

## The Effect of Human Resource Management Practices on Organization's Performance

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**Abstract:** *Purpose:* The purpose of this study was to check the effect of HRM practices (staffing practices, incentive practices and training programs) on the organization's performance. *Design/methodology/approach:* Quantitative study was conducted in banking sector of Pakistan. A sample of 150 bankers, from different banks of Sahiwal, was selected and surveyed through questionnaires with a response rate of 93%. Pearson Correlation and Regression were run to analyze the data *Findings:* Finding reveals that positive and significant relation exists between HRM practices (staffing practices, incentive practices and training programs) and the organization's performance. *Research limitations/implications:* The sample size was too short. This study can be replicated with a large sample size in similar sector or context or in other sectors. Effects of other independent variables e.g. information technology, performance appraisal, employee empowerment, compensation, job rotation and employee participation could also be used. *Originality/value:* Organizations ought to pay special attention to human resource management practices to increase their organization's performance. As HR practices plays an important role in organization's performance.

**Key words:** HRM practices • Staffing Practices • Incentive Practices • Training Programs • Organization's Performance.

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### INTRODUCTION

Economic environment is changing quickly nowadays and this change is described by such phenomena as the organization go around the globe, changing customer and investor expectations and increasing market competition. To compete effectively in this environment organization should improve their performance by decreasing their costs, introducing innovative products and processes and improving their quality, output. The human resources who make up an organization are one of the important resources of today's organizations. Human resources and how managed, they are becoming more important for the organization to become successful because many other sources less powerful than human resources [1].

Human resource management is basically a system, strategies and practices that can affect employee's performance in an organization. HRM practices include acquiring, training and development, appraising and compensating employees, health safety, labor relations and fairness concerns. HRM practices can affect

employee turnover rate, levels of job satisfaction and their commitment to their organization. Organization performance refers to profitability, growth and employee turnover [2].

These days, many organizations have been insisted to implement different performance-increasing or advanced HRM practices to increase their efficiency to compete in the global marketplace. Such endorsements are predictable given that specialists have long emphasized that the way that the organization used to manage people can affect organizational performance [3]. Giva description on about "outstanding" organizations, the earlier period has given several statements about the worth of HRM practices and structures of these practices. In particular, personnel contribution, authorization, job restructure as well as team oriented production systems, personnel training and development and performance based inducement, reward, are extensively supposed to increase the organizational performance [4].

Additionally, growing body of research has claimed beneficial effect of HRM methods on firm performance. Considerable indecisiveness remains, however, as what is

the level of connection between HRM methods and company's performance, either some methods have beneficial connection or not and either complementarities among HR methods can increase business results or not [5].

Major changes are going on in the global market. The world progressively move away from the situation in which different economies were relatively inaccessible from one another into a mutually dependent global system, according to observation there is a quick improvement of all aspect that are affected by and correlated with human resource management practices [6].

As the developing economies generate chances and it also presents some challenges and pressures and the precedent business executives did not have to focus on these challenges. Organizing human resources is important for the success of all firms. In spite of the industry, either the firms are large or small, if the firms efficiently handle its human resources and then its output will increase [7].

Human resource management faced many challenge of bringing in the trained employees in the organization that fulfill their expectations and requirements regarding work, as long as to fulfill the requirements of organizational performance. Thus, the manager's constant concern is to develop new concepts to make better human resource management practices and develop new standpoints that can be helpful in obtaining expected results and improve organizational performance [8].

Mainly the research on HRM practices done in developed countries. It is attention-grabbing to found the effect of HRM practices on organization's output in developing countries. This study will act as a small contribution in the field of HRM, by emphasizing the effect of HR management practices on organization's performance. Sample will be taken from Sahiwal to check the effect of staffing practices, incentive practices as well as training programs on organization's performance because this effect has not been studied yet in Sahiwal.

**Objective of the Study:** The objective of the proposed project is as follows:

- To examine the effect of staffing practices on organization's performance.
- To examine the effect of incentive practices on organization's performance.
- To examine the effect of training programs on organization's performance.

#### **Research Question:**

- What is the influence of HRM practices on organization's performance?
- Does staffing practices performs and important part in organization's performance?
- Do incentive practices performs and important part in organization's performance?
- Does training programs performs and important part in organization's performance?

This research paper begins with the introduction of the research problem i.e. the relationship between the variables; human resource management practices (Staffing practices, Incentive practices and training programs) and organization's performance. After that the next topic unveils different perspectives of previous researchers about the variables of interest in the literature review. This helps to in the further understanding of the research problem. Then the next topic i.e. the theoretical framework helps to diagrammatically describe the relationship among the variables and explain them clearly. After the formation of the framework, hypothesis is formed and explained. The hypothesis is the main essence of this paper as the aim of this paper is to prove the reality of this hypothesis. Next the methodology of data collection is explained. This part describes the instrument used for data collection. The next part of this paper is based on the findings of the data collection and results of different tests applied on the data. These results let us know whether this research was significant or not and provides the answers to its question. Finally the last part concludes the whole research and provides its shortcoming and further directions.

#### **Literature Review:**

**HRM Practices:** A message that is normally found in organization's mission and vision statements and their annual reports is that employees are organization's most important asset. Having the right employee at the right time and at the right place is essential for the success and survival of the organization. Organizations state that personnel are the basis of their competitive advantage. The organization's performance depends upon human resources of the organization [9].

The concept of "human resource management" has been commonly used in the previous decade. Before that, this concept was usually known as "management of personnel". (Daud, 2006) Some researcher has made no discrimination between management of personnel and

HRM and explained that this concept of human resource management is new extended version of long-established concept of management of personnel due to technological change and modernization in the work setting and due to change in principles and standards. Researcher clarify the variation among management of personnel and HRM by declaring that management of personnel just focus upon employee's management while human resource management focus upon resource management. Research focusing on the consequence of human resource management practices on organization's performance HRM practices has become popular in latest years [10, 11].

[5] carried out the analysis that focus on the performance effects of specific HRM methods, that include training and development and information sharing and research observe the effect of systems of HRM methods on organizational output. Although several studies have accounted a considerable effect of a variety of HRM methods on goals and organization's performance.

Many writers have said that focus upon human resource management practices as whole rather than individual practices. The reason at the back of this argument is that organizational performance is improves by human resource management practices as whole that support each other and that have a mutual effect on employee's involvement in organizational performance [12].

**Staffing Practices:** Organizations can implement a mixture of HRM practices to increase employee proficiency. Firstly, focus on either improve the quality of the personnel's hired or increase the expertise and capabilities of existing workers, or on both. Employees can be hired through refined recruitment and selection methods which are used to select very best potential employees. In fact, research point out that screening and then finally selection of staff is positively associated with organizational performance [13]. Secondly, organizations can get better quality of existing workers by organizing different training programs after screening of potential employees. Considerable verification suggests that investments in training improve organization's overall performance [14].

Today firms are facing many challenges of screening and holding effective employees. To increase organizational performance the organization should have effective staffing practices. To make best hiring decisions staffing practices are the tools for evaluation which are

used by organizations. Furthermore, staffing practices helps to chose right candidate for right job at right time and that candidate is capable to perform the given tasks, generates a sense of superiority and generates high potential of performance [9].

Staffing practices are those human resource management practice used for personnel planning and forecasting, recruiting, screening and selecting the right personnel for the right job, has exposed a positive impact on organizational performance. The specific staffing practices such as recognition of recruiting sources (internal or external) and then use formal test like aptitude test, psychomotor test, job knowledge test and personality tests shows a positive relationship with profit margin [15].

**Incentive Practices:** The role of incentives has expanded considerably. Researchers have investigated that there is a strong impact of incentive management on risk- taking which enhance the organizational performance. The impact of incentives on behavior has been well explained in different studies. Incentives may be in monetary rewards forms or other types of incentive-based compensation which are stock option, share ownership (partnership) and additional benefit like bonuses and rewards. Employees' performance can be improved through different incentive plans which are demonstrate by innovative work follows [16]. Researcher argued that study based on theoretical model with agency theory in order to understand either incentive work as a moderator in affecting the organizational performance or not. On the other hand, some researcher argued that incentives are associated with the accomplishment of previously set goals and mission. Incentives are basically used to motivate employees to become more productive in order to enhance the organizational performance [17].

Motivation is another important factor highlighting HRM and firm's performance. Researcher said that human attitude can be examined by two components:

- Economic gains
- Social acceptance

These two components are basically an incentive for workers of organizations. Incentives are basically complex arrangement between worker and managers to maintain and express working relationships between them. Research shows that incentives encourage employee to increase their output and organizational performance (Ana-Maria, 2012).

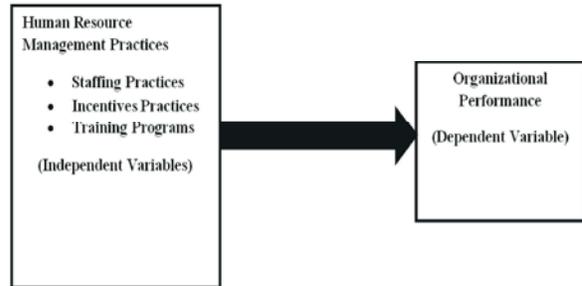
**Training Programs:** Many researchers examine the effect of training programs on output and where both worker and manager, owner/boss can share the benefits from training programs [18, 19]. On the other hand, research focused on the generalization of training to organizational output exposed that on the job training programs does not improve the organizational performance whereas off-the job training improves the organizational performance. Additional [20] stated that off the job training programs has strong effect on organization's performance whereas on the job training programs does not. Through efficient training programs would not only help to achieve the organization's goals by adding the satisfaction and better output of employees, it would also helps to equip employees with knowledge and expertise that are necessary to perform that specific job. Past researchers exposed that training provides sufficient ability to a worker to do better in a given job and then improve the organizational performance. However, researcher stated that training programs is a costly ways to improve the human output [17].

One of the main challenges is training programs of employees that HRM managers will face in the upcoming days. As organizations come into existence, they need to work in an interdependent world [6]. Training programs are useful for the success of any organizational strategy and help to compete with changes in the near future. The competitive advantage of companies is the good quality of their human resources in the highly competitive environment. In addition great emphasis on internal training that is firm specific training, rather than external or general training [21].

To compete in today's world (in 21<sup>st</sup> century) the organizations need to invest in the development of their human resources to continuously update the skills, knowledge and work practice of employees. Researches point out that investment in training programs of employees increase the firm performance. The training & development is basically refers to a process to improve the current and future skills, knowledge of workers [9].

**Organizational Performance:** As [17] said that Organizational performance has been researched in the past broadly. Some of the points which decide organizational performance are

- Output/productivity
- Profitability
- Turnover



Some researchers argued that human resource management (HRM) is known as the fundamental business concern, that forms the deeds, thoughts and output of the employees, thus HR practices plays a vital role in organizational performance. When workers are not loyal to their organization then this will decrease the output and deprived service quality.

[22] Carried out a study to examine the relationship between HR and output found that through HR practices the performance of the companies can be improved. This is further supported by [23] that some HR practices are linked with good employee performance and resulting the increase in organizational performance. Though, the HR practices have influence on organizational performance when the employees contributing in organizational output. The consequence of HRM practices on organization's performance were examine in past researches where HRM practices were associated with personnel's turnover rate, personnel's loyalty with their organization and better job skills and actions of the employees

**Theoretical Framework:** This theoretical framework basically develops to describe the relationship between variables. The variables for my study are Human Resource Management Practices: staffing practices, incentives practices and training programs) which is independent variables and organizational performance which is dependent variable. And at the end Organizational Performance is dependent variable as it is expected to vary along with any changes in the Human Resources Management Practices i.e. independent variable. This is the basic issue of interest in our entire study.

**Definition of Variables:**

**Human Resource Management Practices:** HR practices are basically organization's actions which are responsible

for administer the group of human assets and make sure that these assets are working to fulfill the organization's objectives [2].

**Staffing Practices:** Hiring methods of employees through refined recruitment and selection methods which are used to select very best potential employees. In fact, research point out that screening and then finally selection of candidates [13].

**Incentives:** Incentives are usually in monetary rewards forms or other types of incentive-based compensation which are stock option, share ownership (partnership) and additional benefit like bonuses and rewards that are usually given to improve their performance [16].

**Training Programs:** Training programs are basically those activities which help to achieve the organization's goals by adding the satisfaction and better output of employees; it would also helps to equip employees with knowledge and expertise that are necessary to perform that specific job [17].

**Firm performance:** For this study the organization's performance shows its profitability, growth of its sales and revenue and employee turnover [2].

**Hypothesis:** Hypothesis is basically a specific statement which is formulated for empirical testing. The hypothesis is constructed with bases in the general theory described above. Many researcher reported that there is a strong connection between HRM techniques and organization's performance [24, 11]

**Staffing Practices and Organizational Performance:** [9] founded that staffing/ selection practices have strong relationship with organization's output.

**H<sub>1</sub>:** Staffing practices has positive relationship with organization's performance.

- Incentive Practices and Organizational Performance (Ana-Maria, 2012) ; [17] founded that incentive has a strong and significant relationship with organizational performance.

**H<sub>2</sub>:** An Incentive practice has positive relationship with organization's performance.

- Training Programs and Organizational Performance [17] ; (Ana-Maria, 2012) founded that employee's training has a strong and significant relationship with organizational performance.

**H<sub>3</sub>:** Training programs has positive relationship with organization's performance.

## MATERIALS AND METHODS

The literature review has helped us to discover that these variables had widely been studied in different countries and contexts and most of the studies were carried out in developed countries but not in Pakistani banking sector as done here. Many researchers as [17, 21, 5], (Ana-Maria, 2012) ; [2], (Moideenkutty, Al-Kamki, & Murthy, 2011) ; [9] and (Osman, C.F.Ho, & Galang, 2011) did quantitative research in order to check the influence of HR management techniques on organization's performance. This research aims to analyze these variables quantitatively in the banking sector of Pakistan.

**Data Collection Method:** Self-administered questionnaire was used to collect data to save time and money. Instrument used in this study was adopted and adapted and validity of all these are mentioned in previous studies. Primary data is collected through surveying and secondary data is gathered from previous studies from books and research articles. Only Sahiwal division was taken as target population to carry out this study because of time and financial constraints. This study was carried out to check the influence of HRM practices on organization's performance in banking sector of Sahiwal because this effect has not been studied yet in banking sector of Sahiwal so this study can be best in order to check the effect of HRM practices on organization's performance in banking sector of Sahiwal division, where there is scope of novelty. 150 people were given chance to fill the questionnaire. Convenience sampling technique was used to collect data for this paper. Sample of 150 people were taken from Sahiwal. A total of 145 responses were collected in which 140 were useable with a response rate of 93%. It took almost two week to collect the data for this study.

**Data Analysis Method:** The data was treated and analyzed in the SPSS v. 16 software. Reliability of the figures was checked through Cronbach's alpha. The sample

characteristics were analyzed using Mean, Variance and Standard Deviation. As the hypotheses were relational and there was three independent variables, so multiple regression and correlation was used to check the characteristics of and relationships among the variables. The linearity and autocorrelation in the data was determined by Durbin Watson test.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Here

- Y = Organization's performance
- $\beta_0$  = Constant variable
- $X_1$  = Staffing practices
- $X_2$  = Incentive practices
- $X_3$  = Training programs
- e = Error

By this equation, effect of independent variables on dependent variable was measured.

**Findings of the Study:**

**Descriptive Statistics:** Bar chart showed that 77.1% respondents were male and 29.9% were female. 32.9% of the respondents were in the ages of less than 30 years, 39.3% were in 30-40, 20.7% were in the age of 41-50 and the remaining 7.1% in the age of 51-60. In the education level category 40% respondents have bachelor degree whereas 58.6% have master degree whereas the remaining 1.4% respondents have MS degree. For the years of experience category, 34.3% respondents have less than 5 years experience, 32% have 5-9 years experience, 17% have 10-14 years experience and 16% have 15 and more years of experience. The Mean values, Standard Deviation and Variance for all these categories are shown below in Table 1.

**Inferential Statistics:**

**Reliability:** The reliability of a measure indicates the strength and uniformity with which the instrument measures the notion and helps to evaluate the goodness of a measure. Instrument of this study, i.e. questionnaire was found reliable with Cronbach's alpha value of .987 (Table 2).

Table 3 shows that instrument used in this study was reliable with cronbach's alpha value of 1<sup>st</sup> independent variable (staffing practices) 0.971, with cronbach's alpha value of 2<sup>nd</sup> independent variable (incentive practices)

Table 1:

	Descriptive Statistics			
	N	Mean	Std. Deviation	Variance
Gender	140	1.2286	.42142	.178
Age	140	2.0214	.90933	.827
education level	140	1.6286	.56699	.321
years of experience	140	2.1571	1.07470	1.155
Valid N (listwise)	140			

Table 2:

Reliability Statistics	
Cronbach's Alpha	N of Items
.987	17

Table 3:

Scale	Reliability coefficients	
	Chronbach alpha coefficient	Items
Staffing Practices	0.971	5
Incentive Practices	0.914	3
Training Programs	0.936	4
Organization's Performance	0.950	5

0.914, with cronbach's alpha value of 3<sup>rd</sup> independent variable (training programs) 0.936, with cronbach's alpha value of dependent variable (organization's performance) 0.950.

**Correlation:** Pearson correlation was used in this study as it measures the strength of associations between variables. Results of Pearson correlation show that positive correlation exists in staffing practices and incentive practices with .958\*\* value with significance of .000 and in staffing practices and training programs with .964\*\* value with significance of .000 and in staffing practices and organization's performance with .966\*\* value with significance of .000. This means all these are positively and significantly related with each other. Relationship between Incentive Practices and Staffing Practices was positive with value .958\*\* and significant at .000 and Incentive Practices and Training Programs also have a positive relationship with value .956\*\* and significance of .000 and Incentive Practices and Organization's Performance also have a positive relationship with value .961\*\* and significance of .000. Relationship between Training Programs and Staffing Practices was positive with value .964\*\* and significant at .000 and Training Programs and Incentive Practices also have a positive relationship with value .956\*\* and significance of .000 and Training Programs and Organization's Performance also have a positive relationship with value .961\*\* and significance of .000.

Table 4:

		Correlations			
		Staffingpractices	Incentivepractices	Trainingprograms	Organizationperformance
Staffingpractices	Pearson Correlation	1	.958**	.964**	.966**
	Sig. (2-tailed)		.000	.000	.000
	N	140	140	140	140
Incentivepractices	Pearson Correlation	.958**	1	.956**	.961**
	Sig. (2-tailed)	.000		.000	.000
	N	140	140	140	140
Trainingprograms	Pearson Correlation	.964**	.956**	1	.961**
	Sig. (2-tailed)	.000	.000		.000
	N	140	140	140	140
Organizationperformance	Pearson Correlation	.966**	.961**	.961**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	140	140	140	140

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Table 5:

Model Summary <sup>b</sup>										
		Change Statistics								
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
1	.976 <sup>a</sup>	.952	.951	.22904	.952	897.531	3	136	.000	2.090

a. Predictors: (Constant), trainingprograms, incentivepractices, staffingpractices

b. Dependent Variable: organizationperformance

Table 6:

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-.020	.082		-.237	.813
	staffingpractices	.448	.091	.393	4.921	.000
	incentivepractices	.312	.070	.323	4.444	.000
	trainingprograms	.273	.079	.272	3.474	.001

a. Dependent Variable: organizationperformance

Relationship between Organization's Performance and Staffing Practices was positive with value .966\*\* and significant at .000 and between Organization's Performance and Incentive Practices was positive with value .961\*\* and significant at .000 and between Organization's Performance and Training Programs was positive with value .961\*\* and significant at .000. Hence it is seen that all the variables effect each other positively and significantly relationship as shown in Table 4.

**Regression:** Regression table measures the amount of total variation in dependent variable due to independent variable. Table 5 shows the value of Adjusted R<sup>2</sup> is 0.951. This value indicates that there is almost 95% variation in dependent variable (Organization's Performance) due to one unit change in independent variables. The F value is

897.531 at 0.000 significant level which shows that the model is good as its value is less than 0.05. Value of Durban Watson test was 2.090 this shows that there was no autocorrelation in the data.

**Coefficient of Regression:** Moving on the beta value of independent variable (staffing practices) is 0.393 with t value 4.921 and significant level of 0.000. The beta value of independent variable (incentive practices) is 0.323 with t value 4.444 and significant level of 0.000. The beta value of independent variable (training programs) is 0.272 with t value 3.474 and significant level of 0.001. This beta value indicates the amount of change in the dependent variable (organization's performance) due to changes in independent variables (staffing practices, incentive practices and training programs) as shown in Table 6

**Summary of Findings:** The following table summarizes all the results in terms of the hypothesis that were found to be true.

Hypothesis	Sig.	Direction	Hypothesis Supported
H <sub>1</sub> : Staffing practices has positive relationship with organization's performance.	.000	Positive	Yes
H <sub>2</sub> : Incentive practices have positive relationship with organization's performance.	.000	Positive	Yes
H <sub>3</sub> : Training programs has positive relationship with organization's performance.	.001	Positive	Yes

So, the entire hypotheses were found to be true at the end of this study.

## CONCLUSION

The main objective of this study is to identify the effect of human resource management practices and organization's performance. Overall, the result of this study provides evidence in support of the theory that HR practices affect the organization's performance. In this study the influence of HR practices was seen on organization's performance in the banking sector of Pakistan. A sample of 150 bankers was taken from different banks of Sahiwal. Data was gathered through questionnaires and was analyzed using correlation and regression techniques through SPSSv. 16.

At the end of this research we found a significant relationship among all the variables, i.e. staffing practices, incentive practices, training practices and organization's performance. These researches are consistent with many prior researches that also found similar results e.g. [9], (Ana-Maria, 2012), [17] etc.

This paper proposes an approach for better organization's performance through effective management of HR practices [25]. Three hypotheses are considered in this study and these hypotheses are accepted. Findings of the study revealed that the positive and significant relationship exists between the independent variable (staffing practices, incentive practices and training performance) and dependent variable (organization's performance). Findings of the study shows that independent variables have strongest impact on dependent variable in Sahiwal division [26-28]. This research can be used by the managers in Sahiwal to improve their organization's performance by managing HR through HRM practices. Findings of the study shows that the organizations should focus on this concept in turn their organization's performance will be increase.

**Limitation and Future Directions:** There are different limitations in this study. Firstly, a small sample size was taken due to time and financial constraints. In future a

bigger sample size may be taken for such kind of study. This would improve the accuracy of the results even more as a better representation of the population would be provided. Moreover people of other than the banking sector may be added to the target population. This would increase the scope for comparison and wide range of responses may be received.

Secondly, only three independent and one dependent variable was taken. Effects of other independent variables e.g. information technology, performance appraisal, employee empowerment, compensation, job rotation and employee participation could also be used. Sample was taken from Sahiwal division for this study. Sample can be taken from other cities of Pakistan for future research. Convenience sampling technique was used to collect data for this paper for future research random sampling technique could also be used. For future research this study can be use to compare the concept of HR practices of different cities of Pakistan.

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