

The Impact of HRM Practices on Organizational Performance Evidence from Public University in Sri Lanka

W J A J M Lasanthika

Temporary Lecturer

Department of Business Management
Faculty of Business Studies and Finance

Wayamba University, Sri Lanka

Email: jananijayawardana@gmail.com

Abstract

The purpose of this paper is to study the impact of human resource management (HRM) practices on organizational performance. A total of 200 employees from a public university comprising of both academicians and non-academicians responded to the survey. The survey questionnaire had 33 items covering selected demographic factors, HRM practices and university performance. The study has found that HRM practices: recruitment and selection, training, performance appraisal, compensation and employee participation have a significant relationship with university performance. Training and performance appraisal gave highest contribution towards university performance. If the university aims to upgrade university performance, it should emphasize more on these HRM practices. Most studies have focused impact on HRM practices in manufacturing sector and this study targeted service sector, especially higher education sector. It also has attempted to add knowledge on the impact of HRM practices on university performance in Sri Lanka combining both the academicians and non-academic staff.

Keywords: Human resource practices, Public sector, University performance

Introduction

Today organizations have increasingly identified the potential for their people to be a source of competitive advantage. Not too long ago, so called HR functions was the preserve of “Personnel Managers” whose duties were to recruit and select, appraise, promote and demote (Hameed et al, 2015). According to Antony and Norton (1991), successful corporate leaders recognize that their competitive edge in today’s market place is their people. They also acknowledge that few organizations know how to manage human resources effectively, primarily because traditional management models are appropriate in our dynamic work environment.

According to Noe et al. (2011) human resource management is critical to the success of organizations because human capital has certain qualities that make it valuable. In terms of business strategy, an organization can succeed if it has a sustainable competitive advantage (is better than competitors at something and can hold that advantage over a sustained period of time). Therefore, we can conclude that organizations need human resources that will give them such an advantage.

Employees are one of the most important assets of an organization as they contribute to its growth and success (Danish and Usman, 2010). Malik et al. (2010) concluded that in the era characterized by rapid and continuous change, knowledge capital must be retained in order for organizations to be productive and responsive to the needs of their stakeholders. Likewise, universities as training and research institutions need to attract, retain and develop their employees. Universities need employees who are well trained and motivated so that they are committed to their work of conducting research and training for the development of

the nations (Lew, 2009). Research literature has shown that effective application of some human resources management (HRM) practices enables university employees to be committed to their work for good performance of the universities (Chen et al., 2009; Shahzad et al., 2008). Implementation of appropriate HRM practices for university employees will promote university performance as Lew (2009) noted that employees play a strategic role in improving ratings in key areas like research quality, academic reputation of faculty, academic program quality, research contribution to society, preparation of tomorrow's leaders and quality of graduates. Realizing the importance of promoting university performance, many universities are embarking into strategizing its HRM (Sirat, 2005). It is important Sri Lanken's universities improve their world class university ranking by attracting developing and retaining excellent and experience academicians and support staff.

Higher education institutes play major role in country's education. It is required talented workforces both in public and private sectors. There is a shortage of empirical researches conducted to examine the effects of HRM practices on public universities performance in Sri Lanka. In order to effectively investigate whether human resources are capable of contributing to competitive advantage, it is important to examine HRM practices in as many settings as possible. Therefore, this study is to examine the impact of HRM practices on organizational performance in Sri Lankan public universities.

Literature Review

HR Practices and University Performance

HRM can be defined as the policies and practices involved in carrying out the “people” or human resource aspects of a management position, including recruiting, screening, training, rewarding and appraising (Dessler and Varkkey, 2008). It is about effective and efficient utilization of human recourse to achieve goals and objectives of the organization. Previous studies on the relationship between HR practices and firm performance have used balanced score card (BSC) or key performance indicators (KPI) across industries (Chand and Katou, 2007; Rizov and Croucher, 2009; Abdullah *et al.*, 2009; Khan, 2010; Osman *et al.*, 2011). However, there is lack of literature supporting application of BSC or KPI in education sector (Stavarakakis *et al.*, 2010; Nistor, 2009; Jonen and Simgen, 2006; Karathanos and Karathanos, 2005). The following discussion will focus on hypotheses development.

Recruitment and Selection and Organizational Performance

Watson et al (2002) refers recruitment and selection as the process by which organizations solicit, contract and engender interest in potential new appointees to vacant positions in the organization, and then in some way establish their suitability for appointment. Recruitment is one of the major functions of HRM and it helps managers attract and select best candidates which in turn leads to improved organization performance (Rehman, 2012). Formal recruitment methods include newspaper classified advertisements, network bulletins, posters and human resource banks, while informal methods include personal connections and introductions through teachers and other staffs (Chen and Cheng, 2012). The effectiveness of different recruitment sources for new employees has

been the topic of speculation and research for over 50 years and this effectiveness has primarily been assessed by examining job survival rates and job performance (Breaugh, 2008; Rehman, 2012; Zottoli and Wanous, 2000). In addition, Ferris *et al.* (2002) found that effectiveness of recruitment practices has an impact on organizational effectiveness. Similarly, many researchers agreed that effective recruitment and selection will lead to competitive advantage and high performance of organization (Pfeffer, 1994; Storey, 2007; Zheng *et al.*, 2006; Werther and Davis, 1996). Therefore, the following hypothesis is developed:

H1. Recruitment and selection has significant relationship with organizational performance.

Training and Organizational Performance

Training means giving new or preset employees the skills they need to perform their jobs (Dessler and Varkkey, 2008). Training enhances employees' capabilities which is instrumental in improving overall organizational performance (Mackelprang *et al.*, 2012; Millar and Stevens, 2012). Previous studies reveal that there is a positive relationship between training and organizational performance (Qureshi *et al.*, 2010; Khan, 2010; Abdullah *et al.*, 2009; Katou and Budhwar, 2006; Chang and Chen, 2002; Huselid, 1995; Singh, 2004). For example, Khan (2010), Katou (2008) and Qureshi *et al.* (2010) concluded that HRM practices have profound effect on organizational performance. HRM practices such as selection and training and development enhances employee performance by providing relevant skills. Similarly, Paul (2009b) revealed that employee training is also significant for organizational performance as it is a mean through which organizational culture and employee behavior can be aligned to outcomes. Thus, the following hypothesis is proposed:

H2. Training has significant relationship with organizational performance.

Performance appraisal and Organizational Performance

According to Dessler and Varkkey(2008), performance appraisal is evaluating an employee's current and/or past performance relative to his or her performance standards. Literature indicates that there is a significant relationship between performance appraisal and organizational performance (Khan, 2010; Qureshi *et al.*, 2010; Abdullah *et al.*, 2009; Lee and Lee, 2007; Chang and Chen, 2002). For example, Brown and Heywood (2005) argued that complementary HRM practices, i.e., formal training and incentive pay enhance performance appraisal leading to a greater influence of productivity. Managing performance of employees forms an integral part of an organization and reflects how they manage their human capital (Meyer and Kirsten, 2005). Moreover, ineffective appraisal practices can lead to many undesirable problems including low morale, decreased employee productivity and low enthusiasm to support organizations, hence decrease organizational performance (Osman *et al.*, 2011b). In fact, an effective performance appraisal should encompass an overall framework or context that enables the entire process to operate at an optimal level of performance (Giles *et al.*, 1997). Therefore, the following hypothesis is suggested:

H3. Performance appraisal has significant relationship with organizational performance.

Compensation and Organizational Performance

Employee compensation is all forms of pay or rewards going to employees and arising from their employment (Dessler and Varkkey,2008)It has been found that there is a significant relationship between compensation andemployee and organizational performance (Giorgio and Arman, 2008; Shin-Rong and Chin-Wei, 2012; Danish and

Usman, 2010; Khan, 2010; Qureshi *et al.*, 2010; Tessema and Soeter, 2006; Katou and Budhwar, 2006; Chang and Chen, 2002). For example, Mayson and Barret (2006) found that a firm's ability to attract, motivate and retain employees by offering competitive salaries and appropriate rewards is linked to firm performance and growth. On the other hand, Inés and Pedro (2011) found that the compensation system used for the salespeople has significant effects on individual salesperson performance and sales organization effectiveness. 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 (Steven and Loring, 1996; Denis and Michel, 2011). The following hypothesis is proposed:

H4. Compensation has significant relationship with organizational performance.

Employee participation and organizational performance

Salamon(1987) defines participation as a philosophy or style of organizational management which recognizes both the need and the right of employees, individually or collectively, to be involved with the management in areas of the organization's decision making beyond that normally covered by collective bargaining. The process of employee participation should provide employees with the opportunity to influence and, wherever possible, take part in decision making on matters which affect their working lives(Bratton and Gold, 1994).

There is evidence to suggest that employee participation enhances the performance of firms (Osman *et al.*, 2011b; Khan, 2010; Qureshi *et al.*, 2010; Katou and Budhwar, 2006; Zheng *et al.*, 2006; Rizov and Croucher, 2009; George, 1999). For example, David *et al.* (2006)

consider manufacturing excellence, competitiveness and a company's ability to continuous innovation to be dependent among others on the participation and involvement of employees at different levels. Charlton(1983) has suggested that the most prevalent classification is that which differentiates direct from indirect participation. Direct participation, such as briefing groups or or the creation of new work organization arrangements (self- managed teams), is viewed as a device to increase labor productivity and implicitly to improve job satisfaction. Indirect forms such as joint consultation, widening the content of collective bargaining and 'worker directors', are associate with the broader notion of 'industrial democracy' (Brennen, et al. 1976; Bullock, 1977).

The following hypothesis is proposed:

H5. Participation has significant relationship with organizational performance.

Methodology

The selected university has approximately 165 academic and 350 nonacademic staff. Simple random sampling technique was used in this study. A total of 220 questionnaires were distributed equally to academic and nonacademic staff at all faculties and administration offices. The questionnaire instruments were adapted from Singh (2004), Qureshi *et al.* (2010) and Shahzad *et al.* (2008).

The instrument was divided into three parts: Human Resource Practices, University Performance and Demographics. The first part consists of 25 items measuring the degree to which HRM practices construct including recruitment and selection, training, performance appraisal, compensation and employee participation are being applied in the chosen

university. The participants were asked to rate the 25 elements based on five-point Likert scale ranging from 1 strongly disagree, 2 disagree, 3 neutral, 4 agree and 5 strongly agree.

The second part measures university performance through 5 items. The participants were asked to rate their perceived university performance based on five-point Likert scale ranging from 1 strongly disagree, 2 disagree, 3 neutral, 4 agree and 5 strongly agree. The third part covers demographic questions. It includes items such as age, gender, and staff category. Research data were analyzed through descriptive statistics, correlation and regression analysis in order to estimate relationships.

Findings

Out of 220 questionnaires distributed to the university staff, 200 questionnaires were collected. Table:1 shows the profile of respondents. Out of the 200 participants, 120 were below 30 years, 53 were within the range of 30-40 years, 27 were above 50 years. Majority of the respondents were below 30 years. Out of 220 participants, 64 and 36 percent were male and female, respectively. Academic and nonacademic staff present of the respondents, respectively.

Table 1: Profile of respondents

Demographic variable	Range	Frequency	%
Age	Below 30 years	120	60%
	30-40 years	53	26%
	Above 50	27	14%
Gender	Male	72	64%
	Female	128	36%
Staff category	Academicians	68	34%
	Nonacademic staff	132	66%

Survey results (2017)

Table: 2 indicates the results of correlation analysis where all variables have positive relationship and statically significant at $p < 0.01$. The results are in line with the findings of Qureshi et al. (2010) where it was found that the variables are correlated. Training and performance appraisal have the highest correlation of 0.656 and 0.758 respectively while recruitment and selection and compensation has the lowest correlation of 0.325 and 0.223 respectively.

Table 2: Correlation analysis results

	R&S	T	PA	COM	EP	OP
R&S	1					
T	0.456** 0.000	1				
PA	0.532** 0.000	0.357* 0.000	1			
COM	0.236* 0.000	0.533** 0.000	0.234** 0.000	1		
EP	0.126** 0.000	0.322* 0.000	0.265** 0.000	0.213* 0.000	1	
OP	0.325** 0.000	0.656* 0.000	0.758** 0.000	0.223* 0.000	0.589** 0.000	1

Notes: R&S, recruitment and selection; T, training; PA, performance appraisal; COM, compensation; EP, employee participation. **Correlation is significant at the 0.01 level and * significant at the 0.05 level (two-tailed)

Survey results (2017)

Table:3 shows that there are significant impact of recruitment, training, performance appraisal, compensation, employee participation on university performance, thus, *H1-H5* were supported.

Table 3: Regression analysis results

Variables	R ²	Beta-coefficient	F change	Significant level
Recruitment	0.222	0.236	98.6	0.000
Training	0.285	0.569	144.2	0.000
Performance Appraisal	0.296	0.622	140.24	0.000
Compensation	0.121	0.323	88.6	0.000
Employee participation	0.252	0.455	118.51	0.000
Overall	0.438		45.88	0.000

Notes: n=200. Significant level $p < 0.05$

Survey results(2017)

Discussion and conclusions

The objective of the study is to examine the impact of HRM practices on organizational performance. The study revealed that HRM practices have significant impact on organizational performance. It has been found that university performance can be attributed to HRM practices including recruitment, training, performance appraisal, and compensation and employee participation. This study is consistent with Qureshi *et al.* (2010), Chen *et al.*, 2009, Khan (2010), Huselid (1995), Rizov and Croucher (2009), Chang and Chen (2002).

Universities need to have an effective recruitment policy to promote scientific selection of prospective employees. The heads of department and assistant registrars should participate in selection process as they have different preferences in the candidates.

Candidates need to be selected based on requisite skills knowledge, attitude and qualification using appropriate selection techniques. Besides, appropriate training program for both academicians and support staff should be organized to continuously improve the skills of employees. Furthermore, performance appraisal should be guided by the performance management policy. Employee's performance should be assessed based on quantifiable standards and feedback be given to employees on their performance.

It was found that performance appraisal contributes the most to university performance (b=0.622). The managers should consider effective performance criteria to measure employee performance and compensate on good performance. Similarly, it implies that increasing employee involvement and participation in decision making regarding their performance will greatly enhance university performance. In this sense, Chen *et al.* (2009) proposed an integrated performance measurement system for universities. Learning and growth is one of the dimensions which include progression of staff to move up the career ladder hence the importance of performance appraisal for performance improvement. Since HRM practices have a significant impact on organizational performance, managers need to implement them in an integrated and coherent manner (Chen *et al.*, 2009; Wickramasinghe and Gamage, 2011).

Organization including universities need to attract and retain talents and leverage them for competitive advantage (Khan, 2010). Candidates need to be selected based on requisite skills knowledge, attitude and qualification using appropriate selection techniques. Furthermore, appropriate training program for academicians and support staff should be organized to continuously improve their skills in line with the developments needs of the university and employees. Consequently,

management and the supervisors should allow the employees to participate on decision making on issues which affect the employees. Open communication or information sharing promote fast decision making. This will influence commitment and job satisfaction among employees (Katou, 2008).

One of the major limitations of this study is the small sample size thus the findings are not generalizable. Future research should include more universities both public and private. In addition, future researchers should also consider moderating variables such as university culture, organization climate, and the labor market, legal and regulatory environment.

References

- Ahsan, N., Abdullah, Z., Fie, D. G., & Alam, S. S. (2009). A study of job stress on job satisfaction among university staff in Malaysia: Empirical study. *European journal of social sciences*, 8(1), 121-131.
- Bratton, J., & Gold, J. (2012). *Human resource management: theory and practice*. Palgrave Macmillan.
- Buck, J. M., & Watson, J. L. (2002). Retaining staff employees: The relationship between human resources management strategies and organizational commitment. *Innovative Higher Education*, 26(3), 175-193.
- Chand, M., & Katou, A. A. (2007). The impact of HRM practices on organisational performance in the Indian hotel industry. *Employee Relations*, 29(6), 576-594.
- Chen, Chung-Jen, and Jing-Wen Huang. "Strategic human resource practices and innovation performance—The mediating role of knowledge management capacity." *Journal of business research* 62.1 (2009): 104-114.
- Croucher, R., & Rizov, M. (2009). Employees' entrepreneurial contributions to firms in Russia, 1995–2004. *Human Resource Management Journal*, 21(4), 415-431.
- Dessler, G., & Varkkey, B. (2008). *Human Resource Management: Dorling Kindersley (India) Pvt. Ltd, New Delhi*.

- Mohamed, N. S., & Hameed, A. (2015). The Impact of Human Resources Management on Healthcare Quality. *International Journal of Management (IJM)*, 6, 603-612.
- Karathanos, D., & Karathanos, P. (2005). Applying the balanced scorecard to education. *Journal of Education for Business*, 80(4), 222-230.
- Karimi, Rabia, Muhamad Imran Malik, and Saddam Hussain. "Examining the relationship of performance appraisal system and employee satisfaction." *International Journal of Business and Social Science* 2.22 (2011).
- Khan, S. A. (2010). Managing performance: the case of an Omani oil company. *Vision*, 14(4), 285-293.
- Lew, Tek. "The relationships between perceived organizational support, felt obligation, affective organizational commitment and turnover intention of academics working with private higher educational institutions in Malaysia." *European Journal of Social Sciences* 9.1 (2009): 72-87.
- Malik, Muhammed Ehsan, Rizwan Qaiser Danish, and Ali Usman. "The impact of service quality on students' satisfaction in higher education Institutes of Punjab." *Journal of Management Research* 2.2 (2010): 1.
- Noe, Raymond A., et al. *Fundamentals of human resource management*. Boston, MA: McGraw-Hill/Irwin, 2007.
- Osman, I., Ho, T. C., & Carmen Galang, M. (2011). The relationship between human resource practices and firm performance: an empirical assessment of firms in Malaysia. *Business Strategy Series*, 12(1), 41-48.
- Pop, M. D., Lacurezeanu, R., & Nistor, R. L. (2009). A Study Regarding Change Management In Romanian Higher Education Institutions: An Internal Stakeholder's Perspective. *Transformations in Business & Economics*, 8(3), 194-216.
- Rehman, S. (2012). A study of public sector organizations with respect to recruitment, job satisfaction and retention. *Global Business and Management Research*, 4(1), 76.
- Sirat, Morshidi Bin. "Strategic planning directions of Malaysia's higher education: University autonomy in the midst of political uncertainties." *Higher education* 59.4 (2010): 461-473.
- Wickramasinghe, V., & Gamage, A. (2011). High-involvement work practices, quality results, and the role of HR function: an exploratory study of manufacturing firms in Sri Lanka. *The TQM Journal*, 23(5), 516-530.