



Journal of Advances in Management Research

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Article information:

To cite this document:

Shruti Gupta, Asha Prasad, (2011) "Productivity-based hybrid model: learning from the Indo-Japanese and Indian auto sector", Journal of Advances in Management Research, Vol. 8 Issue: 1, pp.158-171, <https://doi.org/10.1108/0972798111129354>

Permanent link to this document:

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Productivity-based hybrid model: learning from the Indo-Japanese and Indian auto sector

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Abstract

Purpose – In the rapidly changing market and environment, companies need to employ highly competitive human resources for sustaining a competitive advantage. Human resource management (HRM) practices have a significant impact on firm performance. The purpose of this paper is to identify the key HRM factors from a survey of 41 Indo-Japanese and 35 Indian firms operating in Delhi and the National Capital Region (NCR) (India) in the automobile sector that affect the productivity and overall performance of firms.

Design/methodology/approach – This study is largely based on secondary data combined with an analysis of primary data. It includes primary data collection and the usage of quantitative research tools. A comparative analysis of the Indian and Indo-Japanese firms operating in Delhi and the NCR has also been made. Factor analysis has been undertaken to examine the various HRM factors that affect the productivity of a firm.

Findings – A factor analysis of nine items revealed four underlying dimensions in the instrument. In the case of Indo-Japanese firms, the factors concerned are: talent planning and engagement; talent motivation; in-service training; and assessment of training needs. For Indian firms, the factors concerned are: talent acquisition and engagement; talent motivation and need assessment; talent planning; and talent training.

Research limitations/implications – A hybrid model has been developed that combines the relatively important HR variables on the basis of the results of the survey of Indo-Japanese and Indian firms.

Originality/value – Hitherto, no study has been undertaken to compare the HRM factors of Indian and Indo-Japanese firms and to subsequently develop a hybrid model. This model blends the features of both types of firms.

Keywords India, Automotive industry, Human resource management, Productivity rate, Skills training, Factor analysis

Paper type Research paper

1. Introduction

Today, all organizations are operating in a rapidly changing market and business environment. It is thus not sufficient for them to merely compete with their competitors in a market. They instead have to generate a competitive advantage, and more importantly, sustain this advantage. The human resources owned by a company can thus play an important role in enabling it to sustain its competitive advantage.

It is now commonly accepted that employees create an important source of competitive advantage for firms (Barney, 1991; Pfeffer, 1994). Consequently, it is important for a firm to adopt human resource management (HRM) practices that enable it to optimally utilize the talents and resources of its employees. This trend has fostered an increased interest in the impact of HRM on organizational performance, and a number of studies have found a positive relationship between so-called “high-performance work practices” (Huselid, 1995) and different measures of company



performance. Furthermore, there is some empirical support for the hypothesis that firms which align their HRM practices with their business strategies would be able to achieve superior outcomes (Becker and Gerhart, 1996; Becker and Huselid, 1998; Dyer and Reeves, 1995; Guest, 1997).

The accelerating trends of globalization have had a noticeable impact on Indian firms during the last 15 years. While some issues have attracted considerable public and research interest in India (such as the competitiveness of firms, internationalization of Indian firms, heightened international competition, and outsourcing), understanding the changes in the internal organization of firms has remained a major challenge.

2. Literature review

2.1 HRM overview

HRM is a new way of thinking about how people should be managed in the workplace. Milkovich and Boudreau (1997) have defined HRM as a series of integrated decisions that constitute the employment relationship, with their quality contributing to the ability of both the organization and the employees to achieve their objective. HRM is thus the most important component of the management process and extends throughout the organization. During the early days of the Industrial Revolution, HRM was based on the authority of the boss who had the absolute power to hire and fire workers. The philosophy of HR in those days thus rested on negative motivation.

Employers, however, soon realized that HR based on authority and fear led to dysfunctional consequences. As a result, material rewards were emphasized. F.W. Taylor (1911) came up with the Differential Plan and “Time and Motion Study”. However, Taylor’s scientific management too did not prove flawless. It was found that workers did not always produce more on being paid more as he had supposed. They also had many other needs such as security needs, social needs, or egoistic needs, which motivated them far more than mere rewards. This led to the emergence of Elton Mayo’s Human Relations School (1933). Mayo revealed, through Hawthorne Studies, that informal groups operating within the organization exerted strong social control over the performance of the individual worker and that a worker’s production norm was set and enforced by his group and not by the time and motion study.

Now it is believed that no two people are exactly alike and that the manager should tailor his attempts to influence people according to their individual needs by providing supportive leadership. This view has received a further fillip from researches conducted by a number of management thinkers like Douglas McGregor (1960), Abraham Maslow (1964), Kurt Lewin (1947), Chris Argyris (1993), and Rensis Likert (1961), among others.

Industry is now looking at its “people” component as a “resource”. HRM as a tradition of thought on managing people can be most commonly traced back to the seminal works written by American academics in the early 1980s. By the early 1980s, a number of US analysts were writing about HRM and devising models for its emergence. These American and American-inspired models of HRM are sometimes sub-divided under two schools of thought, viz. “hard” HRM and “soft” HRM. In essence, hard HRM focuses on managing and controlling employees so as to achieve the organization’s strategic goals, whereas soft HRM accords more recognition to the employee’s needs and the importance of their commitment to the organization.

In the case of the soft HRM concept, the prominent contributors include Beer *et al.* (1984) in the USA (the Harvard Model), and Guest, 1987 in the UK. In the case of the hard HRM concept, the prominent contributors are Fombrun *et al.* (1984) (the Michigan Model) in the USA.

HRM is thus a new philosophy, which views an organization's manpower as its resources and assets, and not as liabilities (Michael V.P., 2002). According to DeCenzo and Robbins, HRM is "a process consisting of the acquisition, development, motivation, and maintenance of human resources".

2.2 HRM and productivity

The effects of HRM systems on firm performance have been analysed statistically by many researchers in literature (Agdelen, 2003; Becker and Huselid, 1998; Huselid, 1995). Recently, significant research attention has also been devoted to examining the relationship between HRM practices and firm performance (Christopher and Ken, 2006; Kent, 2007; Mahesh, 2006; Shay, 2006). Almost all the studies about the impact of HRM on firm performance have attempted to estimate the statistical relationship between a firm's HRM and its performance (Chandler and McEvoy, 2000; Delaney and Huselid, 1996; Fey and Björkman, 2000).

Going beyond these direct relationships between HRM and performance, other evidence suggests that the impact of HRM practices on firm performance may be further enhanced when the practices match the competitive requirements that are inherent in a firm's strategic posture (e.g. Wright *et al.*, 1995; Miles and Snow, 1984). According to Porter's (1980) framework, effective business strategies can be classified as either cost leadership strategies or differentiation strategies. Each of these strategies entails something different about the potential role of human resources in improving firm performance. More specifically, Wright *et al.* (1995) found that organizations exhibited higher performance when they recruited and acquired employees possessing competencies that were consistent with the organization's current strategies. As noted earlier, many have suggested that the best HRM practice is contingent upon the competitive strategy of a firm. To date, however, little empirical attention has been paid to exploring the extent to which competitive strategy and HRM practices are actually used in conjunction with one another across a sample of high-tech firms.

Evidence from the USA, Japan, and the UK suggests that certain HRM practices such as increased employee participation in decision-making and compensation systems that relate employee compensation to firm or group performance, have become increasingly common (e.g. Conyon and Freeman, 2004; Blasi and Kruse, 2006; Kato, 2006).

3. Research methodology

This study is largely based on secondary data as well as the analysis of primary data. The methodology entailed primary data collection and usage of quantitative research tools. A comparative analysis of Indian and Indo-Japanese firms operating in Delhi and the National Capital Region (NCR) has also been done. Factor analysis has also been undertaken to examine the various HRM factors affecting the productivity of a firm.

3.1 Site and participants

The study is restricted to the automobile industry, which has recently been facing intense competition with all the global players flocking to India. As regards Indian

firms, there are 65 Indian automobile firms operating in northern India. Of these, the questionnaire was mailed to 57 companies, and 43 of these companies responded after numerous representations and continuous follow-up. However, data for only 35 firms were complete in all respects and suitable for further analysis. Hence, the sample size of the Indian firms for this study is 35 firms. As regards the Indo-Japanese firms, there are 65 such firms operating in the northern part of the country. The questionnaire was mailed to all these companies, but only 41 of them responded. The data on the HRM practices of the firms have been collected for the period February 2008 to January 2009.

3.2 Procedure and analysis

Initially, 17 variables, which are likely to have an impact on productivity, were taken. They included human resource planning (HRP), requisite qualifications, orientation, analysis of training needs, in-service training, evaluation of training, job rotation, participation in decision making, teamwork, merit-based compensation, promotion from within, performance appraisal, competency mapping, safety programmes, benefit system, communication programmes, and trade unions. However, a few factors were subsequently dropped because the correlation matrix indicated their highly correlating nature, and finally only nine variables were analysed by administering a comprehensively designed and structured questionnaire to the respondents. The final list of variables included teamwork, compensation, participation in decision making, performance appraisal, requisite qualifications, in-service training, job rotation, HRP, and analysis of training needs. The questionnaire was analysed through factor analysis, which helped identify four HRM factors contributing to the productivity of a firm through the use of SPSS, version 16.

4. The impact of HRM practices on performance

4.1 Reliability statistics

In the case of Indo-Japanese firms, the Cronbach's alpha was close to 0.7, indicating a reasonable degree of reliability. However, in the case of Indian firms, it was relatively low, which is an area of concern. The reason for this could be attributed to contradictory statements given by respondents, lack of clarity in the responses, or the casual approach of the respondents. The Bartlett's test of sphericity confirmed that the variables within factors are correlated.

4.2 Total variance explained

- (1) Indo-Japanese firms: Table I lists the eigenvalues associated with each linear component (factor) before extraction and after rotation. The table indicates that for four factors, the eigenvalues are greater than one. A total of nine factors (components) were extracted, equivalent to the number of variables factored. The cumulative percentage of variance explained by the first four factors is 83.958 per cent. In other words, 83.958 per cent of the common variance shared by the nine variables can be accounted for by the four factors.
- (2) Indian firms: Table II lists the eigenvalues associated with each linear component (factor) before extraction and after rotation. The table indicates that for four factors, the eigenvalues are greater than one. A total of nine factors (components) were extracted, equivalent to the number of variables factored. The cumulative percentage of variance explained by the first four factors is 87.87 per cent. In other words, 87.871 per cent of the common variance shared by the nine variables can be accounted for by the four factors.

Table I.
Total variance explained
of Indo-Japanese firms

Component	Initial eigenvalues			Extraction sums of squared loadings		
	Total	Per cent of variance	Cumulative per cent	Total	Per cent of variance	Cumulative per cent
1	2.570	28.553	28.553	2.570	28.553	28.553
2	2.295	25.498	54.051	2.295	25.498	54.051
3	1.625	18.051	72.102	1.625	18.051	72.102
4	1.067	11.855	83.958	1.067	11.855	83.958
5	0.653	7.260	91.218			
6	0.365	4.060	95.278			
7	0.237	2.639	97.917			
8	0.130	1.445	99.362			
9	0.057	0.638	100.000			

Table II.
Total variance of Indian
firms explained

Component	Initial eigenvalues			Extraction sums of squared loadings		
	Total	Per cent of variance	Cumulative per cent	Total	Per cent of variance	Cumulative per cent
1	3.123	34.699	34.699	3.123	34.699	34.699
2	2.134	23.707	58.406	2.134	23.707	58.406
3	1.470	16.335	74.740	1.470	16.335	74.740
4	1.182	13.131	87.871	1.182	13.131	87.871
5	0.491	5.455	93.326			
6	0.261	2.901	96.227			
7	0.125	1.389	97.616			
8	0.113	1.258	98.874			
9	0.101	1.126	100.000			

4.3 Component matrix

Indo-Japanese firms. Table I reveals that four factors or components influence a firm's productivity. The sub-factors can be found from Table III. The four factors identified are delineated below:

- (1) Talent planning and engagement – It is imperative to undertake an appropriate assessment through HRP, recruitment and selection by considering the requisite qualifications in order to ensure the proper utilization of human resources. Once this assessment is done, there is a need to constantly engage the employees productively by involving them in decision making and teamwork. Hence, this variable has been called talent planning and engagement, and it covers the requisite qualifications, HRP, teamwork, and participation in decision making.
- (2) Talent motivation – Once the employees have been selected and productively engaged in the organization, the latter needs to ensure that they constantly function at high energy levels. Therefore, this variable has been named talent motivation, and it covers compensation, performance appraisal, and job rotation.

- (3) Talent training – Training refers to the updation of knowledge, skills, and abilities (KSA) to empower the concerned individual to perform better in another environment. Since the only thing that is constant is change, appropriate opportunities need to be provided to the employees to enable them to continuously enhance their KSA. Hence, this variable has been named talent training, and it covers in-service training.
- (4) Talent need assessment – Since one type of training cannot suit the requirements of all trainees, an analysis of training needs would have to be performed to ascertain the readability and motivation of the trainees. Readability refers to the difficulty of the written material. Hence, assessment of training needs is an important variable as it ensures the positive transfer of training from the trainer to the trainee. This variable also covers training need analysis.

Indian firms. Table II reveals that four factors or components influence a firm's productivity. The sub-factors can be found from Table IV. The four factors identified are delineated below:

- (1) Talent acquisition and engagement – Acquiring competent employees is the key driver to success. Once a competent employee has been acquired, it is very important to sustain his interest by adequately engaging him. Hence, this variable has been called talent acquisition and engagement, and it covers requisite qualifications, teamwork, and participation in decision making.

Variable	Component			
	1	2	3	4
Teamwork	0.922	−0.246	0.095	0.123
Compensation	−0.061	0.943	−0.057	−0.156
Participation in decision making	0.911	−0.188	0.145	0.239
Performance appraisal	−0.079	0.789	0.394	0.206
Requisite qualifications	0.659	0.123	−0.365	−0.531
In-service training	0.132	0.303	0.734	0.191
Job rotation	0.221	0.632	−0.609	−0.011
Human resource planning	0.529	0.309	0.435	−0.398
Analysis of training needs	0.318	0.293	−0.452	0.672

Table III.
Component matrix of
Indo-Japanese firms

Variable	Component			
	1	2	3	4
Teamwork	0.884	−0.033	0.127	0.302
Compensation	−0.587	0.628	0.266	0.295
Participation in decision making	0.870	0.252	0.216	−0.132
Performance appraisal	−0.538	0.608	0.371	0.364
Requisite qualifications	0.800	−0.109	0.337	0.348
In-service training	0.070	−0.122	−0.402	0.823
Job rotation	0.475	0.782	−0.178	−0.199
Human resource planning	−0.017	−0.077	0.894	−0.082
Analysis of training needs	0.282	0.813	−0.304	−0.093

Table IV.
Component matrix of
Indian firms

- (2) Talent motivation and need assessment – Once employees have been selected in the organization and productively engaged, the organization has to ensure that they constantly exert high energy levels. It is equally important to carry out continuous need assessment to identify the areas for training. Therefore, this variable has been named as talent motivation and need assessment, and it comprises compensation, performance appraisal, job rotation, and analysis of training needs.
- (3) Talent planning – For the proper utilization of human resources, it is very important to undertake an appropriate assessment through HRP. HRP ascertains that the right number of employees is employed in the organization through forecasting of the demand and the supply of manpower. Hence, this variable has been named talent planning and it covers HRP.
- (4) Talent training – Training refers to updating the KSA of employees to enable them to perform better in the work environment. Since the only constant is change, appropriate opportunities need to be provided to the employees to continuously enhance their KSA. Hence, this variable has been named talent training, and it covers in-service training.

5. Designing a hybrid model

Figure 1 shows two things – first, the factors that were accorded the utmost importance in both the Indian and Indo-Japanese firms, and second, the HRM factors which are common to both the countries.

The implementation of a hybrid model has thus been suggested after the conducting of a detailed study of the various factors affecting productivity. This model aims to synergize the key factors operating in Indian and Indo-Japanese firms. It also predicts the relation between the nine dependent variables and effectiveness of the firms concerned. The extraction method of principal component analysis is used to identify the factors that have a major impact on productivity, and these are projected in the inner radius of the model. The impact on productivity decreases progressively as

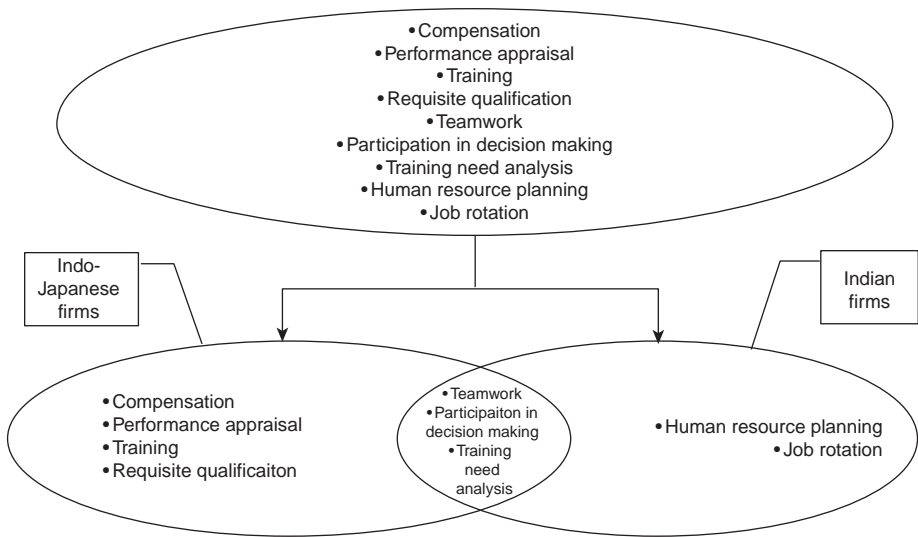


Figure 1.
Importance of human
resource management
(HRM) factors in Indian
and Indo-Japanese firms

we move towards the outer circles with the outermost radius depicting the least impact on productivity (Figure 2).

This study led to the finding that for ensuring enhanced firm performance, the maximum focus should be accorded to the following HRM factors:

- **Teamwork:** A team comprises a small number of people possessing complementary skills, who are committed to a common purpose, performance goals, and approach for which they hold themselves mutually accountable. Many organizations are now consistently enhancing their productivity by ensuring effective teamwork (Papers4you.com, 2006). Teamwork is thus extremely beneficial at the organizational level as it boosts individual productivity, which is needed for achieving targets and fulfilling commitments. Also, teamwork decreases the non-productive hours of the employees, which, in turn, increases productivity and ensures the optimal utilization of manpower. These are the reasons as to why companies are promoting teamwork at the workplace.

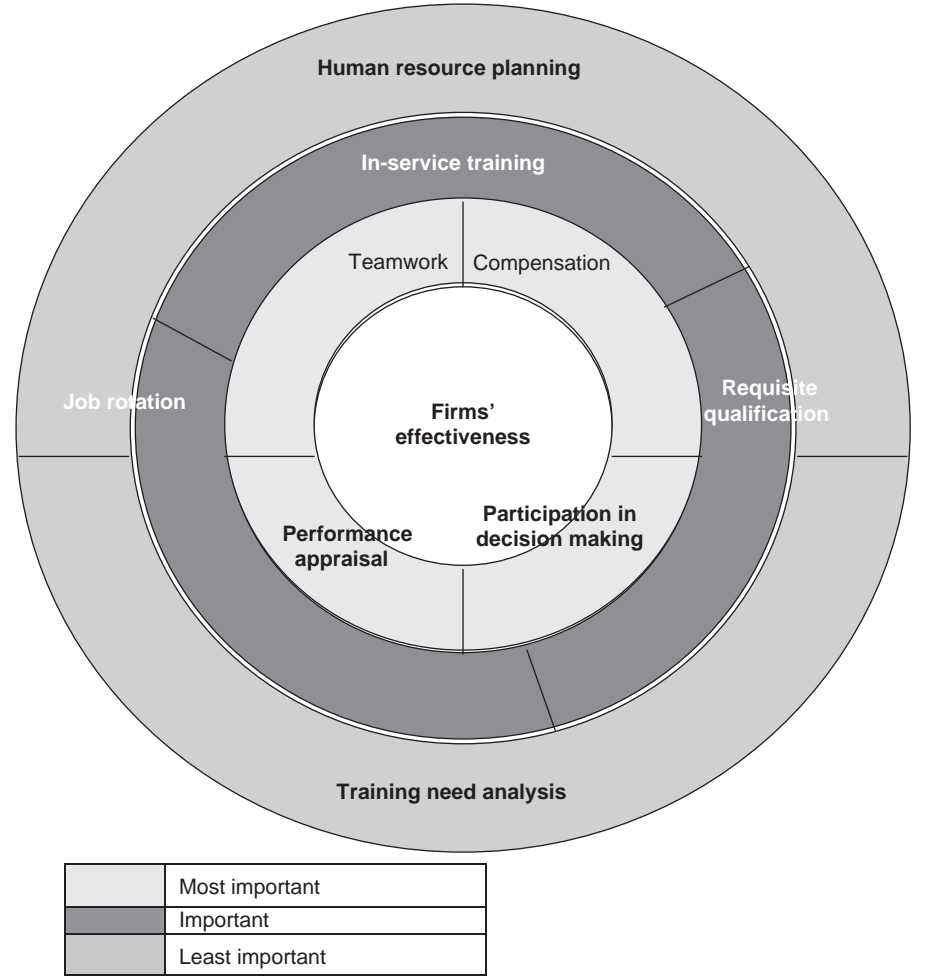


Figure 2.
Relative importance of
human resource
management (HRM)
factors

- Compensation: The ability of an organization to attract and retain efficient employees who add to the bottom line depends on its competence to craft an attractive compensation package. The total compensation consists of both the cash payments and non-cash benefits that the workers receive from their jobs. Seniority has for long been a popular method of determining partner compensation. In recognition of the importance of clearly defining goals and providing incentives for reaching those goals, the recent trend in professional compensation is veering towards the adoption of performance-based systems. Delery and Doty (1996) identified performance-based compensation as the single strongest predictor of firm performance. On the basis of the expectancy theory (Vroom, 1964), it can be inferred that if the company provides the rewards desired by a particular employee, the latter is more likely to perform in a way that would enable him/her to win that reward.
- Participation in decision making: In many countries around the world, management systems are changing away from the traditional systems characterized by often adversarial collective bargaining and a fixed wage or payment on a contractual basis. Prominent among these changes is the proliferation in the use of and interest in participatory employment practices, which are designed to promote both the financial and professional participation/involvement of the employees (Levine, 1995). Several studies have identified the extensive use of teamwork and decentralized decision making as two of the important high-performance HRM practices in vogue in companies (Arthur, 1994; MacDuffie, 1995; Pfeffer, 1994). Indeed, participatory employment practices have become the hallmark of Japanese management, which has been inspiring (and in some instances, even compelling) many US corporations to experiment with employee involvement and labour management cooperation in recent years (see, for instance, Levine, 1995, p. 5).
- Performance appraisal: A comprehensive performance appraisal system forms the basic yardstick for assessing an individual's performance, for highlighting the potential for future career advancement, and most importantly, for improving performance (Mullins, 2002). Lecky (1999) defined the performance appraisal system as a benchmark set against the specific task performance, for defining and evaluating current performance on the basis of certain criteria including remuneration, pay rise, level of expectation of the employee, promotion, and managerial planning. In addition, it also functions as a merit-based rating, which benefits both the parties and must be constantly reviewed to suit the organizational requirements. Since the performance appraisal system explicitly mentions the individual's needs, it has a far-reaching effect in terms of improving productivity. Dave and Wayne (2005), however, argued that performance appraisal could also act as an instrument of disaffection for employees who are disgruntled by its results, thereby adversely affecting their future performance.

The following HRM factors are important and hence could significantly influence a firm's productivity:

- Requisite qualifications: Investment in human capital that is endowed with a high degree of qualifications and that has undergone comprehensive training is considered as a key step towards achieving sustained long-term productivity in

an industry. More specifically, Wright *et al.* (1995) found that organizations exhibit better performance when they recruit and acquire employees possessing competencies that are consistent with the organization's current strategies.

- In-service training: Training is a learning process that entails the acquisition of knowledge, sharpening of skills, concepts and rules, or changing of attitudes and behaviours to enhance the performance of employees. With the rapid expansion of the automobile sector and the emergence of major players in the sector, there is now greater focus on skilled employees, thereby increasing the need for human resource development. Contemporary companies are thus looking for skilled and hard-working people who can give their best to the organization. Companies investing in both technical and non-technical training are likely to have a positive impact in developing the skills/knowledge of their employees. Training has been suggested as a high-performance HRM practice followed in research by, among others, Delaney and Huselid (1996), Huselid (1995), Koch and McGrath (1996), and MacDuffie (1995). Generally, it has been seen that a positive relationship is established between employee training and organizational performance (Delaney and Huselid, 1996; Koch and McGrath, 1996).
- Job rotation: Job rotation can be defined as the movement of employees through a variety of jobs in order to enhance their interest in the job and motivation to perform. Job rotation has been described as a win-win strategy as it benefits all the parties involved. From the employers' point of view, organizational theorists have advocated frequent rotation as a means of reducing fatigue and boredom among employees engaged in production jobs in order to maintain and even enhance productivity (Miller *et al.*, 1973), and fairly frequent rotation after the initial hiring acts as a means of orientation and placement (Wexley and Latham, 1981). Job rotation, therefore, facilitates the training of workers as back-ups for other workers so that managers can have access to a more flexible workforce and a ready supply of trained workers (Rothwell and Kazanas, 1994).

The following HRM factors have been rated to have the minimal impact on productivity and thus require least attention:

- HRP: It is only through proper HRP that firms can produce accurate estimates of the future supply and demand of employees in specified categories (Orpen, 1983). One of the main reasons why productivity is often quite low is that individuals are not properly matched with their jobs, which impairs their performance. In most cases, however, individuals could be more productive if standards and objectives were established, and skill and knowledge requirements were more clearly defined. One of the most important goals of HRP is to facilitate a proper match between individuals and their jobs in order to ensure their optimal performance. In most cases, however, individuals can become more productive if standards and objectives are established, and skill and knowledge requirements are more clearly defined. One of the most important goals of HRP is thus to improve the congruence between individuals and their jobs.
- Analysis of training needs: An analysis of training needs helps provide concrete data for designing training modules. It also identifies the differences between self-assessment by an individual and assessment by the department, on one hand, and an actual measurement of skills, on the other. The following are the

four main reasons for conducting an analysis of training needs (Brown, 2002): (1) to identify specific problem areas in the organization; (2) to obtain management support; (3) to develop data for evaluation; and (4) to determine the costs and benefits of training. A thorough assessment of needs points out the problems and performance efficiencies, and allows the management to assign a cost factor to the training needs, thereby enhancing the effectiveness of training.

6. Managerial implications of the research

This study provides some insights into the key HRM factors of Indian and Indo-Japanese firms. The automobile sector in India is witnessing a transitional period and the successful compatibility of firms depends upon their capability to continuously enhance their HRM functions that ensure a competitive edge. However, a complete transferability of Japanese HRM practices is not a feasible option since the culture of the country has a significant role to play in these practices. This study is an attempt to develop a hybrid model of an HRM system as a strategic response that blends professional and employee-oriented modes of management for achieving relatively superior organizational performance. It enables us to identify the HRM factors which should be accorded the maximum emphasis and the factors which could be accorded comparatively lesser emphasis due to their minimal impact. Keeping in mind these important parameters, this model can address the increasing challenges faced by a company to manage its talent effectively, in all the areas in which it is implemented.

7. Conclusion

On the basis of the research conducted and the scientific analysis of the data collected, it can be concluded that in order to increase the productivity of a firm, the maximum emphasis should be given to teamwork, compensation, participation in decision making, and performance appraisal. Qualifications, in-service training and job rotation are also important factors that influence a firm's productivity. Although of relatively less importance, the role of HRP and analysis of training needs in increasing a firm's productivity cannot be ignored. This hybrid management practice model, designed on the basis of the resultants of this research, combines Indian and Japanese management practices. As discussed in the paper, teamwork, participation in decision making, and analysis of training needs are common to both Indian and Indo-Japanese firms. Thus, the Indian firms have to work harder to design a competitive merit-based compensation system, and accord more emphasis to in-house training, while also attempting to devise a more strategic and equitable method of appraising the performance and ensuring that no compromise is made in terms of qualification requirements during the process of hiring a candidate.

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