Impact of Human Resource Management Practices on Employees Performance

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Abstract: Human Resource is the most important asset for any organization and it is the resource of achieving competitive advantage. Managing human resources is very challenging as compared to managing technology or capital and for its effective management, organization requires effective HRM system. HRM system should be backed up by strong HRM practices. HRM practices refer to organizational activities directed at managing the group of human resources and ensuring that the resources are employed towards the fulfillment of organizational goals. The purpose of this study is to explore contribution of Human Resource Management (HRM) practices including selection, training, career planning, compensation, performance appraisal, job definition and employee participation on perceived employee performance. This research describe why human resource management (HRM) decisions are likely to have an important and unique influence on organizational performance. This research forum will help advance research on the link between HRM and organizational performance. Unresolved questions is trying to identify in need of future study and make several suggestions intended to help researchers studying these questions build a more cumulative body of knowledge that will have key implications for body theory and practice. This study comprehensively evaluated the links between systems of High Performance Work Practices and firm performance. Results based on a national sample of firms indicate that these practices have an economically and statistically significant impact on employee performance. Support for predictions that the impact of High Performance Work Practices on firm performance is in part contingent on their interrelationships and links with competitive strategy was limited.

Key words: Selection · Training · Career Planning · Compensation · Performance appraisal · Job definition · Participation

INTRODUCTION

To attract, retain and add to share holder value innovative Human Resource Management practices are required to be implemented. In today’s knowledge organizations where value is locked in the heads of the work force, best HR practices only can ensure continued success of business organizations. In developing economies like ours, best Human Resource practices are a recent phenomenon. Most of the firms follow Human Resource practices to the level of compliance of the law of the land. Human resources are the source of achieving competitive advantage because of its capability to convert the other resources (money, machine, methods and material) in to output (product/service). The competitor can imitate other resources like technology and capital but the human resource are unique.

Literature Review: Human resource management (HRM) refers to the policies and practices involved in carrying out the ‘human resource(HR)’ aspects of a management position including human resource planning, job analysis, recruitment, selection, orientation, compensation, performance appraisal, training and development and labor relations [1]. HRM is composed of the policies, practices and systems that influence employees’ behavior, attitude and performance [2]. The presumed link between individual performance and organizational performance has been well established in business literature [3]. Aware of such a fact, organizations have been in a state of constant search for leverages of employee performance. The leverages are the factors that promote or enhance the level of employee effort and activities related to his/her work, which ultimately improve organizational performance. The search for the leverages or factors that enhance employee performance has always

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been a big concern for industrialists and researchers. Taylor's prescriptions which looked for the 'one best way' of production attached to a reward package which enabled 'economic man' to maximize income was an early attempt to couple employee motivation with productivity and output [4].

Aguinis regard HRM as “involving all management decisions that affect the relationship between the organization and employees, its human resources” [5]. Human resource management (HRM) practices, in any firm, are a moderator among the strategy and policies of HRM and HRM outcome. HRM practices include job analysis, orientation, performance appraisal, human resource planning, labour relations, selection, recruitment, compensation and training and development [6]. HR practices and job satisfaction are studied widely in different parts of the world. It is assumed that HR practices are closely associated with job satisfaction [7]. Because many scholars and practitioners believe that sound HR practices result in better level of job satisfaction which ultimately improves organizational performance [8]. Some researchers focus on the overall job satisfaction or even life satisfaction of employees [9] whereas some others underline a variety of satisfaction facets such as satisfaction with pay, promotion, supervisor, or co-workers.

**Employee Satisfaction:** Employee satisfaction is a “function of the perceived relationship between what one wants from one’s job and what one perceives it as offering” [10]. On the other hand, mentions that employee satisfaction is positively correlated with motivation, job involvement, organizational citizenship behavior, organizational commitment, life satisfaction, mental health and job performance and negatively related to absenteeism, turnover and perceived stress and identify it as the degree to which a person feels satisfied by his/her job. Cranny, et. al, (1992) suggests that employee satisfaction encompasses a lot of different facets [11]. Rousseau (1978) identified three components of employee satisfaction: they are characteristics of the organization, job task factors and personal characteristics. Personal characteristics can be regarded as non-work factors of job satisfaction [12]. The most referred definition of job satisfaction was offered by Locke (1976) who defined job satisfaction as a pleasing or positive emotional state resulting from the evaluation of a person’s job [13].

**Employee Performance:** According to MacDuffie (1995), there are basically three types of employee performance data available, which include qualitative (customer complaints, number of errors) or quantitative (customers served, units produced), measures of time (absence, lost working time, lateness and failure to meet deadlines) and financial indicators that consists of a large array of possibilities [14]. Researchers should be aware of the range of types of data that might be collected to indicate performance, including “the „hard? measures, followed by behavior, followed by reports or ratings” [15].

For this study, the measures for employee performance will be adopted from established empirical studies linking HRM practices and employee performance. Human resource management researchers and practitioners have increasingly stressed the utility of HRM in meeting the strategic goals of the organization. Organizations that invest in "best" HRM practices often increase firm productivity and profitability [16]. Theoretical evidence on the relationship of HR practices with organizational effectiveness indicates that HR practices influence employee attitudes, behaviors, perceptions, organizational climate and other HR performance measures which lead to organizational effectiveness. It is clear that, HR practices and innovations therein, impact both organizational outcomes as well as the employee outcomes. However, empirical evidence on the mediating role of employee commitment and other employee attitudes such as job satisfaction etc. between HR practices and organizational effectiveness is still not forthcoming [17].

The significance of human resources (HR) as the greatest asset of a business enterprise has increased since Human Resources constitute an organization's intangible, irreplaceable and, un-imitable resources. This being so, the effective management of human capital, not physical capital, may be the ultimate determinant of organizational performance. The impact of human resource management (HRM) policies and practices on employee performance is an important topic in the fields of human re-source management, industrial relations and industrial and organizational psychology [18].

An increasing body of work contains the argument that the use of High Performance Work Practices, including comprehensive employee recruitment and selection procedures, incentive compensation and performance management systems and extensive employee involvement and training, can improve the knowledge, skills and abilities of a firm's current and potential employees, increase their motivation, reduce shirking and enhance retention of quality employees while encouraging nonperformers to leave the firm [18].
The contribution of even a highly skilled and motivated workforce will be limited if jobs are structured, or programmed, in such a way that employees, who presumably know their work better than anyone else, do not have the opportunity to use their skills and abilities to design new and better ways of performing their roles. Brady (1990) proposes that utilitarianism and formalism be viewed as two sides to ethical theory that can be applied to ethical decisions in a business setting [19]. Strategic human resource scholars have argued that companies can effectively influence the interactions, behaviors and motivation of employees through different human resource (HR) practices [20]. In this regard, two HR practice alternatives have emerged in the literature: transaction-based HR practices, which emphasize individual short-term exchange relationships and commitment-based HR practices, which focus on mutual, long-term exchange relationships [21].

To that end, a growing body of evidence suggests that commitment-based HR practices are more positively related to firm performance than are practices that are transaction-based. For example, researchers have found a positive relationship between more commitment-based HR practices and firm performance in manufacturing firms, in service organizations and in a diversified sample of businesses [22]. Although the specific HR practices applied vary across studies, companies following a commitment-based approach implement practices that collectively demonstrate a long-term investment in their employees [23].

The literature suggests that commitment-based HR practices create an organizational social climate that motivates employees to act in the best interests of their firm rather than only in their individual self-interest [24]. This view closely matches the perspective of research on strategic human resource management (SHRM), which suggests that commitment-based HR practices affect firm performance by creating an organizational environment that elicits employee behaviors and capabilities that contribute to firm competitive advantage. Some initial empirical research suggests that positive employee relations affect firm performance by creating positive employee attitudes [25].

**Training:** According to Harel and Tzafrir (1999), training can influence performance by improving skills and abilities relevant to employees' tasks and development [26]. The findings of McEvoy (1997) reveal that training influences organizational commitment, participant knowledge and organization-based self-esteem [27]. Other studies (e.g., Burke and Day, 1986) indicate that training positively influences the level of performance of managers [28]. Similarly, Bartel (1994) found that investment in training boosts employee morale and increases performance. In general, training allows employees to acquire greater competencies that are needed to perform their jobs efficiently and effectively [29].

**Selection:** The HR work system includes tight division of labor and narrowly designed and specialized jobs. In such a system, limited employee participation exists and personnel policy specifies detailed rules concerning career progression and compensation [30]. One of the clearest expositions of this theme was given by Schuler and Jackson (1987). In their model, HRM is viewed as a menu of strategic choices to be made by HR executives intended to promote the most effective role behaviors that are consistent with the organization strategy and are aligned with each other [31]. The model has built on the generic competitive strategies outlined by Porter (1980) - i.e., quality enhancement, innovation and cost leadership or reduction. For each strategy, Schuler and Jackson developed a set of 'needed role behaviors' which vary across a number of dimensions and then recommended a set of human resource practices that are needed to bring about these behaviors [32-40].

In the simplest terms, they must either improve efficiency or contribute to revenue growth. Human resources, both as labor and as a business function, has traditionally been viewed as a cost to be minimized and a potential source of efficiency gains. Very seldom have HR decisions been considered a source of value creation. This new strategic role for HR has attracted interest in the subject beyond the traditionally narrower boundaries of human resource research. Reflecting this multidisciplinary interest, the mechanisms by which human resource decisions create and sustain value are complicated and not well understood. Early efforts, such as utility analysis, sought to quantify the dollar value of improvements in employee selection and other human resource activities.

**Performance Appraisal:** Research has also found that employees develop more positive attitudes when they receive favorable outcomes. For example, the level of extrinsic rewards (e.g., amount of pay) employees receive has been found to be negatively related to turnover levels [41-50].

The level of social rewards individuals receive has also been found to positively influence job attitudes. For instance, the level of social support individuals receive
from coworkers has been shown to positively influence their job satisfaction [36]. Management's attempt to implement a classic control system for reducing labor costs by unilaterally increasing performance standards and maintaining wages and benefits is likely to be met by strong resistance from a unionized work force. Resistance in the form of strikes, high grievance rates and adversarial labor relations have been found to be extremely costly to firms in terms of productivity and quality [18].

Companies can influence employees' perceptions of the fairness and favorability of pay in their workplace by developing "a written reward strategy that asserts the importance of fair, non-discriminatory pay" and by training managers to be as open and honest as possible when communicating information about rewards [14].

Employee Participation: HR professionals must focus on continuous innovation by responding positively to new ideas and constantly keeping track of new trends. Innovative HR interventions, designed to ensure that people respond spontaneously to the critical demand of the organizations, have tremendous potential to build healthy and successful organizations [46]. Today, the organizations that simply follow the traditional approaches to managing people, obsessed with the in-place HR systems that they have, appear to be destined to perform at a mediocre level or worse [40].

Organizational support is defined as "the extent to which employees perceived that the organization valued their contribution and cared about their well-being" [22]. The support that is provided by the organization is directly related to employees' performance. Employees exchange their genuine effort for greater care, concern and support they received from their organization [22]. Similarly, DeCotiis and Summers (1987) reported that when employees were treated with consideration, they displayed greater levels of commitment [19].

Career Planning: Some studies have revealed that developing a sense of justice on employees can increase satisfaction, commitment, effort and performance [23]. According to Chatterjee and Pearson (2000), HR practitioners currently espouse practices that are in keeping with individual wants as well as the firms' requirements [16].

The logic that the human resource policies and practices of the firm have implications for the creation of competitive advantage by providing the organization with a unique source of talent that is difficult to replicate has been prevalent for many years. This view has been recognized and followed up by academics and practitioners. For example, Bailey (1993) argued that human talent is often 'under-utilized' and that organizational efforts to elicit discretionary effort from employees are likely to provide a source of competitive advantage that cannot be easily replicated by competitors [6]. Internal labor markets that provide an opportunity for employees to advance within a firm, and team-based production systems [42] are all forms of work organization that have been argued to positively affect firm performance. In addition, it has been argued that the provision of job security encourages employees to work harder. HRM practices have a positive "main effect" on firm-level outcomes.

Compensation: Industrialists and researchers have been in constant search for the factors that affect employee performance. In his early attempt, Taylor had suggested prescriptions which looked for the 'one best way' of production attached to a reward package which enabled 'economic man' to maximize income in return for his/her great effort. This was an early attempt to couple employee motivation with productivity and output [50-61].

Intrinsic paybacks, in terms of rewards and compensation, do enhance the employees' in-role performance to some degree [20]. However, when organizations set goals of improving their effectiveness, as well as efficiency, it requires that its members take up extra role activities and perform them to the best of their abilities. Extra role performance by the employees is an indicator of positive individual contribution to overall organizational effectiveness [20]. Altarawmneh and Al-Kilani (2010) state that "employees are motivated when there are financial rewards directly tied to their performance" [2]. Fulmer (2003) investigate the association between compensation and work performance and found positive association between them [24]. Compensation has a significant correlation with worker performance outcomes [35].

Moreover, a significantly positive relationship has been identified by Teseema and Soeters (2006) between compensation practices and employee performance. An examination of the literature on gender differences in pay raises suggests two different reasons why women may receive higher raises than men [60]. Reduced stereotyping is one possible reason for women receiving higher pay raises. Specifically, Gerhart (1990) suggested that women had lower base pay, but higher pay increases, due to differences in the amount of information available to the decision-maker [26]. As Tosi and Einbender (1985) argued,
when managers have limited information about job performance or capabilities, they tend to make
stereotypical judgments [62].

**Job Definition:** Current trends of HR practices suggest that HR managers are more customer-oriented. For example, HR practitioners view coworkers as internal customers and outsiders as external customers [4]. This suggests that the contemporary HRM viewpoint is consistent with the definition of organizational culture where employees strive towards internal integration and external adaptation [58].

Romero (2004) indicated that the organizations that are traditionally looked upon as great places to work are also better performers [53]. Consequently, an increasing priority is being placed upon high performance work systems (HPWS) [8]. The acceptance of HPWS by firms in India suggests that at present organizations are concerned with developing and putting into practice such selection procedures, performance management methods and employee development programmes that are consistent with the firms' general strategic and cultural focus [34].

**Research Question:** How Human Resource Management practices affects Employee Performance.

Hypothesis Human Resource Management Practices are positively correlated to Employee’s Performance.

H“: HRM Practices are negatively correlated to Employee Performance.

H 1: Selection is positively correlated to Employee’s Performance.

H 2: Training impacts Employee’s Performance positively.

H 3: Performance appraisal is positively correlated to Employee’s Performance.

H 4: Career planning is positively correlated to Employee’s Performance.

H 5: Compensation is positively correlated to Employee’s Performance.

H 6: Employee Participation is positively correlated to Employee’s Performance.

H 7: Job Definition is positively correlated to Employee’s Performance.

**Methodology:** The course of action that was adopted was to write a literature review after reading a number of articles regarding the desired topics and findings. Different articles, journals and books were referred in order to get desired knowledge; this was the secondary research methods. For the primary data collection different organizations of Pakistan were chosen where the questionnaires were distributed and later evaluated through SPSS software.

**Subject:** Targeted organizations included Treet Group of Companies, Expres News (Anchors), Packages, Bullah Shah Packages, ICI Industries, SHELL, KPMG (Auditing Firm), Excellence Delivered EXD PVT LTD (Auditing Firm), Wateen, Interloop, Banks (Silk Bank, Dubai Islamic Bank, Bank Alfalah Limited, MCB, HBL, Habib Metropolitan Bank, Bank Al Habib) UCP(Students) and PACK TECH PVT LTD.

The answers collected through the questionnaires were highly sufficient and the response was seriously made as they were approached through official letter (issued by our instructor), in the course of proper references and channels. Questionnaires numbered 70 were distributed randomly amongst all above listed well Renowned Organizations.

**Procedures:** Questionnaire was prepared that consisted of 31 items that included seven variables that included Training, Performance Appraisal, Career Planning, Employee Participation, Job Definition, Compensation and Selection. These variables were made into questions which were arranged in to the questionnaire, every variable was described in order to make up a relationship with the findings, like Training is directly related with the positive change in employee performance, similarly more the compensation plans, more would be employee performance. Likewise, more strategies and efforts would be put by HRM towards Performance Appraisal, Selection, Career Planning; more Positive results shall be carried out from Employee Performance.

**Data Treatment:** The Questionnaire prepared was based upon a Likert scale with:

Following mentioned ratings key was used in the Questionnaires.

**Key:** 1=Strongly Disagree 2=Disagree 3= Neutral 4= Agree 5= Strongly Agree

The data was then processed into the excel sheet for initial data entry of results and then into the SPSS software for evaluation of the variables to find out if the hypothesis were rejected or accepted.
RESULTS

Reliability of All Questionnaires:

Case Processing Summary

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Reliability Statistics

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Regression

Model Summary

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a. Predictors: (Constant), MEANSO, MEANJD, MEANPA, MEANCO, MEANTRANING, MEANCP1

ANOVAa

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<td>Total</td>
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a. Dependent Variable: MEANEP
b. Predictors: (Constant), MEANSO, MEANJD, MEANPA, MEANCO, MEANTRANING, MEANCP1

c. Coefficientsa

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<td></td>
<td>MEANPA</td>
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a. Dependent Variable: MEANEP
DISCUSSION

According to the validity test none of questions were rejected. The overall Reliability of data is 95%. Similarly, on individual bases, Reliability of Training was 85.8%, Performance Appraisal 82.1%, Career Planning 81.4%, Employee Participation 73.9%, Job Definition 61.5%, Compensation 80% and Selection 75.5%. Training has a strong relationship with Performance Appraisal, Career Planning and Employee Participation. But has moderate correlation with Job Definition and Compensation. Training has a weak correlation with Selection. All variables have positive direction correlation with Training. Performance Appraisal has moderate correlation with Career Planning, Employee Participation, Job definition, Compensation and Selection. Performance Appraisal has a correlation in positive direction with Career Planning, Employee Participation, Job definition, Compensation and Selection. Career Planning has moderate correlation with Employee Participation and Selection. But it has a strong
correlation with Job Definition and Compensation. Likewise, Career Planning has positive direction correlation with all four variables, Employee Participation, Job Definition, Compensation and Selection. Employee Participation has moderate correlation with Job Definition and Compensation. Employee Participation has a weak relationship of correlation with Selection. But Employee Participation has correlation in positive direction with Job Definition, Compensation and Selection.

Job Definition has moderate correlation with Compensation, but weak correlation with Selection. Similarly, Job Definition has Positive direction correlation with Compensation and Selection. Compensation has a moderate correlation in positive direction with Selection. In Nutshell, in nutshell all tested HR Practices are having positive correlation with employees’ performance. Adjusted R square value is found to be 0.528. This value represents strength of the model of Regression Model. Adding to this, for current study it is found that 52.8% of change in dependent variable is explained by Independent variables of the study. As, p-value is significant of multiple variables regression model, therefore all above listed Hypotheses are accepted. As per Coefficient table, all variables result in positive â value, except Compensation variable, it results in negative â value. Yet as per multiple regression model, results are significant. Thus, all Hypotheses are accepted.

CONCLUSION

The need today, therefore, as is evident from above arguments, is to review, revamp and rejuvenate the existing people management (HR) systems, such as the reward and incentive systems, promotions and transfers, training and development programmes, recruitment and selection processes, employee relations, compensation, benefits and employee motivation such as pay-for-performance, gain sharing and team incentives. They all need to be made more dynamic, effective and in tune with the changing situation. It is also important to keep reviewing how systems are working. Similarly, the systems should be linked to quality service, cost-effectiveness and such other bottom-line issues (Rao, 1996).

It is universally assumed that there are always HR activities that are better than others and, therefore, organizations should adopt these activities (Pfeffer, 1994; Osterman, 1994; Huselid, 1995; Harel and Tzafrir, 1999). If HR practices can impact business success through building up organizational capabilities, improving employee satisfaction and commitment, New HR measures should be developed to drive business performance (Yeung and Berman, 1997; Hiltrop, 1998; Cappelli and Crocker, 1996).

All those organizations who are interested for High growth through increasing employee participation must pay attention on Training, Selection, Compensation and Employee Participation for policy development.

Drawing from the study, it emerges that though the people factor has always been important, its importance will grow in the future. This is because the changes are occurring today in the business environment, changes that require the personnel function to play an even more crucial role in organizations. The developmental aspect needs to be given importance in the management of human resources for the enhancement of the effectiveness of the organization and specially Employee Performance. It becomes imperative to modify various routine activities and mould them to serve the employees' development.

REFERENCES