



## **IMPACTS OF HUMAN RESOURCES MANAGEMENT ON EMPLOYEE PERFORMANCE AND LOYALTY**

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### **ABSTRACT**

**The study population, which consisted of employees in the MSI, comprised 40 respondents. To achieve the study objectives, the researcher developed and distributed a questionnaire, and collected and analyzed the data using SPSS. An overall analysis was performed based on the descriptive statistics and correlation analysis. The results indicated that recruitment and selection and compensation significantly correlated with the employee performance in MSI. Findings and practical implications were reported, and recommendations could be used by employers in order to increase their employees' loyalty through effective implementation of HRM Practices.**

**To achieve the aims of this research, the researchers selected the Egyptian service sector as one of the largest in the region. A number of studies have examined the relationship between Human Resources Management (HRM) practices and the employees' loyalty to the organization. However, most of these studies have been conducted in the West. The paper provided recommendations for improving recruitment and selection and compensation in MSI.**

**Keywords: Recruitment and Selection, Compensation, Employee Performance, Employee Loyalty, Job Satisfaction, Performance Appraisal, Career Planning.**

### **1. INTRODUCTION**

Recently, MSI faces an increasing burden among the lecturers due to insufficient number of the administrative staff, where many instructors and lecturers complain from the additional administrative works. Many committees

involving instructors were recruited in ad hoc manner that led to several weaknesses in MSI administration due to the lack of enough administration skills with the instructors. Obviously, this could exhaust the instructors while undertaking their job, specially, with lack of cooperation among the instructors themselves in carrying out their duties due to the lack of stimulus from the top officers. Thus, reduce the performance of the instructors in their main jobs. The importance of this study being looked at one of the topics of modern management is relatively a HRM practices and the factors affecting it, as it is new concept to the developing countries, which include Malaysia, so it is subjected to the study of the field gives more importance especially in light of the circumstances and variables technological and economic. The multi-policy, witnessed by the Malaysian public sector, which require the adoption of the concept of HRM practices from the perspective of application to keep up with the rapid environmental changes. As economic globalization has become more pronounced, the ability of organizations to compete in the global marketplace becomes more tied to the quality of their human resources. Many organizations rely on the expertise of their employees to gain competitive advantage in global economies (Reiche, 2007). There are major challenges in attempting to retain employees (Barney, 1991; Price, 2003; Sinangil, 2004; Woods, Heck, & Sciarini, 1998) which become an increasingly important aspect of building organizational capabilities to ensure sustained competitiveness (Holland, Sheehan, & De Cieri, 2007).

Armstrong M (2006) defines Human Resource Management (HRM) as a strategic and coherent approach to the management of an

organization's most valued assets - the people working there who individually and collectively contributes to the achievement of the objectives. HRM involves all management decision and practices that directly affects the people, or human resources, who work for the organization. Stavrou-Costea (2005) argues that effective human resource management can be the determining factor for the success of a firm. As supported by Lee and Lee's (2007) work, the effect of HRM practices on business performance such as training and development, teamwork, compensation/incentive, HR planning, performance appraisal, and employee security helps improve firms' business performance including employee's productivity, product quality and the firm's flexibility.

## 2. EMPLOYEE CONCEPTS

### 2.1. EMPLOYEE LOYALTY

According to Allen and Grisaffe (2001), loyalty is a psychological state and it characterizes the relationship of an employee with the organization for which they work and that have implications for their decision to remain with the organization. According to the definition of Mathieu and Zajac (1990), loyalty means as attachment to the organization that may be considered an emotional response, especially when an employee believes strongly in organizational goals and values and has a strong desire to maintain membership of the organization. According to Becker et al. (1995), loyalty could be defined as a strong desire to maintain a member of an organization; a willingness to slug on high levels of efforts for the sake of the organization; and a definite belief in and admissibility of the values and goals of the organization. Thus, loyalty is characterized by the strong wish to continue membership of an organization, which plays a positive role in retention of members in the organization. Organizational loyalty of employees could be defined as "the relative strength of an individual's identification with and involvement in a particular organization" (Wu and Norman, 2006).

### 2.2. JOB ANALYSIS

This refers to the process of getting detailed information about a job (De Cieri & Kramar, 2008, p. 60), which could provide information for a variety of purposes, including

determining training needs, development criteria, and appropriate pay and productivity levels (Price, 2003, p. 362). Job design deals with making decision. It has been argued that job analysis and design can enhance performance of the employees and job satisfaction (Moyes, Shao, & Newsome, 2008).

### 2.3. EMPLOYEE SELECTION

Selection refers to the process by which an organization identifies those applicants with the knowledge, skills, abilities, and other characteristics that will help it achieve its goals (De Cieri & Kramar, 2008, p. 30). Hiring capable people is an attractive point of departure in the process; but building and sustaining a committed workforce is more likely to be facilitated by the employment of a range of sophisticated human resource management infrastructures (Y. Chew, 2005; Raghuram, Bird, & Beechler, 1993). The process of staffing employees in the organization consists of finding, evaluating, and assigning people to work (Harel and Tzafrir, 1996). HRM activities involved in getting the right person on the right place (employee skills and organizational structure) contribute to higher productivity (Huselid, 1995). In addition, research has shown that implementing an effective staffing process (selectivity in staffing) is positively related with organizational performance (Delany and Huselid, 1996).

### 2.4. TRAINING

According to Goldstein (1980) and Latham (1988), training is defined as the systematic acquisition and development of the knowledge, skills, and attitudes required by employees to adequately perform an assigned job or task to boost performance in the job environment. Training should impart new knowledge and skills if the training is relevant, meet employee and organizational needs, efficiently and effectively designed and delivered (Salas, 1999). Huselid (1995) suggested that perceptions of HR practices such as providing training and job security by the company are important determinants of employee retention. According to Landsman (2004), he suggested that training is a valuable activity for enhancing skills and improving staff performance, and that training can address some of the factors contributing to staff retention. Investment in training measures and the

implementation of development schemes are becoming increasingly acknowledged as vital elements of HRM (Oakland & Oakland, 2001), and studies across a wide range of industries and sectors have all found a positive correlation between investment in training and employee commitment (Bassi & Buren, 1999).

## 2.5. PERFORMANCE APPRAISAL

Performance appraisal is a process of inspecting and evaluating an individual's performance in his duty to facilitate the decision of career development of the individual. It evaluates the individual overall contribution to the organization through assessment of his internal characteristics, working performance and his capability to pursue higher position in organization (Gruman & Saks, 2011). "Performance appraisal represents, in part, a formalized process of worker monitoring and is intended to be a management tool to improve the performance and productivity of workers" (Shahzad, Bashir and Ramay, 2008, p.304). It is widely recognized as the primary human resource management intervention for providing feedback to individuals on their work-related achievements (Waddell *et al.*, 2000).

## 2.6. CAREER PLANNING

Career can also be defined narrowly in the context of jobs. It could imply work patterns which occur over time; improving experience through job-related satisfaction; and job sequences within an occupation, or movements between occupations. The term "career management" is often used to describe an individual's desire and strategy to fulfill career needs for advancement, extension of skills, or the enhancement of human experience on the job. These needs are then related to the future requirements of the organization. Career Planning is an organizational initiative to help employees assess their skills, defines their career goals, and creates an action plan for accomplishing those goals. The organization is also responsible for holding employees accountable to those goals. Some organizations fear that career planning will communicate to

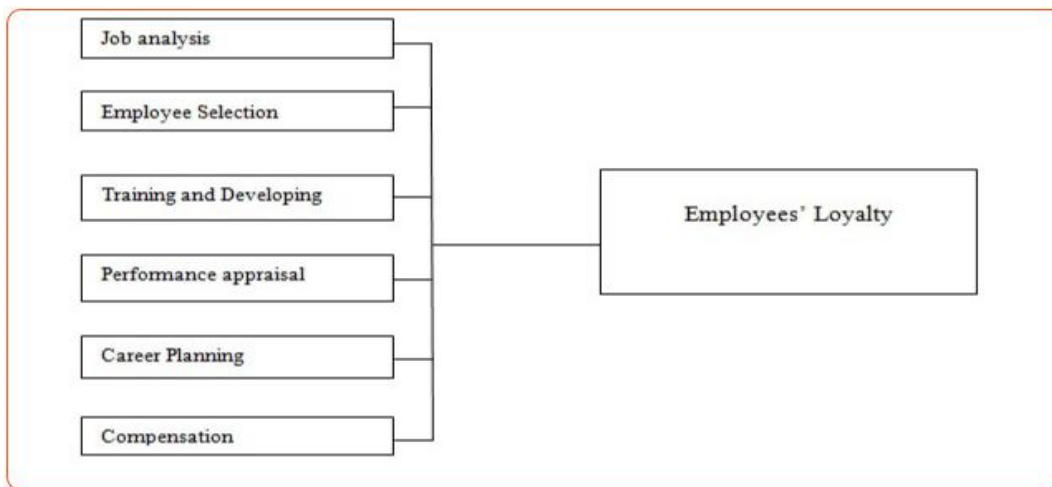
employees that their jobs are at risk, but it can be framed differently to communicate that they are willing to invest in helping employees reach their potential.

## 2.7. COMPENSATION

Williams *et al.* (2007) found that if employees are satisfied with how the company operates and communicates its compensation policies, they remained committed to the organization. Furthermore, an organization's reward system can affect the performance of the employee and their desire to remain employed (e.g., Bamberger & Meshoulam, 2000, MacDuffie, 1995). Compensation systems that organizations offer to the employees play a key role in increasing employee motivation (Milgrom and Roberts, 1992, p.388), performance and productivity. According to expectancy theory (Vroom, 1964), when pay is tied to some measure of individual or group performance, employees are more likely to work harder to increase the individual's, the group's or the organization's performance and an increase in performance in any of these areas will lead to an overall improvement in firm performance. Several studies have been developed that examined the impact of compensation on firm performance and found that an advanced compensation system can be a potential source of achieving competitive advantage (Gomez-Mejia and Wellbourne, 1988; Gerhart and Milkovich, 1992). In addition, incentive compensation has a positive impact upon organizational performance, lowers employee turnover and increases sales growth (Arthur, 1994; Delaney and Huselid, 1996; Batt, 2002).

## 3. RESEARCH FRAMEWORK

As part of a wider investigation of the effect of the implementation of effective HRM practices on the employees' loyalty to the organization, a questionnaire was designed to survey employees working at 10 different service firms in Egypt in order to measure the impact of Human Resources practices on their loyalty to the organization.



**Figure 1:** The impact of HRM practices on Employees' Loyalty Framework

The questionnaire was designed in English and translated into Arabic. Questionnaire forms were distributed in both languages, according to respondents' preferences, 300 questionnaires were distributed in 10 different service firms in Alexandria and only 160 questionnaires were collected.

**3.1. STATISTICAL ANALYSIS**

In order to analyze the questionnaire data, statistical analysis was done using the Statistical Package for Social Science (SPSS) software. Statistical tests used were as follows:

- Reliability Analysis (Cronbach alpha) was used to measure the reliability

- Descriptive analysis was used to provide insights on the sample structure
- Chi-Square was used to further test whether the (independent variables) affect the (Dependent variable).

**3.2. RELIABILITY ANALYSIS**

Reliability test is an assessment of the degree of consistency between multiple measurements of a variable. Cronbach's alpha is the most widely used measurement tool with a generally agreed lower limit of 0.6. Table I, provides an overview of the reliability scores. As can be seen from this table, all the alpha coefficients were above the required level of 0.6.

Scale	Number of Items	Alpha
Job Analysis	4	0.7
Employees Selection	4	0.7
Employees Training	6	0.8
Employees Appraisal	7	0.8
Career Planning	7	0.8
Employees Compensation	5	0.6
Employees Loyalty	4	0.7

Table 1. Reliability

**4. METHODOLOGY**

**4.1. SAMPLING**

This research study finds out the effect of HRM practices on employee performance. Simple random sampling has been applied to guarantee that specific groups within population are adequately represented in the sample and the

efficiency is improved by gaining greater control on the composition of the sample.

**4.2 DATA COLLECTION AND ANALYSIS**

Sample of this study is lecturers and administrators in MSI. Selected sample size is 60 and 56 returned out of total distributed questionnaires. Response rate is 93%.

Questionnaires of Sekaran[2003] are selected for data collection because already available data is not sufficient for analysis; with the amendment of dependent variable from perceived organizational performance to employees' performance in organization this questionnaire is

used. Since this study found effect between human resource management practices and employee's performance, Pearson correlation and descriptive statistics are used for analyzing data numerically.

#### 4.3 RESULT HYPOTHESES

Ser.	Hypotheses	H0
H1	There is a positive effect of recruitment and selection on employee performance in MSI	Accepted
H2	There is a positive effect of compensation on employee performance in MSI	Accepted

Table 2. Result of hypotheses

The results of the testing hypotheses indicated that the independent variables significantly correlated with the dependent variable. The correlation results confirmed a significant association between independent variables and the dependent variable. The analysis suggested the lack of multicollinearity in this study because of the correlation coefficient was less than 0.80. Recruitment and selection have positive effect with employee performance.

#### 5. CONCLUSION

The main subject of the research is to investigate the effect of Human Resources Management Practices of employees' loyalty to the organization in the Egyptian context and to propose a model to help Egyptian service firms to increase their employees' loyalty through the effective implementation of HRM practices. The findings found from this study will be particularly useful for top organization to understand how they can do better to improve their employee loyalty. The research explores how employees perceive the importance of job analysis, selection, career planning, and training, compensation and appraisal aspects when they formulate decision to keep on loyal with an organization. This means that effective HRM practices lead to employee Loyalty. Results revealed that dimensions of HRM practices emerged as the predictors of employee loyalty in

the case of service firms in Egypt. These practices include compensation, job analysis, performance appraisal, training, career planning & selection.

Furthermore, while making implications for academics as well as management professionals, research limitations should be taken into account which shows that this study was conducted in the context of Egyptian service organization where employees were used as the subject's experiment. It is therefore difficult to generalize the results obtained to other types of organizations such as business firms or factories. This study can provide additional information for the management the influences of HRM practices toward employee performance. The result of the study could also be a determinant towards making more reliable decisions on the planning process in HRM matters and implementation of associating program to increase management awareness and other employees' involvement. The current approach to hiring staff into various positions should be reconsidered. Administrator should conduct a proper job analysis and evaluation of positions to be filled. HR is considered the greatest resource of an organization. Effective recruitment and selection attracts the right quality and quantity of people. To further improve the system of MSI, modern technology should be utilized for strategically recruit and select HR. Moreover, a

recruitment and selection program should be implemented to enhance the capabilities of employees and those of the MSI.

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