

Do Human Resource Practices Lever Organizational Performance?-An Empirical Study of A Manufacturing Firm in Bangladesh

A.K.M. Mominul Haque Talukder¹

ABSTRACT

The research examined the effect of different human resource practices such as staffing, training, participation, performance appraisal, compensation, and caring on organizational performance. Data were collected from 100 respondents based on self-administered questionnaire. Results indicated significant relationship of staffing, training, participation, performance appraisal, and compensation with organizational performance. The study reported no relationship of employee caring with organizational performance. The findings commend that incorporating these human resource practices may render manufacturing firm with the potent to leverage organizational performance significantly.

JEL. Classification: D21; D23; D24; L21; L22; L25; O16;

Keywords: Performance, staffing, participation, compensation

1. INTRODUCTION

Research has established the link between HR practices and organizational performance, suggesting that the HR system has great strategic potential to drive organizational effectiveness. Considerable research supports the hypothesized link between HR practices (and the total HR system) and various indicators of organizational effectiveness, confirming the strategic potential of HR practices and the HR system as a whole. To create an aligned HR system, the organization must first diagnose the current state of HR alignment. From a behavioral strategic HRM perspective, such a diagnosis will help the organization determine the degree to which HR practices are (1) aligned to the performance competencies that drive

The material presented by the author does not necessarily represent the viewpoint of editors and the management of Indus Institute of Higher Education (IIHE) as well as the authors' institute.

¹ Senior Lecturer, School of Business, North South University, Dhaka 1229, Bangladesh, Ph: +880-2-8852000, Ext. 1731, Fax: +880-2-8852016 E-mail: momin@northsouth.edu

Acknowledgements: The author is grateful to all the participants of 'Jute Spinners Ltd' in Bangladesh for the support and cooperation while collecting data.

Paper was presented in "1st International Indus Research Conference 2011, (1st IIRC-2011), 30th June, 2011". Author would like to thank the editors and anonymous referees for their comments and insight in improving the draft copy of this article. Author further would like to declare that this manuscript is original, has not previously been published, not currently on offer to another publisher; and willingly transfers its copy rights to the publisher of this journal.

Received: 10-04-2011;

Revised : 22-05-2011;

Accepted: 02-06-2011;

Published: 30-06-2011

attainment of strategic objectives and (2) aligned to one another. Several highly aligned HR practices emerged from analyzing the responses: training and development, teamwork, goals and rewards, and staffing.

Recruitment and selection provides the overall framework for the process of planning, recruiting, selecting, and hiring employees (Hogg 2001). The goal of recruitment and staffing is to identify the smartest and versatile employees. Retention of best employees starts from effective recruitment and staffing process, strategies, policies and procedures. Background checks are a critical component in hiring. When it comes to business, one cannot afford to make a poor hiring decision. In fact, for most businesses, one bad hire can make the difference between success and failure. Hiring decisions that result in "bad" hires save organization's time, training resources, and psychic energy (Dessler, Griffiths and Lloyd 2004). One key factor in employee motivation and retention is the opportunity to continue to grow and to develop job and career enhancing skills (Allinson, Armstrong and Hayes 2001).

Employee involvement and participation at work has been identified as key factors in developing successful and mutually beneficial workplace relationships, which lead to organizational success (Das 2003). It has been argued that increased employee involvement and development of workplace partnerships is a key factor in achieving higher levels of performance and business success and has the potential to make a significant contribution to economic growth. Empowerment involves decentralizing power within the organization to individual decision makers further down the line. Teamwork is a key part of the empowerment process. Team members are encouraged to make decisions for themselves in line with guidelines and frameworks established in self-managing teams. Employee participation is in part a response to the quality movement within organizations. Individual employees are encouraged to take responsibility for quality in terms of carrying out activities which meet the requirements of their customers (Allinson , Armstrong and Hayes 2001).

Performance appraisals are essential for the effective management and evaluation of staff (Bacharach 2005). Appraisals help develop individuals, improve organizational performance, and feed into business planning. Annual performance appraisals enable management to monitor standards, agreeing expectations and objectives, and delegation of responsibilities and tasks. Performance appraisals generally review each individual's performance against objectives and standards for the trading year, agreed at the previous appraisal meeting (Das 2003). Compensation includes topics about wage and/or salary programs and structures, for example, salary ranges for job descriptions, merit-based programs, bonus-based programs, commission-based programs, etc (Gross 2011). Today competitive organizations recognize that aligning rewards with employee performance creates a stronger, more productive workforce and are turning to compensation planning solutions and services to handle complex compensation strategies while increasing shareholder value and corporate dividends. Although several studies have spelled out the importance of human resource practices to increase performance but few study has examined the interrelationship between human resource practices and firm performance. The purpose of the study is to develop and quantitatively explore the determinants of human resource practices affecting organizational performance.

2. LITERATURE REVIEW

The goal of recruitment and staffing is to identify the smartest, most versatile employees you can find. (Bacharach 2005). It allows management to determine and gradually modify the behavioral characteristics and competences of the workforce. Training is a subsystem of an organization. It ensures that randomness is reduced and learning or behavioral change takes place in structured format (Dessler et al 2004). The principal

objective of training and development is to make sure the availability of a skilled and willing workforce to an organization. In addition to that, there are four other objectives: Individual, Organizational, Functional, and Societal. Traditionally, the purpose of training and development has been to ensure that employees can effectively accomplish their jobs. Today, the business environment has changed, with intense pressure on organizations to remain ahead of the competition through innovation and reinvention.

Employee involvement is when employees are included in all issues of their interest (Brandi 2011). There are no specific rules to grow involvement. Employee involvement thus spells out the worthiness of an individual in including them in a certain activity. A typical example is Management by Objectives (McGunnigle 2007). Where employment rights matter for example, participation is exercised. In old days trade unions championed this act but now and in future this trend is coming to an end with employees playing the central roles in shaping their own lives and lifestyles, with each employee becoming their own representative. People differ in their abilities and aptitudes. There is always difference between the quality and quantity of work on the same job being done by two different people. Performance appraisals of employees are necessary to understand each employee's abilities, competencies, relative merit and worth for the organization (Allinson, Armstrong and Hayes 2001). Performance appraisal rates the employees in terms of their performance. It is necessary to measure the performance of the employees and the organization to check the progress towards the desired goals.

The latest mantra being followed by organizations across the world being – "get paid according to what you contribute" – the focus of the organizations is turning to performance management and specifically to individual performance. If the process of performance appraisals is formal and properly structured, it helps the employees to clearly understand their roles and responsibilities and give direction to the individual's performance. It helps to align the individual performances with the organizational goals and also review their performance. There are not many second chances in running an organization. A misstep can cost thousands of dollars to correct (Gross 2011). For instance, not setting up compensation strategy correctly mean not to attract the talent. By contrast overall rewards and compensation strategy is one area where firms get a second chance. Many organizations set up an employee rewards systems after they set up a wage or salary system. But, by coordinating the two into a comprehensive rewards and compensation strategy, one can boost profits and workforce productivity. Even better, by implementing an employee rewards system one gets a second chance to optimize overall compensation package.

Clearly, first-class employee compensation packages are a prerequisite for companies that want to attract and retain high-caliber, skilled employees. Plus, companies are already feeling the effects of declining population growth and the dramatic increase in older workers, which again will push up compensation and benefit costs over the next few decades. Even outside of healthcare issues, compensation strategies—both during the time an employee's working life and after retirement—can be complex to devise and difficult to maintain. What's more, your situation, market context, and challenges are unique and require a tailor-made solution; in other words you need a customized remuneration structure based on internal job classifications, appropriate career paths, and a performance management system that is also responsive to your shareholders' objectives (Gross 2011). Research has for years shown that employees who are happy tend to be more productive, less prone to absenteeism, and more likely to resolve problems. Therefore, it's time to drop the old-fashioned idea that emotions should be left at home, according to Brandi. "Positive emotions like caring, kindness, and yes, love belong in the workplace," she says. "I call these emotions the 'F' factor. By that I mean it's the 'feeling' factor that keeps employees happy and engaged. In organizations where the workforce is engaged, bringing

their minds, hands, and hearts to work, we see more creativity, efficiency, passion, and profits" (Brandt 2011). Therefore, following hypotheses can be stated from above discussion.

- Hypothesis 1: Effective staffing is positively related with organizational performance.
- Hypothesis 2: Training is positively related to organizational performance.
- Hypothesis 3: Employee involvement and participation will increase organizational performance.
- Hypothesis 4: Objective performance appraisal will increase organizational performance.
- Hypothesis 5: Adequate compensation and rewards will increase organizational performance.
- Hypothesis 6: Employee caring will increase organizational performance.

3. CONCEPTUAL MODEL

Most research studies have an explicit or implicit theory, which describes, explains, predicts or controls the phenomenon under study. Theories are linked to conceptual models and frameworks; whereas a conceptual model is more abstract than a theory and a theory may be derived from a model, the framework is derived deductively from the theory (Burns and Groves 2001). A model is tested that derived from a review of the literature by integrating theory and research relating to staffing, training, involvement and participation of employees, performance appraisal, compensation and their relationship with organizational performance.

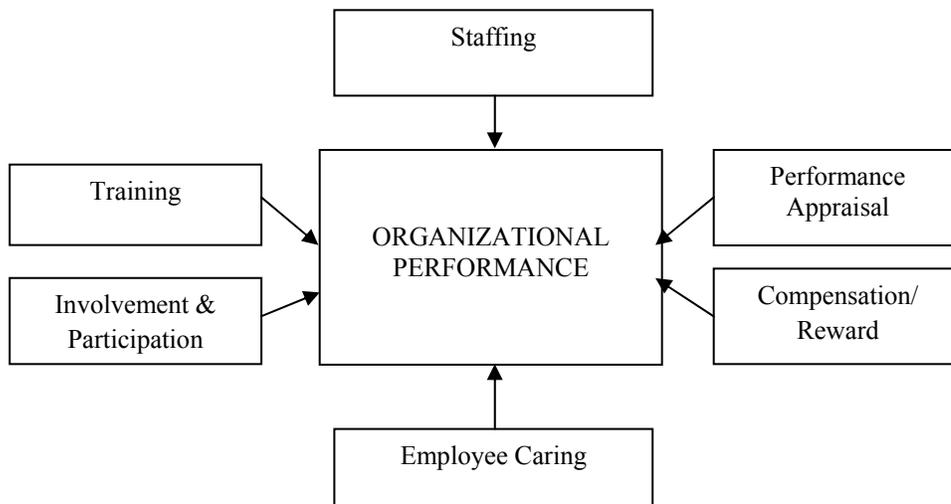


Figure 1. Conceptual framework of research variables and their relationships

4. METHODS

The study undertook convenience-sampling approach and the sample size was 100. In order to better understand the stated effect, the questionnaire was structured to carry out a survey on employees at Jute Spinners Limited in Bangladesh. The shares of the company are listed in Dhaka Stock Exchange Limited of Bangladesh. The company owns and operates jute-spinning mill and producing jute yarn and twine. The questionnaire was divided into seven (7) sections and designed to be scale rated. The items in each section were in the form of statements that were direct, simple and concise mostly. The participants had to tick in the

boxes provided beside each question according to the extent of their agreement (scale provided at the beginning of the questionnaire). Fixed alternative with 5 scale (e.g., 1=highly disagree, 2=moderately disagree, 3=neutral, 4= moderately agree, and 5=highly agree) was used. The questionnaire was administered by expert team members with physical presence in the organization. The purpose and the items were explained to respondents before prior to obtaining data. The research took only one dependent variable as organizational performance and several independent variables such as rewards, training, performance appraisal, involvement and participation, staffing, and caring of employees.

Factor Analysis

Factor analysis is a statistical method used to describe variability among observed variables in terms of a potentially lower number of unobserved variables called factors and this technique is applied when the reliability is below 0.8. In other words, it is possible, for example, that two or three observed variables together represent another, unobserved variable, and factor analysis searches for these possible combinations. The observed variables are modeled as linear combinations of the potential factors, plus "error" terms. The information gained about the interdependencies between observed variables can be used later to reduce the set of variables in a dataset. Factor analysis assumes that all the rating data on different attributes can be reduced down to a few important dimensions. This reduction is possible because the attributes are related. In the questionnaire survey, the reliability test has been conducted to test the internal consistency reliability between the items in the questionnaire. The internal consistency reliability indicates the extent to which items on a given measure assess the same construct. The reliability test generated results, which were above 0.8 for all the dependent and independent variable relationships.

5. ANALYSIS & RESULTS

Hypothesis 1 predicted that effective staffing is positively related with organizational performance. The study found (Table 1) significant positive relationship of staffing with organizational performance ($r=.76^{**}$, $p<.01$). Thus hypothesis is accepted. Regression results in Table 2 also supported the hypothesis with organization performance ($\beta=.64^*$, $p<.05$). Hypothesis 2 predicted that training is positively related to organizational performance. The research indicated significant positive relationship of training with organizational performance ($r=.76^{**}$, $p<.01$). Thus hypothesis is accepted. This is also supported by regression analysis ($\beta=.65^*$, $p<.05$). Hypothesis 3 predicted that employee involvement & participation will increase organizational performance. The study reported significant positive relationship of involvement and participation with organizational performance ($r=.76^{**}$, $p<.01$). Thus hypothesis is accepted. This is also supported by regression analysis ($\beta=.75^*$, $p<.05$).

Table-1: Means, standard deviations, reliabilities and correlations

Variables	M	SD	1	2	3	4	5	6	7
Staffing	4.4	.5	(.8)						
Training	4.4	.5	.65**	(.8)					
Involvement & participation	4.3	.4	.65**	.71**	(.82)				
Performance appraisal	4.4	.4	.39**	.41**	.29**	(.8)			
Compensation/Rewards	4.5	.4	.38**	.57**	.46**	.23**	(.81)		
Employee caring	4.2	.7	.13	.23**	.16	.06	.17	(.82)	
Organizational performance	4.2	.4	.76**	.76**	.77**	.52**	.46**	.16	(.8)

$N=100$, ** $p < .01$, * $p < .05$

Hypothesis 4 predicted that objective performance appraisal will increase organizational performance. The study reported positive significant relationship of performance appraisal with organizational performance ($r=.52^{**}$, $p<.01$). Thus hypothesis is accepted. This is also supported by regression analysis ($\beta=.48^*$, $p<.05$). Beta value greater than .5 is considered as strongly associated with each variable.

Table-2: Regression results of HR practices affecting organizational performance

Variables	Organizational Performance			
	β	T	F	AR ²
Staffing	.64*	11.85	140.58	.58
Training	.65*	11.91	141.91	.58
Involvement & participation	.75*	11.98	143.51	.59
Performance appraisal	.48*	6.04	36.5	.26
Compensation/Rewards	.47*	5.12	26.5	.2
Employee caring	.09*	1.64	2.7	.01

$N=100$, * $p < .05$

Hypothesis 5 predicted adequate compensation & rewards will increase organizational performance. The study reported positive significant relationship of compensation & reward with organizational performance ($r=.46^{**}$, $p<.01$). Thus hypothesis is accepted. This is also supported by regression analysis ($\beta=.47^*$, $p<.05$). Hypothesis 6 predicted employee caring will increase organizational performance. The study reported no relationship of caring with organizational performance. Thus hypothesis is rejected. This is also supported by regression analysis ($\beta=.09^*$, $p<.05$).

6. DISCUSSION

The result shows that staffing has significantly higher relationship with the organizational output. The key to maximizing your organization's success and minimizing its risk is the implementation of a systematic staffing approach that is fair, job-related and legally defensible. According to Hogg (2001) recruitment and staffing provides the overall framework for the process of planning, recruiting, selecting, and hiring of employees. Employee recruitment, selection and retention play vital role in accelerating organization overall performance because it is the skilled employees who eventually contribute for organizational success.

Training has direct effect to boost up performance, which later on moderates efficiency and effectiveness followed by organizational performance.

Kintana, Alonso and Olaverri (2006) indicated that training has positive effects on productivity. Martell & Carroll (1995) indicated that training has positive effects on competency, turnover and employee commitment. The study also indicated significant relationship of training with the organizational performance. Involvement and participation has been proved to be another factor to ensure organizational performance. Employee involvement and participation at work have been identified as key factors in developing successful and mutually beneficial workplace relationships, which lead to organizational success (Das 2003). Employee participation is in part a response to the quality movement within organizations. The more employees are encouraged to take part in decision and policy-making process for the organization the higher the level belongingness will be pronounced in the organization. Performance appraisal has positive significant relation with the organizational performance. The purpose of performance appraisal is to measure the current performance and the level of development of individuals. Depending on the requirements, employees are further trained, promoted or valued by the organization. LeBoeuf (1985) suggested that managers secure desired results through a compensation and reward philosophy that recognizes employees for the right performance. Even for training programs to be successful, organizations should reward managers who prove to be excellent trainers. The research found no relationship of employee caring with organizational performance. This was not considered important by the employees.

7. CONCLUSION

The studied company has diverse set of Strategic Business Units (SBU) that brings stability to its business. Company's staffing, training, compensation, participation in decision making has positive relation with the company's overall performance. That means company has healthy working environment and skilled staffs who contribute towards company success. Although employee's perception of caring and sense of belongingness are not quite satisfactory as research did not find out any relationship with performance. In future, it should contribute to consolidate the success of the company even more if there is a true sense of caring and sense of belongingness flows across the company. The study was confined to a single company and the sample size was pretty small ($N=100$). Considering large sample size in similar or other industry might give better insight about human resource practices and its impact on organizational performance.

8. REFERENCES

- Allinson, C. W., S. J. Armstrong and J. Hayes. 2001. The Effect of Cognitive Style on Leader–Member Exchange: A Study of Manager-Subordinate Dyads. *Journal of Occupational and Organizational Psychology*, 74: 201-220
- Bacharach, S. B. 2005. Making Things Happen By Mastering the Game of Day-To-Day Politics. *Fast Company*, May:93
- Brandi, J. 2011. Employee care. *Wear Your Heart on Your Sleeve*, p. 216. *Adolescent Social Work Journal*, 23(2), 216-234. www.businessballs.com/performanceappraisals.htm

- Burns, N. and S. Groves. 2001. *The Practice Of Nursing Research, Conduct, Critique, & Utilization* (4th ed). Toronto, Ontario: W. B. Saunders Company.
- Das, H. 2003. *Performance Management* . India: Prentice Hall.
- Dessler, G., J. Griffiths, and W. B., Lloyd. 2004. *Human Resource Management*. New South Wales: Pearson Education Australia.
- Gross, J. 2011. Benefits Of Rewards And Compensation Strategy. *Compensation Today*, 54-55.
- Hogg, M. A. 2001. A Social Identity Theory of Leadership. *Personality and Social Psychology Review*, 5: 184-200.
- Kintana, M. L., Alonso, A. U., & C. Olaverri. 2006. High performance work systems and firms' operational performance. *International Journal of Human Resource Management*, 17(1): 70-85.
- LeBoeuf, M. 1985. *Getting Results: The Secret to Motivating Yourself and Others*. New York: Berkley Books. www.leadershipjax.org/rec_reading.asp
- Martell, K., and S. J. Carroll. 1995. Which executive human resource management practices for the top management team are associated with higher firm performance? *Human Resource Management* 34(4): 497-512.
- McGunnigle, P. (2007). Employee empowerment, participation and involvement. *Employee Participation, Involvement & Empowerment at work*, 20-21.