

Linkage Between Human Resource Management and Firm Performance

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Abstract

The impact of human resource management (HRM) policies and practices on firm performance is an important topic in the field of human resource management. In theoretical literature and the emerging conventional wisdom among human resource professionals there is a growing consensus that organizational human resource policies can, if properly configured, provide a direct and economically significant contribution to firm performance. A critical reading of the academic literature shows that the relationship between human resource management and firm effectiveness is a phenomenon with major implications on organizational performance. Objective of this research is to determine key determinants of formal human resource planning that contributes towards performance in the Private Banking Sector. The data collected from 25 offices including head offices from Allahabad District of U.P. Results from the factor analysis on HRP measures selection, training, and incentives and the organizational performance measures which are job satisfaction, efficiency, employee motivation and technology constitutes significant and a positive relationship with other. As modern HR practices are implemented in telecom sector and companies would spend more on Human Resources, it would lead towards High performance achievement. This paper comprehensively studies the links between human resource management practice and firm performance and highlights the points how HRM practices can improve the organizational performance.

Keywords : Human Resource Planning, Telecom Sector, Organizational Performance, Selection, Training and Incentives.

1. INTRODUCTION

The impact of human resource management (HRM) policies and practices on firm performance is an important topic in the field of human resource management. In theoretical literature and the emerging conventional wisdom among human resource professionals there is a growing consensus that organizational human resource policies can, if properly configured, provide a direct and economically significant contribution to firm performance. Performance in the context of organization is not only a broad concept which has been used synonymously with productivity, efficiency, effectiveness but it has also been a subject of study for researchers. Many efforts have been made by HRM theorists to try to establish a

casual link between a HRM & performance. This has led to growing number of studies which examine the potential contribution that good human resource policy can make to improving organization performance.

2. REVIEW OF THE LITERATURE

Acknowledging the relevance of all types of resources to contribute to excellent performance, researchers emphasize that in the context of globalization, human resources are vital to achieve success in the most effective and efficient ways. It is generally accepted that "people are the key assets in the new world market and that all other assets are nothing more than commodities that can be purchased at market prices, because only the human asset has

potential to learn, grow, and contribute". However, there is a continual debate as to what in particular provides value to the organization - human resources or their management: 1) some authors maintain that sustained competitive advantage lies in the human resources and not in HRM practices; 2) other authors, though, highlight that competitive advantage is created through HRM practices and not human resources, as it does not suffice to hire best people in order to gain the competition; 3) third group of authors suggests a unifying approach to the critical role of both human resources and HRM in the enhancement of sustaining of competitive advantage.

In 1954, "Drucker" emphasized that personnel management are worried "about their inability to prove that they are making a contribution to the enterprise". The presenting HRM as a new approach to personnel management has provided an opportunity to contradict to repeated criticisms that human resources do not add value to the organization. Therefore, the researchers have become active carrying out empirical research

aimed at providing evidence that HRM results in higher organizational performance.

The first systematic empirical studies of the HRM and performance link were published by Arthur in 1994, MacDuffie in 1995, including one of the most cited articles in this area by Huselid in 1995. In the course of eighteen years the huge number of studies in different industries and different countries were conducted. Although the bulk of literature seems to accept that HRM practices have a significant impact on organizational performance, Assuming the relevance of empirical finding, there is the need theoretically to approve link by providing some theories, otherwise the analysis of constructs and link between them will lack scientific rationale.

After calculation of 47 theories and approaches at last findings demonstrated a deficiency in the literature regarding theories and concluding that contingency theory, resource-based view and the AMO framework are the three most commonly used theories.

Theoretical perspective	Author	Main statements
Contingency theory	Jackson and Schuler, 1987; Snell and Youndt, 1995; Delery and Doty, 1996	Seeking for better organizational performance HRM strategy has to fit with business strategy.
Resource based View	Barney, 1991 Grant, 1991	Competitive advantage comes from the internal resources that the organization possesses.
AMO framework	Appelbaum, Bailey, Berg, and Kalleberg, 2000	Organizational interests are best served by an HRM system that attends to employees' interests, namely their skill requirements, motivations and the quality of their job

Table : The theoretical perspective on link

3. OBJECTIVES OF THE STUDY

The basic objective of this study is to measure the basic determinants of Human Resource Planning which can progress the organizational performance in the 'Private sector Banks'. Major focus was first to check the continuation of formal human resource planning and identifying the variables which can increase the organizational performance as given below :

- ❖ To help the Private Sector Banks in managing their staffing problems.
- ❖ To ensure effective utilization and maximum development of human resources
- ❖ To ensure respect for human beings
- ❖ To achieve and maintain high morale among employees

4. SIGNIFICANCE OF THE STUDY

Human resource planning has its real significance in the Private Sector Banks as it is a key driver towards building and maintaining organizational performance in India. So this research will absolutely give a positive path towards making Private Sector Banks HR competitive as compared to other sectors, as we will check that the Private Banking Sector has an effect on their organizational performance by following the modern practices of HR.

5. HYPOTHESES

As this research is investigative in nature and the researcher had to check the availability and existence of Human Resource Planning and some of its tools in the Private Sector Banks, there are some hypotheses which we developed :

Alternative Hypotheses

- ❖ H1: HRP has a significant relationship with employee motivation
- ❖ H2: HRP has a significant relationship with technology
- ❖ H3: HRP has a significant relationship with efficiency
- ❖ H4: HRP has a significant relationship with job satisfaction

Sample Size

Among the Private Sector Banks, I visited more than 25 offices including head offices. The data collected from Allahabad District of UP, we made a questionnaire regarding this research topic which was covering almost all of the above mentioned tools regarding human resource planning.

Quantitative Analysis

Analysis based on some statistical tools including some HRP variables and some qualitative variables to measure the organizational performance in the results which explain the relationship of one variable with another and those numerical values proves our hypothesis.

Qualitative analysis has been done to show the importance of Human resource planning.

Linear Regression Test

Linear regression is used to check the effect of dependent variables with independent variables. As we have four latent factors of organizational performance which are job satisfaction, motivation, efficiency and technology are there. In regression analysis, performance measures have been taken as dependent variables and the latent factors of human resource planning such as selection, training and incentives these are our independent variables of research.

Effect of HRP on Organizational Performance

Organizational performance can be measured through financial stability and productivity, but when we have to relate human resource planning with the organizational performance, than we consider some of other variables like efficiency and effectiveness, employee motivation, job satisfaction, trust on employees.

Human resource planning is surrounded by three basic level practices which can increase the organizational performance :

- 1) To increase the knowledge, skills and abilities among employees.
- 2) To enhance their empowerment like giving them employment security and organize some participation programmes for employees.
- 3) To give them motivation through both incentive means like giving them compensation and benefits, and also through internal promotion like promoting them with their job status.



Fig. Factors of HR affecting Organizational Performance

Relationship of Employee Motivation with Independent Variables :

Table 1 : Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the estimate	Durbin-Watson
1	.461	.212	.197	3.20535	2.967

In the above table the value of R square indicates that total variation in dependent variable employee motivation is explained by the independent variables i.e. selection, incentives, training and the remaining is due to some other factors.

Table 2 : ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	431.842	3	143.947	14.010	.000
	Residual	1602.789	156	10.274		
	Total	2034.631	159			

The ANOVA table suggests that the relationship of employee motivation with independent variables is highly significant and its value is (.000).

Table 3 : Coefficients

Model	Unstandardized coefficients		Standardized coefficients		Sig.
	B	Std. Error	Beta	t	
1					
(Constant)	2.678	1.477		1.813	.072
Selection	-.857	.563	-.110	-1.523	.130
Incentives	1.544	.257	.431	6.015	.000
Training	-.203	.271	-.054	-.748	.456

In the above table of coefficient, employee motivation is highly significant with incentives only; its significance level is (.000). As the incentives among the employees in an organization increases, the employee motivation increases. The value of Beta (.431) suggests that there is a positive relationship between employee motivation and incentives.

Table 4 : Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the estimate	Durbin-Watson
1	.246	.060	.042	.26047	2.504

In the above table the value of R square indicates that total variation in dependent variable employee motivation is explained by the independent variables selection, incentives, training and the remaining is due to some other factors.

Table 5 : ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.679	3	.226	3.339	.021
	Residual	10.583	156	.068		
	Total	11.263	159			

ANOVA table suggests that the relationship of technology with independent variables is significant at 1% level and its value is (.021)

Table 6 : Coefficients

Model	Unstandardized coefficients		Standardized coefficients		Sig.
	B	Std. Error	Beta	t	
1					
(Constant)	2.025	.120		16.869	.000
Selection	-.084	.046	-.146	-1.846	.067
Incentives	-.017	.021	.063	-.807	.421
Training	.049	.022	-.173	2.213	.028

In the above table of coefficient, technology is significant with selection; its significance level is (.067). The selection process improves with the help of improvements in technology. The value of Beta (-.146) suggests that there is a negative relationship of technology with selection. Technology is also significant with training, as technology improves the training process also improves. The value of Beta (.173) suggests that there is a positive relationship technology with training.

Relationship of Efficiency with Independent Variables:

Table 7 : Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the estimate	Durbin-Watson
1	.649	.422	.411	.58823	2.506

In the above table the value of R square indicates that total variation in dependent variable efficiency is explained by the independent variables selection, incentives, training and the remaining is due to some other factors.

Table 8 : ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	39.366	3	13.122	37.923	.000
	Residual	53.979	156	.346		
	Total	93.345	159			

ANOVA table suggests that the relationship of efficiency with independent variables is significant at 1% level and its value is (.000).

Table 9 : Coefficients

Model	Unstandardized coefficients		Standardized coefficients		Sig.
	B	Std. Error	Beta	t	
1 (Constant)	.098	.271		.361	.718
Selection	.959	.103	.575	9.285	.000
Incentives	.138	.047	.180	2.924	.004
Training	-.178	.050	-.220	-3.580	.000

In the above table of coefficient, efficiency is highly significant with selection; its significance level is (.000). The efficiency in an organization improves as the selection process is refined. The value of Beta (.575) suggests that there is a positive relationship of efficiency with selection. Efficiency is also significant with incentives (.004), as more the incentives will be provided to the employees; the more it will bring efficiency in terms of time saving and expenditures. The value of Beta (.180) suggests that there is a positive relationship of efficiency with incentives. Efficiency is also highly significant with training (.000), as more and more will be the training the efficiency among the organization increases. The value of Beta (-.220) suggests that there is a negative relationship of efficiency with training.

Relationship of Job Satisfaction with Independent Variables:

Table 10 : Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the estimate	Durbin-Watson
1	.414	.046	.027	37.63192	2.353

In the above table the value of R square indicates that total variation in dependent variable job satisfaction is explained by the independent variables selection, incentives, training and the remaining is due to some other factors.

Table 11 : ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10593.912	3	3531.304	2.494	.062
	Residual	220921.234	156	1416.162		
	Total	231515.147	159			

ANOVA table suggests that the relationship of job satisfaction with independent variables is significant at 10% level and its value is (.062).

Table 9 : Coefficients

Model	Unstandardized coefficients		Standardized coefficients		Sig.
	B	Std. Error	Beta	t	
1 (Constant)	11.829	17.345		.682	.496
Selection	-14.884	6.606	-.179	-2.253	.026
Incentives	-1.985	3.014	-.052	-.659	.511
Training	3.729	3.186	.092	1.170	.244

In the above table of coefficient, job satisfaction is significant with selection only; its significance level is (.026). The value of Beta (-.179) suggests that there is a negative relationship between job satisfaction and selection and the reason is due to tough selection criteria or reference based hiring.

6. MAJOR FINDINGS OF THE STUDY

From all analysis shown above, it can easily be found out that human resource management is compulsory and a strategic component and the modern practices of human resource management (HRM) that can make an organization’s employee more capable and distinctive for their work, the purpose of this research was to check the performance of private sector banks and the impact of the determinants of Human Resource Planning on the qualitative performance measures. The practices of Human Resources are their real success as they are following the modern practices and methods of Human Resource Management. We had checked selection, training, and incentives with our performance measures which are having a positive and significant result with each other.

7. HRM STRATEGIES FOR IMPROVING PERFORMANCE

1. Improving performance through soft HR policies: jobs satisfaction, employee commitment and motivation have often been regarded as HR dimensions to organizational performance. Employees enthusiast of the soft model of HRM argues should be treated as valued assets, a source of competitive advantage through their commitment, adaptability and high quality (of skills performance and so on). Recent

research into HRM & performance, (Guest & Hoque 1999) has found that there is a positive association between these dimensions & organizational performance.

2. Quality initiatives & organizational performance: Quality has been a central theme in HRM in which product service quality is widely seen as an important way of organizational performance by attracting & retaining satisfied customers. During 1980s increased competition from overseas, rapid innovation of new technology and shareholders profit demand left many organizations with no choice but to look for ways to keep costs down and to organize the work of employer in ways that are more profitable consequently, there has been a widespread uptake of quality initiatives.

3. Increasing performance through skill training: It has been widely argued, training & development of employees is essential to organizations which seek to gain competitive advantage through a highly skilled & flexible workforce may cut costs as a major ingredient for high productivity and quality performance. A more highly skilled workforce may increase productivity by producing higher level of output or by producing output of greater value. A well maintained & motivated workforce in private sector banks may cut costs of supervision as they possess skills to inspect their own work. They can minimize the downtime of the machinery because they are able to diagnose faults on machinery and are even able to repair them. A skilled workforce can also improve the firm’s functional flexibility since they are much easy to retrain due to their relatively broad knowledge base of multi skills. A technically competent workforce will

also give management confidence in utilizing new technology & provide employers with more scope for rapid adjustment to changes in production method, product requirements & technology.

8. CONCLUSION AND RECOMMENDATIONS

Literature review shows the concern of specialists to identify the relationship between human resource management practices and firm performance. Although, few studies have been completed, the development of this field is emerging strongly. Human resource management function must be interpreted in terms of influencing factors (environment, strategy, size of organization). Use performance indicators other than financial ones, provides a better analysis of the relationship between human resources and performance. Different human resource practices should be coherent & complement each other. Human resource systems should be in line with the business or competitive strategy of the organization. The human resource system adopted by the organization should be compatible with its operating environment. It is argued that the HRM route to performance/competitiveness requires a stable & high trust environment. The investigation into the links between human resource strategy & performance should necessarily be lodged in a broader context. For instance, where does the firm's performance pressure come from? To what extent is the way firms manage constrained by external & internal factors which are beyond control e.g. legislation, labour, product market, finance, finding situation, inter firm relationship & traditions of management labour relations? How efficiently are performance targets set measured & monitored in / by the firm & what is the likely, impact of these practices on long term performance of the firm on the well being & experience of work individuals. Firms should accept well fitted (and bundled) HR policies in order to increase their competitiveness.

From the regression test, the level of

significance (.000) confirms that motivation is depicting positive and a significant relationship with incentives. As more and more incentives would be provided to the employees, the motivation level will increase. Secondly, the technology is our second dependent variable with having positive and significant effect on the employee training; the significance level is (.028). This shows that as there will be an up gradation in technology, the easier would be to train people. The third dependent variable is efficiency; its significance level with incentives is (.004). When incentives provided to the employees in an organization, it will increase the efficiency of that organization. Thus, it is having a significant and a positive relationship with each other. Selection is also highly significant with efficiency (.000), which interprets if the right criterion to select people is followed in an organization, it will bring efficiency. The last independent factor is job satisfaction; only selection is showing significant (.026) but a negative relationship with job satisfaction. Hence our H₀ is rejected but H₁ is accepted that Human Resource Planning has significant relationship with organizational performance. As HR practices would improve and companies would spend more on Human Resources, it would lead towards High performance achievement and Human Resource should have to be treated as a strategic component in other sectors of India.

Recommendations

This research is very helpful for Private Sector Banks in almost all over the world, as the determinants of Human Resource Planning like selection, training, and incentives are having a significant and positive relationship with organizational performance measures which are job satisfaction, technology, employee motivation and efficiency. This research is only based on the qualitative measures of performance, but for future research quantitative measures can also be taken to measure performance.



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