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Progressive human resource management and firm performance: Empirical evidence from Indian context

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Progressive human resource management and firm performance

Empirical evidence from Indian context

Evidence from
Indian context

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Abstract

Purpose – This study aims to examine the adoption and efficacy level of progressive human resource management (HRM) practices in various organizations operating in India.

Design/methodology/approach – Primary data based on 615 respondents from 103 domestic firms and 116 foreign multinational corporations (MNCs) operating in India were gathered and analyzed using statistical techniques like *t*-test, confirmatory factor analysis and structural equation modeling.

Findings – The results reveal that the adoption of progressive HRM practices in form of self-managed teams, flexibility to work flexible hours, use of online mediums to invite applicants, selection of candidates using assessment center and integrity test, performance based incentives, flexible benefits, facility of e-learning and innovative management development programs is positively related to firm performance in Indian context. Using institutional and cultural perspective, the findings have also demonstrated that their exist differences in adoption of progressive HRM practices between foreign MNCs and domestic firms.

Practical implications – Domestic firms in India are needed to learn some important managerial lessons from the foreign MNCs, especially when their adoption of progressive practices results in more increase in firm performance. These are suggested to implement a broad range of innovative HR practices like MNCs to improve growth potential, instead of focusing on two or three practices.

Originality/value – By exploring the differences between domestic and foreign MNCs, this study has offered some key insights on the extent of adoption and operationalization of progressive HRM in current Indian business environment.

Keywords India, Firm performance, Domestic firms, Foreign MNCs, Progressive HRM

Paper type Research paper

Introduction

Since the triggering of liberalization and economic restructuring programs in 1990s, India has witnessed a remarkable growth (Som, 2008). With this outstanding progress, the issues pertaining to increased globalization, ever changing customer and investor demands, and heightened competition to generate innovative products and services have become the standard backdrop for the organizations operating in India (Budhwar, 2012). Organizations have now realized that to manage these issues, they have to constantly increase their performance through reduction in various costs, improvement in quality of products, and differentiation in their products and services. In the opinion of Subramaniam and Youndt



(2005), an organization's ability to improve its performance while developing continuously very much depends upon its "human capital". Further, [Bhatnagar \(2006\)](#) has opined that organizations in India are increasingly becoming aware of "human capital" as their most important asset in contrast to the technology, IT infrastructure, and the large-scale operations that can no longer be considered as effective tools for gaining an edge over competitors for a long time. This shifted focus on "human capital" has directly impacted the functioning of HR departments in Indian organizations which, in turn, have responded back with development of a domestic workforce proficient in facing the challenges brought forth by the entry of foreign multinational corporations (MNCs) in Indian market ([Budhwar and Bhatnagar, 2009](#)).

In recent years, HR professionals and academic researchers have vigorously begun to consider about the contribution of their researches to the success of the organizations ([Vanhala and Stavrou, 2013](#); [Jackson *et al.*, 2014](#); [Schuler and Jackson, 2014](#)). These professionals have now fully recognized that the traditional methods and solutions they have relied upon for a long period to resolve problems related to "human resources (HR)" can no longer be considered as effective. All over the globe, organizations are seeking innovative approaches and perspectives to ensure survival and growth in this highly competitive and dynamic environment ([American Management Association, 2010](#)). There are evidences that in India too, organizations are linking innovative approaches to human resource management (HRM) with an aim to enhance the organizational productivity while sustaining a competitive advantage ([Som, 2006](#); [Guchait and Cho, 2010](#)). It has been observed that these kind of employee-centered innovative approaches to organizational effectiveness and profit-maximization are traditionally being distinguished as Western managerial paradigms ([Brewster, 2007](#); [Zhu *et al.*, 2007](#)) reflecting the organizational and cultural characteristics of Western societies ([Parry *et al.*, 2008](#)). Further, the cross-cultural management comparisons have reflected India as a huge cultural island with less potential for regional synergies in HRM ([Budhwar and Varma, 2011](#)). According to [Saini and Budhwar \(2008\)](#), the nature of HRM function in local Indian firms has not much evolved beyond the traditional personnel management and it still has a solid influence of indigenous management practices. Hence, at this point of time, when foreign MNCs are entering at a very fast pace in India, it would be very significant to know the extent of the differences in acceptance of these progressive/innovative HR practices in various organizations operating in Indian context.

Several researchers have already tried to investigate the acceptance and effectiveness of these employee-focused innovative approaches in Indian context ([Som, 2006, 2008](#); [Jain *et al.*, 2012](#); [Kundu and Gahlawat, 2016a](#)). By naming these novel approaches to HRM as "innovative HRM practices" or "HRM innovations", the scholars have subsequently revealed the significant effects of these HR practices on various performance measures ([Agarwala, 2003](#); [Som, 2008](#)). However, till now, no study has attempted to empirically examine the acceptance and effectiveness of these innovative practices while making a comparison between foreign MNCs and domestic firms operating in India. In a recent study, [Nair *et al.* \(2015\)](#) have acknowledged this gap by suggesting that substantial work is required that could examine the preference for administrative innovations by Indian domestic firms, especially for incremental instead of radical innovation. In addition, it is also required to investigate whether foreign organizations are more effective in managing innovations across subsidiaries than indigenous Indian organizations. Being the very first of its kind, the current study is set to examine the significant differences in adoption of these novel HRM practices on the basis of ownership by re-conceptualizing these HR practices under the term "progressive HRM practices". Another contribution of our study lies in examining the

universal adoption of progressive HRM practices by establishing the effectiveness of these progressive HRM practices in enhancing the firm performance across all organizations in India. Further, the study has also tried to shed a light on the significance of contingency perspective by further testing the research model on two sub-samples (i.e. foreign MNCs and domestic firms).

Literature review and hypotheses development

Progressive human resource management practices

Against the backdrop of heightened liberalization and privatization of Indian economy in last seventeen years, a great upsurge has been observed in Indian industrial sector. Escalating number of foreign MNCs, rising competition for talent, and highly unpredictable markets are some of the leading factors that have made it mandatory for the organizations in India to be open to the prospect of innovation (Budhwar, 2012). Jain *et al.* (2012) believe that India has emerged as one of the leading “innovation powerhouse” of this century. These rapid advancements in business sectors have forced HRM function in organizations to think outside of the box. The major tasks for HR practitioners have been to take HRM initiatives that can generate and refine their intellectual capital assets to their best and, in turn, can facilitate in improving the firm performance (Swart and Kinnie, 2010). All these factors have brought up Western innovative management practices in front and traditional management practices to the background in Indian organizations.

In HRM literature, the emergence of Western management practices as a system has been acknowledged by various names. Table I gives a brief overview about the evolution of various HRM systems in last three decades. Depending on the dominant theme or orientation around which these HRM practices as a system revolve, authors have defined the system by various terms such as “high performance work system” (Way, 2002; Boxall, 2012; Chang, 2015), “high commitment system” that has recently penetrated in Indian organizations (Singh *et al.*, 2016), few as “progressive HRM practices” (Wright *et al.*, 2005; Rao, 2016; Kloutsiniotis and Mihail, 2017). Some have simply labeled them as “newly introduced HR practices” (Stirpe *et al.*, 2015). Posthuma *et al.* (2013) have addressed the novelty in HRM with an inventory of 61 progressive HRM practices, including, decentralization in work structure, incentive compensation, innovative staffing practices, and retention management.

In Indian context, Agarwala (2003) and Som (2006) have addressed this transformation of HRM practices from conventional to novel as “innovative HR practices”. Som (2006) has even provided a good conceptualization regarding these practices. He has defined these practices as:

Intentional introduction or new transformation in HRM programs, policies, or practices or system that have capability to influence employee attitudes and organizations and also have the potential to provide base for strategy formulation and implementation.

Later on, Jain *et al.* (2012) have acknowledged these initiatives as “HRM innovations”. In their opinion, HRM innovations are basically ideas, practices or systems that are solely related to HRM function and are new to the adopting organizations. Considering these various labels and conceptualizations, we settled on adopting the acronym “progressive HRM practices” for the new HR practices in Indian organizations. In addition, in our study, progressive HRM practices are conceptualized as “the incremental improvement in existing HRM practices of an organization which can certainly be perceived as new by the employees in that organization”.

Table I.
Emergence of HRM systems in relation to the effects on firm performance

Dominant theme	Principal HRM practices involved	Source of origin	Research studies further validating the core theme
Strategic HRM practices	HR practices alignment with business objectives and strategies, line management development and line management training in HR practices, selection, performance appraisal, training and development system, compensation system, career planning system and employee participation	Boxall (1991)	Wright and McMahan (1992), Miles and Snow (1994); Wright <i>et al.</i> (2001), Green <i>et al.</i> (2006)
Recognition of HRM as a system or bundle	Recruitment and selection, performance appraisals, Training and development, compensation, promotion and reward	Lado and Wilson (1994)	Arthur (1994); Macduffie (1995), Delaney and Huselid (1996); Bowen and Ostroff (2004), Paauwe (2004); Ferguson and Reio (2010)
Best HRM practices	Seven HRM practices including employment security, selective hiring, self-managed teams, contingent compensation, extensive training, reduction in status differential, information sharing	Pfeffer (1994)	Delery and Doty (1996), Pfeffer (1998); Theriou and Chatzoglou (2009)
High performance work system	Selective recruitment, contingent compensation, training and development, performance management, extensive employee involvement	Huselid (1995)	Batt (2002); Den Hartog and Verburg (2004); Combs <i>et al.</i> (2006)
High commitment work system	Extensive training, competitive pay, job security, group performance-based pay, participatory decision-making, and internal promotion	Wood and de Menezes (1998)	Collins and Smith (2006); Xiao and Björkman (2006); Kim and Wright (2010)
High Involvement work practices	Employee suggestion and recognition actions, quality improvement (QI) teams, job enlargement/job enrichment, self-managing teams, flexible work hours, employee self-scheduling, shared governance, and incentive based/merit pay	Wood (1999)	Guthrie (2001); Guthrie <i>et al.</i> (2002)
Ability-motivation-opportunity enhancing HR practices	Job description, structured procedures for selection, job based skill training, formal performance appraisal, linking pay to performance, incentive plan, employee participation in decision making, formal grievance procedure, job enrichment	Appelbaum <i>et al.</i> (2000)	Bosselie <i>et al.</i> (2005), Purcell and Hutchinson (2007); Subramony (2009)

(continued)

Dominant theme	Principal HRM practices involved	Source of origin	Research studies further validating the core theme
Innovative/Progressive HRM practices	Recruiting through employee referrals, use of online mediums for recruitment, e-learning, action learning, web conference training, knowledge sharing, outbound training, smart goal setting, 360 degree performance feedback, self-appraisal, management development programs, performance potential matrix	Ichniowski and Shaw (2003)	Som (2006, 2008) , Jain et al. (2012) , Rao (2016)
Newly introduced HR practices	Employee suggestion box, competency based appraisal system, work life balance program, self- management teams, mentoring program for high potentials, profit sharing program, use of assessment center in internal selection, international exchange program, conflict management, E-HR services, job rotation	Stirpe et al. (2015)	–

Evidence from
Indian context

Table I.

Basing on this definition, we have adopted a unidimensional construct consisting of a set of novel HR practices under the term “progressive HRM”.

Adoption of progressive human resource management practices

Owing to the increasing importance of progressive HRM practices in the rapidly changing knowledge-based economies like India, it would not be a surprise if researchers and practitioners show their increased interest in knowing the current status regarding the adoption of these progressive HR practices in Indian organizations. As stated in previous section, with an understanding of the importance of progressive HRM practices in need of the hour, organizations in India are imitating their Western counterparts in embracing novel HR practices like self-managed teams, self-appraisal, staff suggestion schemes (Cooke and Saini, 2010). Few authors have claimed that considering novel/progressive HR practices as effective tools of management (Siddiqui, 2007; Hewitt, 2010), now-a-days, Indian companies selectively offer progressive HRM practices such as stock options, merit-based pay, work life balance including flexible work schedules and part-time jobs, which were earlier not commonly practiced in India (Ramamoorthy *et al.*, 2005). By becoming responsive to contemporary norms while switching away from culture specific traditional practices, such companies are turning up as powerful change agents (Ulrich *et al.*, 2012).

It can be assumed that these adoptions are in accordance with the institutional perspective which is based on the notion that in period of uncertainty and intense competition, organizations follow the patterns exhibited by successful organizations (Wright and McMahan, 1992). Som (2006) has also found that local organizations in India are rapidly catching up with MNCs operating in India by focusing particularly on innovative HR practices. However, he is certain that factors like cost of adoption, established power relations and potential payoffs play hindrance in successful adoption of these practices which ultimately slow down the pace of adoption in Indian organizations. A recent study by Rao (2016) has also reported that companies operating in India are offering progressive HRM practices broadly identified as elaborate staffing, investment in learning, work–life balance, egalitarian practices, developmental performance culture, generous benefits, and engagement initiatives.

Prior studies investigating the HR practices in Indian domestic firms (Rao, 2007, 2016; Saini and Budhwar, 2008; Som, 2012) have highlighted that HR practices in our local firms are strongly influenced by the factors which are predominantly sociocultural, political and economic in nature. India is well known for being a cultural island where characteristics like high collectivism and high power distance (Kundu and Gahlawat, 2012) are deeply rooted (Budhwar and Khatri, 2001). It is being seen that on many occasions, HRM decisions pertaining to individual reward or employee selection are made more on the grounds of socio-political connections or personalized relationships rather the employee’s competence in job tasks (Kundu and Malhan, 2009; Tymon *et al.*, 2010). Further, Gomes *et al.* (2015) have also stated that the hierarchical nature of Indian society compels the local firms to continue with their indigenous HR practices instead of the adoption of progressive HR practices since it is very difficult to challenge the authority of higher position holders.

On the contrary, foreign MNCs who wish to expand their businesses by opening subsidiaries in emerging economies, somehow, remain insulated from the pressures to adapt their management practices to local cultural and political norms. It may be because of their strong global standing which provides them a good amount of autonomy in promoting new structures and Western HR practices rather than the wasting resources in responding to the local pressures (Kostova *et al.*, 2008). MNCs are acknowledged as “haulers of globalization” all over the globe, the intense pressure to preserve a single corporate culture and common

strategy throughout their subsidiaries encourage them to sustain internal consistency among HR practices and it differentiates them from local organizations in terms of the adoption of various HR practices (Martin and Beaumont, 1998). Through a study of innovative HR practices in 74 Chinese SMEs, Zheng *et al.* (2009) have indicated that adoption of innovative HR practices is significantly influenced by ownership in Chinese organizations. Their study has revealed that the cluster comprised of joint venture and foreign owned firms have adopted a broad range of HR practices such as free-market selection, provision of social benefits, training and development, performance based compensation and evaluation, increased role of trade unions, and employee empowerment in comparison to the clusters of local firms who have adopted only two or three innovative HR practices. Considering these studies, we anticipate the differences in adoption of progressive HRM practices between domestic firms and foreign MNCs operating in India. Specifically, we hypothesize that:

- H1. There is a significant difference in adoption of progressive HRM practices between domestic firms and foreign MNCs operating in India.

Progressive human resource management practices and firm performance

Though adoption of progressive HRM practices can be theoretically explained with inclusion of cultural and institutional perspective (Wright and McMahan, 1992; Gomes *et al.*, 2015), we feel that the resource based view of a firm (Barney, 1991) in compliment with these perspectives fits in explaining how adoption of progressive HRM practices contributes to firm performance. The resource based view of a firm advocates that development of resources that can be specified as rare, unique, in-imitable, valuable, and non-substitutable helps a firm in achieving competitive advantage in long run (Barney, 1991). In line with this view, Teece *et al.* (1997) have argued that “human resources” of an organization are capable to possess all these four characteristics. Later, Mathis and Jackson (2010) have supported this argument by suggesting that among all the resources available to organizations, “human resources” are the most important ones since they act as an adhesive that holds and binds the other resources together.

It is believed that adopting employee-centered HRM practices helps a firm in generating and developing employees as those unique assets who, in turn, can prove germane to the success and long-term survival of the organization (Armstrong, 2006). In this regard, Boselie *et al.* (2005) and Kundu and Gahlawat (2016b, 2016c) have stated that only with the adoption of bundle or a system of complementary and mutually dependent HRM practices, an organization is able to develop inimitable and valuable human capital within the organization. Adopting a single HR practice cannot be so beneficial, since it is easy to imitate and cannot be directly linked to firm performance. On the same line, Bowen and Ostroff (2004) have offered that HRM practices are socially complex in nature, imitating a complete set of HRM practices will definitely prove a tedious task for competitors and thereby, they offer a unique and irreplaceable value in generating and sustaining comparative advantage for the organizations. Based on these arguments, it is anticipated that adoption of a system of interdependent progressive HRM practices helps Indian organizations in developing their employees as a unique and in-imitable asset which further, assists in enhancing the firm performance and achieving the competitive advantage.

Several studies have highlighted that adopting the bundle of innovative HR practices help organizations in enhancing the firm performance (Kundu and Malhan, 2007; Som, 2008; Zheng *et al.*, 2009; Colakoglu *et al.*, 2016). In a study of US-based firms, Huselid (1995) has effectively shown that the system of progressive HRM practices including work design,

quality of work life programs, profit sharing plans, etc. has positive effects on firm financial revenues. With a survey of 62 automotive assembly plants, MacDuffie (1995) has also examined the impact of HRM bundles on operational performance and found a positive relationship between innovative HRM bundles and operational performance of the automotive plants. Through a study in India, Kundu and Gahlawat (2016c) have reported that the adoption of ability-enhancing, motivation-enhancing and opportunity-enhancing HR practices results in enhanced affective commitment and improved firm performance. Such synergistic combinations of HR practices have comparatively larger impact on firm performance. A recent study on Canadian occupational therapists too reveals that progressive HRM practices comprised of specialized training, fairness in rewards and higher recognition lead to superior employee performance (Valeau and Paillé, 2017).

In this regard, various researchers have suggested the relevance of universalistic perspective regarding strategic HRM. The universalistic perspective is based on the argument that the positive impact of few HRM practices on firm performance is so well established in diverse contexts that HRM practitioners of any organization can undoubtedly adopt these “best practices” to increase their firm performance without giving a second thought to the organizational context (Grünhagen *et al.*, 2014). Similarly, Delery and Doty (1996) have argued that few HRM practices are always better than the other practices in comparison and thus have potential to be established as “best practices”. Once these practices are recognized, all organizations should adopt them regardless of the size, industry, or business strategy. Following the universalistic perspective, we believe that progressive HRM practices have potential to be established as “best practices”. Therefore, we propose the following hypothesis to be tested:

- H2.* The adoption of progressive HR practices is positively related to firm performance across all organizations operating in India.

Methods of study

Sample and data collection

For testing the proposed hypotheses, descriptive research design was adopted in congruence with similar nature of studies. Strategic HRM scholars have suggested that the way an organization embraces progressive HR practices in its working environment; it certainly has impact on employees’ perceptions of the intentions of such practices (Nishii *et al.*, 2008). In addition, these perceptions in turn result in the desired outcomes. Therefore, it would not be unwise if we collect the data from non-HR employees who work specifically at executive level or equivalent. Therefore, the primary data were gathered from non-HR employees via a questionnaire survey approach. The questionnaire was drafted in English language since it is spoken and understood by the majority of people in Indian organizational contexts. To confirm the questionnaire’s items clarity, primary draft of the questionnaire was pre-tested through 150 employees from 11 organizations that are not the part of the current study. We also arranged a meeting with senior HR managers of these organizations before finalizing the content of the questionnaire. The interactions with HR managers helped us in removing the possible deficiencies and accordingly finalizing the questionnaire.

As expounded in the above sections, the organizations operating in India were the lead actors in this study. An exclusive list of 400 organizations was prepared from the database of organizations listed in Federation of Indian Chambers of Commerce and Industry. Then, the senior HR managers of these selected organizations were approached and enquired if their organizations had adopted progressive HRM in recent years. After getting the favorable responses from HR managers of 219 organizations in terms of the PHRM

existence, a set of four questionnaires was then sent to each of these organizations. It was taken care of that the questionnaires were getting distributed specifically to non-HR employees of these organizations with assurance of full anonymity. In total, 615 usable responses were returned with a response rate of 65.8 per cent. Overall, the sample represented various industrial sectors, size, nature, and ownership types. Considering the ownership of the organizations, 103 were domestic firms and 116 were foreign MNCs. The executives sampled from these domestic firms were 291 in number and from foreign MNCs, they were 324. Talking about the nature of the organizations, 101 were manufacturing organizations and 118 were service organizations. In addition, the employees sampled from these manufacturing organizations were 282 in number and from service organizations; the employees were 333 in number. Out of the total sample, 64 organizations had employee unions whereas 155 were not having any sort of employee union. Against gender, 450 were male executives and 165 were females. Taking education into account, 468 were professional postgraduates and 147 were professional under graduates. The sample characteristics are highlighted in [Table II](#).

Measures

Progressive HRM (independent variable). The list of progressive HRM practices associated with firm performance varies accordingly with each research study. Following prior empirical contributions ([Agarwala, 2003](#); [Som, 2008](#); [Jain et al., 2012](#)) and taking into account the proposed definition of progressive HRM practices, we established that the testing of the proposed framework should be sufficient with the integration of 11-item scale specifically adapted from above mentioned studies. Altogether, these 11 items depicted a reasonably broad picture of the progressive HRM practices in organizations. The detailed list of these

Variables	Categories	Number	(%)
1. Ownership organizations	Domestic	103	47.0
	Foreign MNCs	116	53.0
	Total	219	100.0
Managers	Domestic	291	47.3
	Foreign MNCs	324	52.7
	Total	615	100.0
2. Nature organizations	Manufacturing	101	46.1
	Service	118	53.9
	Total	219	100.0
Managers	Manufacturing	282	47.2
	Service	333	52.8
	Total	615	100.0
3. Employee union	Yes	64	35.4
	No	155	64.6
	Total	219	100.0
4. Gender	Male	450	73.1
	Female	165	26.9
	Total	615	100.0
5. Education	Under graduates	147	24.0
	Post Graduates	468	76.0
	Total	615	100.0

Table II.
Sample characteristics

items is presented in Table III. All the 11 items were measured on a five-point Likert scale. The respondents were asked to determine the extent to which these items reflect the status of progressive HRM in their organizations ranging in between “to a very small extent = 1” and “to a very great extent = 5”. The Cronbach alpha for this perceptual measure was 0.84; provided support for the good internal reliability (Hair *et al.*, 2010).

Firm performance (dependent variable). To determine the firm performance of the responding organizations, a seven-item subjective measure was adapted from Khandwalla (1977) and Som (2008) study. Researchers have suggested that in emerging economies, extraction of adequate and reliable financial information is very difficult because of the issues like ambiguity in financial reporting, ineffectual regulatory mechanism, and the dearth of market based financial reporting (Hoskisson *et al.*, 2000). Besides, we have found

Latent constructs	Loadings	Composite reliability	Average variance extracted
<i>Progressive HRM</i>		0.91	0.51
Organization uses online mediums like e-mail, online application forms to invite applicants	0.64		
Organization uses techniques such as assessment center, integrity tests, job tryout procedure for selecting the best candidate	0.72		
Organization provides facility of learning using multiple electronic technologies for the explicit purpose of training and development of employees	0.75		
Organization provides flexible benefits that can be moulded according to diverse needs of employees	0.68		
Incentives received are directly related to performance and contribution at work	0.69		
Organization often uses 360° appraisal systems to evaluate the performance of employees	0.73		
Jobs are designed in a manner that facilitates working in self-managed teams	0.74		
Organization provides flexibility to work flexible hours	0.75		
Organization offers faster promotions (internal) to the employees	0.64		
Organization follows innovative management development methods like stress management programs, leadership and attitudinal training, study leave, programs for women managers, etc	0.74		
Employees are offered an extreme flexible benefit package in form of housing assistance, soft loans, asset acquisition assistance, stock options etc	0.75		
<i>Firm performance</i>		0.92	0.62
Productivity	0.74		
Profitability	0.83		
Customer service	0.75		
Market share	0.76		
Return on equity	0.77		
Financial Strength	0.85		
Revenues/Sales	0.81		

Table III.
CFA Results related to progressive HRM and firm performance

Notes: All the standardized factor loadings were significant at 0.001 level. Model fit statistics: $\chi^2/df = 3.07$; CFI = 0.94; TLI = 0.93; RMSEA = 0.05

that the subjective approach i.e. measuring employees' perceptions regarding firm performance has been used extensively in such studies (Ahmad and Schroeder, 2003; Som, 2008; Zhang and Morris, 2014). Considering this, with a seven item perceptual measure, we asked the respondents to evaluate how their organizations were performing in comparison to the competing organizations over the past three years in the same industry (for items, see Table III). These seven items were measured on a five-point Likert scale ranging from 1 (much lower) to 5 (much higher). The Cronbach alpha for this construct was 0.92; depicted a high internal reliability (Hair et al., 2010).

Control variables. In line with prior studies (Som, 2008; Zhang and Morris, 2014), three variables were determined to be tested as control variables including firm size, ownership, and nature of the organizations. Firm size was measured by asking the number of full time employees in the organizations and then natural logarithm of employees was calculated for each organization. Ownership of the organizations was measured as domestic = 0 and foreign MNCs = 1 and nature of the organizations was assessed as manufacturing = 0 and service = 1.

Common method bias testing

As data on both independent and dependent variables were collected via same respondents, the possibility of common method biasness could not be ignored. Though, some precautions were taken at data collection stage like preserving the anonymity of the respondents and distancing the independent and dependent variable constructs. We further followed latent method factor approach suggested by Podsakoff et al. (2003, p. 894) to observe this problem. Using AMOS (Analysis of moment structures)'s confirmatory factor analysis function, we tested a new model by adding only a single latent construct and loaded all the 18 items on it simultaneously. This model did not fit the data well in comparison to the original model. It suggests that the common method bias in the data cannot be posed as a major threat in this study.

Results

Preliminary data analysis

Both exploratory and confirmatory factor analysis were conducted to validate the two factor structural model proposed in the study. At first, all the 18-items were subjected to exploratory factor analysis (EFA) to determine the pattern of loadings of observed items on their corresponding latent constructs. Using principal components with varimax rotation, the EFA results indicated a 2-factor solution as predicted beforehand, with an explanation of 61.29 per cent variance. To further validate this factor structure, confirmatory factor analysis (CFA) was applied using AMOS version 18. The 18 items were loaded on their expected two latent constructs and the constructs were allowed to correlate. The CFA results demonstrated that all the standardized factor loadings were statistically significant ($p \leq 0.001$) and greater than 0.50 (for details, see Table III). The model-fit indices were chi-square minimum/degree of freedom (χ^2/df) = 3.07 lower than permissible value of 5, comparative fit index (CFI) = 0.94 higher than the acceptable value of 0.90, Tucker Lewis index (TLI) = 0.93 greater than the standard value of 0.90, and root mean square error of approximation (RMSEA) = 0.05 lower than threshold value of 0.08 (Hu and Bentler, 1998). Overall, these indices indicated a good fit in favor of our two-factor structure. Further, in congruence with the guidelines given by Fornell and Larcker (1981), the average variance extracted for both the scales exceeded the value of 0.5 and the composite reliability surpassed the minimum value of 0.7. Altogether, these statistics established the validity and reliability of the scales used in our study context.

Descriptive statistics

Table IV highlights the means, standard deviations, and correlations among the chosen variables for the final analysis. Mean value related to progressive HRM indicated the implementation of progressive HRM practices in organizations operating in India at a moderate level ($\bar{x} = 3.14$). Overall, the correlation values supported the hypothesized linkage between the study variables.

Hypotheses testing

The first hypothesis related to the differences in adoption of progressive HRM practices was tested by performing *t*-test procedure and the second hypothesis related to universal relationship between progressive HRM and firm performance was verified by using structural equation modeling (SEM) via AMOS 18. **Table V** presents the *t*-test values, means, standard deviations and grand means related to progressive HRM scale and its items. The significant *t*-values ($t = -4.65$; $p \leq 0.001$) on overall adoption of progressive HRM indicated the differences in adoption of progressive HRM practices in domestic firms and foreign MNCs operating in India, thus, supporting the *H1*. The perusal of mean scores indicated that foreign MNCs ($\bar{x} = 3.22$) tend to adopt progressive HRM practices relatively more than the domestic organizations ($\bar{x} = 3.05$) operating in India. To provide a clearer picture, *t*-values on all the items of progressive HRM construct were then assessed. The results revealed that out of the 11 items, there were only three items i.e. self-managed teams, flexibility to work flexible hours, and faster internal promotions where no significant differences were found on the basis of ownership. The inspection of mean scores revealed that foreign MNCs adopt all the progressive HRM practices comparatively more than the domestic organizations operating in India (for more details, see **Table V**).

Table VI presents the four alternate models that we derived by running SEM analysis. Model 1 captured the direct effects of progressive HRM on firm performance. SEM results highlighted that the model fitted the data well ($\chi^2/df = 3.07$; CFI = 0.94; TLI = 0.93; RMSEA = 0.05). The direct path linking the progressive HRM to the firm performance was significant ($\beta = 0.53$, $p \leq 0.001$) and 24.6 per cent of the variance in firm performance was explained by the independent variable. We rerun the SEM analysis by adding firm size, ownership, and nature as control variables in the previous model. The results of model 2 demonstrated that adding these control variables as determinants of firm performance provided no significant increase in explained variance. Moreover, it yielded an inferior model fit in comparison to the model without control variables ($\chi^2/df = 3.64$ vs. 3.07, RMSEA = 0.06 vs. 0.05). Though, firm size emerged as a significant indicator in this model ($\beta = 0.03$, $p \leq 0.001$). Overall, these results supported the *H2*.

Further, to get a deeper understanding, we investigated the effects of ownership on relationship between progressive HRM and firm performance, though, the hypothesis was

Table IV.
Means, standard
deviations and
correlations
($N = 615$)

Variables	No. of items	Mean	SD	1	2	3	4
1. Firm size	–	–	–	–			
2. Ownership	–	–	–	0.15***	–		
3. Nature	–	–	–	0.17***	–0.03	–	
4. Progressive HRM	11	3.14	0.46	0.20***	0.18***	–0.04	–
5. Firm performance	8	3.28	0.51	0.19***	0.07	–0.06	0.55***

Note: *** $p \leq 0.001$

PHRM measure with items	<i>t</i> -value	Mean (SD)		Grand Mean	Evidence from Indian context
		Domestic	Foreign MNCs		
Overall adoption of progressive HRM	-4.65***	3.05 (0.51)	3.22 (0.39)	3.14 (0.46)	
Online mediums like e-mail, online application forms to invite applicants	-2.12*	3.61 (0.92)	3.77 (0.88)	4.13 (0.90)	
Techniques such as assessment center, integrity tests, job tryout procedure for selecting the best candidate	-3.55***	3.65 (0.83)	3.89 (0.84)	3.77 (0.85)	
Facility of learning using multiple electronic technologies for the explicit purpose of training and development of employees	-3.62***	3.57 (0.87)	3.79 (0.65)	3.69 (0.77)	
Provision of flexible benefits that can be moulded according to diverse needs of employees	-4.14***	3.64 (0.97)	3.92 (0.70)	3.79 (0.85)	
Incentives received are directly related to performance and contribution at work	-4.31***	3.32 (0.96)	3.63 (0.76)	3.48 (0.92)	
360° appraisal systems to evaluate the performance of employees	-4.07***	3.31 (1.06)	3.63 (0.86)	3.48 (0.97)	
Jobs are designed in a manner that facilitates working in self-managed teams	-0.34	3.47 (0.97)	3.50 (0.94)	3.48 (0.95)	
Flexibility to work flexible hours	-0.51	3.47 (0.89)	3.48 (0.75)	3.47 (0.82)	
Faster promotions (internal) to the employees	-1.21	3.71 (0.87)	3.80 (0.86)	3.76 (0.87)	
Innovative management development methods like stress management programs, leadership and attitudinal training, study leave, programs for women managers, etc	-2.59**	3.58 (0.91)	3.77 (0.91)	3.68 (0.91)	
Flexible benefit package in form of housing assistance, soft loans, asset acquisition assistance, stock options etc	-3.30***	4.04 (0.68)	4.22 (0.66)	4.13 (0.67)	

Notes: *** $p \leq 0.001$; ** $p \leq 0.01$; * $p \leq 0.05$; df (degree of freedom) = 613; SD stands for standard deviation (highlighted in parentheses)

Table V.
t-Test results related to progressive HRM

	Model 1 (<i>N</i> = 615)	Model 2 (<i>N</i> = 615) with controls	Model 3 (<i>N</i> = 291) Domestic firms	Model 4 (<i>N</i> = 324) Foreign MNCs
<i>Model variables and statistics</i>				
Progressive HRM	0.53***	0.51***	0.45***	0.68***
<i>Controls</i>				
Firm size	–	0.03***	–	–
Nature	–	-0.03	–	–
Ownership	–	-0.05	–	–
<i>R</i> ²	24.6	24.3	17.9	37.8
<i>Model test statistics</i>				
χ^2 /df	3.07	3.24	2.38	2.97
CFI	0.94	0.92	0.93	0.92
GFI	0.93	0.91	0.92	0.90
TLI	0.93	0.91	0.93	0.91
RMSEA	0.05	0.06	0.07	0.07

Table VI.
Alternate model test results related to progressive HRM and firm performance

Note: *** $p \leq 0.001$

not formulated for this part. We executed separate SEM analyses on the two sub-samples i.e. on domestic firms ($N = 291$) and on foreign MNCs ($N = 324$). As indicated in [Table VI](#), the results for these two sub-samples in terms of path coefficients and model fit indices provided the additional validity to our research model. On comparing these two models, we found that progressive HRM explained more variance in firm performance in case of foreign MNCs than in domestic firms ($R^2 = 37.8$ vs 17.9). Similarly, it had superior β coefficient in case of foreign MNCs than in domestic firms ($\beta = 0.68$ vs 0.45). These differential statistics supported the worth of measuring the research model on two sub-samples. In all, the results simply indicate that the role of ownership of an organization cannot be ignored in linkage between HR practices and firm performance.

Discussion

In the present study, the efforts are mainly concentrated on a system of novel HR practices, referring them to as progressive HRM practices and have studied them across organizations operating in India. The so-called investigation has been inspired by the dearth of studies explaining the degree to which various organizations have adopted progressive HRM practices while establishing the similarities or differences in context of local and MNCs operating in India. Moreover, it is also not clear that whether these practices are equally effective in both the contexts when adopted. The findings of our study contribute to a rising stream of research studies whose main objective lie in examining the adoption and effectiveness of Western philosophies like ours in emerging economies from the cultural and institutional perspective ([Som, 2012](#); [Gomes et al., 2015](#); [Colakoglu et al., 2016](#)).

Using a sample of 103 domestic firms and 116 foreign MNCs operating in India, the results have confirmed that progressive HRM practices are being adopted and can be effective in the context of countries like India. Though, there exist differences in adoption of progressive HRM practices between domestic firms and foreign MNCs operating in India. The t -test and mean results have highlighted that foreign MNCs put into use progressive HRM practices such as attracting the candidates using online mediums, selecting the candidates using techniques like assessment center, integrity test, performance based incentives, flexible benefits, facility of e-learning, innovative management development programs and provision of diverse social benefits comparatively more than the domestic firms. Similarly, studies in other country context have also reported that MNCs are stronger in adoption and practice of HR practices than domestic companies. Through a survey in Spanish manufacturing industry, [Bayo-Moriones and Galdon-Sanchez \(2010\)](#) have provided empirical support for our finding by revealing that MNCs manage human resources in a way too different than non-MNCs. Their results have confirmed that the degree of adoption of progressive HRM practices in Spanish non-multinational firms is substantially lower in contrast to the subsidiaries of multinational companies operating there. In a study of 74 Chinese SMEs too, the adoption of innovative HR practices is found to be significantly influenced by ownership ([Zheng et al., 2009](#)). The study has demonstrated that the cluster primarily consisted of joint venture and foreign owned firms has adopted a broad range of progressive HRM practices including, free-market selection, provision of social benefits, training and development, performance based pay, performance evaluation, role of trade unions and employee involvement in decision-making in comparison to the cluster comprised of domestic enterprises who has adopted only two or three HR practices mainly, free market selection, performance-based pay, and employee involvement in decision making.

A straightforward answer to these differences lies in the prevailing local and institutionalized management norms and principles in the region ([Mayrhofer and Brewster, 2012](#)). [Lertxundi and Landeta \(2011\)](#) findings have supported this argument by indicating

that these kind of progressive HRM practices are more suitable to be adopted by the organizations that belong to countries with high individualism, low power distance, low uncertainty avoidance, and high masculinity. It is, therefore, following their country culture, foreign MNCs in India more freely adopt progressive practices than domestic firms who are still bound by the traditional cultural norms. Moreover, MNCs, in pursuit of success, try to follow progressive *etic* (open and culture free) HR practices instead of traditional *emic* (conservative and culture bound) HR practices bound to high power-distance, hierarchical and gender egalitarianism (Budhwar, 2009).

An interesting finding is that on three items i.e. self-managed teams, flexibility to work flexible hours, and faster internal promotions, no significant differences have been found between domestic firms and foreign MNCs. It may be because of the intense competition for scarce talent between the organizations which has forced the domestic firms to adopt these practices to at least at an equal level with foreign MNCs for survival. Further, on the basis of grand mean scores, it can be put forward that, in addition to the practice of incentives based on performance, use of online mediums like e-mail, online application forms to invite applicants and facility of learning using multiple electronic technology are the highly adopted progressive HRM practices in the organizations operating in India. The potential reason behind this finding is that being low on uncertainty avoidance (Hofstede, 2001), Indian culture may be more conducive to technological interventions than the behavioral ones and hence, results in higher adoption of technology related progressive HRM practices. Further, practices like flexible benefits as per needs and flexible social benefits package in the form of housing assistance, soft loans, stock options, etc. are also highly adopted. Similar results are also reported by other Indian studies (Ramamoorthy *et al.*, 2005; Som, 2006; Rao, 2016). Interestingly, various employee benefits are offered by large Indian companies to cultivate a family environment within the organization which are accepted and valued by Indian collectivist culture (Gannon and Pillai, 2010).

Theoretical implications

An important contribution of our study lies in establishing the universal adoption of progressive HRM practices in relation to firm performance across organizations operating in India. The findings are in line with Som's (2008) study of 69 Indian firms where it has been demonstrated that the bundle of innovative HRM practices including the role of the HR department, selectivity in staffing, and incentive compensation is positively related to perceptual measures of organizational performance. The positive impact on firm performance of progressive HRM practices strengthens the resource-based view of the firm in Indian context. It means that organizations in India are adopting progressive HRM practices to establish their human resources as most valuable assets and that has directly resulted into enhanced firm performance. It depicts that Indian conventionally conservative and controlling approach to manage employees is consistent with the cultural values prevalent in this region cannot constrain progressive HRM practices from taking effect.

However, our supplementary analysis (performing SEM on two sub-samples separately) have indicated that progressive HRM practices have explained a much better variance in case of foreign MNCs (37.8 per cent) than the domestic firms (17.9 per cent) operating in India. This finding has hinted towards the prevalence of internal or external contingencies in progressive HRM and firm performance relationship. Perhaps, it is not an easy task to establish the universality of Western HRM philosophies such as ours, researchers have to keep in mind the social and endowment features differing between cultures, institutions and organizations.

Managerial implications

The present comparative study on the adoption and effectiveness of progressive HRM practices in Indian context contributes to a better understanding of the differences between domestic firms and foreign MNCs in operationalization of progressive HRM practices. The key findings of the study have presented some remarkable implications for HRM practitioners as well as decision makers in Indian context. In the main, the study gives strong indication that investments in creating and adopting well aligned and mutually dependent sets of progressive HRM practices especially including self-managed teams, flexibility to work flexible hours, faster internal promotions, using online mediums to invite applicants, selecting the candidates using techniques like assessment center, integrity test, performance based incentives, flexible benefits, facility of e-learning, innovative management development programs and provision of diverse social benefits will help in enhancing the value of the human capital and thereby, will prove advantageous for both local firms and foreign MNCs operating in India.

By highlighting the more successful adoption and effectiveness of progressive HRM practices in foreign MNCs operating here, the study recommends that despite the high complexity and uniqueness of Indian culture, business environment in India has become highly conducive for the adoption of global Western HRM policies. Perhaps, the major attribute behind this is the increasing exposure of Indian managers to the Western education system and their way of living, along with the extensive use of English language (Budhwar and Bhatnagar, 2009). The readiness of Indian culture to accommodate the Western HRM systems definitely has important implication for HR practitioners in foreign MNCs. Their dilemma to implement the agreed goals, core values, and philosophies prevailing in their company headquarters versus the need to make adjustments in progressive HRM policies to suit the local Indian environment will be decreased now and they will have to put fewer efforts and lesser resources in attuning the organization's culture and values to the outside environment. However, domestic firms still need to learn some important managerial lessons from the foreign MNCs, especially when their adoption of progressive practices results in more increase in firm performance. Domestic firms in India should concentrate on implementation of a broad range of innovative HR practices like MNCs to improve growth potential, instead of focusing on two or three practices. Researchers have shown that MNCs are used to follow progressive international HRM practices for gaining competitive advantage (Buyens and de Vos, 1999; Kohont and Brewster, 2014). In all, we can say that the results of our study hold importance to other host nations sharing the similar cultural characteristics as India, as well as for MNCs who seek to enter in emerging economies in near future.

Limitations and future research directions

In light of certain limitations, the current study provides some directions for future researchers and scholars interested in extending our work. The very first limitation pertains to the use of subjective data based on personal judgments for measuring the firm performance. Although researchers have suggested the use of subjective data in the situation of absence of objective data (Delery and Doty, 1996), it is advised that future researchers should consider some secondary data sources as well, to achieve the higher reliability in measuring firm performance. Another limitation is that the current study is cross-sectional in nature. To obtain more reliability in casual relationships, future scholars are suggested to replicate our model while adopting the longitudinal design. One more point of concern is that data have been collected through a single self-reported questionnaire. Though, necessary precautions suggested by Podsakoff *et al.* (2003) have been followed both

at the time of data collection and analysis, future scholars can substantially avoid this problem by designing separate questionnaires for independent and dependent variables or by introducing a time lag at the point of measurement of these variables.

Through our supplementary analysis, we have hinted that the contingencies might play a significant role in HRM practices-performance relationship. Future studies should try to examine the contingency perspective while testing the relationship between progressive HRM practices and firm performance. Business strategies, nature of firms, innovative work behavior, presence of trade unions, etc. can be regarded as some important environmental moderating variables. Another point is that our study has only verified the direct effects of progressive HRM practices on firm performance; future studies should check indirect effects too by testing the role of mediators in this relationship. For testing the indirect effects, future researchers may try some important variables as mediators like trust, motivation, organizational citizenship behaviour, employee engagement, affective commitment, etc. (Kundu and Gahlawat, 2016c). In the end, we can say that the present study has succeeded in providing evidences from an important emerging economy while establishing progressive HRM as a key driver of firm performance.

Conclusions

The present study purports to examine the adoption and efficacy of progressive HRM practices in various organizations operating in India. Through a sample of 615 respondents belonging to 219 firms including 103 domestic firms and 116 foreign MNCs operating in India, the study has demonstrated that there exist differences in the adoption and operationalization of progressive HRM practices between foreign MNCs and domestic firms. Specifically, the results have revealed that out of the 11 items on progressive HRM, there are only three items, i.e. self-managed teams, flexibility to work flexible hours, and faster internal promotions where no significant differences have been found on the basis of ownership. Other important revelation is that the adoption of progressive HRM practices is positively related to firm performance across various organizations operating in India. At the end, we can infer that the study has justifiably filled the research gap regarding the dearth of studies examining the extent of administrative innovations in Indian context.

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Evidence from
Indian context

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