

The Impact of HRM Practices on the Perceived Organizational Performance

A study of Telecom Sector in Pakistan

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&

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Abstract

Telecom sector is widely growing and substantially contributing to the GDP of Pakistan. This study was conducted to investigate the impact of HRM practices on perceived organizational performance. Total six HRM practices such as training, performance appraisal, job definition, compensation, selection, career planning, were taken as independent variables while perceived organizational performance as dependent variable. Through questionnaire survey a response of 223 employees working in different telecom organizations were collected, which showed that HRM practices are being implemented and the key contributor to the enhanced organizational performance in the telecom sector while training and selection were found significantly related with perceived organizational performance. Managerial implications and conclusions are presented based upon these results.

Key Words : Training, Performance Appraisal, Job Definition, Compensation, Selection, Career Planning, Perceived Organizational Performance

Introduction

The telecommunication markets over the globe are experiencing rapid technological development and an increasingly liberal policy environment. From the past decade, a large number of world economies have witnessed significant expansion of their telecommunication networks and striking improvements in quality. But neither performance nor policies have been uniform across the region (Haroon, 2003). Keeping in view the telecommunication industry of Pakistan, it has witnessed phases of dramatic changes over the years. Cellular mobile services in Pakistan commenced in 1990s when two cellular mobile telephone licenses were awarded to Paktel and Pak-Com (Instaphone) for the provision of cellular mobile telephony. Later Mobilink in 1994 and U-Fone in 2000 entered the market. Due to partial competition, cellular subscriber grew over the years, but cellular companies could not meet the growing demand in Pakistan. Therefore, Government decided

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to introduce more competition in the cellular market. In the year 2003, the telecom market was opened to private operators and Pakistan issued licenses to Telenor and Al-Warid in open bidding of \$291 million each (Sargana, 2006).

Telecom sector is playing a pivotal role in the economy of Pakistan in terms of providing employment, contribution to national exchequer through taxes and attracting foreign investment in the country. In the liberalized environment, telecom share in GDP of Pakistan has increased to 1.9% from mere 1.5% three years back and growing at an astounding pace by surpassing all forecasts of the last few years (Sargana, 2006). The exponential growth has resulted in creation of 80,000 jobs directly and 500,000 jobs indirectly as a result of systematic and sustained efforts to modernize the telecom sector (Aziz, 2007).

Human capital is treated as a key to success for all industries. Human Resource Management practices play a pivotal role to gain profitability and market share that ultimately enhance the organizational performance in long run (Qureshi, 2006). But in the current scenario, enterprises are facing problems in terms of scarcity of brilliant workforce, dramatic rise in retirements, poaching of key people by competitors, and increasing turnover. As the business environment becomes increasingly competitive, organizations need to focus on improving all areas of their business especially human capital because the performance of the people employed has a major impact on profitability (Lloyds, 2006).

It is now commonly accepted that employees create an important source of competitive advantage for firms. As a result, it is important that a firm should adopt human resource management (HRM) practices to make best use of its employees. The above trend has led to increased interest in the impact of HRM on organizational performance, and a number of studies have found a positive relationship (Gelade and Iivery, 2003). Furthermore, there are many empirical supports for the hypothesis that firms conducting human resource management practices ultimately achieve superior outcomes in the shape of better organizational performance (Fey and Bjorkman, 2000; Delaney & Huselid, 1996; Huselid, 1995; Hoque, 1999). The current boom of telecom sector is attributed to reform policies, deregulated structure and healthy competition. From organizational perspective, telecom companies achieved rapid growth on the basis of better marketing strategies such as reduced tariff, quality services, network expansion and extensive promotion. There are many factors imparting role to enhance the performance of cellular industry. But this research is designed to determine the impact of HRM practices on perceived performance of firms operating under telecom sector. Such investigation would provide an insight into most significant HRM practices that has positive relationship with perceived firm's performance. The results may help to replicate such strategies to achieve rapid growth in other industries.

Literature Review

The extensive review of the literature reveals that adopting wide range of HRM practices is the key to achieving outstanding performance (Hoque, 1999). Wan et al. (2002) also found a positive relationship between various company's strategic HRM policies/practices and its HR performance. On the other hand, a weaker relationship was investigated with financial outcome. The study of Delaney and Huselid (1996) found that progressive HRM practices, including selectivity in staffing, training, and compensation were positively related to perceived organizational performance. The author measured perceived organizational performance in terms of product quality, customer satisfaction, and new product development while perceived market performance as growth in sales, profitability and market share. In this study both organizational performance and market performance are combined to measure the overall organizational performance in perceptual context such as, quality of products or services, development of new products or

services, ability to attract employees, ability to retain employees, satisfaction of customers or clients, growth in sales, profitability and market share. More recently in Pakistan, Like Delaney and Huselid (1996), Qureshi (2006) empirically tested the relationship between the 'Effective Human Resource Management Practices' and the 'Organizational Performance and Market Performance of the Organizations'. Findings revealed that the HRM practices had significant impact on organizational performance.

However, in proceeding literature review, an attempt is made to separately review the impact of independent variables (training, Career Planning, Performance Appraisal, Job Definition, Compensation and Selection) on dependent variable (perceived organizational performance) so that it could be evident, whether these have positive or negative impact on organizational performance in different settings such as a less developed country like Pakistan.

Training

Noe (2003) defined training as a planned effort to facilitate the learning of job related knowledge, skills and behavior by employees. It represents activities that teach employees, how to perform their present job (Werther and Davis, 1985). Research studies have demonstrated that training has a positive influence on organizational performance. Zwick (2006) stated that increasing the training intensity has a positive and significant effects on establishment of productivity. In the same way Bartel (1991) also demonstrated a direct and positive relationship between productivity and training program. The amount of training is an important antecedent for firms who wish to improve their productivity (Savery and Luks, 2004). But Cunha (2002) found no significance of training on organizational performance. Delaney and Huselid (1996) took a broad view of HRM practices and found that training along with other HRM practices were positively related to perceptual measures of organizational performance. Firms with sophisticated training programs are most successful at maximizing the effectiveness of the organizations. Firms that have achieved greater effectiveness in training tends to have more sophisticated training programs and training system as compare to those firms whose training methods have been less effective (Huang, 2001).

Career Planning

Career planning is the process by which employers specify the career paths that an employee follows during the course of his professional life. Subsequently, from employee's context, career planning is the process by which employees select career goals and paths to achieve those goals (Werther and Davis, 1985). Appelbaum (2001) examined organizational career management program and the outcomes of organizational development and performance. The results showed that career management was positively related to organizational performance. On the other hand Noe (1996) examined the relationship between different aspects of the career management process, employee development behavior and performance but career management was not found significantly related to performance ratings. Empagio (2007) found a strong link between employee satisfaction and employee productivity and proposed that satisfied workers not only do their jobs better, but are more likely to stay in their jobs longer than unhappy workers. One of the best ways to increase employee satisfaction is to make them feel that their contributions are valued, their work has a defined impact on the success of the organization, and that they have a clear path for career development and advancement.

Performance Appraisal

It is a process by which organizations evaluate employee's performance (Werther and Davis, 1985). In other words it is a process of evaluating employees on various work related dimensions (Greenberg and Baron, 2000). The study of Cunha (2002) showed that Performance management has a positive and significant impact on organizational performance. Moreover, competitive advantage may be strengthened through performance management practices that enhance worker motivation. Pay for performance and accurate feedback constitute a powerful tool for managing organizational performance. The effective performance appraisal systems help to create a motivated and committed workforce. To be effective they require the support of top management to show their commitment and to translate organizational goals and objectives into personalized employee specific objectives (Boice, 1997). Such objectives become the basis of their performance appraisal.

Job Definition

In some organizations jobs are well defined or work activities are clearly communicated to the employees, which we call job description. Job description is a written statement of what the job holders does, how it is done and why it is done (Decenzo, 1989). Job definition is a detailed description of the essential activities required to perform a task, or in other words, it is a written summary of task requirements for a particular job (Cascio, 2000). Job definition improves employee management with results-oriented job descriptions. Managers, HR departments and employees define job responsibilities to focus on the job results to make their organizations successful. By clarifying job expectations, managers focus work effort on desired results. Job definition let employees to think broadly, to respond independently to new challenges, and also to enhance job commitment (Plachy and Plachy, 2007).

Compensation

All forms of financial and tangible services and benefits employees receive as part of an employment relationship is called compensation (Milkovich, 1999). In an ever more competitive business environment, both locally and globally, many companies today are attempting to identify innovative compensation strategies that are directly linked to improve organizational performance. It is perceived that incentive compensation plans can be a successful motivator of employee performance. Many companies today are in search to identify innovative compensation strategies that are directly linked to improve organizational performance (Appelbaum, 1996).

Brown (2003) found positive relationship between organization-level compensation decisions and organizational performance. The results of Delaney and Huselid (1996) also suggest that progressive HRM practices especially incentive compensation, are positively related to perceptual measures of organizational performance

Selection

Selection is the process by which an organization chooses from a list of applicants the person or people, who best meet the selection criteria for the positions available, considering current environment conditions (Ivancevich, 2004). The results of Delaney and Huselid (1996) suggests that progressive selectivity in staffing is the key indicator of organizational performance. According to Ahmad (2002) if an organization willing to enhance performance, it needs to pay close attention to employee recruitment and selection process. The fit or consistency between quality management practices and the selection process is crucial to the effectiveness (performance) of the organization. As Barney (1991) is of the view that the role of managers in understanding and describing the particular resource

endowments controlled by a firm is crucial in the achievement of sustained competitive advantage. But such objectives may not be achieved if organizations do not put due consideration on recruitment and selection processes.

RESEARCH METHODOLOGY

Objectives / Aims of the research study

This paper attempts to determine the impact of HRM practices on perceived organizational performance. The main objectives are:

- To investigate the impact of HRM practices on perceived organizational performance.
- To investigate the relationship between Independent variables (Training, Performance Appraisal, Job Definition, Compensation, Selection, Career Planning) with dependent variable (Perceived Organizational Performance).
- To recognize the degree of association between Independent variables and dependent variables.

Hypothesis

On the basis of research model, following relationship was hypothesized. The basic assumption was that HRM practices such as training, performance appraisal, job definition, compensation, selection, career planning has positive relationship with perceived organizational performance in the telecom sector of Pakistan. The conceptual framework is built keeping in view the findings of Delaney and Huselid (1996), empirically test different HRM practices along with other control variables. However, in this study only six of them were taken as an independent variables as the study of Qureshi (2006) in Pakistan found significant positive impact of all of these six variables.

H1 : HRM Practices are positively associated with perceived Organizational Performance.

H1-a : Training has positive relationship with perceived performance of the organization.

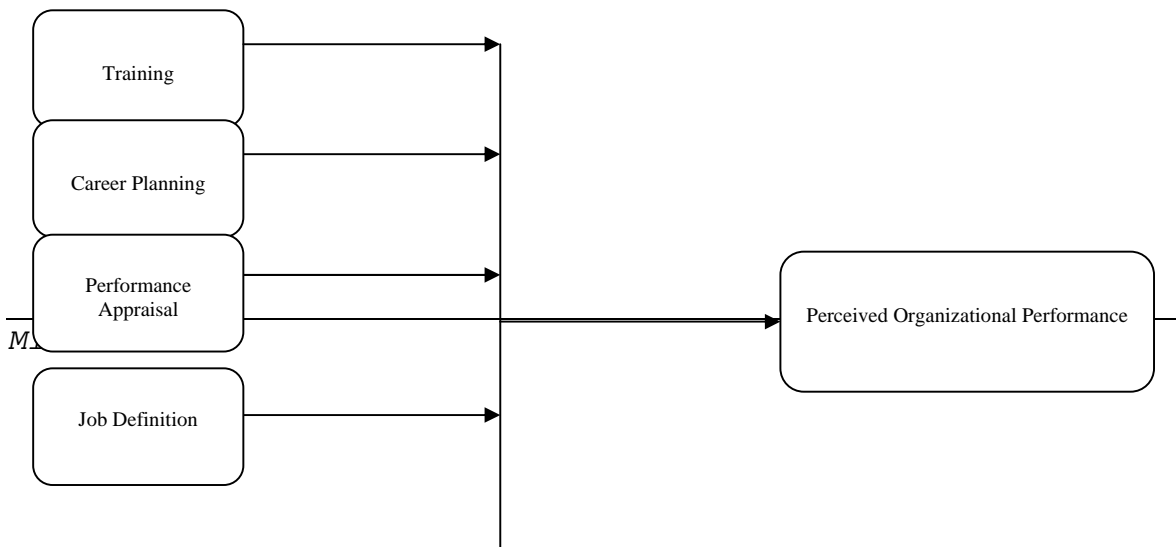
H1-b : Career planning is has positive relationship with perceived performance of the organization.

H1-c : Performance Appraisal System has positive relationship with perceived performance of the organization.

H1-d : Clearly defined jobs has positive relationship with perceived performance of the organization.

H1-e : Compensation system has positive relationship with perceived performance of the organization.

H1-f : Selection system has positive relationship with perceived performance of the organization.



Research Instrument

Primary data was collected with the help of questionnaire. The questionnaire had three sections such as demographics, HRM practices and perceived organizational performance sections. The responses for questions made use of different methods like tick-boxes, circling answers and inserting their own comments and suggestions. Demographic section was based on tick-boxes while other two were based on five point likert scale ranging from 1. Strongly disagree, to 5. Strongly agree. Initially, for pilot testing 15 questionnaires were floated to evaluate the reliability and validity of questionnaire. Then it was distributed to target group of respondents.

Sample

For sampling, nonprobability convenience sampling method was adopted. Since it was an attempt to collect data from all main companies operating under telecom sector, such as Mobilink, Al-Warid, U-Fone, Telenor, Huawei, PTCL etc. therefore 75 questionnaires in each company were randomly distributed. But keeping in view the large employees strength of PTCL, nearly 100 questionnaires were distributed over there. In total 450 questionnaires were floated to collect the response of above 200 respondents. Sample of large respondents were taken so that they could represent the whole population.

Survey Method (Distribution and Response)

Through questionnaire survey from managerial and non-managerial level. Initially response rate was low, therefore individuals were personally approached and wherever required, they were briefed about importance of research and how to fill in questionnaire in true spirit. By taking such steps, total responses received were 244 which became 51.36 % of total. But nearly 21 questionnaires were rejected on different grounds giving 223 responses. Ultimately, responses of 47% of distributed questionnaires were analyzed using SPSS.

RESEARCH ANALYSIS

Demographic Characteristics of Respondents

Survey respondents included 184 male (83%) and 39 females (17%). Majority of the respondents were between 21 years to 35 years of age showing 66% of whole sample. 49% of respondents are having bachelor level of education while 40% had master level of education. Above master level were very low (11%). It was attempted to collect responses from both managerial and nonmanagerial level therefore the response was collected from a good combination of both managerial (41%) and nonmanagerial (59%). It was also found that the monthly earning of majority of employees (65%) working in telecom sector is in between Rs.11,000 to Rs.30,000. respondents with more than 30,000 monthly income were 26%. 39% respondents had 1-5 years of experience while the other significant figure is 31% which were those employees spent at least 10 years or above in their respective organization. In Pakistan, there are two public organizations operating under the telecom sector, therefore (45%) responses were collected from public organizations and 55% from private organizations.

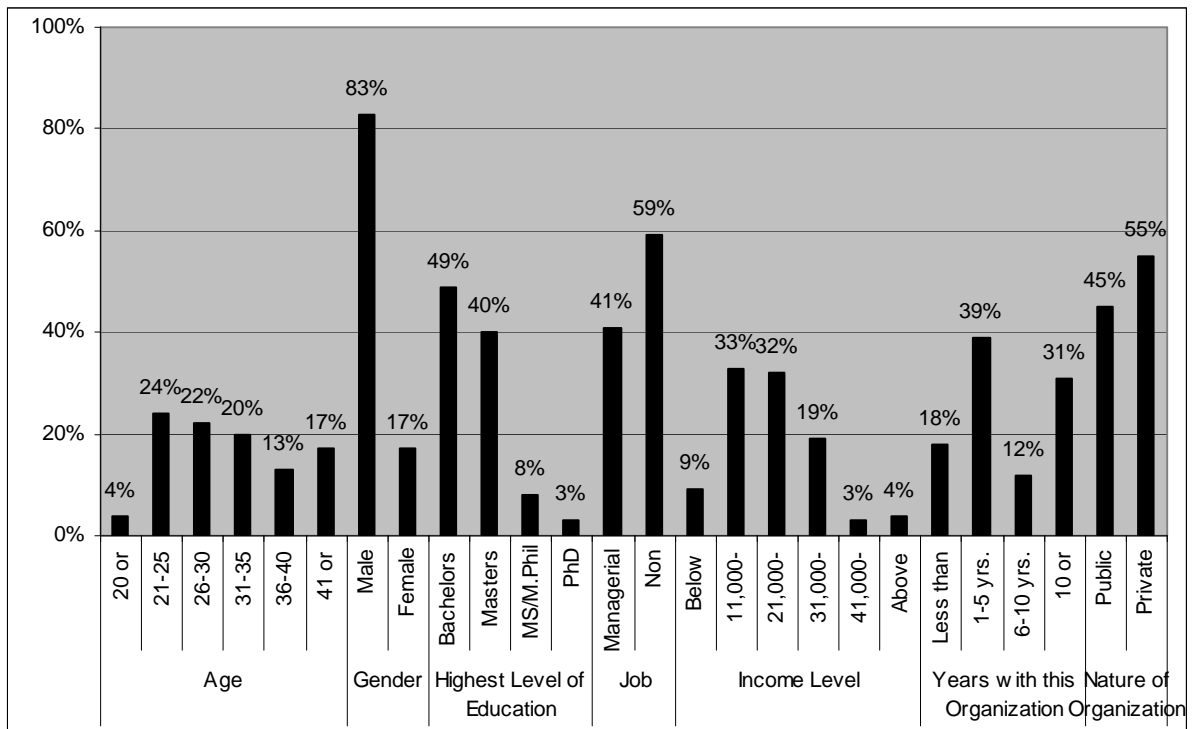


Figure. 2 "Demographic Statistics"

Age	20 or below	4%
	21-25	24%
	26-30	22%
	31-35	20%
	36-40	13%
	41 or above	17%
	Gender	Male
	Female	17%
Highest Level of Education	Bachelors	49%
	Masters	40%
	MS/M.Phil	8%
	PhD	3%
Job	Managerial	41%
	Non Managerial	59%
Income Level	Below 10,000	9%
	11,000-20,000	33%
	21,000-30,000	32%
	31,000-40,000	19%
	41,000-50,000	3%
	Above 50,000	4%
	Years with this Organization	Less than year
1-5 yrs.		39%
6-10 yrs.		12%
10 or above		31%
Nature of Organization	Public	45%
	Private	55%

Table-I "Demographic Statistics"

Descriptive Analysis

Descriptive results revealed positive trend of each variable i.e. training, performance appraisal, job definition, compensation, selection, career planning and perceived organizational performance. Likert scale helped to explain the positive or negative feelings of employees about HRM practices and their impact on organizational performance.

The highest calculated mean of dependent variable "perceived organizational performance" 3.23 indicates the incessant growth of telecom firms over the last three years. Due to growing demand of mobile phone services and government's deregulation policies over telecom sector caused continuous growth. In the present study, most of the employees in telecom sector are of the view that the performance of their organization has increased during the last three years.

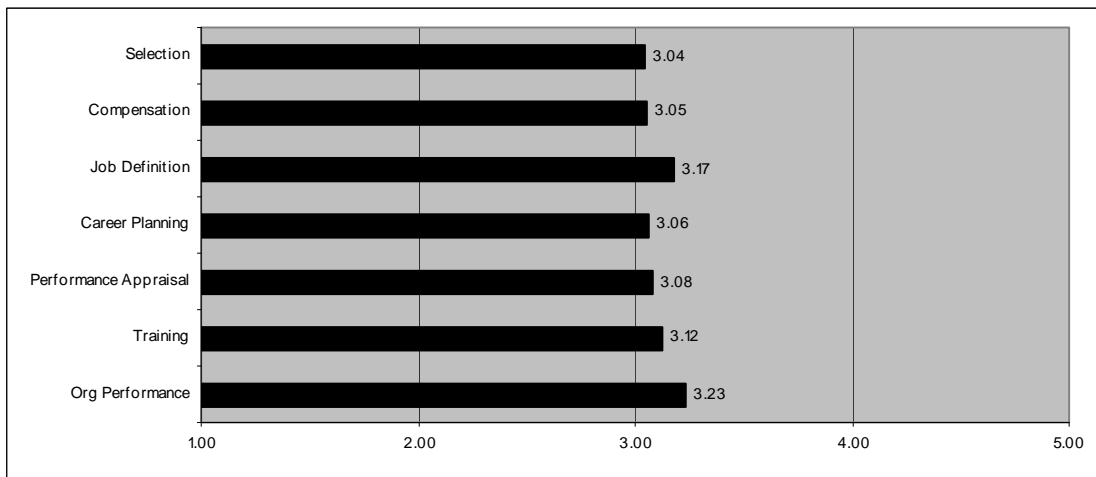


Figure. 3 "Calculated Means of Independent and Dependent Variables"

The other highest mean of training 3.12 shows that if organization conducts extensive training programs to impart new knowledge and skills to the employees and training needs are identified realistically and strategically, then it ultimately helps to enhance the performance of the organization. Aggregate mean of job definition 3.17 points out the significance of job description. If the tasks to be performed by the employees are clearly defined and each employee has clear understanding of what organization expect from him, then it also helps to enhance the overall performance of the organization. The mean of performance appraisal 3.08 shows that if the organization opts comprehensive performance appraisal system, it ultimately had strong positive influence on individual and team behavior, furthermore performance is measured on the basis of quantifiable results, then it has positive effects on the performance of the organization.

Qureshi (2006) found similar findings about compensation. The mean for compensation was calculated as 3.04, which is the lowest calculated mean value like previous study conducted on HRM practices.

	Org	Performance	Career	Job			
	Performance	Training	Appraisal	Planning	Definition	Compensation	Selection
Mean	3.23	3.12	3.08	3.06	3.17	3.04	3.05
Standard Error	0.06	0.06	0.06	0.06	0.07	0.07	0.06
Median	3.17	3.20	3.20	3.00	3.33	3.00	3.00
Mode	3.67	3.00	3.20	3.00	4.00	3.00	3.00
Standard Deviation	0.87	0.90	0.90	0.92	1.07	1.01	0.94
Sample Variance	0.76	0.81	0.82	0.84	1.14	1.02	0.89
Range	4	4	4	4	4	4	4
Minimum	1	1	1	1	1	1	1
Maximum	5	5	5	5	5	5	5
Count	223	223	223	223	223	223	223

Table-II "Descriptive Analysis"

Correlation Results:

Correlation of all variables is shown in Table-(III). As concluded in previous researches, significant positive correlation amongst the independent and dependent variables was found. Especially the analysis shed light on the strong positive effect of compensation and performance appraisal system 0.78. It shows that organizational compensation plan should be tied with performance appraisal and appraisal data must be used for making decisions about compensation. Performance appraisal is also found significantly related with training 0.77, indicating that training need must be assessed using the data of performance appraisal and telecom organizations should evaluate employee performance and formulate training programs keeping in view low performing areas. At the other hand, another strong correlation of 0.74 between career planning and performance appraisal reveals that quantified data received from performance appraisal system helps to plan the growth and advancement of employees. In telecom sector, performance is the indicator to promote employees upward in the hierarchy.

	Organizational Performance	Training	Performance Appraisal	Career Planning	Job Definition	Compensation	Selection
Organizational Performance	1.00						
Training	0.70	1.00					
Performance Appraisal	0.68	0.77	1.00				
Career Planning	0.60	0.66	0.74	1.00			
Job Definition	0.60	0.60	0.69	0.64	1.00		
Compensation	0.63	0.69	0.78	0.72	0.62	1.00	
Selection	0.57	0.50	0.66	0.63	0.60	0.69	1.00

Table-III "Correlation Matrix"

The analysis makes it clear that the performance appraisal system in most of the telecom organizations is being used as a basis for designing training session, compensation plan and career advancement.

A strong positive correlation 0.70 between training and organizational performance shows that if training is imparted after a need assessment process, it ultimately enhance the overall performance of the organizations.

In nutshell, coefficient of correlation between all HRM practices with organizational performance are 0.70, 0.68, 0.60, 0.60, 0.63, 0.57 for training, performance appraisal, job definition, compensation and selection, respectively. It shows that if organization has clearly defined jobs (job description), conducts need based training session, right persons are selected on the basis of scientific methods and performance appraisal is used for compensation policies then such practices help to enhance the overall performance of the organizations.

Regression Results

The Regression equation is formed to test the interdependence of two variables. With the help of Independent variables (training, performance appraisal, job definition, compensation, selection, career planning) and dependent variable (perceived organizational performance) following equations is formed:

$$\text{Equation no. 1} \quad Y_1 = \alpha + \beta_1 (x_1) + \beta_2 (x_2) + \beta_3 (x_3) + \beta_4 (x_3) + \beta_5 (x_5) + \beta_6 (x_3) + \varepsilon$$

$$OP = \alpha + \beta_1 (T) + \beta_2(PA) + \beta_3 (JD) + \beta_4 (C) + \beta_5 (S) + \beta_6 (CP) + \varepsilon$$

Where as :

- | | | | | |
|----------|---|----|---|----------------------------|
| 1. x_1 | = | T | = | Training |
| 2. x_2 | = | PA | = | Performance Appraisal |
| 3. x_3 | = | JD | = | Job Definition |
| 4. x_4 | = | C | = | Compensation |
| 5. x_5 | = | S | = | Selection |
| 6. x_3 | = | CP | = | Career Planning |
| 7. y_1 | = | OG | = | Organizational Performance |

The regression line expresses the best prediction of the dependent variable (Y), on the independent variables (X). However, there exist substantial variation of the observed points around the fitted regression line. The smaller the variability of the residual values around the regression line relative to the overall variability, the better is the prediction.

Table-IV presents the regression outcomes of equation-1, which shows that the dependence of training, performance appraisal, job definition, compensation, selection, career planning (independent variables) to perceived organizational performance (dependent variable). Regression analysis shows the high significance of all independent variables on dependent variables, as we can see 57.07 % of the variation in perceived organizational performance is explained by six independent variables, while 42.93 % is the inherent variability or remain unexplained. Correlation Coefficients, express the degree to which two or more predictors, independent variables are related to the dependent variable. We have the values of coefficients (T, PA, JD, C, S, CP), as, 0.38, 0.11, 0.02, 0.11, 0.05 and 0.16, respectively. The values reflect positive relatedness of

independent variables with dependent variable. Especially, training (0.38) is significantly related with organizational performance comparing other explanatory variables.

Training	0.3799
Performance Appraisal	0.1114
Career Planning	0.0240
Job Definition	0.1110
Compensation	0.0494
Selection	0.1552
Multiple R	0.7631
R Square	0.5823
Adjusted R Square	0.5707
Standard Error	0.5719

Table-IV "Regression Analysis"

Tables (IV) confirms the interdependence of HRM practices on perceived organizational performance. All it shows that, HRM practices are the key contributor to success of the organizations. If organizations select right person for clearly defined jobs after rigorous selection process and then provides training to further impart the skills and knowledge, ultimately help to increase overall organizational performance. Furthermore if performance appraisal system is treated as the basis for further advancement and setting compensation plans, it also contributes to make organization more productive. Since all such practices have proved to be successful in telecom sector, these practices may be replicated in other industries for better future growth.

CONCLUSION:

Statistical analysis shows significant impact of HRM practices on organizational performance which indicates that such practices not only help an organization to achieve sustained growth but also provide competitive edge. The current study shows the significant association of independent variables with dependent variable, especially training and performance appraisal system are found highly correlated with organizational performance. In the same way mean values of organizational performance, training and performance appraisal system were higher. Aggregate mean values of all independent variables and dependent variable showed the implementation of HRM practices in most of the organizations working under telecom sector. The regression analysis showed the significant relatedness of training with perceived organizational performance while other explanatory variables are insignificantly related with perceived organizational performance.

IMPLICATIONS:

Keeping in view the significance of HRM practices, a firm should keep following key points into account for better organizational performance;

- Devising comprehensive human resource training and development program with respect to the organizational, operational and individual needs.
- A good fit between competence and ability is required in order to decide compensation.
- Specify the career path for each employee in accordance with the individual and organizational needs.
- Clearly defined duties of each employee so that they may have clear understanding about his role and work assignments in the organization.
- Transparent and effective selection system is also required to induct new employees through rigorous scientific methods.
- Performance of employees based on quantifiable data, which further helps to determine compensation, training need and career growth.

LIMITATIONS:

The results of this study should be treated with caution for following reasons;

1. The questionnaire approach is not free from subjectivity in the respondent and was taken at one point in time instead of longitudinal study. Reactions may change with the passage of time.
2. The present study was conducted to know the impact of six HRM practices on perceived organizational performance however, there are some other practices that were not included such as open communication, employee participation, employee retention etc
3. The study was carried out in the capital of Pakistan. However, telecom companies have branch and regional offices in other cities and towns, which were not included as sample.

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