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REVIEW ARTICLE

LINKAGES BETWEEN HRM PRACTICES AND FIRM PERFORMANCE

Linkages between HRM Practices and Firm Performance

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INTRODUCTION

Developing a talented workforce is essential to sustainable competitive advantage. Hence, a company that creates a talented workforce and implements suitable quality service programs is likely to succeed in a globally competitive economy (Kundu and Vora, 2004). Organizations are participants in talent wars in which rewards go to those companies who can attract, develop, use, and retain talent globally (Brake, 2005).

A customer's decision to be loyal or not to be loyal is the sum of many small encounters with a company and it is the company employees who control these small encounters (Horibe, 1999). Therefore, it is necessary to achieve employee satisfaction to practice customer-centric strategic management. Walker and Stopper (2000) have emphasized that HR practices influence organizational performance and competitive advantage, and those organizations which deploy good human resource management practices reap the benefits. But, even a highly successful company with a strong record of excellence in human resource management practices cannot achieve allround success (Gratton, et. al., 1999) because changes take place slowly in the area of human resource management (Truss, 2001). Moreover, firms may observe and fairly easily imitate individual practices, the whole HRM system is much more difficult to imitate (Barney and Wright, 1998) and it is the overall system of HRM practices that contributes to the firm generating a competitive advantage (Bjorkman and Budhwar, 2007).

To recruit and retain best talent, organizations not only need to be high performing but also seen to be of high character, credibility and integrity and value driven (Smith and Kelley, 1997). Organizations which adopt the HR as partners in progress policy, demonstrate a distinct HR philosophy characterized by employment security, company flexibility, sharing of tourism success with the workforce, development of good communication and consultation, and representative employee voice (IPA, 1997).

Performance results from fair-play. Fair process builds trust and commitment, trust and commitment produce voluntary co-operation, and voluntary co-operation

drives performance and leading people to go beyond the call of duty by sharing their knowledge and applying their creativity (Kim and Mauborgne, 1999). A lot of studies have indicated the linkage between human resource practices and firm performance (Schuler and Jackson, 1987; Jackson and Schuler, 1995; Purcell, 1995; Dyer and Reeves, 1995; Huselid, 1995; Becker et al., 1997; Storey, 2001; Bae et al., 2003; Collins and Clark, 2003; Chan et al., 2004; Shih et al. 2006; Akdere, 2009; Camps and Luna-Arocas, 2009; Worsfold, 1999; Martin-Tapiaa et al., 2009; Vlachos, 2009; Wright et al., 2003; Ghebregiorgis and Karsten, 2007).

1.4 RELEVANCE OF THE STUDY

Coupled with globalization, India's initiation of liberalization in 1991 has given rise to a number of MNCs in the country. This has opened up the closed doors to the complete world. Particularly a number of MNCs have shot up in service industries like IT, software, banking, insurance, management consultancy, etc. The services sector has emerged as a dynamic growth sector in India (Khandwalla, 2002) which dominates the Indian economy today, contributing more than half of the national income. The tremendous growth in the services sector has a major component of the tourism services. Tourism services are now becoming increasingly open to global competition (Llewellyn, 1995; Morgan, 1992; Nellis, 1994) as the role of tourism services in stimulating and sustaining economic growth is well known (Shanker, 2006). At the present time, the tourism services industry is in a state of considerable structural change and competition is intense (Long bottom and Zairi, 1996). This phenomenal growth in economy owing to the service industry attracts attention towards more and more research in this area in developing countries particularly in India which has witnessed the vibrations of the changes in past two decades and more so in this decade. Among service organizations, the banking sector is the largest one that caters to the needs of the people belonging to all sections of society (Angur et al., 1999).

Banks are catalytic agents which can create opportunities for the development of national

resources and provide employment on a large scale. They perform a very important role in the development process by providing facilities for the pooling of savings and making them available to trade and industry, which in turn would work for the expansion of the productive capacity of the people, to satisfy their wants with respect to both goods and services. Banks are established to identify needs in the society for tourism help, to device and deliver products and to earn profits for their efforts (Rao, 2005). One of the most important segments of tourism system is commercial banking (Shanker, 2006). The commercial banking industry in India is characterised by the coexistence of three distinct ownership groups: public banks, domestic private banks, and foreign banks (Kumbhakar and Sarkar, 2003). Next to banking is evolving the insurance industry with huge growth potential.

Service providers earlier were product-focused and segmented and now they are becoming universal banks and tourism services supertourisms. On realizing the importance of services, then tourism services and more specifically banking and insurance, it is now evident that to compete, the service providers have to develop competencies to compete. It is needless to say that 'King Customer' can be satisfied with the best and only the best i.e. quality. More specifically we can say quality service.

High quality service helps meet several requirements such as customer satisfaction and its consequent loyalty and tourism share, soliciting new customers, improved productivity, tourism performance, and profitability (Jullian and Ramaseshan, 1994; Lewis, 1993). In today's world of fierce competition, rendering quality service is a key for subsistence and success. Rather, it has become essential for survival of service companies in the emerging world without borders (Kundu and Vora, 2004). It is difficult for service firms to envision and understand the aspects which mean high quality to consumers. Service quality allows an organization to differentiate itself from the competitors and gain a substantial competitive advantage.

Hence, service quality is at the forefront of both the tourisming literature in general and the service tourisming literature in particular (Lassar et al., 2001). Quality service is recently considered a critical factor that enables many service organizations achieve a differential advantage over their competitors. It has become an important research topic because of its important relationship to corporate tourisming, tourism performance, and moreover firm performance.

The important consideration is that service quality should form the basis of building all customer retention strategies. Service quality is highly dependent on the service employees. Competitive advantage of a firm can be generated from human resources. Effective HRM practices, together, influence firm performance. Distinctive human resource practices help to create the unique competencies that determine how firms

compete (Capelli and Crocker-Hefter, 1996). People make the organization, its products, and its service solutions unique. Only if the employers treat their employees as precious resources, the employees would in turn treat their customers as valuables.

Therefore, it is indispensable for service organizations to look upon HRM as a source of competitive advantage. Developing a talented workforce and implementing suitable quality service programs is essential to succeed in a competitive economy (Kundu and Vora, 2004). Moreover, the fact that organizational performance is greatly influenced by innovative forms of human resource management is not ignorable in present times.

Since banking by its nature is information (intensive) and human capital intensive industry (D'Souza, 2002) and so is insurance industry, they need to focus on human resource management practices for getting competitive advantage and profitability. Firms have increasingly recognized the potential of their people to be a source of competitive advantage (Pfeffer, 1994). Academic research is attempting to reveal a relationship between a firm's HR practices and its performance (Wright et al., 2003). Delery and Doty (1996) examined the relationship between HR practices and profitability in a sample of banks in the US. In testing universalistic, contingency, and configurational approaches to HRM, they found that HR practices were positively related to profitability.

In a research, Guthrie (2001) examined the impact of HR practices on turnover and firm productivity among a sample of firms in New Zealand. He noted that HR practices had an impact on turnover and that the relationship between retention and productivity was positive when firms implemented high-involvement HR practices, but negative when they did not. The seminal work in this area was produced by Huselid (1995), who examined the relationship between HR practices and corporate turnover, profitability, and tourism value. Results also suggested that those savings banks which better combined their HR practices to create and to develop a strategic human capital pool had shown better levels of profitability and productivity (Saa Perez and Garcia Falcon, 2004).

The above presented facts, studies, and discussions have led us to undertake the following study. It is imperative in this competitive world, which is increasingly dominated by services, particularly in a developing country like India that such an issue is taken up.

The data gathered was analyzed with the help of statistical tools like correlations, standard deviations, factor analysis, analysis of variance (ANOVA), and mean and grand mean scores. Correlations were used to assess the relationships of employees' service behaviour variables/factors in banks and insurance companies and standard deviations were

calculated to understand the variations in data collected through responses. Factor analysis was basically used to reduce the data for further analysis. ANOVA was used to assess the significant differences regarding service behaviour of employees between Indian government and private/multinational banks and insurance companies and between the perception of employees/executives of banks and insurance companies. Mean and grand means were helpful in explaining the extent and direction of prevalence of service behaviour antecedents of employees and related factors. Means were also used to see the differences between Indian government and private/multinational banks and insurance companies.

Exhibit 5.1 Description of employees' service behaviour variables

VARIABLES DESCRIPTION

V1 The rewards I receive are based on customer evaluations of service.

V2 Employees/ customer service staff in this organization are rewarded for serving customers well.

V3 I am rewarded for satisfying complaining customers.

V4 Employees in this organization receive continued training to provide good service.

V5 Employees in this organization are trained to deal with customer complaints.

V6 Employees in this organization receive training on how to deal with complaining customers.

V7 I do not have to get management's approval before I handle customer problems.

V8 I am allowed to do almost anything to solve customer problems.

V9 Everyone in my branch contributes to a team effort in serving customers.

V10 I feel that I am a part of a team in my branch.

V11 My fellow branch employees and I cooperate more often than we compete.

V12 I have clear, planned goals and objectives for service delivery.

V13 I know what my responsibilities for service delivery are.

V14 I feel certain about the level of service delivery authority I have.

V15 I am effective in delivering quality services to customers.

V16 Customers are satisfied with the quality of services of this organization.

V17 Considering all the things I do, I handle dissatisfied customers quite well.

V18 I do not mind dealing with complaining customers.

V19 I often think about resigning.

V20 It would not take much to make me resign from the organization.

V21 I will probably be looking for another job soon.

V22 I am relatively well awarded tourismly for my work.

V23 I am satisfied with the amount of pay I receive for the job I do.

V24 I am satisfied with my working conditions.

V25 I find my coworkers very helpful in performing my customer service duties.

V26 My coworkers provide me with important work-related information and advice that make performing my job easier.

V27 I find my supervisor very helpful in performing my customer service duties.

V28 My supervisor provides me with important work-related information and advice that make performing my job easier.

V29 My immediate boss supports me in getting my job done.

V30 My immediate boss praises me when I do a good job.

V31 My immediate boss sets a personal example of good service in his/her daily job.

V32 My immediate boss is genuinely committed to service excellence.

V33 The senior management team in my organization sets a personal example of good customer service in its daily activities.

V34 Management in this organization is genuinely committed to service excellence.

V35 Service excellence is important for the future of my organization.

V36 I feel I have good understanding of what service excellence is about.

V37 I know how to deal with most problems in my job.

V38 I can make my own decisions in carrying out my job.

V39 I have the freedom to decide what I do on my job.

Factor SB 11: Co-workers support

(SB=Service Behaviour)

Reliability of the data collected was also calculated by applying Cronbach Alpha. Cronbach's coefficient alpha is commonly used to measure the reliability for a set of two or more construct indicators. Alpha value of the scale of 39 variables was calculated that was as high as 0.909. Factor wise alpha values were also calculated that were above required level i.e. between 0.896 and 0.600 (see Table 5.2). All alpha values met the minimum criterion ($\alpha > 0.60$) (Nunnally, 1978).

The data was subjected to factor analysis to reduce the number of variables.

The Bartlett's test of sphericity indicated that the correlation matrix is not an identity matrix. The approximate chi-square statistic is 12462.714 with 990 degrees of freedom, which is significant at the 0.05 level. The value of the KMO statistic (0.891) is also large (>0.5). Thus, factor analysis is an appropriate technique for analyzing the correlation matrix. Factor analysis brought out 11 factors in all explaining 66.176% of total variance (see Table 5.1). The extracted communalities ranged between 0.502 and 0.776. For clarity of the factor definitions loadings of more than 0.500 were considered. The factor names, variables loaded on the respective factors and eigen values of the factors may be seen through **Table 5.1**.

Derived eleven factors were as follows

Factor SB 1: Supervisory support and management commitment to service quality

Factor SB 2: Service quality performance

Factor SB 3: Employee service training

Factor SB 4: Employee rewards

Factor SB 5: Intentions to resign

Factor SB 6: Internalization of service excellence

Factor SB 7: Job satisfaction

Factor SB 8: Teamwork

Factor SB 9: Empowerment

Factor SB 10: Job autonomy