# Impact of HR Practices on Organizational Performance – A Review

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#### **ABSTRACT**

The most important indicator of organizational performance is overall growth of the organization. Several researchers explored and studied how various Human Resources (HR) interventions impact organizational performance. Most of the studies which are centered around finding the impact of HR practices on organizational performance have focused on private sector organizations. Some studies have focused only on academicians as a sample. This paper has attempted to present the available data for the impact of HR practices on organizational performance in various sectors. The findings suggest that the management in an organization may be able to increase the commitment level of employees by improving satisfaction with compensation, policies, and work conditions. Companies should involve their employees in decision making as they are viewed as an indispensable resource for competitive advantage. Expanding the interaction level with employees in staff meetings and encouraging guided discussions on topics related to these issues are some of the ways of improving job satisfaction at workplace, which in turn gives rise to improved organizational performance.

Keywords: Organizational performance, Training, Performance Appraisal, Employee involvement, Job definition.

#### INTRODUCTION

Human Resource forms the backbone of an organization, and it consists of all the individuals, staff, or workforce who attempt to make the objectives of the organization happen. The human resources perform various tasks, whether assigned to them or otherwise by applying their acquired skills, knowledge, and various aspects of human behavior so as to meet the organizational objectives.

According to Vlachos et al. (2009), human resource is considered more important than any other asset in any organization, and therefore, plays a vital role in organizational success. Therefore, managing the human resources effectively and efficiently assumes great significance. It however, requires considerable attention of the management so that employees can work up to their full potential (Ahmad and Schroeder, 2003). Human resource can provide a sustainable competitive advantage through adoption and successful implementation of different practices (Huselid, 1995).

The aspect of how organizational performance is impacted by the type and level of HR practices have been studied by researchers extensively over the years. Globally, almost all studies have reported that organizational performance is significantly impacted by HR practices across countries. As per Drucker, 2002 the most suitable indicator of organizational performance is overall growth of the organization.

#### LITERATURE REVIEW

Theories on people management have been varied in opinions, perspectives and ideas in so many phases. From the perspectives of Taylorism, bureaucratic theory, theory X and theory Y till the breakthrough with Elton Mayo's Hawthorne experiment, began another phase of people management known as human relations. The era of personnel management surfaced subsequently which has metamorphosed into the present day Human Resource Management (HRM). Since then, HRM has captured the interest of many studies, churning out loads and loads of findings that sometimes generate debates and disagreements.

HR practices refer to organizational activities directed at managing the pool of human resources and ensuring that the resources are employed towards the fulfillment of organizational goals (Schuler and Jackson, 1987; Schuler and MacMillan, 1984; Wright and Snell, 1991). It was observed that majority of studies define HRM in terms of human resource practices or systems or bundles of practices. Divergent views exist on the nature of HRM. Several studies define HRM in terms of individual practices (Batt, 2002) or systems or bundles of practices (Cappelli & Neumark, 2001).

According to Danish & Usman (2010), human resources are one of the most important assets of an organization as they contribute to its growth and success. Therefore managing human resources is akin to managing capital in the form of human beings for an organization. The key areas of operation for an organization, like process and product quality, reputation and in maintaining relations with

society, greatly depend on how the employees play their roles. Satisfaction level of employees has been bound to be directly related to the effectiveness of key areas of operation for an organization (Syed & Yan, 2012). At the same time, the human resources policies and practices either enables or restrain employees to perform their roles effectively (Ngo et al., 2011). According to Malik et al. (2010), knowledge capital or employees who predominantly use their acquired knowledge for superior performance is an extremely important pillar and they must be retained in the era characterized by rapid and continuous change, for organizations to be productive and responsive to the needs of their stakeholders. Unlike machineries and other physical assets, human resources are not replaceable at will (Awan & Sarfraz, 2013). In spite of realizing all the importance and criticality of human resources, several organizations overlook managing this function effectively and ignore their employees. Time has come for organizations to appreciate that it's performance and existence Hugely depends on the conclusion of employees. It is the collective skills and competencies of the entire human resources that help organizations stave off competitions (Rehman, 2011). Motivation is another aspect which help employees to perform. Even highly skilled employees will not be effective if they're not motivated. Motivating and encouraging human resources is important HR practice that enables employees to work both harder and smarter (Huselid, 1995). Similarly, employee participation also encourages employees as it boosts their satisfaction level in an organization (Syed & Yan, 2012).

Pollitt (2004) found that the HR practices of Nokia played vital role in helping the company in reaching its 40 percent share of the global handset market, and industry leading profit margins of 20%-25% at a time of unmatched change and competition. Katou & Budwar, 2007 through an in-depth study on 178 manufacturing firms of Greece found that HR practices such as recruitment, training, promotion, incentives, benefits, employee involvement, and safety and health were positively related with the elements of organizational performance such as innovation and satisfaction of stakeholders. Singh, 2004 in a study on 82 Indian firms observed that HR practices such as training and compensation had significant impact on perceived organizational performance. Moyeen & Huq (2001) carried out studies in Bangladesh and establish that HR practices have significant association with employee turnover and organizational commitment.

Guest (1997) argues the distinctive feature of HRM is its assumption that improved performance is achieved through the people in the organization. The

work produced by Huselid (1995) that examined the relationship between HR practices and corporate turnover, profitability and market value found that his HR index was significantly related to the gross rate of return on assets (a measure of profitability) and Tobin's Q (the ratio of the market value of a firm to its book value). This means that if appropriate HR policies, processes and strategies are introduced, a substantial impact on organizational performance can be made. Hyde et al. (2008) examined the impact of human resources practices on profitability of organizations. However, their findings did not support a positive relationship between HR practices as a whole and firm profitability.

Some HR practices such as working in teams, delegation and autonomy participation and involvement, besides pay schemes actually motivate employees, which in turn increases their productivity (Cully et al., 1999). Cross functional teams, job rotation, quality circles and integration of functions may all contribute positively to labor productivity (Banker et al., 1996).

Richard & Johnson (2001) using a sample of banks examined the impact of strategic HRM effectiveness on a number of performance variables. They found that the effectiveness of strategic HRM is directly related to employee turnover and the relationship between this measure and the return on equity was stronger among banks with higher capital intensity.

Guthrie (2001), while examining the impact of HR practices on turnover and firm productivity among a sample of firms in New Zealand noted that HR practices had an impact on turnover and that the relationship between retention and productivity was positive when firms implemented high-involvement HR practices, but negative when they did not. Strengthening the evidence of a positive relationship between HR practices and organizational performance is the research of Ahmad & Schroeder (2003) which concluded that, there is a positive influence of Human Resource Management practices (information sharing, extensive training, selective hiring, compensation and incentives, status differences, employment security and decentralization and use of teams) on organizational performance as operational performance (quality, cost reduction, flexibility and commitment).

Delery & Doty (1996) through their study summarized seven strategic HR practices that are related to overall organizational performance. These are "use of internal career ladders, formal training systems, result-oriented appraisal, performance-based compensation, job security, employee voice, and defined jobs'.

#### HR PRACTICES

## **Training**

Training is commonly known as an activity through which some kind of skill our behavior is important to a person. It combines the methods that are used individually or in combination in order to transfer knowledge, skills and behavior to an employee or a set of employees – either new or old, so that they can perform their jobs better (Amin et al., 2014). Training is concerned with improving one's capability, capacity, productivity, and performance. Therefore, the primary purpose of training is to modify individual's skills or attitudes. Researchers found that training is positively correlated with job satisfaction, and job satisfaction in turn is positively correlated with organizational performance (Jones et al., 2009). With the advent of technology, and increase in complexity of tasks, training has assumed significance to adapt to the new normal (Amin et al., 2014).

## **Performance Appraisal**

Performance management is an "ongoing organizational process involving a wide range of activities that include identifying, assessing, and promoting individual and team performance for the purpose of achieving organizational objectives" (Aguinis & Pierce, 2008).

Performance appraisal is the process to assess individual performance and productivity. It means how well he or she is performing on the job and establishing the plan for improvement (Amin et al., 2014). Performance appraisals are employed also to determine who needs what training, and who should be promoted, demoted, retained, or fired. When people perceive an imbalance in their outcome-input ratios relative to others tension is created (Ramlall, 2004). It has been found that organizations suffer from Absence of a meaningful performance appraisal process in an organization results in low morale of employees, decreased employee productivity and low enthusiasm to support the organization, leading to declining organizational performance (Amin et al., 2014).

# **Employee Participation**

Employee participation is the process in which employees are involved in decision-making, rather than simply acting on orders. Employee participation is part of a process of empowerment in the workplace (Wegner, 1994). Employee Participation is defined as a process in which influences are shared among

individuals who are otherwise hierarchically unequal (Syed & Yan, 2012). Employees' participation known as the employee involvement in decision making, persuade the involvement of stakeholders at all levels of an organization in the examination of problems, development of strategies and implementation of solution. Participation of employee can satisfy the employee's needs and the employee involvement boosts job satisfaction. So it shows the positive association between them (Syed & Yan, 2012).

#### **Job Definition**

Job definition is also known as job description. Job description covers the tasks, duties, and responsibilities. If these are clear, then it can enhance the organizational performance. It defines the duties, and the task responsibilities that are expected of the employee and the company expects from him to perform (Amin et al., 2014). The job definition is the combination of the knowledge skills and abilities (Bryant, 2002). The majority of hiring mistakes could be prevented if the people responsible for hiring simply did a more effective job of determining exactly what they were looking for before they start to look for the candidates. The job description is a living and effective document that dictate success.

# Compensation

Compensation is one of the basic elements of human resource management which normally refer to pay, wages, salary, and benefit, etc. (Tooksoon, 2011). Compensation is the reward system a company provides to an individual based on his/her performance (Amin et al., 2014). Reward system is thus based on the performance of the employees that ultimately enhances the firm performance (Syed & Yan, 2012). The compensation system in any organization has a significant effect on the employee's productivity and the organization's growth. Performance-based compensation has a positive effect on employee and organizational performance (Vlachos et al., 2009).

## **Job Satisfaction**

Employee satisfaction is the terminology used to describe the extent to which employees are happy and contented, and their desires and needs at work are fulfilled. Job satisfaction is concerning one's feelings or state of mind regarding the nature of their work (Tooksoon, 2011). Job satisfaction is defined as a pleasurable or positive emotional state resulting from the appraisal of one's job or job experience (Bhatti & Qureshi, 2007). It defines attitude individuals have about their jobs resulting from their perceptions of jobs and the degree to which there is a good fit between individuals and organizations (Jehanzeb et al., 2015).

The authors go on to state that job satisfaction is a significant factor in many studies, and it acts as a mediating variable and an issue in the organization.

## **Organizational Performance**

Organizational by performance is indicated by how well an organization is doing and is able to meet its short term and strategic objectives. According to Richard et al. (2009), there are three specific measures based on which an assessment can be made on organizational performance. These are "financial performance (profits, return on assets, return on investment, etc.), Market performance (sales, market share, etc.), and shareholder return (total shareholder return, economic value added, etc.)". As a reported by various authors, there are other indicators of organizational performance viz. rate of growth in sales, market share, turnover, profit, reduction in inventory, increase in quality, retention of employees, etc.

#### RELATIONAL BACKGROUNDS

## **Impact of Training on Job Satisfaction**

Apart from enhancing knowledge and skills of employees, training has been found to play an important role in employee engagement and satisfaction. Training can be both formal and informal. According to Huselid (1995), different forms of training such as skill training, coaching, or mentoring, if imparted in an effective manner, can influence employee development considerably. Ramlall (2004) established that it is the investment in training that differentiates some employees with others in terms of their productivity and work quality. Since focused and effective training leads to job satisfaction, Tooksoon (2011) emphasized the need to capitalize on this aspect to enable employees to stay longer in organization. As changes in organizational working environment are becoming more and more rapid and complex in terms of technology, systems, products and markets, proper training ensures a sense of security in employees (Awan & Sarfraz, 2013).

# **Impact of Training on Organizational Performance**

Research by Tan & Batra (1995) in firms that have a focused training system, shows that training is an important factor for productivity. Employees in general would not like to continue in a role if he finds himself lacking in the skills required to perform the job effectively. This often leads the employee to switch to another job. Therefore, an organization should continuously discover search gaps in employees address them by investing in employee training. Since there is a relationship between training and productivity, there is bound to be a direct impact on productivity when I trained employee changes job. A new employee

would require to be trained in order to keep up with the productivity, resulting in the firm ending up with increased cost of keeping positions filled with trained personnel (Tooksoon, 2011). A high level of skill and competency in the workforce can contribute to a firm's success by developing a comprehensive and internally cohesive human resource management system (Beh & Loo, 2013).

# Impact of Performance Appraisal on Organizational Performance

A robust performance appraisal system if implemented in unbiased manner, would most likely bring in a sense of fairness and justice among the employees (Pfeffer, 1995). Therefore, a merit-based performance appraisal system devoid of biases, access and enabler in improving the productivity of an organization. According to reward theory, job satisfaction other strong linkage with create policies of performance appraisal and promotion. Lawler III (1986) proved that change in the ranking system (below to above level) enhances the motivation level of employee and enhance the productivity of the organization. Organizations with strong performance culture always seek to recognize and rain valuable force contributions made by employees (Agarwal & Ferratt, 1999). performing organizations exemplary Managers in high acknowledge contributions made by their employees on a continuous basis through rewards either tangible or non-tangible.

## Impact of Employee Participation in Organizational Performance

Participative decision making can be evaluated on the basis of various outcomes, including workplace democratization, reduction of industrial conflict, and employees' involvement indecisions (Cotton et al., 1988). Amin et al., (2014) in their research, spoke about the participative approach theory which established a link between employee participation and organizational performance. Thus, high performing organizations provide opportunities to their employees to exchange information and ideas in a participative manner (Binyaseen, 2010).

# Impact of Job Definition on Organizational Performance

One of the most common ways of defining a job is through a well written job description. Jobs, when defined described properly, lead to employee contentment nearby facilitating organizational performance. A typical job description defines the job, it's domain and limits, besides listing down the roles, responsibilities and accountabilities, that the organization attaches to the job an expects the job holder to deliver on these (Amin et al, 2014). Therefore it is off at most importance that the job is defined clearly without ambiguity. A clearly written job description enables an employee to efficiently manage his work,

thereby keeping him motivated and improving the chances of his retention. A well-written job description hence, plays an important role in enhancing organizational performance as well.

## **Impact of Compensation on Organizational Performance**

Compensation and rewards if linked to good performance appraisal system has a positive effect on the employee and organizational performance (Cardon & Stevens, 2004). Vlachos et al (2009) believe that compensation is the dominant predictor of organizational performance. Performance of individual employees as well as their retention is largely impacted by sound performance-linked compensation and rewards system (Uen & Chien, 2004). Incentive plans in any organization enhance the satisfaction level, and the employees show loyalty toward an organization. To be effective, compensation practices and policies must be aligned with organizational objectives (Vlachos et al, 2009). Employees think it as the employer mechanism to control their behavior. When an organization institutes performance contingent compensation, the employees are motivated to focus on long-term organizational performance rather than shortterm gains (Huselid, 1995). Therefore, in an ever competitive business environment, many companies today are attempting to identify innovative compensation strategies that are directly linked to improving organizational performance (Amin et al, 2014).

## Impact of Job Satisfaction on Organizational Performance

Job satisfaction is an individual cognitive, affective and the evaluation reaction on the job (Tooksoon, 2011). Job satisfaction is widely studied work-related attitude in the field of the organizational behavior (Tooksoon, 2011). The higher job satisfaction relates to the organizational performance (Hackman & Oldham, 1975). Low level of employee job satisfaction tends to have a low level of commitment and productivity (Wong-Riley, 1989). If in any organization there is no job satisfaction then there is high intention among employees to leave job. The work environment is an important factor in job satisfaction and the organizational performance in turn (Tooksoon, 2011). If employees have a high level of satisfaction, it will lead towards less turnover and high organizational performance (Amah, 2009).

#### **Studies**

Albrecht et al., (2015) in their studies established that Human resource practices strategically directed towards engagement will directly influence organizational climate and will directly and indirectly influence the demands and resources experienced by employees in their work roles, the psychological experience of meaningfulness, safety and availability, employee engagement and attitudinal, behavioral and performance outcomes. Robertson & Cooper (2010) explicitly recognized the importance of well-being, positive psychology, and eudaimonic or 'sense of purpose' dimensions of engagement in a construct they referred to as 'full engagement'. More generally, intrinsic motivation is fundamental to an understanding of employee engagement (Bakker et al., 2004).

Organizations that create the conditions that support, enhance and sustain employee engagement will have higher levels of job, unit and organizational performance, and therefore competitive advantage. Bowen & Ostroff (2004) explained that Human Resource Management systems influence organizational climate because the implementation of a coherent, consistent and strategically focused suite of HR policies, practices and procedures communicates to employees expectations about the skills, knowledge, motivations, attitudes, norms, values, and behaviors expected within their organization.

Human resource practices strategically focused on engagement will have a direct and positive influence on organizational climate. Research by Collings & Mellahi (2009) and Harter & Blacksmith (2012) in the area of contemporary human resources management and practice found that employees with high level of competency and potential are increasingly becoming keen to work on job roles that include opportunities for challenge, growth and engagement. In order to attract and retain such high achievers, who are extremely important for organizational performance, it is imperative to create jobs that not only fit the competency profile of such talents but also meet their aspirations so that they remain productive, committed and engaged for a long duration (Herriot, 2002).

Another aspect which assumes great importance in organizational performance is the personality dimensions of employees. It is important not to overlook this is important behavioral parameter of employees, as the same please extremely important role in deciding the engagement level of employees. It is also worthwhile to look at the broad personality profile during recruitment stage itself. When a new employee joins an organization he carries with him two kinds of feelings. On one hand the employee is highly excited about the new job and the working atmosphere, and on the other hand he that is lot of anxiety and sense of uncertainty at the workplace. The organization needs to be very sensitive about the feelings of new hires and handle the employee delicately. While the organization through its managers should try to manage the sense of uncertainty and anxiety part, it must also not lose this opportunity of channelizing the excitement and enthusiasm of the employee into high levels of engagement. Louis (1980) described this as the process of organizational socialization. In a sense, organizational socialization is an acclimatization process for employees to appreciate the culture, values and systems of an organization and becoming a member of the organization.

Once successfully socialized into their roles, HR professionals also need to help and support employees achieve and sustain high levels of engagement and performance. Performance agreement involves the ongoing monitoring of psychological contracts. Schaufeli & Salanova (2010) noted that one way personnel assessment and evaluation processes will affect engagement is through psychological contracts, which reflect the extent to which employees believe that implicit or explicit promises and agreements about work are honored and fulfilled by the organization.

Engagement of an employee is facilitated by a number of components which include job design, coaching and social support, and training. As per Bakker et al. (2004), May et al. (2004) and Schaufeli & Bakker (2004) job meaningfulness and job engagement are significantly impacted by job features such as job autonomy, task variety and performance feedback.

#### **CONCLUSION**

The objective of the review was to study how various human resource management practices impact organizational performance. The literature survey concluded that human resource management practices have indeed a significant impact on performance of an organization. Several authors established the strong connection between key HR practices such as training, performance appraisal, employee participation, job definition, and compensation and rewards, and organizational performance. Out of these, training has been reported to have significantly positive effect on job satisfaction and organizational performance. An appropriate training program for employees has been found by researchers to be helpful for organizations to organize the employees efficiently, which in turn helped them to continue improving the skills of employees. Both the practices of job definition, and compensation and rewards have significant positive effect on

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the job satisfaction. In conclusion, it can be said that organizations need to implement various key HR practices sincerely in order to ensure organizational performance.

# **Implications**

The findings from the literature clearly indicate that increasing satisfaction with compensation, policies, and work conditions are priority areas of HR to increase the level of employee commitment. Involving employees in various organizational processes would also go a long way to establish engagement of employees. Attracting, retaining and motivating a skilled workforce has become an important organizational competency for competitive advantage. To succeed, organizations should design and describe jobs properly, ensure a job-person fit matching employee expectations, and design compensation system which is linked to a robust performance appraisal system free from bias. Organizations can think in terms of instituting an effective organizational socializing program to integrate new employees into their system and tap their potential early to the best possible extent.

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