

RESEARCH PAPER

AN EMPIRICAL INVESTIGATION OF IMPACT OF SELECT HUMAN RESOURCE PRACTICES ON ORGANIZATIONAL PERFORMANCE: A CASE STUDY

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ABSTRACT

A number of studies have been made to explore the link between human resource (HR) practices and organizational performance and it has been shown that the two are positively related. However, most of the studies have been made outside India. Only a few have been conducted in the Indian context. And moreover, HR systems in India are ever-changing. Hence, this paper attempts to study the impact of three important HR practices, namely, training, compensation and promotion practices on perceived organizational performance in India to fill this gap. An analysis of responses of employees of the organizational under study indicates that there is a significantly positive relationship between these three HR practices and performance. A value of 0.406 for R^2 for the best predicted model supports the dependency relationship between organizational performance and the three HR practices. Compensation practices, in particular, are found to be of the highest importance.

Keywords: HR Practices, Organizational Performance, Empirical, Case Study.

1. INTRODUCTION

To compete successfully in a fast-changing business environment, an organization must have competitive advantage over others through better performance and human resource systems are thought to be a potential source of this competitive advantage. While technology, natural resources and economies of scale can create value, these sources of value are increasingly available to almost anyone anywhere and they are easy to be copied, especially when compared to complex social systems like human resource systems. Past studies have shown that organizations take time to nurture and develop human capital in the form of knowledge, skills, abilities, motivation, attitude and interpersonal relationships thereby making it difficult for competitors to imitate. Hence, human resources are considered to be among the most important resources of today's organizations.

We are living in a world that is operating in a highly competitive and fast-paced environment. In order to survive in a competitive way, business organizations must conduct themselves in a way that ensures the best use of the available resources to ensure continued competitive advantage. Research has it to show that only through management of resources, which are not easy-to-copy, valuable and rare, can organizations maintain this competitive space (Barney, 1991). Only people (by whatever name you may please to call it) can qualify to fit into this kind of resources. That is, good human resource practices can make organizations that Barney talked about. Such practices lead to organizations that

perform and create the required competitive advantage and it is not always easy for rival organizations to replicate because of the individual uniqueness and diversity of human resources of the organizations in question.

2. REVIEW OF LITERATURE

Impact of HR practices on firm performance has been a leading theme of research in the past decades and the results of extensive empirical investigations by previous researchers have been encouraging, indicating a positive association between the two (Dyer and Reeves 1995; Huselid 1995; Becker and Gerhart 1996; Guest 1997; Becker & Huselid, 1998; Cully et al 1999; Harel and Tzafrir, 1999; Appelbaum et al 2000; Guest et al, 2000a, 2000b, 2000c; Boselie, 2001).

However, all extant research has been conducted on the operations of domestic firms in the developed countries but limited research has been done to examine the relationship of HR practices and performance in the developing countries, especially in the Indian sub-continent. Prior studies have validated the link between HR practices and organizational performance in the USA and European countries (Boselie et al., 2001; Hoque, 1999), Asia (Bjorkmand & Xiucheng, 2002; Ngo et al., 1998). To add more validity to this growing stream of research, more studies in varied settings and particularly in the developing economies need to be conducted.

Compensation Practices and Organizational Performance: Compensation refers to all forms of payment made to employees by their employer as a result of their employment relationship (Dessler, 2003). It motivates employees to behave in ways they desire. Compensation refers to all monetary payments and all commodities used instead of money to reward employees. Compensation practices contribute to competitive advantage by promoting more productive and skilled workforce (Pfeffer, 1995). Huselid (1995) asserts that the compensation system is recognized as employee merit and it is widely linked with firm outcomes. In regulating human action, money can have instrumental or symbolic motivational properties (Stajkovic & Luthans, 2001). Money can provide outcomes that satisfy physiological or psychological needs in instrumental form. In addition, money also generates social comparison information in symbolic form.

The expectancy theory (Vroom, 1964) suggests that rewards that can be understood as a form of direct and indirect compensation packages have potential to influence employee work motivation. Thang (2004) suggests that compensation and reward can be powerful tools for getting efforts from the employees to fulfil the organizational goals. Leonard (1990) said that the companies following long-term incentive plans gets more increase in return on equity than those that ignore such plans.

Authors have reported positive influence of compensation on organizational commitment (Lawler & Jenkins, 1992) while others have shown no significant influences (Shore & Barksdale, 1998). However, results generally show that compensation has a strong and significant relationship with both organizational commitment and also normative commitment in particular.

Performance Appraisal and Organizational Performance: Performance management systems manage and align all the organization, resources in order to achieve the highest possible performance. (McMaster, 1994; Williams, 2002) argued that performance management involve determining the strategic objective, establish team goals, plan of performance developed, Analyze the performance (by using appraisal system) identified need of development and Assign rewards.

Researches from Schraeder, Becton & Portis, 2007; Mone & London, (2010). It has also been identified that the method of personnel appraisal also goes a long way in determining the success and competitive positioning of an organization. Prowse & Prowse (2009) argued that there are many methods of appraisal that can be adopted ranging from comparing one person's performance with another, evaluating performance against set of traits to appraising the workers' performance against the objectives of the organization (Mansor, 2011).

Training Practices and Organizational Performance : Training and development is a process meant to provide

both new and existing employees the knowledge and skills they need to do their current job as well prepare them for changes on the job and also future job demands (Dessler, 2011). Previous researchers have found a positive relationship between training and development practices and organizational commitment and organizational performance (Pare et al, 2000) while some have found no significant correlation (Shore & Barksdale, 1998).

Training and development may be related to firm performance in many ways. Firstly, training programmes increase the firm specificity of employee skills, which, it turn, increases employee productivity and reduces job dissatisfaction that results in employee turnover (Huselid, 1995). Secondly, training and developing internal personnel reduces the cost and risk of selecting, hiring, and internalizing people from external labour markets, which again increases employee productivity and reduces turnover. Training and development like job security requires a certain degree of reciprocity: A company that train and develop systematically its employees advocate them that their market value develops more favourably than in other firms. This increases employees' productivity, commitment, and lowers turnover.

Researchers have examined the growth strategies in the retail sector and suggested that modern retailers should place more emphasis on the policies and practices that could contribute to staff retention, rather than on the immediacy of recruitment and selection. Zhu (2004) reviewed the changes in the area of human resource development in Japan and observed that some companies and industries have shifted towards a more strategic approach that emphasizes the impact of effective learning at both individual and organizational levels on long-term organizational competitiveness. Huselid (1995) found that the education and development of employees have a significant effect both upon the personnel productivity and the short-term and long-term indicators of organizational performance.

3. OBJECTIVES OF THE STUDY

The specific objectives of the study include the following:

- To study the impact of HR practices on organizational performance;
- To find out if there exists a synergy among HR practices

4. HYPOTHESES OF THE STUDY

Hypothesis 1: Training practices positively influence organizational performance.

Hypothesis 2: Performance appraisal practices positively influence organizational performance.

Hypothesis 3: Compensation practices positively influence organizational performance.

Hypothesis 4: Synergies among H R practices are positively related to organizational performance.

5. RESEARCH METHODOLOGY

Data regarding the perception of employees of NALCO towards the three HR practices, namely, training, performance appraisal and compensation and organizational performance were collected through primary source using the questionnaire instrument in order to find a relationship between the above HR practices and organizational performance.

Sampling Unit, Size, Technique: Random Sampling technique has been used for primary data collection. The population for the study consisted of the employees NALCO at the Alumina Refinery unit of Mineral and Refinery (M& R) Complex, Damanjodi, Koraput. A 24-item five-point Likert-type scale was used for the survey to elicit perceptual opinion of the sampled subjects.

Before administering the questionnaire for collecting the data, a pilot survey taking a small number of employees and reliability of the data collection tool was tested through Chronobach's alpha for measuring the internal consistency. The questionnaires were given to 600 employees from across the different departments. 424 responses were found valid in the final analysis.

Pilot-Testing of Questionnaire: The questionnaire was pilot-tested with a small sample of 50 respondents. The results indicate that it meets the adequacy level of 0.7 in terms of Cronbach's Alpha—a measure of internal consistency or reliability as advocated by Nunnally (1978). Table 1 presented below summarizes this.

Table1: Results of Inter-scale Reliability Analysis

Sl. No.	Construct	No. of Items	Cronbach's alpha
1	Organizational Performance (ORGP)	6	0.935
2	Training Practices (TRNP)	6	0.729
3	Performance Appraisal Practices (PFAP)	7	0.776
4	Compensation Practices (COMP)	5	0.771

6. RESULTS AND DISCUSSIONS

Table 2: Descriptive Statistics

	Mean	Std Dev
ORGP	4.21	0.58
TRNP	4.06	0.60
PFAP	4.05	0.61
COMP	4.09	0.65

The results of descriptive statistics given in table 2 indicate general agreement of the respondents to the three HR practices. The mean values ranged from 4.05 to 4.21. The results indicate that there is concurrence of opinions of the respondents to different measures, viz. compensation practices (mean = 4.09, standard deviation = 0.65), training practices (mean = 4.06, standard

deviation = 0.60), performance appraisal practices (mean = 4.05 standard deviation = 0.61) and organizational performance (mean = 4.21, standard deviation = 0.58). The mean scores and standard deviations reflect conformity of respondents' perceptions about the three HR practices and organizational performance.

Table 3: Correlations for All Variables

	ORGP	TRNP	PFAP	COMP
ORGP	1			
TRNP	0.466**	1		
PFAP	0.313**	0.137**	1	
COMP	0.528**	0.384**	0.142**	1

*P < .05; **p < .01

Table 3 gives the results for correlation analysis. All the values are significant at 0.01 level of significant. The

correlation coefficient between organizational performance and training practices is 0.466. As the

correlation coefficient value of 0.466 lies between 0.3 and 0.7, it indicates a moderately positive relationship between these two variables. The correlation coefficient between organizational performance and compensation practices is 0.528, indicating a moderately positive relationship between these two variables. Hence, compensation practices have a moderately positive

influence on organizational performance. The correlation coefficient between organizational performance and performance appraisal practice is 0.313 indicating a moderately positive relationship. Hence, performance appraisal practices have a moderate but positive influence on organizational performance.

Table 4: Results for Regression Analyses Taking HR Practices Individually

Independent Variable Entered	Model 1	Model 2	Model 3
TRNP	0.466**	—	—
PFAP	—	0.313**	—
COMP	—	—	0.528**
R ²	0.217	0.098	0.279
Adjusted R ²	0.215	0.096	0.277
Std Error of Estimate	0.512	0.550	0.492
F-value	116.79**	45.84**	163.11**

— Variable not entered into regression

*p< .05

**p<.01

Models 1 through 3 presented in table 4 have been predicted with individual HR practices as independent variables and organizational performance as the dependent variable. All the models are significant. Between the three models, Model 3 has the highest value of 0.279 for R², which means that 27.9 percent of variance in organizational performance could be explained by compensation practices whereas the next best model is Model 1 with a R² value of 0.217 with training practices as the predictor variables. Hence, performance appraisal practices have very little effect on the performance. Therefore, the three hypotheses 1 through 3 have been tested and found to stand the scrutiny.

In order to see if there is any synergistic effect of the predictor variables, regression analyses were done taking HR practices in different combinations. Models through 4 to 7 present the results of such analyses. All the models are overall significant. Model 7, which considers all the independent variables, best explains the relationship

between three HR practices and organizational performance with an R-squared value of 0.406. This is in the expected line because all the three independent variables considered in the model have been shown in the existing literature to be important determinants of organizational performance. Still only 40.6 % of variation in organizational performances accounted for by three independent variables to gather. In fact, this low value for R² could be attributed to the truth that, as per the existing literature, a host of other HR practices also influence employee performance, viz. selection and recruitment, career planning, promotion, etc.

Models 4 to 6 built with only two of the three HR practices at a time attempt to study the best combination between the three. Training practices and compensation practices together predict almost 88.66% (0.360/0.406) of the dependency relationship between independent variables together and the dependent variable predicted by Model 7 taking the three HR practices. The results are presented in table 5.

Table 5: Results for Regression Analyses Taking HR Practices in Combination

Independent Variable Entered	Model4	Model5	Model6	Model 7
TRNP	0.431**	—	0.308**	0.287**
PFAP	0.254**	0.243**	—	0.219**
COMP	—	0.493**	0.410**	0.386**
R ²	0.280	0.337	0.360	0.406
Adjusted R ²	0.277	0.333	0.357	0.402
Std Error of Estimate	0.492	0.472	0.464	0.447

F-value	81.92**	106.78**	118.24**	95.77**
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_Variable not entered into regression;

*p< .05

**p<.01

The purpose of this study was to find out the linkage between the selected HR practices and perceptions of organizational performance in the Indian context, adding to previous work done in the field. Another contribution of this study is that it has been conducted outside the US context, where most of the previous studies in this field have been conducted.

7. LIMITATIONS AND FUTURE STUDIES

The present study is confined to only one organization. Hence the findings may not lend well to generalizations. The data was obtained in the form of perceptual measures of HR practices and thus giving room for respondents' bias. Further, the black box of the relationship between HR practices and how they improve performance is not dwelt with.

Despite the above limitations, the study makes significant contribution to understanding and implementation of HR practices and its relationship with performance, particularly with reference to organizations in India. Further studies may be undertaken to explode the myth of the black box of the relationship between HR practices and organizational performance.

8. CONCLUSION

The present study contributes to the existing literature by way of increasing its validity. It supports the findings arrived at by previous researches but in a different context thereby lending itself to generalization.

There is a positive association between training, compensation and performance appraisal practices both individually and as a system on organizational performance. Among the three HR practices, compensation practices are the strongest predictors of performance.

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