

# The Impact of Human Recourses Management Practices on Organizational Performance: Assessing the Mediating Role of Employee Productivity

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## Abstract

Organizational innovative performance considered as an essential weapon for organizations to compete in current hyperactive competitive business environment. One of the ways to achieve innovative performance is through effective human resources management practices (HRMP). This study aimed to examine the impact of human resources management practices on organizational performance, and testing the effective role of individual employee as a mediator between HRM practices and organizational performance. The study conducted exclusively on the Sudanese commercial banking sector. More precisely the study concentrated on practices effect on employee's productivity, attitude and satisfaction. The study awarded on seven variables of human resources management practices; employment security, performance appraisal, career management, extensive training, employee empowerment, reward system and recruitment system. The instrument used for data collection was questionnaire, to analyze the effect of these seven variables, using descriptive statistics and correlation analysis. The results showed that all seven variables of human resource management practices are positively correlate with organizational performance in banking sector in Sudan, and significantly training and reward system. Findings also supported the mediation role of individual productivity between HRM practices and Sudan banking sector performance.

**Keywords:** human resource management practices, Performance, Banking sector.

## 1-Introduction

Human resource management (HRM) is considered as, a distinctive approach to employment management which seeks to obtain competitive advantage, through the employment of highly committed and skilled workforce using an array of techniques (Storey, 1995). According to Damampour and Gopalakrishnan , 1998; Tan and Nasuridin,2010, effective human resources management (HRM) practices has been widely acknowledged as significant in extracting positive work behavior among employees. Which consecutively lead to organizational innovation. HRM practices can generate increased knowledge, motivation, synergy, and commitment of a firm's employees, resulting in a source of sustained competitive advantage for firm (Harter, Schmidt, and Hayes, 2002). Further on, (Oladipo, 2011), mentioned, "Having the right personnel at the right place, and at the right time is almost important to survival and success of any organization. Therefore, organizational performance is the most interest aspect for researches among any area of management. Its importance as the ultimate evaluative criterion reflected in its pervasive use as a dependent variable. Marketing, operations, human resources, and strategy all ultimately judged by their contribution to organizational performance. The paper present an empirical evidence on the impact of HRM practices on organization performance in the Sudanese banking sector. Researcher used a new survey data set on HRM practices, based on representative target sample of banks who had sixty or more employees. The survey includes data on HRM practices and employee participation of 31 banks, out of population of 37 banks, which is represented 84% of the total working banks in Sudan and almost 60% of the respondents.

### 1.1 Conceptual Framework

The study developed a conceptual framework model that captures the relationship between human resources practices and organizational performance. The relationship between HRM practices and organizational performance mediated and moderated by individual productivity. As mentioned in (Figure -1), the conceptual framework subject to assess the impact of HRM practices on organizational performance, testing the role of individual productivity as an effective mediator. The conceptual framework also shows mutual correlation between HRM practices, individual productivity, and organizational performance.

## 2-Literture Review

### 2-1 Organizational Performance

Organizational performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). According to Richard et al, 2009 organizational performance encompasses three specific areas of firm outcomes: (a) financial performance, which includes (profits, return on

assets, return on investment, etc.); (b) product market performance, which includes (sales, market share, etc.); (c) shareholder return, which includes (total shareholder return, economic value added, etc.). Theoretical literature cleared suggests that organizational performance mainly implicated by employee's behavior and those human resources management practices can affect individual employee performance through influence over employee's skills and motivation.

## **2-2 Human Resources Management (HRM) Practices**

Human resource management practices defined in several aspects. Schuler and Jackson (1987) defined HRM practices as a system that attracts, develops, motivates, and retains employees to ensure the effective implementation and the survival of the organization and its members. In (1995) Storey defines HRM as a distinctive approach to employment management, which seeks to obtain competitive advantage. Historically the concept of HRM developed from workers in the USA, in 1960s and 1970s (Breweter 1994). But in Europe the notion of HRM as an ideological framework to effectively and efficiency manage labor, took root as academic theory, a practitioner's tool kit and managerial profession in the late 1972s, since then it has been adopted increasingly around the world (Suzan 2006). According to Khatri (1999), people are one of the most important factors providing flexibility and adaptability to organizations. Rundle (1997) argues that one needs to bear in mind that people (managers), not the firm, are the adaptive mechanism in determining how the firm will respond to the competitive environment. Several scholars have noted that managing people is more difficult than managing technology or capital (Barney, 1991; Lado and Wilson, 1994). However, those firms that have learnt how to manage their human resources well would have an edge over others for a long time to come because acquiring and deploying human resources effectively is cumbersome and takes much longer (Wright et al., 1994). Human resource management defined as a very critical and imperative function that operates within an organization. This function classified into recruitment, compensation, development related to the organization, safety, motivation of employee, benefit wellness, communication and training, and performance management and all the activities that are associated with the employees and the ways direction provided to them in order to achieve the goals of the organization (Ayesh et. al 2012). In addition, Neo (2007) defines HRM as composed of policies, practices, and system that influence employee's behavior, attitude, and performance.

Human resources are the source of achieving competitive advantage because of its capability to convert the other resources (money, machine, methods and material) in to output (product/service). The competitor can imitate other resources like technology and capital but the human resource are unique. Wright and McMahan (1992) drawing on Barney's (1991) resource-based theory of firm contended that human resource could provide a source of sustained competitive advantage. HRM practices is also conceptualized as a set of internally consistent policies and practices designed and implemented to ensure that a firm's human capital contribute to the achievement of its business objectives (Delery & Doty, 1996). Likewise, Minbaeva (2005) viewed HRM practices a set of practices used by organization to manage human resources through facilitating the development of competencies that are firm specific, produce complex social relation and generate organization knowledge to sustain competitive advantage. Against this backdrop, we concluded that HRM practices relate to specific practices, formal policies, and philosophies that designed to attract, develop, motivate, and retain employees who ensure the effective functioning and survival of the organization. Currently the world is becoming more competitive and unstable than ever before, all organizations are seeking to gain competitive advantage at all cost and are turning to more innovative sources through HRM practices (Sparrow, Schuler, & Jackson, 1994).

## **2-3 Individual Productivity effectiveness**

Labor refers to all categories of employees in an organization. It includes working directors, proprietors, partners, unpaid family workers and part-time workers. Individual, labor, and employee are exchangeable words within same meaning. Labor productivity usually is measured in three ways; the first one is the number of hours worked, which reflects the actual of input used excluding hours paid but not worked (e.g. holidays, paid leave). The second way is the labor costs, which include salaries, bonuses, allowances and benefits paid to employees. The third way is the number of workers engaged, which is commonly used, as data on hours worked may not be readily available. Part-timers converted into their full-time equivalent. An average figure for a period used, as the number of workers may fluctuate overtime. Labor productivity defined as value added per worker, it reflects the effectiveness and efficiency of labor in production and sale of output. Value added is a better measure of output, because it measures the real output of organization. Besides, it is practical, easy to calculate and applicable to both manufacturing and service industries. Value added is an effective communication and motivation tool, as it provides a common bond between employers and employees to achieve the goal of increasing the economic pie shared by both parties. The higher the value created by the collective effort, the greater is the wealth distributed to those who have contributed to it.

Productivity measurement is a prerequisite for improving productivity. As Peter Drucker, 2011, who is widely regarded as the pioneer of modern management theory, said: "Without productivity objectives, a business does

not have direction. Without productivity measurement, a business does not have control.” Measurement plays an important role in your management of productivity. It helps to determine if your organization is progressing well. It also provides information on how effectively and efficiently your organization manages its resources. Many scholars in field of human resources acknowledged that, effective HRM practices are significant in reinforcing positive work behavior among employees, which consecutively lead to organizational high performance, Damampour & Gopalakrishnan,(1998) ; Tan & Nasudin, 2010.

#### **2-4 HRM Practices and organizational performance**

Many researchers have explored the links between HRM practices and organization performance. Flamholtz, 1985 and Cascio 1995 argued that, the financial returns associated with investment in progressive HRM practices are generally substantial. In 1995, Huselid conducted a study to assess the link between systems of High Performance work practices and firm performance found that, these practices have statistically significant impact on intermediate employee outcomes (productivity and turnover) at short and long-term measures of corporate financial performance. In India, Singh, 2004, investigated the relationship between six HRM practices and firms’ level performance using regression and correlation analysis. The study found a significant relationship between the two HRM practices namely training and compensation, and perceived organizational and market performance. Seonghee et al, 2006 investigated the relationship between the use of 12 HRM practices and organizational performance for lodging & restaurant companies In USA. The sample was drawn from compact disclosure database consist of 219 hotels and restaurants. The result of regression analysis indicated that companies implementing HRM practices are more likely to experience lower turnover rates for non-managerial employee. Joseph& Dai, 2009, showed significant connections between HRM practices and firm performance; that the strategic alignment of human resources management is also a driver for firm performance. In the study conducted by Nayaab et al, 2011, it has been found that, HRM practices contributes to enhance bank performance. Further, the result indicated that HRM practices like training, employee participation in decision-making was found significantly related with banks performance.

#### **2-5 Individual Productivity as a mediator**

Many scholars, such as Morrow and McElroy (2001), Moynihan et al (2001), and Hilsop (2003) has argued on the missing link between HRM practices and organization outcomes. They considered that, this missing link explains an existence of a black box. So many practitioners and scholars have devoted efforts to find out this black box. Some scholars (Marr& Schiuma, 2001) assumed that, individual productivity based on knowledge acquisition, so knowledge management recognized as the fundamental activity for obtaining, growing and sustaining intellectual capital in organizations. According to Harter, Schmidt, and Hayes (2002), HRM practices can generate increased knowledge, motivation, synergy, and commitment of a firm's employees, resulting in a source of sustained competitive advantage for the firm that lead to high performance. However, some scholars such as Moynihan, Gardner, Park, and Wright (2001). McElroy & Morrow (2001) and Hilsop (2003) have argued on missing between human resource management practices and organization outcomes. The researcher argued, the more research required to concentrate on the indirect relationship between HRM practices and an individual productivity. Since knowledge is reside in an individual and given the role of HRM practices in influencing an individual’s attitude and behaviors, it is believed that HRM practices has significant and positive relationship on organizational performance via individual productivity. Thus, this study sought to examine the direct relationship between HRM practices and organizational performance, and in indirect relationship between HRM practices and organizational performance, via individual productivity effectiveness. Therefore, we hypothesized that:

Hypothesis H1a: HRM practices positively correlated to organizational performance.

Hypothesis H1b: HRM practices positively correlated to individual productivity.

Hypothesis H2: Individual productivity mediates the relationship between HRM practices and organizational performance.

### **3-Research Methodology**

#### **3.1 Samples and Data collection**

The target population of this study made up of all banks operating in Sudan, the samples was derived from central bank of Sudan (CBOS) Directory 2016, and a number of 31 banks, out of population of 37 banks were selected which is represented 84% of the total population as mentioned in table-1. Data collection has conducted from primary and secondary resources. The secondary data resources were library researches, published material and worldwide web. While primary data was collected via questionnaire. Questionnaire designed to measure the impact of HRM practices on bank performance and the effect of individual productivity as a mediator. Questionnaire formulated based on seven independence variables of HRM practices, which were ; employment security, performance appraisal, career management, extensive training, employee empowerment, reward system

and recruitment system. Total of (200) questionnaire were distributed, (175) was returned with response rate of (87%). Some of returned questionnaire excluded due to incomplete information. So (175) questionnaire considered as valid for test. Overall (50) questions were developed in response format based on Seven Points Likert Scale ranging from (one= strongly disagree to seven = strongly agree) as it is considered to be an easier approach to collect data (Yu and Egri 2005).

### 3.2 Method of analysis

HRM practices measure comprised of 28 items that included performance appraisal (6 items), career management (6 items), training (4 items), reward system (6 items), recruitment (6 items), employment security (4 items) and employee empowerment (6 items). All items were adapted from Argawala (2003). Dyer and Reeve, (1995) proposed four types of measuring for organizational performance affected by HRM those types are HR outcomes (turn over, absenteeism, and job satisfaction), organizational outcomes (productivities, quality and services.), financial outcomes (ROA, ROE, and profitability), and capital market out comes (stock, price growth and return).The variables are closely related conceptually to some hypothesized precursors of performance. However, for the purpose of this study 12 items included (stock, profitability, quality, and turnover) used as a measure for organizational performance. Reliability testing is very much important, therefore in the present study, Cronbach Alpha reliability test conducted for all measures. It commonly used as a measure of the internal consistency or reliability of psychometric test score for a sample of examinees. Reliabilities are checked and they all fall between (0.76) and (0.86), which is satisfactory value because the satisfactory value is required to be more than 0.6 for the scale to be reliable. (Malhotra, 2002). The overall Cronbach alpha of the all scales used in this study is (0.81) .this indicate the reliability of scales is reasonably high.

### 4-Analysis and Findings

Regarding demographic statistics of respondents as shown in table 2, (54%) of the respondent were male and (46%) were female. Most respondents (55%) were possessing B.SC degree, (22%) M.sc degree, (21%) diploma degree, and only (2%) holding Ph.D. degree. This distribution indicating that the majority of respondents are highly educated. Respondents experience years vary from more than one year up to extra than twelve years and (76%) of them have more than five years' experience. This reinforce the capability of respondents to understand the impact of human resources management practices on their banks performances. Descriptive statistics such as mean scores, standard deviations, reliabilities, and intercorrelations of the study variables shown in table 3, table 4, and table 5 respectively. As shown in table 4, all inter-correlations are statistically significant. Correlations among HRM practices dimensions are statistically significant, ranging from  $r = 0.732(p < 0.01)$  to  $r = 0.989(p < 0.01)$ . Besides, correlations between HRM practices and individual productivity are found to be significant, ranging from  $r = 0.417 (p < 0.05)$  to  $r = 0.653 (p < 0.01)$ . All correlations between individual productivity with HRM practices and organizational performance are significant and positive. The correlation between HRM practices and organizational performance ranged from  $r = 0.911 (p < 0.01)$  to  $r = 0.989 (p < 0.1)$ . Referred to Table 3, the participating banks judged their level of financial performance as followed; (M = 4.86, S.D. = 0.93)/ profit (M = 5.23, S.D. = 0.94), sales (M = 5.10, S.D. = 0.94) and shares (M = 5.05, 0.89) to be relatively high. The level of training (M = 5.20, S.D. = 0.97) was found to be slightly higher than reward system (M = 5.10, S.D. = 0.94) career management (M = 4.47, S.D. = 1.06), performance appraisal (M = 4.21, S.D. = 0.97), recruitment system (M = 5.05, S.D. = 0.89), and individual productivity (M = 5.11, S.D. = 0.81). The correlation test analysis between the independent variables (HRM-7th practices that are, employment security, and performance appraisal, career management, training development, reward system and recruitment system) and dependent variable (organizational performance) was positively correlated as being mentioned in table 4. From table3 and table 4, it is observed that there is significant positive correlation between training and organizational performance in banking sector in Sudan, this due to the high value of correlation, which is 0.988 and it is statistically significant at the level of  $\alpha = 0.050$ , within standard deviation (0.97), i.e. less than 1.00, referring to concentration of answers and lack of dispersion. The correlation among dependent variables themselves were of positive correlation. This reveals that any positive change in HRM practices lead to improve organization performance, and even any positive change in any independent variable of HRM, positively effect on others. Therefore, the results provided support for hypothesis H1a. Regarding the correlation test analysis between the independent variables, HRM practices (employment security, and performance appraisal, career management, training development, reward system and recruitment system) and individual productivity, it was positively correlated as mentioned in table 5. Training, reward system, and employment security showed significantly positive correlation within rate of .989, 988, and .963 receptively. In other words, training, reward system, and employment security have significant indirect effects on individual productivity effectiveness. Hence, sub-hypothesis H1b is supported. To examine the mediating role of individual productivity effectiveness as mentioned in hypothesis H2, the four steps approach procedure suggested by Kenny, 2003 was followed. Regression results on the relationship between HRM practices and organizational performance as indicted in

table 4, and the further test on the relationship between HRM practices and individual productivity showed in table 5, showed that the extensive training and reward system have indirect effects on organizational performance via individual productivity. Hence, it fulfilled the condition for mediation effects. Therefore, that hypothesis H2 was partially supported.

### 5-Discussion and Conclusion

The primary purpose of this study was to examine the direct relationship between human resources management practices and organizational performance, as well as indirect relationship between HRM practices and organizational performance via individual productivity effectiveness. The statistical results of the study showed that, HRM practices have significant positive impacts on organizational performance, which means that all seven HRM practices variables directly correlated to organizational performances. Beside that, results indicated that an employee productivity effectiveness has a mediation effect on relationship between HRM practices and organizational performance. Only two of seven HRM practices namely training and reward system have found to have both direct and indirect effects on organizational performance. This entailed that investment in training employees result in beneficial firm level outcomes. In another word, the higher level of training implementation, the higher and more follow of information and knowledge that increase organizational learning capacity, leading to higher performance. Usually the average level of firm productivity is higher in firms that have adopted developing employee's skills practices compared to firms that have not adopted such practices. So therefore, Sudanese banks sector has to devote efforts to improve current and future skills, knowledge and abilities of employees. On other hand, reward found to have both direct and indirect effect on organization performance. Reward comprises all types of pay given to employees such as wages, incentives and benefits. Reward is directly satisfies employee's physical and social needs and indirectly motivates employees in several ways to achieve the specific objectives and goals of the organization. Therefore, the higher implementation of optimum reward system, the higher level of employee's motivation towards their tasks. Surprisingly, some HRM practices (e.g. Career management, performance appraisal) indicated relatively lower correlated to organizational performance, possible reasons for this insignificant relationship may be due to banks lower perceived to those two HRM practices. Generally, results showed all seven human resources practices are positively correlated with banking sector performance, so that all organizations should periodically analyze their human resource management practices for updating. Survey should conducted among employees to consider their opinions; managers should be involved in designing process.

Due to limitation of this study, a replica studies recommended in other sectors to test whether the conclusions of this study would hold true. In addition, another study should carried out within different human resources practices to confirm the findings of this study.

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## Illustrations

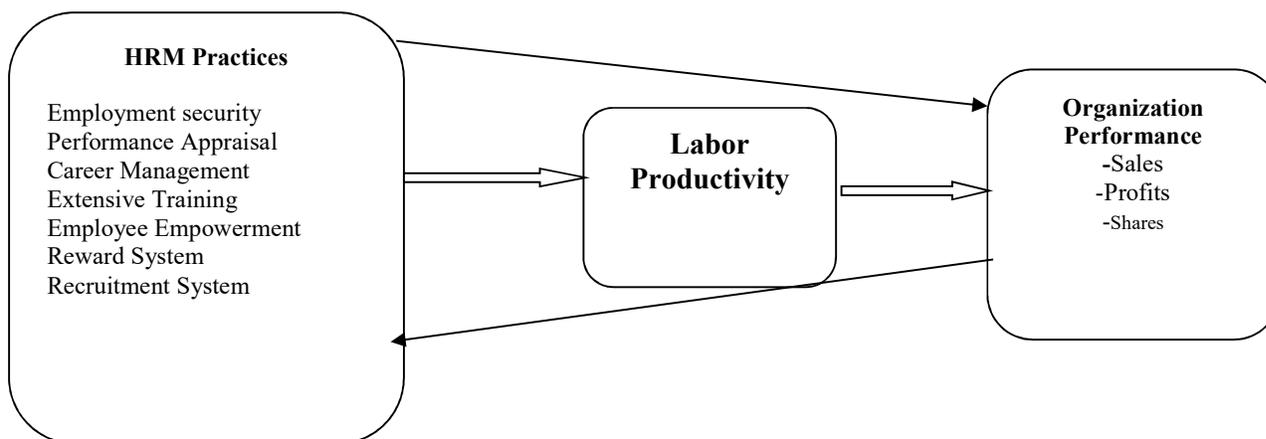


Figure-1 Research Conceptual Framework

Table (1) Commercial Banks Distribution in the Sample & Population

Bank Type	No# of banks in sample	% of bank in sample	No# of banks in population	% of bank in population
Government Bank	2	06%	6	16%
Foreign Bank	4	13.%	5	14%
Joint Venture	25	81%	26	70%
Total	31	100%	37	100%

Source: Survey data-computed from-(CBOS) – 2016

Table (2) Demographics of the respondents (175)

Characteristics	Frequency	Percentage
<b>Sex</b>		
Male	95	54%
Female	80	46%
<b>Level of education</b>		
Diploma	37	21%
B.sc	95	55%
M.sc	38	22%
Ph.D.	05	02%
<b>Years of experience</b>		
Less than 5 years	48	27%
5-9 years	77	44%
10-14 years	40	23%
15 year and more	10	06%

Source: Survey data-2016.

Table (3) Study variables-Mean & Standard Deviation

Variables	Mean (M)	Standard Deviation (SD)
Organizational Performance	4.86	0.93
Employment Security	4.70	1.04
Performance Appraisal	4.21	1.02
Career Management	4.47	1.06
Extensive Training	5.20	0.97
Employee Empowerment	4.86	0.79
Reward System	5.10	0.94
Recruitment System	5.05	0.89
Individual productivity	5.11	0.81

Source: Survey data-2016.

Table (4) Correlation Matrix between HRM practices and Organization Performance

Variables	OP	ES	PA	CM	TR	EM	RS	RC
Organization Performance	1.00							
Employment Security	.963	1.00						
Performance Appraisal	.687	.965	1.00					
Career Management	.676	.971	.954	1.00				
Extensive Training	.988	.932	.989	.945	1.00			
Employee Empowerment	.921	.965	.899	.875	.922	1.00		
Reward System	.989	.912	.733	.865	.765	.877	1.00	
Recruitment System	.911	.936	.873	.915	.762	.733	.732	1.00

Source: survey data-2016.

Note: OP denotes organizational performance, ES denotes employment security, PA performance appraisal, CM denotes carrier management, TR denotes training, EM denotes employee management, RS denotes reward system, and RC denotes recruitment.

Table (5) Correlation Matrix between HRM practices and Labor Productivity

Variables	LP	ES	PA	CM	TR	EM	RS	RC
Labor Productivity	1.00							
Employment Security	.963	1.00						
Performance Appraisal	.687	.965	1.00					
Career Management	.676	.971	.954	1.00				
Extensive Training	.989	.932	.989	.945	1.00			
Employee Empowerment	.921	.965	.899	.875	.922	1.00		
Reward System	.988	.912	.733	.865	.765	.877	1.00	
Recruitment System	.911	.936	.873	.915	.762	.733	.732	1.00

Source: Survey data-2016.

Note: LP denotes labor productivity, ES denotes employment security, PA performance appraisal, CM denotes carrier management, TR denotes training, EM denotes employee management, RS denotes reward system, and RC denotes recruitment.

Table (6) Regression Model Fitness for HRM Practices

Variables	R	R Square	Std Error of estimate
Employment security	.965	.932	.26023
Performance Appraisal	.953	.908	.26211
Career Management	.973	.946	.31322
Extensive Training	.987	.974	.32435
Employee Empowerment	.936	.927	.34345
Reward System	.981	.962	.26778
Recruitment System	.932	.868	.35779

Source: Survey data-2016.

Table (7) Summary of the mediation test of individual productivity

Predictor	Variables-Std. $\beta$
Training	.98
Reward	.97
R square	.97
Adjust R square	.96
Change of R square	.97
F-value	70.30
Change F-value	98.20

Source: Survey data-2016- Note:  $p > 0.01$ ,  $p < 0.05$ .