

Impact of HRM Practices on Employee's Performance

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Abstract This study was conducted to determine the impact of HRM practices on employee's performance in the Textile industry of Pakistan. Random sampling technique was used to collect data for this research study. A questionnaire based on 34 items was distributed among 68 employees of textile industry for data collection. To check the association between HRM practices and employee's performance, Pearson correlation statistical technique and regression analysis was applied on the data. The results indicate that HRM practices Compensation, Career Planning, Performance Appraisal, Training, and Employee Involvement have a positive impact on employee's performance. Hence, it is proved that independent variables contribute positively towards change in the dependent variable.

Key words Compensation, Career Planning, Performance Appraisal, Training, Employee Involvement, Employee performance

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1. Introduction

Many researchers conducted their researches to determine the relationship between Human Resource Management (HRM) practices and Employee Performance in developed countries but few studies have been conducted in developing countries like Pakistan. Pakistan is considered 'under-researched' in the HRM practices (Aycan *et al.*, 2000). In Pakistan, Researchers mainly focused telecom sector, banking sector, public sector but textile industry of Pakistan required a great attention to determine the relationship between HRM practices and employee's performance.

This study is conducted to evaluate the relationship between HRM practices and employees performance in the textile sector of Pakistan. The most relevant HRM practices (training and development, performance appraisal, career planning system, employee participation, and compensation system) have been selected for the study. Correlation and Regression technique was used to analyze the data.

This research provides information about the active practices of HRM in textile sector and their impact on employee's performance. The results of this research will be helpful for HRM professionals of textile industry to increase the performance of employees by implementing the HRM practices. This study will be helpful in optimizing the abilities of the employees and assigning the tasks accordingly. By implementing the HRM practices, organizations will be able to achieve its goals by making an effective and efficient workforce.

1.1. Research Questions

1. How Human Resource Management (HRM) practices affects Employee Performance?
2. What is the status of Human Resource Management (HRM) practices in Textile sector?
3. What is the relationship between Human Resource Management (HRM) practices and Employee Performance?

1.2 Research Objectives

1. To determine the effect of Human Resource Management (HRM) practices on employee performance.
2. To determine the status of Human Resource Management (HRM) practices in Textile sector.

3. To determine the relationship between Human Resource Management (HRM) practices and Employee's Performance.

2. Literature review

2.1. HRM Practices

HRM practices are a process of attracting, motivating, and retaining employees to ensure the survival of the organization (Schuler and Jackson, 1987). HRM practices are designed and implemented in such a way that human capital plays a significant role in achieving the goals of the organization (Delery and Doty, 1996). The appropriate use of HRM practices positively influence the level of employer and employee commitment (Purcell, 2003). HRM practices such as, training and development, performance appraisal encourage the employees to work better in order to increase the organizational performance (Snell and Dean, 1992; Pfeffer, 1998). The practices selected for this study are based on its importance in relation to the industry selected for the analysis. The practices used in this study are listed and defined as follows:

2.2. Compensation

Compensation is a process of providing monetary value to employees for the work they performed. Compensation can be used to hire skilled employees, reward the performance, encourage company loyalty by reduce turnover. Compensation may include Basic Pay, Overtime, Bonuses, Travel/Accommodation Allowance, Stock Options, Medical Allowance, Commissions, and Profit Sharing. A recent study conducted by Hay points out that 20% employees plan to switch their current positions in at least five years. Employee retention turnover has become a more prominent aspect of organizational life. The implementation of retention compensation strategies has seen significant growth over the last several years. A study conducted by Frye (2004) show positive relationship between compensation and organization performance. Frye (2004) reported that compensation strategies play an important role in recruiting and retaining skilled employees. Most of the firms used Performance-based compensation to reward employees (Collins and Clark, 2003). Performance-based compensation positively influences employee's performance (Brown *et al.*, 2003). A research study by Huselid (1995) showed a significant relationship between compensations and employee performance. An effective HRM strategy is to integrate performance and compensation system that enhance employee's will to work effectively and efficiently (Wright, 2003). Teseema and Soeters (2006) indicate a significant correlation between compensation and employee's performance. It is important that employer view compensation practices in a favorable light as compensation practices heavily influence employee recruitment, turnover and productivity.

2.3. Career Planning

Career planning is process of setting career goals and identifies the ways to attain them. Career planning is a process of planning individual's life work. Career planning is a tool used to motivate employees to work for the development of the organization (Wright and Snell, 1998). The career planning focused on motivating the employees to achieve a desired match between personal goals and organizational goals. A process of developing human resources to increase organizational performance is referred as career planning (Leibowitz *et al.*, 1986). Career development process is useful in identifying employee's skills and experience and assigning them tasks accordingly. Individuals prefer to join those organizations where they get enough opportunities to pursue their career goals and exploit their potential fully (Gardener *et al.*, 2011). Career planning serves as a tool to motivate employees to work effectively and efficiently in order to achieve the goals of the organization. Career planning is a deliberate process of providing oppurtunities for successful development (Snell, 1992).

2.4. Training

Training is a systematic approach that enables employees to attain knowledge and skills in order to accomplish their tasks effectively with the resultant improvement in the behavior (Armstrong, 2006). Training and development contribute positively towards organizational growth. Training refers to the methods used to develop skills in the employees required to perform the job (Dessler, 2008). Most

organisations considered training and development as an important factor of the human resource activity. Training can be used as a tool to increase employee's performance by developing knowledge and skills. Training can be described as an endeavour to develop additional competencies needed today or in future in order to increase the level of employee's performance (Jackson and Schuler, 2000). Training can be used as a tool to increase efficiency and effectiveness of employees in order to increase organizational performance (Cook and Hunsaker, 2001). Extensive training programs are conducted by employees to improve the employee's performance in order to achieve strategic position over competitors (Brown, 2005). Training programs play a significant role in achieving organizational goals (Dobson and Tosh, 1998). A desired change can be attained in employees performance by providing them proper training (Huselid, 1995).

2.5. Employee Involvement

Employee involvement is creating an environment in which employees are empowered to make their decisions and take actions relevant to their jobs. Employee involvement helps the organization in retaining its employees as it increases ownership and commitment and fosters an environment to make the employees motivated and contributing. Employee contribution influence employee's performance positively (Locke *et al.*, 1997). Employee involvement increase job satisfaction, motivation and employees commitment as employees feel themselves more involved in the success of the organizational goals (Mullins and Peacock, 1991). Empowering the employees by involving them in decision making contribute to the success of organization as it increases the productivity, saves time for decision making, lowers the gap between supervisor and subordinates, encourages a strong sense of teamwork among workers. Smith (1997) focused on empowering employees in order to release their potential. Nykodym *et al.* (1994) indicate that empowering the employees can reduce conflict among employees.

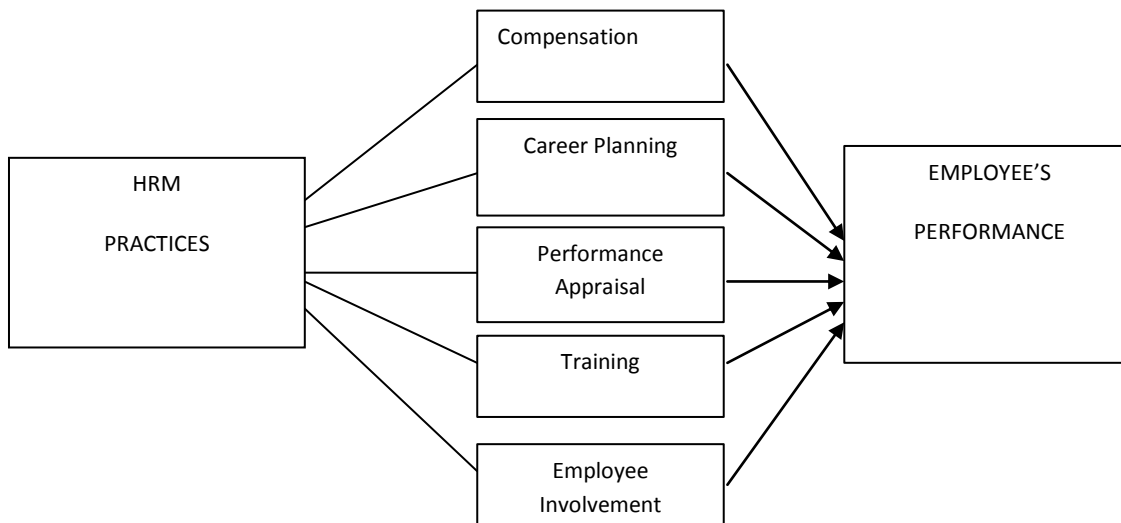
2.6. Performance Appraisal

Performance appraisal is a systematic evaluation of an employee's performance in his assigned tasks. The overriding purpose of performance appraisal is to increase motivation and employees self-esteem. Sels *et al.* (2003) stated that performance evaluation increase the employee's productivity that in turn increases organizational performance. Performance appraisal enhances professional growth by pointing out the area of performance enhancement. Transparent performance evaluation motivates employees to work more in order to achieve the organizational objectives (Singh, 2004). Wan *et al.* (2002) reported that merit based performance appraisal increase employee's motivation and commitment that has a significant effect on organizational performance. The key to organization's success relates to the willingness of employees to play extra role (Ahmad and Schroeder, 2003). Satisfied employees lead towards reduced turnover and absenteeism.

2.7. HRM Practices and Employee's Performance

The systematic studies that linked HRM practices and performance were published by (Gerhart and Milkovich, 1992; Arthur 1994; Huselid in 1995; MacDuffie, 1995; Guest, 1997). Thereafter a large number of researches were conducted on different sectors of different countries. Most of the researches showed significant impact of HRM practices on employee's performance. Employee performance is directly linked with performance of the organization. The successful organizations consider the HRM practices as a crucial factor that directly affects the employee's performance. Boselie *et al.* (2005) stated that in 104 research studies, HRM was taken as a set of employee management practices. Delery and Doty (1996) described seven HRM practices that are relevant to overall organizational performance. Pfeffer (1994) argues that organizations must hire skilled and capable employees in order to be successful in today's global environment. Actual HR practices are applied by line managers on a daily basis that positively impact employee's perception about HRM practices applied to them (Purcell and Kinnie, 2007). The successful implementation or failure of HRM practices depends on the skills of the managers (Guest, 2011).

2.8. Research Framework



3. Methodology of research

3.1. Research Design

The research study was conducted to determine the impact of HRM practices on employee’s performance.

3.2. Data Collection Instruments and Sampling Techniques

Questionnaire designed on a 5-point Likert scales range from strongly disagree to strongly agree, was used to collect data from the employees working in different departments of textile sector. Questionnaire was divided in two parts: first part was comprised of data regarding HRM practices and employee’s performance and second part with demographic information of respondents. For this research study, Random sampling technique was used for the collection of data. Questionnaire was distributed among 68 targeted respondents to get the data required for conducting the analysis.

3.3. Data Analysis

A Pearson correlation and regression was conducted to determine the association between HRM practices and employee’s performance.

3.4. Results of the Study

Table 1. Correlation Analysis

		Correlations					
		Ave_C	Ave_CP	Ave_PA	Ave_T	Ave_EI	Ave_EP
Ave_C	Pearson Correlation	1	.827**	.858**	.803**	.829**	.775**
	Sig. (2-tailed)		.000	.000	.000	.000	.000
	N	67	67	67	67	67	65
Ave_CP	Pearson Correlation	.827**	1	.871**	.884**	.907**	.796**
	Sig. (2-tailed)	.000		.000	.000	.000	.000
	N	67	68	68	68	68	66
Ave_PA	Pearson Correlation	.858**	.871**	1	.816**	.873**	.790**
	Sig. (2-tailed)	.000	.000		.000	.000	.000
	N	67	68	68	68	68	66
Ave_T	Pearson Correlation	.803**	.884**	.816**	1	.797**	.781**
	Sig. (2-tailed)	.000	.000	.000		.000	.000
	N	67	68	68	68	68	66
Ave_EI	Pearson Correlation	.829**	.907**	.873**	.797**	1	.876**
	Sig. (2-tailed)	.000	.000	.000	.000		.000
	N	67	68	68	68	68	66
Ave_EP	Pearson Correlation	.775**	.796**	.790**	.781**	.876**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	65	66	66	66	66	66

** . Correlation is significant at the 0.01 level (2-tailed).

Pearson correlation was applied on the data to check the relationship between HRM practices. Pearson correlation for the Employee Performance with Compensation($r=.775$), Career Planning($r=.796$), Performance Appraisal($r=.790$), Training($r=.781$), and Employee Involvement($r=.876$) show a positive relationship. The results indicates that all the variables are statistically significant at ($p<.05$).

Table 2. Regression Analysis ANOVA

ANOVA ^b						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	23.790	5	4.758	46.239	.000 ^a
	Residual	6.071	59	.103		
	Total	29.862	64			

a. Predictors: (Constant), Ave_EI, Ave_T, Ave_C, Ave_PA, Ave_CP
 b. Dependent Variable: Ave_EP

The ANOVA table shows significant value of the F statistic that is less than 0.05, which means that the model is significant statistically.

Table 3. Regression Analysis Model Summary

Model Summary ^b									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.893 ^a	.797	.779	.32078	.797	46.239	5	59	.000

a. Predictors: (Constant), Ave_EI, Ave_T, Ave_C, Ave_PA, Ave_CP
 b. Dependent Variable: Ave_EP

Coefficient of determination i.e. R2 Value (0.797) indicates 79% variation in employee’s performance is due to the proposed model. That means HRM practices Compensation, Career Planning, Performance Appraisal, Training, and Employee Involvement have a positive impact on employee’s level of performance. Therefore it is proved that independent variables contribute positively towards change in the dependent variable.

4. Conclusions and Discussions

The study revealed a significant relationship between Human Resource Management (HRM) practices (Compensation, Career Planning, Performance Appraisal, Training, and Employee Involvement) and employee’s performance. The study revealed that employee’s performance can be increased by giving employees an opportunity to make effective decisions. Training and employee involvement play a positive role in increasing employee’s performance (Munjuri, 2011). The research conducted by Singh (2004) indicates a positive relationship between HRM Practices and employee’s performance (Qureshi *et al.*, 2006). The study showed human resource (HRM) practices and activities have a significant impact on the employee’s performance (Tabiu and Nura, 2013). It is concluded that HRM practices can enhance the employee’s level of performance which influence the perception of employees about performance (Khalid, *et al.*, 2014).

4.1. Recommendations

It is clear from the findings that Human Resource Management (HRM) practices (Compensation, Career Planning, Performance Appraisal, Training, and Employee Involvement) has a positive role in increasing the employee’s performance, so the organizations should implement these practices to achieve the desired goals. The organizations should utilize a variety of reward and recognition programs to drive behavior that promotes high performance. Organization conducts extensive training program for its

employees relevant to the changing needs of jobs and business. Job performance should be considered an important factor to determine the compensation of employee's performance. Management should value the contribution and ideas shared by employees and empower employees to maximize their individual talent in order to make effective decisions. Human Resource Management practices (Compensation, Career Planning, Performance Appraisal, Training, and Employee Involvement) play a crucial role in increasing employee performance so the organizations should revise their HR policies by keeping in view the above factors in order to attain the targeted goals.

4.2. Limitations and Future Research

Research context was limited to Textile sector of Faisalabad, while the future research can be extended to different sectors of different cities to get more significant results. Small number of respondents has been chosen for this study so a similar study should be conducted by increasing a sample size. This study examined only five human resource practices (Compensation, Career planning, Training, Employee involvement, Performance appraisal), while other human resource practices can also be used for further study to get a clear idea of the important employee's performance determinants.

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