Literature Review

SHRM Evolution, Theoretical Background and Perspective

The traditional HRM concerns with more administrative functions while the Strategic HRM involves designing and implementing set of internally consistent policies and practices which ensure that firm’s human capital contributes to the achievements of its business objectives (Baird & Meshoulam 1988). Aligning strategic planning process to vertically and horizontally integrate HR functions (Tompkins 2002) should improve the people performance of a firm. SHRM studies in the global context have shown that implementation of SHRM practices have led to improved performance both in financial as well as non-financial terms (Chanda and Shen 2009). Many industries globally have found that strategically aligned human resource functions benefit organisations and employees alike by improving commitment, work satisfaction and performance (Kramar 1999; Lansbury 2003; Cascio 2006).

SHRM emerged as a consequence of globalization of economy resulting in increased global competition, the demand for cost optimisation and increasing skill shortages. This led to the recognition that the management of people needs to be a high priority area if organisations are to achieve their business objectives (Mello 2006). Effective SHRM practices provide competitive advantages and improved performance because it aligns the human resource functions of recruitment, selection, performance appraisal and management, rewarding and developing employees to the organisation’s goals (Pfeffer 1994; Lundy and Cowling 1996; Armstrong 2000). Unlike traditional personnel management, where the personnel functions of employee are performed without integration with overall organisational objectives, SHRM assumes that all personnel activities are integrated with each other, and at the same time strategically linked with organisational objectives (Nankervis, Compton and McCarthy 1999). The main focal areas of SHRM include quality, customer service, productivity, employee involvement, workforce flexibility and teamwork. Fully committed employees work at their best and enjoy job satisfaction. Policies that support mutual goals, influence, respect and responsibility elicit commitment to produce better performance (Legge 1995; Armstrong 2003).

Of the three types of resources, financial, technological and human in an organisation, management theorists suggest the most difficult to manage or exploit is the ‘human resource’ (Nankervis, Compton and McCarthy 1999). As well as being based on a contract of employment, the employee – employer relationship is based on a psychological or social contract, where employees exchange their skills and commitment for pay and other rewards like job security and benefits (Ancona et al. 2005; Noe et al. 2007). Human Resources professionals and scholars have been developing theories, policies, procedures and practices to better manage the relationship and establishing contingencies for each individual unique relationship (Bernardin 2007).
HRM, despite different interpretations by different scholars and practitioners, has moved forward in most countries. HRM connotes a different approach that is linked with business outcomes for the management of people (Storey 1997). Nankervis, Compton and McCarthy (1999) argue that personnel management relates to the people related functions or activities of recruitment, selection, training, salary administration and industrial relations, when they are performed without relationships between the activities, or the overall organisational objectives. The theory of HRM assumes the underlying interests of management and workers are similar, hence, the values corroborating HRM are predominantly unitaristic, in contrast to the dominant values of traditional personnel management. The emphasis is on individual-organisational linkages, as opposed to the group representation or industrial relations approach that emphasises collective and pluralist values (Guest 1989; Millmore et al. 2007). It also needs to be recognised that HRM theory emerged from other disciplines, such as organisational behaviour, psychology, business strategy and systems theory (Analoui 2007).

A fundamental belief and assumption of HRM is that human resource, more than other factors of production, make the difference. To realise benefits, managers are therefore encouraged to put people first (Burke 2006) as the management of people is a key factor in bringing about a competitive edge (Lengnick-Hall and Lengnick-Hall 1990). Human resources, through their efforts, knowledge, capabilities, resources, relationships and decisions can place an organisation ahead of its competitors (Prahlad and Hamel 1990; Watson 2005). The central principle of HRM is the effective utilisation of employees to achieve organisational objectives. The HRM practitioner, rather than just being an employee advocate, is involved in organisational efficiency, effectiveness, productivity, labour flexibility and competitive HR advantage. This theory focuses on the need to apply relevant human resource management approaches so the full potential of human resources can be realised and are not manipulated or exploited in the same way as financial or technological resources (Nankervis, Compton and McCarthy 1999).

The second feature of HRM concerns strategy. Gronfeldt and Strother (2006) define strategy as “a pattern or plan that integrates an organisation’s major goals, policies and action sequences into a cohesive whole“. The adopted strategy distinguishes an organisation from its competitors (Purcell 1999). Hence, strategy is the grand plan adopted through employees, to help realise the business mission (Go´mez - Mejia et al. 2004). Strategy may also include the pattern of decisions management applies regarding HR policies and practices and corporate and business level strategies evolve into HR plans (Bratton and Gold 2007) so that HR policies are built from well-designed personnel practices that fit into the corporate business strategy. The strategic nature of HRM is a distinguishing characteristic that makes it a matter of interest to chief executives and senior management teams (Storey 1997).

The third feature of HRM relates to the roles of line managers. If human resources are critical for the business, then HRM should be too important to be left in the hands of technical HR
specialists. Line managers are crucial to the effective delivery of HRM policies (Lundy and Cowling 1996; Storey 1997). The management of human resource can be grouped under five key activities – staffing, retention, development, adjustment and managing change and these demand shared responsibilities between line and HR managers. Managing change enhances the organisation’s ability to cope with changes in its external and internal environments (Cascio 2006). Typically, HR provides technical expertise whilst line managers use this expertise to manage people effectively.

The fourth feature concerns the key levers used for HRM implementation. A notable element is the management of culture in the organisation. Culture is an important feature of SHRM because an enhanced culture promotes performance by building consensus, flexibility, and commitment. For instance, cultural consensus helps establish a common set of values and beliefs on fundamental objectives and priorities. Beyond the willingness to work flexibly, culture leads to committed employees who ‘go the extra mile’ in pursuit of organisational goals (Storey 1997). Culture can thus be a very effective control system and could be a major reason employees are attracted more to one company than another (Bowen 2002). There is considerable evidence in the literature that employees will be at their best if they are fully committed to the organisation (Lundy 1994; Storey 1997). Employees’ high commitment is produced from self-regulation rather than a response from external pressures (Armstrong 2000). HRM theory predicts more positive performance outcomes are likely if appropriate human resource policies are employed to drive its implementation in an organisation.

Another view of the HRM model is that it can be hard or soft. Whilst hard approach to HRM represents objective measures with emphasis on the strategic role human resources play in achieving organisational goals, the soft approach aims at enhancing employee commitment (Beardwell and Clark 2007) and communication is central. Soft HRM approach seeks the involvement of employees through consultation and empowerment (Nankervis, Compton and McCarthy 1999). Hard HRM seeks to manage human resources rationally as a factor of production like any other factor of production (Storey 1992:29). It is also important to note that HRM theories “cannot be divorced from the socio-economic, political and industrial relations climates in which they operate” (Nankervis, Compton and McCarthy 1999:19) and the application of HRM is not a size that fits all as it varies from one country to another. This understanding helps practitioners to decide on the applicability of HRM theories within the settings of their own countries and industries. A key goal of HRM is to ensure that organisations have the “right numbers, types, and skill mixes of employees at an appropriate time and cost to meet present and future requirements” (Nankervis, Compton and McCarthy 1999:22). Awareness of where the organisation is going in the future, the nature of external and internal labour markets and effective strategies for matching labour demand and supply are, therefore, critical for success. Other objectives of HRM include implementing effective strategies for attracting, selecting, and keeping employees productive, satisfied and motivated to contribute to the organisation’s progress (Nankervis, Compton and McCarthy 1999).
Human Resources theory has its own critics. There are some critics who think HRM is no different from the traditional personnel management; others cannot clearly understand what HRM consists of, while others query the existence of the alignment of the goals of the individual and the organisation (Hendry 1995). Although the concept has been established in reality, it appears its meaning, impact on employment relationship and influence on organisational performance still lacks universal acceptance (Beardwell and Clark 2007). SHRM integrates human resources policy with business strategy to gain competitive advantage (Millmore and Baker 1996). Competitive advantage differentiation implies one organisation stands out amongst its competitors (Kenny 2005). An organisation thus has a competitive advantage over its competitors when its products or services cannot be easily imitated or copied (Bernardin 2007). The value of human resources is their ability to develop and exploit rare characteristics, the ability to develop and nurture characteristics that competitors cannot easily copy and better coordination of the organisations’ policies and practices (Beardwell and Claydon 2007). “Practices can make an important, practical difference in terms of three key organisational outcomes; productivity, quality of work life, and profit” (Cascio 2006), as well as job satisfaction and commitment (Armstrong 2000). The role of management in sustaining competitive advantage involves building, recognising, developing and applying the organisation’s core and supplementary enabling capabilities (Millmore et al. 2007). In SHRM, the HR strategies should consider the interests of all the stakeholders in the organisation (Armstrong 2006, Armstrong and Baron 2010). HR managers represent management and advocate for workers all at the same time thus assuming broader role in overall organisational strategy to help create the competitive advantage (Nankervis, Compton and McCarthy 1999).

**SHRM in Practice**

SHRM links strategic planning and HRM in a way that the organisation’s objectives are determined and personnel policies and practices aligned with those objectives (Tompson 2002) to achieve vertical integration. The policies and practices need to also be horizontally aligned across the organisation to develop an integrated personnel program, with consistent interrelationships so policies and practices in one functional area do not work at cross purposes with those in other areas (Tomkins 2002; Fisher et al. 2006). An important process to facilitate vertical and horizontal integration is strategic planning. Strategic planning is the proactive process of setting major organisational objectives and developing comprehensive plans to achieve these and its scope covers decisions on key initiatives such as structure, strategy, and policies, including the determination of labour requirements (Nankervis, Compton and McCarthy 1999). Strategic planning considers both the internal and external environment and develops plans to cater for the future rather than being reactive to changes in the industry, marketplace, economy, society and technological changes (Mello 2006).
Strategic HRM needs to be aligned with the vision and mission of organisation (Kenny 2005). Linking human resources to the strategic vision is crucial to establish linkage between the statements of strategic intent to the everyday behaviours of employees (Gratton 1994). Another factor influencing strategy formation is the organisations structure, as this depicts the working relationships that affect how SHRM is implemented (Millmore et al. 2007). The organisational structure has inherent features which influence the implementation of SHRM, and structural changes may be required to gain the full benefits of SHRM. As already mentioned, investigations have confirmed that SHRM improves business performance. However the degree of effectiveness depends on the skill and care with which HRM strategies are implemented and applied to the firm’s business problems and support for the operating and strategic initiatives (Cascio 2006).

Elements of SHRM

Several models depicting SHRM have been suggested by scholars. One example is the Michigan Business School model, which identified selection, appraisal, development and rewards as the key elements of HR. This model further assumes the workplace as unitaristic (Beardwell and Clark 2007) and aligns to the ‘hard’ HRM theory. The model postulates that human resources are to be exploited to the maximum benefit of the organisation (Analoui 2007). This approach combines the four traditional functions of recruitment and selection, appraisal, compensation and development with performance to form the SHRM-Cycle (Fischer and Weitbrecht 1995) and suggests that strategic integration of these elements will lead to improved performance (Pfeffer 1994; Lundy and Cowling 1996). Critics of the Michigan model claim it is inhuman as employees have no say in decisions and power is in the hands of managers.

The Harvard model differs by recognising not only the presence of different stakeholders, such as employees, government and the community, but that their interests differ from the organisation (Beer et al. 1984). The Harvard model suggests the human resource strategies need to recognise and reflect these interests and so emphasises the soft side of HRM (Beardwell and Clark 2007).

Guest (1989) proposes another model that incorporates the concepts of strategic integration, high commitment, high quality and flexibility in an attempt to ensure a balance between hard and soft HRM.

A typically operationalised model in the industry views SHRM as a process that links strategic planning and human resource management by determining vision-related objectives and aligning human resource (HR) policies and practices with the objectives. Nankervis, Compton and McCarthy (1999) identify the major themes of SHRM in this model as a) awareness of and response to dynamic external environment, b) business acumen of HR specialist to contribute to organisations’ business planning process, c) linking HR strategy with business objectives, d) horizontal and vertical integration of HR plans and policies with outcomes reflected in terms of
performance, productivity, cost effectiveness and/or profitability, and e) long-term outlook with flexibility to allow changes as required due to dynamic organisational environment. The model requires that HR function needs to operate at three levels; a) the strategic level (strategy formulation, implementation and control), b) the operational level (HR planning), and c) the functional level (technical HR). The three levels are discussed below.

At strategic level the HR strategy can be considered in three steps namely a) identifying the type of alignment required with business strategy b) implementing appropriate HR strategies and c) continuous evaluation of the strategy. The human resource (HR) strategy is the prioritisation that aligns the human resources policies, and programmes with the strategic business plan (Cascio 2006). Nankervis, Compton and McCarthy (1999) state that the SHRM strategy will differ across organisations as it involves evaluating the likely impacts on the organisation of both the external and internal environments, the organisation’s long-term goals, and the ways in which HRM strategy will help adapt human resources to meet these goals. Tompkins (2002) has identified six categories of human resource strategy namely a) cost containment b) performance management c) involvement d) retention e) investment (in training and development) and f) cohesion (community and social bonds). These strategies can be applied individually or in combination, depending on situational factors, such as the industry type and the business priorities. And finally in step three, SHRM involves continuous evaluation of the HR strategy.

Major task at the operational level is strategic HR planning which maps out strategies about the type of employees required for the future and the essential skills and training needed to enable the organisation achieve its goals. There are five major objectives of HR planning a) prevent overstaffing and understaffing b) employ the right type of people with the right skills in the right place c) responsiveness to changes in the environment d) provide direction for all human resource activities and systems and e) integrate the perspectives of line and staff managers (Mello 2006). The HR planning process considers long, medium and short-term HR strategies and modifies HR functions, such as recruitment, training, development, career management and employee separation, to match employee demand and supply forecasts such that relevant objectives can be met (Nankervis, Compton and McCarthy 1999).

At the functional level, the HR role, over the past three decades, has broadened from being a generalist administrator to being the coordinator and implementer of the HR functions and policies (Fisher et al. 2006). Typical activities include job design and evaluation, recruitment and selection, diversity management, career management, learning and development, appraisal and performance (Nankervis, Compton and McCarthy 1999; Armstrong 2006), formulation and implementation of employee advocacy, advising and counseling on internal issues and external trends (Bohlander and Snell 2007). The functions are shared by the HR department and line managers with HR providing the technical expertise whilst line managers use this expertise to manage people effectively (Cascio 2006). Other areas of HR activities include acting as the agent of change (Ulrich 1997; Analoui 2007) and the ability to manage employee diversity.
Diversity management has assumed strategic proportion (Fisher et al. 2006) and offers competitive advantage for the organisation through the power to promote employee commitment and loyalty, reduction in employee turnover and improved performance (Keiser 2002). The major strategic HR functions of strategic recruitment, strategic development, strategic performance management and strategic rewards management are discussed below.

**Strategic Recruitment**

The essence of strategic recruitment and selection is two-fold, a) to ensure that the current and future needs are met in accordance with the internal and external dynamic situation and b) to select potential future employees with attributes that align with the mission statement and values of the organisation. Having a good fit between the personal attributes of the employees and the organisation’s goals lays the foundation for success in the long term (Millmore and Baker 1996). The person-organisation (P – O) fit criterion of selection is defined as “the compatibility between specific individual attributes and comparable organisational attributes” (Higgins 2002). A good fit with the P – O selection model supports higher employee satisfaction. From a strategic perspective, the selection processes should ensure that the candidates have a good fit with the organisation’s culture and strategic direction (Nankervis, Compton and McCarthy 1999). According to Cascio (2006:224), “a close fit between individual strengths and interests and organisational and job characteristics almost guarantees a happy marriage”. Therefore, to attract and retain talent, firms need to implement strategic recruitment and selection processes.

**Strategic Development**

Training and development involves programmes designed to positively enhance/change current knowledge, skills, attitudes and/or social behaviours to improve future performance at the individual, group or organisational levels. Strategic Human Resource Development (SHRD) aims to ensure that individual experience, attitudes and values are utilised to promote effective performance for the present and future critical operating and management tasks (Kiggundu 1993; Noe et al. 2007). To be strategic and effective, SHRD should have top management commitment, link to business strategy (Cascio 2006) and be horizontally integrated with other HRM functions (Millmore et al. 2007). The aim of strategic training is to create and implement a career development program that benefits both the organisation and the individual (Nankervis, Compton and McCarthy 1999). SHRD aids continuous learning and would in the long term eliminate staleness, boredom, burn-out and/or ineffectiveness (Gronfeldt and Strother 2006). Continuous learning helps both the individual and the firm meet their objectives. It provides greater motivation for employees and helps the organisation respond to changes and is likely to reduce turnover (Noe et al. 2007). Developing employees strategically requires that development and training are proactive rather than reactive (Analoui 2007).
Strategic Performance Management

The appraisal system refers to the tools used to evaluate how the employees and the organisation have performed against the overall objectives and goals of the organisation (Analoui 2007). The process aims to improve individual’s efficiency and effectiveness by providing a feedback loop and the organisation can utilise the results for the entire range of HRM activities (Bohlander and Snell 2007) such as, decisions on employee’s working conditions, promotions, termination and rewards (Go`mez- Mejia et al. 2004). Appraisal is a part of the performance management system and needs to be focused on improving employee performance to benefit both the organisation and employee (Nankervis, Compton and McCarthy 1999; Cascio 2006). Performance management includes outcomes and targets as well as the strategic competencies employees need. Aligning the appraisal and performance management practices with the organisations objectives is what makes it strategic. The process becomes the key to employee development and improved employee performance (Go`mez-Mejia et al. 2004). Implementing strategic appraisal and performance management has the potential to identify and retain good employees and identify development needs for lower level performers.

Strategic Rewards

A reward system is what an employer offers in exchange for employee contributions and are designed to align organisational objectives and individual expectations. They aim to attract, retain and motivate the workforce. Strategic reward is defined as “the deliberate utilisation of the pay systems as an essential integrating mechanism through which the efforts of various sub-units and individuals are directed towards the achievement of an organisation’s strategic objective” (Go`mez-Mejia and Balkin 1992: 32). The strategic objectives of remuneration are to reward past performance, remain competitive in the labour market, motivate future performance, attract and retain good staff and reduce staff turnover (Nankervis, Compton and McCarthy 1999; Leopold, Harris and Watson 2005; Cascio 2006).

HRM Studies in Indian Context

Since 1991, India has gradually liberalised its economy with reforms in the public sector, trade and exchange policy, banking sector, and liberalised foreign investment (Budhwar 2000; Venkata Ratnam 1995). The liberalisation of economy and increased global competition put considerable pressure on HR function of domestic companies to develop their workforce to compete globally. Indian companies have responded positively with changes in priority of the HRM function from routine HR activities towards a strategic approach (Budhwar 2000; Sparrow and Budhwar 1997). More recently, India has capitalized on its large pool of educated English speaking people to become an important outsourcing destination for multinational corporations. India has also become a major exporter of software as well as financial, research and technological services.
With liberalisation and increased global competition there have been concerns for quality, re-skilling and de-skilling of the workforce, cultural changes, mixed workforce, and issues related to workforce rightsizing (Rao et al 1994; Sodhi 1994; Venkata Ratnam 1995). Liberalisation has created HRM issues associated with strategic expansion, diversification, turnaround and internalisation (Ahluwalia 1994; Sodhi 1994; Venkata Ratnam 1995). All this has direct implication on how people are managed in Indian firms (Krishna and Monappa 1994). This is all the more challenging because the Indian workforce has a very diverse socioeconomic background and the antagonist nature of trade unions makes it difficult to make them work as a team (Jain 1991; Jain and Venkata Ratnam 1995). Technological edge supported by a talent pool has become a crucial factor for survival in the market especially for small scale companies in the IT services sector. HR managers are now seen often performing the role of motivators for their knowledge workers to adapt to changes in business environment (Chanda and Shen 2009). One of the biggest challenges for the HR managers in the small IT firms has been attracting the talent and retaining them. Attrition levels have been high especially in the IT enabled services sector (Chanda and Shen 2009). There is an increased level of poaching and attrition between organizations. In the information technology (IT) industry, the average attrition rate is 30-35 per cent and could increase to 60 per cent (Chanda and Shen, 2009). This is more pronounced in small IT companies. HR managers have to continuously keep on their toes to bridge the gaps created by attrition as well as recruit for the growth. High attrition rates result in a shifting workforce making consistency in performance and keeping motivation levels high a daunting task. This also leads to increase in recruiting and training costs which small scale companies can ill afford. Inconsistent performance affects quality and revenue (Chanda and Shen, 2009).

Indian firms are seen to be over manned and less efficient and place more emphasis on talent acquisition strategies. Management in these firms is adopting measures to reduce costs by rightsizing the workforce and making them efficient. Recruitment has become a major function from an imperative sub-system in HR, particularly in the knowledge industry such as IT. Human resources managers play a vital role in creating assets for the organization in the form of quality manpower. Attracting new talent is a top priority for software companies (Chanda and Shen, 2009). Another challenge for HR managers is to put systems in place to make the people a perfect fit for the job.

There are different ways in which compensation is practiced in Indian organizations such as: (a) based on seniority or work experience; (b) based on performance (c) based on skills or competencies (d) a combination of the first three practices. There are some findings that suggest that Indian firms adopt a skill or competency based approach to reward their employees (Venkata Ratnam 1995). Also, there are organisations which are still unable to move from compensation based approaches on total work experience to performance related performance related compensation packages. This is an outcome of a mixture of Indian cultural values and legal requirements (Ramaswamy and Schiphorst 2000). A subtle transition seems to be taking
place away from seniority-based towards performance based pay in India. Lifetime employment and seniority-based pay are still prevalent in Indian organisations (Venkata Ratnam 1995).

To overcome the problem of retention and building competitiveness, many organizations give utmost priority to training and skill enhancement programmes on a continuous basis. Many companies are providing technical training to employees regularly and have increased their budgets on training their employees. A significant number of managers in organizations are trained in various areas such as performance appraisal, communication, delegation, motivation and team building. This indicates that there is an increased importance of employee development in Indian organizations (Budhwar 2000). Indian organizations put emphasis on annual career development interviews for the training and development of their employees. There is a presence of in-house training and development facilities in many Indian organizations (Sharma 1992). The adoption of formal career plans, annual career development interviews, assessment centers, succession plans and planned job rotation depict the existence of a structured training and development system.

Indian organizations share less information related to both strategy and financial performance with their staff in comparison to managerial staff. There can be a number of explanations for this. First, senior management does not have much faith in subordinates (Sparrow and Budhwar 1997). Second, Indian managers prefer centralized decision making, practice tight control and do not like to delegate authority (Sharma 1984; Tayeb 1987). Moreover, majority of lower level employees in India are unaware of their rights and are exploited by management (Venkata Ratnam 1995). The research in various sectors (Amba Rao 1994; Sharma 1992) has shown significant differences in the pattern of HR practices in India. For example, Sharma (1992) highlights that less money is spent, less training is given and fewer employees are trained in public sector organizations than private ones in India. According to Singh (2000), some of the studies which have tried to focus on the relationship of HRM to firm performance have shown a low to moderate relationship between human resource practices and business performance. Singh (2004) conducted a study on 82 Indian firms indicating that there is a significant relationship between two HR practices namely, training and compensation and perceived organizational and market performance of the firm.

The literature on internal labour markets highlights the need for HRM practices to be consistent with a systematic and rationalized employment system (Osterman 1994). There is much less research evidence regarding the existence of structured employment systems for Indian organizations. Nevertheless, there is evidence regarding the provision of limited benefits and the existence of simple rudimentary pay systems in Indian organizations. Moreover, rules regarding practices such as recruitment, training, promotions and lay off are ad hoc in nature and are subject to easy manipulation by employers (Venkata Ratnam 1995). Further, recent research highlighted that Indian organizations tend to be significantly more hierarchical (Amba Rao 1994). Although general studies of HRM in India have been conducted, there is a scarcity of
body of literature on comprehensive research on HRM and strategic linkage to business performance of the organisation.

The Gaps and Need for Further Study

Besides Unites States and UK, research is growing in HR strategy-performance area in other parts of the world as well. In Finland, a study on the HR strategy-performance link in a large sample of companies concluded that a fit between HR strategy and economic condition is critical in determining organizational effectiveness (Lahteenmaki et al. 1998). It is evident that many private organisations, such as companies in manufacturing, IT, and the services sector amongst others have successfully deployed SHRM (Storey 1995; Lundy and Cowling 1996).

In the context of Indian industry, the concept of HRM and strategy integration has been examined in the study done by Chanda and Shen (2009). Most of the studies are mainly focused on large scale manufacturing companies. A few studies have highlighted HR policies and practices in Indian organizations (Amba Rao 1994; Jain 1991), but there is scarcity of research on SHRM linked with business strategy and its contribution to organizational performance. When it comes to such studies in the context of small scale IT services companies, HR researchers have largely ignored this sector. Consequently there is little no body of knowledge with regard to HR studies in this important sector.

A study of SHRM practices in small scale IT companies will help to analyse the HR challenges faced by this sector and consolidate practices that can be adapted by these companies. Moreover, as small scale IT companies offer services in the global market place, it is imperative that they follow HR practices to maintain competitive edge. There are other reasons why an analysis on Indian HRM policies and practices and levels of SHRM practices is needed. First, the recently developed phenomenon of HRD in India emphasizes the need for increased levels of integration between strategy and workforce management. Second, debates on the HRM and strategy were driven by pressures created by a dynamic and competitive business environment and the stress this placed on the desired role and competence of the HR function (Boxall 1994). There is now similar institutional pressure on Indian HR professionals. Third, most research in the SHRM has been conducted in Western contexts, mainly in the United States (Brewster and Larsen 1992; Schuler 1992; Dyer and Kochan 1995; Lengnick-Hall and Lengnick-Hall 1988; Schuler and Jackson 2002; Sparrow and Hiltrop 1994; Storey 1992; Wright et al. 2005). Little has been done in developing economies such as India. The studies done in India by Sparrow and Budhwar (1997), Singh (2003) and more recently by Chanda and Shen (2009) are a few exceptions. Fourth, India’s economic environment is rapidly changing and becoming more competitive in the world business environment. The investment in HRM processes with respect to its integration with strategy must provide a value added approach to an organization that is competing in the global market.