A Review on the Relationship between HRM Practices and Firms’ Performance

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Abstract: This paper examines the important elements of human resources management (HRM) practices. This is done through a detailed review on relevant HRM models and previous research. It is found that several practices such as training, recruitment, and performance appraisal exercises are important practices that relate to firms' performance.

Key words: human resource management; training; performance appraisal; recruitment.

INTRODUCTION

Organizations must align with various Human Resource Management practices to achieve their strategic goal. The practices applied must also balance one another to accomplish the firm’s business strategy. A firm’s Human Resource Management practices must develop employees’ knowledge, skills, and motivation to behave in ways that should be implemented (Dessler, 2013).

Various models of Human Resources Management have been developed from time to time by different teams of the researchers. All these models have helped the Human Resources practitioner to effectively manage the human resources.

The Harvard model (Beer et al., 1984) works as a strategic map to guide all managers in their relations with employees and concentrates on the human or soft aspect of HRM. It strives at employee commitment not control. It also works on the premise that employees needed to be congruent, competent and cost effective.

The Michigan model (Devanna et al., 1984) focuses on hard HRM. It holds that people should be managed like any other resources and so obtained cheaply, used sparingly, developed and exploited fully. It also emphasized the interrelatedness of HRM activities. According to this model, selection, appraisal, development and rewards were geared towards organizational performance.

Guest comparative model (Guest, 1997) works on the premise that a set of integrated HRM practices will result in superior individual and organizational performance (figure 1). It advocates a significant difference of HRM from PM. It holds that HRM strategies like differentiation, innovation, the focus on quality and cost reduction will lead to practices like better training, appraisal, selection, rewards, job designs, involvement, and security leading to more quality outcomes; commitment and flexibility. It will then affect performance in that productivity will increase; innovation will be achieved as well as limited absences, labor turnover, and conflict or customer complaints.

![Fig. 1: Conceptual Model of Guest (Source: Guest (1997))](image-url)
Warwick model was developed by Hendry and Pettigrew (1990) at centre for strategy and change, Warwick University in early 1990s. It emphasizes on analytical approach to HRM. It also recognizes the impact of the role of the personnel functions on the human resource strategy content. The researcher focused their research on mapping the context, identifying the inner (organizational) and external (environmental) context. However, after several years later, researchers has conducted more researches and developed new models based on the existing framework model of Human Resource Management. Among the latest models developed by the current and previous researchers are:

Tanveer, et al. (2011) study comprehensively evaluated the impact and links between human resource practices and employee performance of the textile sector of Pakistan. This is achieved by developing and testing the model based on human resource practices including recruitment and selection, training and performance appraisal as independent variables on the employee’s performance as a dependent variable. From this research, we can see that a good employee performance would enhance the firm performance (figure 2).

**Fig. 2:** Model Proposed by Tanveer et. al. (2011)

Sudin (2004) research seeks to extend prior research by investigating strategic Human Resource Management configuration as correlates to organizational performance. He also mediating mechanism that link between Human Resource Management practices and organizational performance (figure 3). He presents a model that shows how the Human Resource Management practices enhance organizational performance as well as presents how organizational performance can be measured meaningfully in different organization.

**Fig. 3:** A Proposed Model of the Relationship between Human Resource Practices, Human Resource Characteristics, and Organizational Performance (Source by: Sudin (2004))

**Relationship Between Hrm Practices And Firm Performance:**

**Employee Training and Firm Performance:**

According to Tzafrir (2005), training is an important element in producing the human capital. Investing in training programs can make employees feel indebted to the company. Training is necessary for the employees to perform particular jobs because job requires particular skills and knowledge by which the job is much easier to perform as it is in the benefit of the employee. Qureshi et al (2007) concluded that training as an HR practice has a very positive impact on the performance of the employees as there is highly positive correlation is found in the study. Danvila del Valle et al (2009) stated that, training provides employees with the skills, abilities and knowledge required by the post. This effect can be explained in a way that the organization is interested in investing in training for the employees and giving them confidence and intends to count on them in future, they will make more effort and give their best at their work in an effective way.

Jayawarna et al (2007), Formal training in comparison with informal training is more effective and significantly associated with performance. Denby (2010) Training is a continuous process, one that is constantly
refreshed and renewed according to the needs and requirements of the individuals along with encouragement to revisit the contents after the training. Training needs vary from industry to industry so one cannot be sure that the particular industry or the organization should conduct training every year, semi annually or quarterly.

**Recruitment and Firm Performance:**

Lynch & Smith (2010) and Cunningham, I. (1999), Recruitment and selection is the initial process to evaluate staff. This is concerned with identification, attraction and selection of the suitable person meeting the job requirements of the organization. It is an important process to carry out otherwise the outcomes inappropriate recruitment and selection is extensive. Qureshi & Ramay (2006) HR practices are positively correlated with employee’s performance whereas selection and training is more affecting the performance rather than other practices.

Chand & Katou (2007) demonstrated that recruitment and selection, part of HRM system is strongly correlated with the profitability and suggests that management of the organization must focus on these HRM practices (recruitment and selection) resulting in an improved organizational profit. Marques (2007) involvement of HR department in hiring process helps to enhance knowledge of the workforce and required skills. It is also helpful for the identification of upgrading skill requirement of the employees. By such involvement, good communication seems to have synergy effect and helps to unify the workforce. As a result of this communication, negotiations happen in more positive atmosphere which has an ultimate effect on the quality within the workforce.

**Table 1: Past Researches Related to Human Resource Practices and Firm Performance**

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<thead>
<tr>
<th>Authors</th>
<th>Area of study</th>
<th>Significance</th>
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<tr>
<td>2. Jafari et. al. (2009)</td>
<td>Proposing a new framework for selection of the best performance appraisal method.</td>
<td>They concluded that the proposed framework is based on six factors which are training needs evaluation, coincidence with institutes, excite staff to be better, ability to compare, and cost of method and free of error.</td>
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<td>3. Thang et. al (2010)</td>
<td>Understanding the effects of training on firm performance by reviewing theory and previous empirical studies on the relationship between training and firm performance.</td>
<td>The authors highlighted that training can have positive and significant effects on firm performance. They also highlighted that training is a valuable path to follow when an organization would like to improve its performance.</td>
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<td>4. Mansour (2010)</td>
<td>Examining the relationship between human resource practices and firm performance. Using companies in Saudi Arabia, this study tests the proposition of HR practices.</td>
<td>The research revealed a positive relationship between the overall HR practices (by using recruitment, training, participation, performance appraisal, and compensation and benefits as the variables) and the performance of the firm.</td>
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<tr>
<td>5. Khan (2010)</td>
<td>Evaluating the effects of human resource management practices on organizational performance in Oil and Gas Industry in Pakistan</td>
<td>The author found that the results indicate statistically significant relationship of recruitment and selection, training and development, performance appraisal, compensation and rewards, and employee participation with organizational performance.</td>
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<td>6. Tanver et. al. (2011)</td>
<td>The impact of Human Resource Management practices on the performance of the employees.</td>
<td>All variables (recruitment and selection, training, performance appraisal) are found to be significantly related with performance of employees. He found that recruitment and selection and performance appraisal play a vital role for the performance of the employees as training of the employees is also important.</td>
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<td>8. Tiwari (2012)</td>
<td>Review the existing literature available on HRM Practices and develop an understanding of HRM Practices. The research paper also is examining the unique HRM practices implemented by different companies.</td>
<td>He found that organizations which implements HRM practices with dedication, remains ahead of their competitors because such practices affects other variables such as job satisfaction, financial performance, employee commitment etc. in a positive way.</td>
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**Performance Appraisal and Firm Performance:**

Brown et al, (2010) Performance appraisals are the basic element of human resource management; many HR decisions are totally based on the results of the appraisal. Kelly et al, (2008) studied that over 80 percent of
the respondents are in desire of the appraisal system along with 45 percent respondents indicates that appraisal system needs to improve. Fairness and clarity of the appraisal system is compulsory which results in satisfaction, improvement in performance, motivation and positive perception towards performance bonuses.

Ubeda & Almada (2007) While implementing performance appraisal system to appraise the competencies of each employee, it is important to notify that which skills, knowledge and attitudes should be developed so that there is a substantial improvement in the process of the organization and jobs and tasks as well. In addition, it is a merit rating which should be benefit to both parties and must be constantly reviewed to suit the requirement. The system explicitly mentioned the individual’s needs and thus has far reaching effect of improving productivity. Hence, the following hypothesis has been stated.

**Conclusion:**

In summary, past research has provided extensive data on the positive relationship between HR practices and organizational performance in an effort to show a positive impact of HR practices. Performance management is a very important part of human resource management. The focus of it is on development aspects of individual and organization performance. The approach of performance management is positive. In present highly competitive environment, a high degree of skill and commitment is needed to understand the environment and perform accordingly.

Everybody is benefited by actions of performance management. It is possible to get all employees to reconcile personal goals with organizational goals. One can increase productivity and profitability for any organization and that leads to progress of the organization. It can be applied by organizations or a single department or section inside an organization.

All HR practices (recruitment and selection, training, performance appraisal) are found to be significantly related with organizational performance. So we conclude that recruitment and selection, training and performance appraisal play a vital role for the performance of the employees. This obviously will give impact to firm performance as well.

**REFERENCES**


