques and offer conducive environments for an early adoption and a relatively faster speed of diffusion of innovative practices. Hence:

Proposition 2B: The greater the need to professionalize and to be competitive, the greater the need for restructuring of public sector, private sector and organizations with foreign participation, the greater the chances of adoption of innovative SHRM practices.

Proposition 2C: Family owned organizations will likely be late and slow adopters of innovative SHRM practices while organizations with foreign participation will have a higher likelihood of faster adoption of innovative SHRM practices.

Legitimizing drivers of innovative SHRM adoption

Use of international consultants by Indian organizations

According to institutional theorists, executives tend to follow social norms and try to mimic (DiMaggio and Powell, 1983) each other to secure their firm's legitimacy. The rapid spread of SHRM innovations, particularly among Fortune 500 companies, can be explained partially as a phenomenon to legitimize their existence and changes in their environments. DiMaggio and Powell (1983) view institutional isomorphism as 'a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions'.

In India, organizations have been trying to be competitive by involving the services of international management consultants (Som, 2002). A study by Mukherjea *et al.* (1999) indicated that a significant proportion of the largest 200 companies in India have been restructured or were being restructured by the same group of international consultants. International consultants deem SHRM strategies, i.e. job rotation, training, redeployment, performance appraisal, compensation, reward mechanisms and succession planning as key indicators for improvement. International consultants reinforce a higher level of adoption of innovative SHRM practices as they are perceived to offer better services and global benchmarks, as a result management approach and reaction to such consultants change automatically. The consultants recommend cost optimization, recruitment of specialists, retraining, redeployment, performance-based management systems and rightsizing to name a few from the bundle of SHRM recommendations, in order to improve management skills. Most of the family owned conglomerates, like Tatas, Birlas, Ambanis, Modis, Mahindras, Chabrias, Godrej, Bajaj, Mehtas, etc. had recruited the services of international consultants and had other companies, such as State Bank of India, Arvind Mills, BPCL, Maruti Udyog Limited, etc. Hence:

Proposition 3: Greater the extent of use of international management consultants, the greater the chances of adoption of innovative SHRM practices.

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Organizational culture for innovative SHRM adoption

Liberalized India had been inducing significant cultural and management systems related changes in the corporate sector. The main challenges before the chief executives are in the creation of flexible systems in order to develop a culture of excellence, facilitate teamwork, empower employees, and speed up and decentralize data flow (Mukherjea *et al.*, 1999). There may still be a gap between rhetoric and reality. But the change in corporate culture and management had been increasingly compatible with a competitive market environment (Khandwalla, 2002). A common feature of strong culture organizations such as TATA Group, Infosys, BPCL, Clariant India, had influential role of top management in HRM issues and the organizational impact that the leaders in these organizations have on their adoption process. Peters and Waterman (1982) in their *Search for Excellence* demonstrated how philosophies of leaders, especially the founders, regarding the way employees should be treated have become institutionalized. Organization leaders determine the role of the HR function of an organization (Kane and Palmer, 1994). Organizational leadership had a significant impact on the development of 'innovation friendly' cultures, in order to provide a clear vision, sense of direction (Peters and Waterman, 1982) and a focus for innovative activity (Arad *et al.*, 1997). Organizational cultures demonstrating high levels of internal communication, promoting interactive behaviours and an ability to deal with change encourages innovative behaviour (Hauser, 1998). Research had also shown that the presence of existing SHRM practices increase the adoption rate of additional 'high performance' HR practices (Huselid, 1995; Huselid *et al.*, 1997). High performance HR practices foster innovation through the development of innovation values, encouraging of information sharing, goal setting and appropriate training and development (Arad *et al.*, 1997). Major innovations in HRM practices occured when senior line managers take the lead (Kossek, 1987) and their adoption depends on the attitude of top management and their relationship with the HR department. For example at the Aditya Birla Group, Mr Kumara Mangalam Birla, Chairman, with the help of the HR department changed the cultural heritage of his group. There were three prevalent HR policies that were practised through decades of this 150-year-old company. These were the 'Babu culture', Womb-to-tomb' and 'Kith-and-Kin' policies. The 'Babu' culture symbolized always looking up to the head of the company for direction and decisions. 'Womb-to-tomb' policy meant that there were no fixed retirement age and loyalists of the family stayed on with the company as many years they could work and be of help to the company (similar to the age-old Japanese system). When they could not work anymore, they would request the 'babu' to guarantee their children a job in the company which led to the 'Kith-and-Kin' policy. It was a means of guaranteed jobs for family members in the Group. What used to happen was that if one son was very bright, he went to work for a multinational. The other son, if he wasn't good enough for anywhere else, was sent off to work for the Group. In the words of Mr Kumar Mangalm Birla:

> I felt that if people never retired, then there was no place for younger people to rise. So it was important to institute a retirement policy. We introduced a path-breaking retirement policy that saw 325 senior executives, mostly at the Vice-President step down between 62 to 65 after years of service. Together with this he started building a team by hiring senior people from outside, a marked departure from the past. They have been replaced with 190 young executives I also felt that the company should instil meritocracy rather than compliance, the so called Kith-and-Kin policy. So I instituted a policy that vetted all applications from family members of existing employees. (Som, 2006a)

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Thus:

Proposition 4: The more influential is the organizational leadership, the stronger is the likelihood of creating an organizational culture of innovation and the more the likelihood of adoption of 'high performance' innovative SHRM practices.

Role of HRM department as a facilitator in adoption of SHRM practices

Kimberly (1981) postulated how managerial adoption was imbibed in an organization and also how this innovation spreads in the population, i.e. diffusion of innovation. Kossek (1987, 1989) argued that major HRM innovations occurred when senior management takes the lead and adoption of innovative SHRM practices is dependent on the nature of relationship of the HR Department with the CEO and the line managers. Legge (1978) had commented on the actions of personnel practitioners in the innovation process suggested that adoption innovative practices by an organization depends largely on HR practitioners' credibility with information and resource providers. HR department and managers played a strategic role (Ulrich, 1997) linking the HR strategy with the business strategy of the organization. Hence, the characteristic of the role of HR department and managers cannot be ignored in the process. The knowledge possessed by an HR practitioner depended on the extent to which he/she undertook activities associated with professionalism. Activities undertaken by members of a profession should include, among others, maintenance and development of an individual knowledge base, ensuring continued competence levels (Hatcher and Aragon, 2000). Possession of a current knowledge base and the ability to research new developments via methods such as benchmarking and networking are widely acknowledged as key determinants in the adoption of innovation (Sanchez *et al.*, 1999). The same is true for the HR department. Considering that knowledge is the prime source of innovation or the motivation for innovation, one can argue that companies that have the cognitive knowledge of employees accumulated through academics act as a stimulus for innovation.

Awamleh (1994), in his study on the civil services of Jordan, tested the relationship between education and managerial innovation. The results from the regression reveal that there is a positive relationship between innovation and education of the staff and the management. However, the degree of this interdependence is not clear, as it depends on the cultural and vocational conditioning of the staff. Som (2002) reported from his study of Indian organizations that the role of the HR department was positively related to organizational performance and the HR department played a significant role in the adoption of 'best practices'. For example, in the knowledge intensive industry, such as Information Technology and IT related services, the Software Engineering Institute (SEI) at the Carnegie Mellon University (CMU) developed the People Capability Maturity Model (PCMM) to integrate technology and people processes in 1995. This was a SHRM exercise for HR development specifically targeted towards personnel involved in software and information systems development. The adoption of PCMM in organizations entailed to help organizations integrate workforce practices into a system to facilitate management involvement in their development. PCMM involved five levels, each level consisting of 3–7 KPAs (key process areas) that aimed at achieving workforce capability enhancing goals. At each level, process areas created an inter-linked system of processes, which would transform the capability of the workforce and result in attaining organizing capability. The emergence of PCMM in India was attributed to high attrition rates in the software industry, which was booming

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in the late 1990s. Companies such as Wipro were doubling its workforce every two years and employee retention became a major concern for many IT companies. Starting the process of implementing PCMM in 1999, Wipro, at the end of 2001 could attain PCMM Level 5 certification. This adoption of PCMM helped Wipro not only in implementing change management effectively throughout the organization, but it also achieved its organizational goal of integrating its HR with its business development and strategic objectives. It also helped Wipro achieve increased productivity and current skill sets. With the new capability development, Wipro was in a position to adapt better to rapid changes in the Indian information technology environment.

However, it is worth mentioning that employees if not taken care of, will utilize the industry cluster through networking in order to gain access to other companies where their innovative ideas would be adopted quickly for better rewards. It becomes imperative for companies to recognize such employees and retain them to gain competitive advantage. For example, the International Technology Park in Bangalore, Hyderabad, had self-contained power facilities, modern gymnasiums, food courts and other amenities. Narayan Murthy, Chief Mentor of Infosys, understood the adoption of SHRM practices from the very beginning. He said,

> My employees seek challenging opportunities, respect, dignity and the opportunity to learn new things. I keep telling them that my assets are not this building, the business or foreign contact. My assets, in 2001 – all 8000 of them – walk out the gate every evening and I wait for them to come back to me the next morning.

To retain talent, Infosys issue stock option as early as 1997. By 2001, Infosys had about 2000 rupee-millionaires and more than 213 dollar-millionaires. In 2006, Infosys has about 52,715 employees, predicted to grow to over 75,000 by 2007. Thus, in the Indian context:

Proposition 5: The more professionally managed is the HR Department, the greater is the strategic role of the HR Department in terms of its ability to identify, develop and manage support resources and greater is the likelihood of adoption of SHRM practices.

Conclusion

This study provided valuable insights into the adoption of innovative SHRM practices in Indian organizations. Consistent with prior research, the study finds that institutional pressures have influenced the adoption of SHRM practices in the post liberalization scenario in India. It demonstrated that organizations adopt SHRM practices for a variety of reasons. The antecedents of innovative SHRM practices include national environment (extent of unionization and sector characteristics, technological sophistication), organizational restructuring and ownership structure, legitimizing driver (use of international consultants), organizational culture and the role of HR department.

The theoretical contribution of this article is that it analyses drivers of adoption of innovative SHRM practices within Indian firms due to changes occurring in the macro-environment through a contingency-based framework. Adoption of SHRM practices, represent a strategic choice. The adoptions are contingent upon the strategic and systemic organizational responses of Indian firms. Strategic responses related to the changes in business strategy of the organization. It became evident that as the country liberalized the rules of the game changed as well. Systemic responses are those related to organizational structures, functions, cultures and processes. This study focused and adds to the literature

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on drivers of systemic responses and how they translate to the adoption of SHRM practices in Indian organizations in the context of economic liberalization.

The article pointed out that though the institutional environment is specific to the Indian context the propositions are not. With respect to HRM practices, the question for researchers and practitioners is two fold: how generalizable are these propositions, and what is the value of them?

The propositions of this study are close to those found in the literature meant for developed economies (Kimberly, 1981; Kossek, 1987, 1989; Gooderham *et al.*, 1999; Walston *et al.*, 2001; Wolfe, 1995) and therefore may be relevant to most sectors and industries anywhere in the world wherever there is a competitive market or a movement towards it. The propositions are grounded in managerial innovation and SHRM literature. Due to paucity of studies in innovative SHRM practices, more research is needed to test for generalizability of the hypothesis. It seems that there are fairly strong logical reasons why these practices may have wide relevance in liberalizing economies.

In the post-liberalized India, a hyper-competitive business environment presented a number of challenges and opportunities, both external and internal. External challenges and uncertainties included barriers that were difficult to control. Internal challenges like dramatic advances in technology, changing of organizational forms necessitated redesigning of SHRM practices like recruitment and selection, promotion, retraining and redeployment, performance appraisal and rightsizing. The globalization of business brought with it a global workforce and practiced that needed to be adopted and diffused to create a global work place. It is true that adoption of innovative SHRM practices in organizations take place at a slow pace and some innovations are particularly slower than others are. Potential payoffs, cost of adoption, power relations and social factors hinder adoption process in organizations and more so in a liberalizing economy. Successful adoption, diffusion and implementation of SHRM practices can be critical determinants for organizational success and effectiveness. When innovative SHRM practices are adopted, they provide a sustainable competitive advantage depending on how creatively and effectively they are interpreted and executed.

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Note

1 According to Section 25(O) of Industrial Disputes Act, 1947, employers are required to take prior permission of the appropriate government for retrenchment of workers where the number of employees was 100 or more.

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