

# Organization Strategy & HR Practices Link: Exploring Applicability in Indian Context

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## ABSTRACT

*The different combinations of tangible resources which firms had traditionally been using to gain a sustainable competitive advantages have recently given away to the use of intangible ones which are rare, path-dependant and difficult to copy. Notable among these choices are human resource systems which have gained prominence due to technical, social and structural changes. It has reliably been established that synchronization of these people strategies with the firm strategies leads to superior firm performance.*

*This article reviews the theoretical links between firm strategy and different normative human resource management practices and explores the degree of linkage between theory and practice in a medium sized manufacturing organization in eastern India through a case study. The extent to which high performance work systems could be applied in that setup was also examined.*

*The study finds the presence of a very weak linkage between strategy and the human resource (HR) practices (along with marginal line manager involvement). It also finds that the mundane level of existing human resource practices lack the sophistication of sustaining a well knit high performance work system.*

### *Firm Performance and Human Resource Management (HRM) Approach*

#### *Traditional Focus*

The earlier thinking about firm performance, influenced by Porter (1980), was that the returns to firms were determined by the structure of the industry within which a firm was embedded and factors like barriers to entry, the number of firms and their size, the existence and degree of product differentiation and finally the elasticity of demand determined firm returns. Therefore this view puts emphasis on the external scenario affecting the firm and indirectly encourages the formation of strategic groups to alter or exploit the industry structural attributes to generate higher returns.

#### *The new approach*

In contrast to the previous external approach, firms are now seeking to choose strategies that leverage their individuality and uniqueness in order to

differentiate themselves from the competitors so that it could lead to relatively high levels of economic return.

In this context Pfeffer (2005) argues that sources of competitive advantage have shifted with time and presently this crucial differentiating factor is the way how people work in an organization. Thus, the accent is now on the design of appropriate human resource systems which meets the criteria of a 'resource', which means, that these are rare, path-dependant and difficult to copy (Twomey & Harris, 2000). This new emphasis stresses on the ability of these 'people policies' or human resource management (HRM) policies to meet the strategic objectives of the firm by eliciting appropriate behavioral responses from the employees.

### Organization Strategy and Relation with HRM

#### HRM & Strategic Human Resource Management (SHRM)

The enlargement of the role of human resource management in an organization by anchoring it to the

strategy of the firm thereby giving it a more macro-organizational approach results in SHRM (Butler et al., 1991). In other words it is the degree to which human resource management is integrated with the strategic decision-making processes and this is the key difference between the traditional concept of human resource management and strategic human resource management (Buller & Napier, 1993; Guest, 1987; Schuler & McMillan, 1984; Schuler, 1987).

The essential feature of SHRM is that it is a set of integrations; vertically, (HRM) with the strategy of the firm (Golden & Ramanujam, 1985) and horizontally, achieving coordination and congruence among the various HR practices (Baird & Meshoulam, 1988). This therefore results in creating a set of internally consistent policies and practices that ensures that a firm's human capital contributes to the achievement of its business objectives (Schuler & MacMillan, 1984).

#### *High Performance Work Systems (HPWS)*

Reflecting this changed orientation, towards the human element, the recent trend in human resource (HR) research has focused on high-performance work systems (HPWS). This is a term used to denote a system of HR practices designed to enhance employees' skills, commitment, and productivity in such a way that employees are motivated in giving their best and become a source of sustainable competitive advantage (Lawler, 1992; Pfeffer, 1998). Through information sharing, and participatory mechanisms, this system enhances prospects for spontaneity and innovation leading to better firm productivity (Wright & Snell, 1999), and enhanced employee retention. (Arthur 1994; Huselid 1995; Shaw et al. 1998).

Some such practices are rigorous selection procedures, internal merit-based promotions, grievance procedures, cross-functional and cross-trained teams, high levels of training, information sharing, participatory mechanisms, group-based rewards and skill-based pay.

#### *Devolution*

Apart from the need to integrate human resource management practices with the corporate strategy, Brewster & Larsen (1992) argue that it is also necessary to give greater responsibility (or devolve) to the line managers than the human resource (HR)

specialists for managing HR issues at the lower levels. The logic of this argument is that it is the line managers, and not the specialist staff functions that are in constant contact with the employees. Therefore providing them with the authority and responsibility to control and reward the employees, adds to their effectiveness. This is also in conformity with the additional importance of the line manager, that, by allocating time and energy to the development of subordinate staff, he or she is investing in the enhanced effectiveness and future success of the organization.

#### *Impact of Strategy*

The basic premise underlying SHRM is that organizations adopting a particular strategy require HR practices which are different from those adopting alternative strategies (Dyer 1984a, 1984b; Schuler & MacMillan, 1984). Schuler & Jackson (1987a), argue that effective implementation of particular competitive strategies requires employees with appropriate characteristics and behaviors. This is also supported by Dyer & Reeves (1995), who argue that different organization environments require different types of employees and behaviors and these could be achieved by adopting different human resource strategies.

#### *Generic business strategies*

Porter (1980) argues that there are two successful "generic" business strategies that firms may use to achieve a sustainable competitive advantage. They may compete either by becoming the lowest cost producer of a given product or service (the Cost Leadership strategy) or by "differentiating" themselves from other competitors on some basis other than low cost, such as service or product quality (Differentiation Strategy). In addition, for each type of strategy, firms can choose to compete in a broadly defined market or to focus on a specific segment of the market.

In line with the above thinking, Schuler & Jackson (1987a) highlight the required relationship between firm characteristics and appropriate role behaviors to achieve sustained competitive advantage for firms following either of innovation, quality enhancement or cost reduction strategies. Thus for a firm adopting an innovative strategy, examples of the required behavioral characteristics would be creative ability, long term focus, moderate risk taking and concern for quality and process. For a quality strategy the required characteristics would be modest amount

of cooperative and interdependent behavior, high concern for quality as well as process and a low risk taking propensity. Finally, for a cost control strategy, required employee behaviors would be repetitive and predictable behaviors, short-term focus, individual activity and low risk taking activity.

### *Linking strategy with human resource practices*

#### *Literature Review*

Empirical work conducted by Golden & Ramanujam (1985), suggests that the link between organization strategy and HR practices develops in stages which are administrative, one-way, two-way and integrative linkage. These are described below in. (table 1)

In similar manner, Gratton et al. (1999), conducted a series of case studies and designed a five point scale depicting various degrees of linkage (from Level 1 to 5) between the individual and team objectives with respect to the business goals of the organization. At Level 1, the link is strongest as the business objectives of the overall strategic plan is clearly articulated and transformed into clear measurable objectives. Between the Levels 1 and 5, the degree of articulation and the synchronization gradually diminishes until, in Level 5, the link is weakest as the business strategy is not articulated and individual performance is not synchronized at all with the organization goals.

Brewster & Larsen (1992) conducted a study across ten European countries and concluded that practices in these countries can be categorized, by the degree of integration of HRM into business strategy and the degree of devolvement to line managers. They assessed the degree of integration by whether HR specialist were involved in the main policy-making forum of the organization (Board of Directors or equivalent), whether HR specialists were involved in the development of corporate strategy and whether such strategies were linked with HR policies which were later translated into targets and evaluated.

They assessed devolvement on six criteria which were pay and benefits, recruitment and selection, training and development, industrial relations, health and safety and expansion or reduction of the workforce. In each case, organizations were rated according to whether primary responsibility for major policy decisions rested with the line management only, line

management with HR department support, the HR function with line management support or with the HR department alone.

In India, Budhwar & Sparrow (1997) carried out similar empirical studies and found that the present extent of both integration of HRM and strategy and devolvement of authority to line managers to deal with HR issues were low. However, they noted that "an increase in the degree of responsibility for HRM being devolved to line managers is taking place" (p. 490).

Arthur (1992) conducted a series of studies in different steel mini-mills, and found a relationship between those mills following a particular strategy (Cost or Differentiation) and the HR practices followed. Table 2 shows this relationship between the strategy employed, the firm implications and the HR practices.

#### *The Empirical Study*

##### *Firm Details*

To explore the nature of the impact of firm strategy on HR applications at the manufacturing (shop floor) level, an empirical study was conducted in a middle-sized organization located in Eastern India. This organization is engaged in the design, manufacturing, erection, testing and commissioning of different turnkey bulk material handling projects for power, steel plants, ports, fertilizer and mining sectors. It employs about eight hundred people of which around four hundred and fifty are in the unionized category. A few years ago it undertook a massive modernization scheme and apart from upgrading its machinery it also inducted qualified people at various levels including the workman level. This necessitated changes not only in the existing compensation structure but also the existing HR practices. The upgradation was done mainly to improve the profit margin which then was around two percent of turnover. Since then, this organization has been growing steadily and the latest profit percentage has climbed to around ten percent of the turnover (approximately Rs. four hundred and fifty crore). Compared to other firms in the vicinity, this organization, apart from making consistent profits, also enjoys a very stable industrial relation scenario and no mandays have been lost (due to strike, lockout or layoffs) since five years. Thus this context made it an interesting case to study.

### *Research Objectives*

Dyer (1983) argues that in large, complex organizations, strategies exist at the corporate level, at the business level, and within the various functions like manufacturing, and personnel. The strategy originating at the highest corporate level is channeled through these different levels via a series of vertical integration of procedures, policies and processes ultimately affecting individual workmen behavior and organization performance (Gratton et al., 1999). In order to study this trickled down strategy affect on the shop floor, this study was limited to the workman category.

The research objectives were:-

To examine the nature of linkage between strategy and the different HR practices with respect to manufacturing activities.

Decentralization of decision making, participation, proper training and rewards are the foundations for initiating HPWS in an organization and so the other objective was:-

To explore the extent to which the present work system could form the basis of implementing a high performance work system (HPWS), as espoused by different authors (Huselid, 1995; Arthur, 1992, 1994)

### *Methodology*

Since this was an attempt "to examine a contemporary phenomenon in its real life context..." as suggested by Yin (1981, p.59), a case based approach was adopted. Thus, structured interviews (total eleven), with the senior HR personnel, senior production and industrial engineering personnel and supervisory personnel were conducted. Interviews with the senior level personnel sought to find out specifically their contribution in the corporate strategy formulation process. The interviews with the supervisory personnel sought the details about the HR practices existing at the shop-floor level and their involvement. Examples of these were details of work flow, nature of job, the earning pattern, grievance handling systems, rewards and promotions, training & development activities, management support for self development and the extent of workmen involvement in suggestion schemes, quality circles and other such forums.

The responses were then analyzed to find key words or phrases which could be linked to workshop

situations. For example, the responses obtained from few supervisors were, "I sometimes have to persuade operatives to work in other sections to meet production schedules." This meant that there was limited flexibility of manpower deployment and the discipline was also unsatisfactory. Both these factors could also indicate the presence of a strong union.

The interview findings were supplemented by a questionnaire which aimed to cross check the interview data and also to collect further details of the human resource practices adopted at the shop floor level. Therefore, this questionnaire was distributed among the first line supervisors as they closely interacted with the workmen on a daily basis.

This questionnaire was divided into seven sections which were job nature, earning pattern, promotion policy, motivation, training, grievance handling and management support and interaction. The questionnaire was rated on a 1-5 rating scale which ranged from strongly disagree =1 to strongly agree =5.

### *Study Findings*

#### *HR Practices Followed*

Table 3 gives the details of the existing HR practices obtained from the interviews.

Among those interviewed, there was near unanimity that the training effort was of general nature and the present incentive scheme was not very attractive to the workmen. The idea of introducing purely skill based compensation policy like hourly pay was not supported. There was good support that job rotation should be introduced since jobs were routine and monotonous and also that the promotion system was fair, though their number was inadequate. There was also good support that the grievance redressal scheme, job security and additional benefits were good motivators. However the idea of allowing workmen to participate in execution of work systems received little support.

#### *Data from Questionnaire*

Table 4 documents the information that has been obtained from the analysis of the questionnaire data which gives additional insight into the marginal role of the workmen at the manufacturing level. It supports the interview feedback regarding level of training activities, and the need to introduce better incentive schemes. The idea to introduce job rotation to give more exposure to the workmen was also



supported. However, in contrast to the interview feedback, money and not job security were considered as good motivators.

### *Discussion*

#### *Corporate Strategy*

This organization executes turnkey projects and undertakes manufacturing contracts which are awarded by the clients against a quotation submitted by the firm for a particular project. So, actual profit earned by the firm is the difference between the quoted and the actual cost of job execution and this profit magnitude is dictated solely by the effectiveness of the cost efficiency measures adopted by the organization. So this is an indication that the firm is following the 'Cost Efficiency' approach. This was further confirmed by doing a content analysis of the annual reports of 2005 and 2006. The theoretical background for such content analysis is provided by Bamberger & Philips (1991) who contend that as per D'Aveni & MacMillan, (1990), "content analysis of data contained in annual reports is useful for the reconstruction of the perceptions of those to whom these reports are attributed, namely top management".

For example the director's report of 2006-07 specifically mentions "aggressive implementation of cost reduction and cost control measures" as a thrust area apart from strategic tie-ups & associations, exports, improvement in productivity and optimum utilization of resources of the company. This confirms that the organization is indeed following a 'Cost Efficiency' policy.

#### *Analysis of HR Practices*

Arthur (1992), in his study of steel mini-mills, contended that in mills following the cost leadership approach, the workmen were easily replaceable as their jobs were relatively narrow, well-specified, needed less skill to execute and so attracted less wages. He added that in these conditions the "management's incentive and need to engage in commitment-enhancement industrial relations activities, such as employee involvement, information sharing, job security guarantees, and extensive employee benefits, is greatly reduced" (p. 490).

Table 5 gives a comparison of the cost reduction (control) and commitment systems proposed by Arthur (1992) and the existing HR practices.

The details and the comparison mentioned above suggests that the empirical study has more factors which are in conformity with the Cost Reduction approach rather than the Commitment Maximizing approach.

### *Conclusion*

#### *Strategy & HR Practices Link*

As explained earlier, of the four linkages between strategy and HR systems as contended by Golden & Ramanujam, (1985), the presence of an 'administrative linkage' only was found between the firm strategy and the HR function. This is the lowest level of linkage where the HR function only provides day-to-day operational support and is primarily involved in handling the paperwork. This finding is also in accordance with Namazie & Frame (2007), who contended that in developing countries the role of HRM is mainly limited to the administration of basic personnel tasks. In this particular organization which manufactures structural components for turnkey projects, the major portion of the cost is incurred in the design stage itself through choice of particular component materials and production process. Furthermore, a majority of the operations carried out at the shop level are machine dominated and repetitive in nature (apart from the fitting and assembly jobs). This leaves very little scope for cost reduction activities to be carried out at this level through individual creative efforts. The paucity of suggestions received by the Industrial Engineering department is a testimony to this fact and seems to suggest that the workmen are not motivated enough to unlock their discretionary potential. Appropriate training activities could have provided a solution to this problem but presently the training emphasis is more on skill maintenance. The introduction of quality circles though has met with good response from the employees.

All this suggests that in this particular type of strategy (cost reduction), the context is not conducive enough for linkages to develop beyond the rudimentary level.

#### *Applicability of High performance Work Systems (HPWS)*

Regarding the second research question, (the applicability of the 'high performance work practices' as espoused by different authors (Huselid, 1995; Arthur, 1992, 1994), in the Indian context, the various essential factors (mentioned earlier) and the

organizational score with respect to these are as follows.

- 1) Rigorous selection procedures - general procedure at the entry level
- 2) Internal merit-based promotions - based on skill acquired through experience
- 3) Grievance procedures - formal system existing
- 4) Cross-functional and cross-trained teams - not existing
- 5) High levels of training - general training to maintain skill levels
- 6) Information sharing - no formal procedure like weekly briefings
- 7) Participatory mechanisms - not existing
- 8) Group-based rewards - not existing
- 9) Skill-based pay - existing but indirectly linked to experience

These results are sufficient to show that the existing HR practices related to the acquisition, maintenance, motivation and development of the organization's human resources exist only at a rudimentary level and lack the sophistication and fitment required for transformation into HPWS.

From the characteristics of the present work system (narrow, well-defined jobs, lower skill demands, little training, and less interdependence), it is evident that this is a manifestation of the cost reduction strategy adopted by the organization. This minimizes the impact of labor on the production process whereby, workers are more commodity-like and more replaceable (Guthrie, 2001). Datta & Rajagopalan, (1998) corroborate this view and add that in capital intensive organizations (as in the present case), concerns for machine utilization, cost and efficiency considerations is the dominating factor thereby reducing the value of the human element. In such a situation (cost reduction system), where the importance of the human element is not highlighted, the present HR practices lack the depth for sustaining a High Performance Work System.

#### *Similarities with other Studies*

As described earlier, Golden & Ramanujam (1985) proposed four linkages of gradually increasing intensity (from administrative to integrative) between organizational strategy and HR practices. It is the first or the weakest link (administrative) that was found in this empirical work.

In a similar study, Gratton et al. (1999) mentions that linkages between individual or team objectives with the business goals could occur at any

one of five levels which progressively weakens from Level 1 to Level 5. As predicted in that study, this empirical work also finds the weakest linkage at Level 5, where the objectives at the individual and group level are not well articulated and the overall business objective is also not clearly understood.

The findings of this study are also in conformity with the study of steel mini-mills conducted by Arthur (1992). The work systems adopted in the mini-mills following the cost reduction strategy has been found to be replicated to a great extent in this empirical study and this has been explained in Table 5 by contrasting the framework proposed by Arthur (1992) and the present HR practices.

Similar to the study carried by Budhwar & Sparrow, (1997), this study also found very low levels of integration of strategy and HR practices and little devolvement of authority to the line managers for managing HR issues at the floor level.

#### *Limitations of the study and Implications for Research and Practice*

The study could not cover many people due to exigencies of production prevailing at that time and so the sample size both for interviews and for the questionnaire is small. Therefore generalization of the findings cannot be done unless further such studies are carried out in different organizations following similar and different strategies.

This study exposes the very limited role of the HR practices and the poor linkage with corporate strategy at the shop-floor level. This could either be the result of an ineffective HR set-up or a top management which is unaware of the importance of its own human resources. It could also be due to the nature of the strategy itself which denies the human element a larger role.

Thus in future, studies could be carried out in organizations having various combinations of different strategies, employing proactive HR personnel and enlightened top management so as to determine the role of each factor in dissipating corporate strategy to lower levels.

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Table : 1. Different Stages of Linkages

Stage	HR Role
Administrative	The HR department plays the traditional personnel role. Provides day-to-day operational support and is primarily involved in handling the paperwork. Top managers and other functional managers generally view the HR function as relatively unimportant.
One-way Linkage	Have a sequential relationship between strategic planning and the HR function. The HR function typically designs programs and systems to support the firm's strategic objectives and role is limited to reaction to strategic initiatives.
Two-way Linkage	This is characterized by a reciprocal and interdependent relationship between strategic planning and HR function. Top management recognizes that business plans affect and are affected by HR activities. The HR function is viewed as credible and important.
Integrated Linkage	Companies having integrative linkage between strategic planning and the HR function show a frequent and dynamic interaction, both formal and informal. The senior HR executive is viewed as a true strategic business partner with other senior executives.

Adapted from Golden & Ramanujam (1985)

Table : 2. Relation between Strategy, Firm Implications and HR Practices

Cost Leadership	Differentiation
<u><i>Production Process</i></u> Dedicated production technology and processes. Manufacturing few commodity types of products in long runs to take advantage of economies of scale.	<u><i>Production Process</i></u> Adoption of more flexible technology to produce a broader range of more specialized products in small batches.
<u><i>Firm Implications</i></u> Production process sub divided into relatively narrow, well-specified job tasks. Lower skill level required at low wages. Cost of training is therefore reduced. Low skill & low training cost reduces cost of turnover.	<u><i>Firm Implications</i></u> Employees need to perform different tasks. Reduced standardization. Increased level of uncertainty.
<u><i>HR Implications</i></u> Management's incentive and need to engage in commitment-enhancement industrial relations activities, such as employee involvement, information sharing, job security guarantees, and extensive employee benefits is greatly reduced.	<u><i>HR Implications</i></u> Extensive training. High level of employee participation. More teamwork, Extensive benefits and relatively high wages.

Adapted from Arthur (1992)



Table : 3. The HR practices followed

<u>Policies and Details</u>	<u>Remarks</u>
<p>Recruitment Applications invited from the wards of the employees having a minimum qualification of matriculation for entry into workmen level</p>	<p>The process of intake has recently started Employee's wards were chosen over external candidates as per union intervention. The intake quality of trainees (matriculates) is better than existing operatives.</p>
<p>Selection Trainees were selected after written examination and interview.</p>	
<p>Training Initial training in machine operation done externally followed by in-house training. General training on technical and non-technical topics conducted mainly by in-house faculty.</p>	<p>The training department consists of only a <i>single person</i> who organizes training programs in consultation with the production department. The training is limited to technical topics, aimed mainly at skill maintenance.</p>
<p>Work Systems (Scheduling, decentralized decision making, flexibility, quality and job rotation) Workmen mainly engaged in machining jobs which are routine, repetitive and monotonous. No system of job rotation and flexibility of deployment is limited. Except in assembly jobs, scope of team-work is negligible. Operatives have little exposure to other areas apart from their own.</p>	<p>Youndt et al. (1996) contend that in firms following 'cost strategies', it has been the practice to substitute labor by mechanized systems. Thus jobs become highly structured requiring lesser skills, reduced discretion and lesser decision making capabilities. Work is a routine and labor becomes a commodity. In this study also, operatives have less discretion, repetitive jobs and little scope for variety by participation.</p>
<p>Compensation Fixed portion (Basic &amp; Dearness Allowance) is paid on a monthly basis and the amount depends upon the individual's grade. No system of differentiated pay based on skill e.g. hourly pay. Operating critical machines does not attract special benefits.</p>	<p>Technically, the compensation scheme is linked with the skill level (operate different types of machines or do different types of assembly jobs). Since some years have to be spent in a particular grade before being promoted to the next, the compensation is also indirectly linked to experience.</p>
<p>Grievance Handling There is a formal system to redress grievances at the shop floor level which also includes bipartite forums involving union and management.</p>	<p>Grievance handling is initially done by the first line supervisors mainly to avoid any disruptions in the work flow. In case the grievance is not sorted out at this stage, the HR personnel are involved.</p>
<p>Employment Security &amp; Unionization All are unionized and there has not been any case of lay-off, retrenchment or strike in this firm since five years.</p>	<p>Job security and a strong union sometimes restrict the management's effort to effectively utilize the workmen.</p>
<p>Promotion and Rewards Promotion is based on merit, and track record of individual. Formal system exists-technical test followed by interview by specially constituted committee.</p>	<p>Operatives have to be in a particular grade for a particular number of years before being promoted to the next ; provided track record is good; also depends on vacancy in next grade.</p>

Table : 4. Additional information from questionnaire data

HR Practices	Additional Information
Job Characteristics	Management does not have complete flexibility in manpower deployment Operatives have little or no exposure of other areas apart from their own.
Compensation	Operating critical and non-critical machines attract the same compensation.
Promotion	Some promotions awarded are not merit based and waiting time between two promotions is high.
Motivation	Money is the main motivator at this level. No of suggestions accepted is an index of shop floor motivation. For high-fliers, motivation to perform is inadequate.
Training	There is no formal system to assess training needs or the impact of training.

Table : 5. Comparison of empirical findings with mini-mill strategies

Industrial Relations Function	Type of System		
	Cost Reduction (Arthur 1992)	Empirical Findings (Case Study)	Commitment Maximizing (Arthur 1992)
Organization of Work	Job tasks narrowly defined.	Narrowly defined jobs	Broadly defined jobs.
Employee Relations	Very little employee influence over management decisions. No formal employee complaint or grievance mechanisms. Little socialization/ communication.	No employee involvement in management decisions Formal grievance handling process. Little socialization/ communication.	High level of employee participation or involvement. Formal dispute resolution procedures. Regular sharing of all information.
Staffing & Supervision	Low skill requirements. Intense supervision or control.	Medium to high skill requirement. Close supervision.	High percent of skilled workers. Self-managing teams.
Training	Limited training efforts. Limited benefits.	Technical & little non-technical training No formal 'training need' evaluation.	More extensive, general skills training.
Compensation	Relatively low wages Incentive-based.	External inequity. Incentives provide inadequate motivation	More extensive benefits. Relatively high wages. All salaried/stock ownership.