Role of HRM Practices in Predicting Organizational Performance- A Study in Indian IT Sector

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Abstract

The main aim of this research paper is to examine the impact of HRM practices on organizational performance in North Indian IT sector. The study has used quantitative approach, with a sample of 400 respondents working in Indian IT sector. For data analysis, Statistical Package for Social Sciences and Partial Least Square structural equation modeling were employed. The results of data analysis revealed that HRM practices has a significant relationship with organizational performance with beta value of 0.638 and the HRM practices explains 40 percent variance in organizational performance. The findings states that the IT organizations should focus on implementing fair and effective HRM practices so that the performance of organization can also improve. The results of the present study implies that management needs to understand the importance of HRM practices of their organizations in achieve the organizational objectives and improve the performance outcomes which further also helps in gaining competitive advantage.

Keywords: HRM practices, organizational performance, IT sector, India, SEM

Introduction

Human resource management is defined as "a strategic and coherent approach to the management of an organization's most valued assets- the people working there who individually and collectively contribute to the achievement of its goals" (Armstrong, 1999). Human resources are the people working towards organizational objectives in return for salaries and rewards (Denisi and Griffin, 2001). Stone (1998) defined HRM as the productive use of employees in achieving organizational objectives and satisfying the needs of the employees. Taticchi et al. (2010) further defined HRM as a tool that attempts to enhance the organizational performance by understanding and addressing the employees and issues at the workplace. The objective of HRM practices is to improve the satisfaction level of employees and organizational commitment (Ahmad and Schroeder, 2003). Human resource management (HRM) practices are considered an essential area in increasing efficiency and output of the organization

(Petrescu and Simmons, 2008). Many scholars have deeply studied the Human Resource functions to gain more insights about the different ways by which HR practices and policies influence the employees and organizational outcomes.

For the accomplishment of goals, survival and success, the organizations need to hire the right employees at the right place and at the right time (Oladipo, 2011). The ability of an organization to hire quality employees so that they can contribute maximum to achieve organizational objectives and success. HRM has been considered as a key to gain competitive advantage (Pfeffer, 1994). Prime attention of the organizations is to make optimal utilization of the competent employees by linking

HRM to the business strategies. The discipline has progressed considerably over the last few years, many researchers and academicians have given importance to the concept of Human Resource Management (HRM) as these practices enhance the employees' performance as well as the organizational performance (Ko et al., 2013).

In today's challenging and competitive environment, major focus is towards the success of the organization, which largely depends on its ability to hire and retain competent employees for maximizing their contribution towards the organization. The success of an organization also depends on other macro and micro level factors (Mirah, 2017). The micro level factors are internal the factors that are within the organization whereas, macro level factors includes external factors that are beyond the organization. The present study has focused on the micro-level factors that are within the organization and has an impact on the organizational success. Having an HR department in the organization is not the only way to achieve the organizational objectives but it is equally important to examine the perception of employees towards HRM practices. This research is an investigation of employees' perception towards the relationship between HRM practices and performance in Indian IT sector.

Review of literature

Haque (2021) examined the perception of employees on establishing a relationship between HRM practices and organizational performance. The data gathered from 200 employees working in Bangladesh was interpreted using SEM. A positive correlation was found between strategic HRM and perceived organizational performance. Partial mediating role of turnover intentions was also established during the analysis, as the indirect influence of strategic HRM on performance declines in comparison to the direct relationship without the

presence of mediator. Further, Sabiu et al. (2019) interpreted the relation between HRM practices and organizational performance. The data from 216 Nigerian employees was collected using a structured questionnaire and was analyzed using Smart PLS software. The findings revealed that there is an association between performance appraisal practices and organizational performance. The study also explored that ethical climate mediates the relationship between performance appraisal practices and organizational performance. Waheed et al. (2019) explored the relationship between new HRM practices and innovative performance. For the purpose of the study, the data was collected from 632 respondents working in IT sector of Pakistan. SPSS software was employed to analyze the data and the findings revealed that new HRM practices play an important role in enhancing the innovative performance through innovative behavior of the organization.

The relationship between HR practices and organizational performance was also explored by Pattnaik and Sahoo (2020). The study was conducted among the employees of Mineral and Refinery complex in Odisha, India on a sample of 424. SPSS and AMOS were employed for data analysis purpose and the results revealed that remuneration practices have a major contribution in improving the organizational performance. Second contributing factor was training practices, followed by performance appraisal practices to have an impact on organizational performance. Further, Torlak et al. (2018) also established similar relationship between HRM practices and organizational performance. The data was collected from 440 workers employed in travel agencies present in Iran and Turkey. SPSS was used to analyze the hypothetical relationships and the results found that training, employment security and career management practices were significantly related to organizational performance. The researchers also analyzed the influence of

commitment on performance and found that affective and continuance commitment have an impact on organizational performance. Rana and Malik (2017) conducted a study among the 282 employees working in the telecommunication sector of Pakistan. SPSS was used for analyzing the data and the results indicate that hiring and selection practices, training practices, remuneration policies, fair appraisal methods and employee involvement practices were positively related to organizational performance and Islamic principles positively moderates the relationship between HR practices and organizational performance.

Lee et al. (2010) conducted a study among 236 employees working in steel industry of Taiwan to examine the relationship between HRM practices and organizational performance. The results found that training practices, working in teams, fair appraisal, job security, HR planning and reward practices within the organization contributes positively in enhancing organizational performance. Findings also discovered that integrating business strategies such as, cost reduction, improved quality and innovativeness with HRM practices also have a positive relationship with organizational performance. Katou and Budhwar (2010) interpreted the association of HRM practices and organizational performance among the 178 employees working in Greek manufacturing sector. SEM technique was employed for analyzing the data and the results indicate that the employee outcomes fully mediates the relationship between HRM policies and organizational performance. HRM policies help in improving the skills, attitude and behavior of employees that further enhances the organizational performance.

In the present research, focus is on the perception of employees towards the performance of the organization. For the purpose of the present research, organizational performance was measured on the parameters such as; employment creation, employee retention, efficiency and innovativeness. The main focus is given on the ability of the organization to attract new employees and retain existing employees. The performance measures also include the efficiency of the organization, that is the ability of the organization to use less resources to meet the objectives and further, quality and development of new products and services to meet the customer demands have analyzed the innovative behavior of the organization.

Organizational performance can also be measured on the basis of subjective or objective measures. Objective measures of performance includes financial measures (Coyne, 1986) and subjective measures includes perceptual evaluation of organizational outcomes (Mellor et al., 1999). Objective measures of organizational performance are likely to provide realistic results and subjective measures lack factuality but provide better description of the effectiveness of the organization (Allen et al., 2008). Objective measures are limited to provide results related to financial data only and therefore, not appropriate for non- financial performance indicators (Santos and Brito, 2012).
Hypothesis 1: There is a significant impact of HRM practices on organizational performance

Hypothesis 2: There is no significant impact of HRM practices on organizational performance

Research Methodology

The present study has used descriptive research design to examine the impact of HRM practices on organizational performance. The sampling area chosen for the study is Northern Region of India (Mohali and Delhi-NCR). The NASSCOM listed IT/ITeS companies in the selected region are selected for the study. These two areas have been chosen for the study because the cities have a strong resource base of highly educated people including

various higher institutes and research centers, which is essential for knowledge-based economic activities such as IT/ITeS, designing, R&D and financial services. The sample size (n=400) for the present study was calculated using Cochran's formula of sample size determination (Cochran, 1963). As it is not possible to contact each employee working in IT sector, therefore, a non-probability sampling technique (purposive sampling) has been used in the present study. Already existing scales were used to examine the proposed relationships as various authors have

recommended the use of existing scales that have been validated and empirically tested in previous literature.

26 statements of HRM practices were adapted from Delery and Doty (1996), Snell and Dean (1992) and Dessler (2002). 10 items of organizational performance were adapted from Delaney and Huslied (1996) and Katou and Budhwar (2007). All the statements were based on 5-point Likert scale ranging from "1=Strongly disagree to 5=Strongly agree".

Data analysis

Table 1. Demographic profile of respondents

| Characteristics	Category	Frequency	Percentage
Gender	Male	229	57.2
	Female	171	42.8
	Total	400	100
Age of respondents	Less than 28 years	117	29.2
	28-31 years	153	38.3
	Above 31 years	130	32.5
	Total	400	100
Marital Status	Married	258	58.3
	Unmarried	167	41.7
	Total	400	100
Qualification	Graduation	139	34.8
	Post-Graduation	239	59.7
	Others	22	5.5
	Total	400	100
Total Experience	Less than 3 years	118	29.5
	3-6 years	173	43.3
	Above 6 years	109	27.2
	Total	400	100
	Total	400	100

Source: Author's calculations

The sample of the study comprises of 229 male respondents (57.2 percent) and 171 female respondents (42.8 percent). The number of male respondents were higher as compared to female respondents. 117 respondents (29.2 percent) were

below the age group of 28 years, 153 respondents (38.3 percent) were in the age group of 28-31 years. 130 respondents (32.5 percent) were above the age group of above 31 years. Out of the total respondents, 2 (64.5 percent) were married and 142

respondents (35.5 percent) were unmarried. Majority of the respondents were post graduates (239, 59.7 percent) and 97 respondents (34.8 percent) were graduates. Only 22 respondents (5.5 percent) have qualifications other than graduation and post-graduation. In terms of the total work experience, majority of the respondents (173, 43.3 percent) have a total experience of 3-6 years whereas, 109 respondents (27.2 percent) have a total experience of less than 3 years.

Figure 1. Measurement model
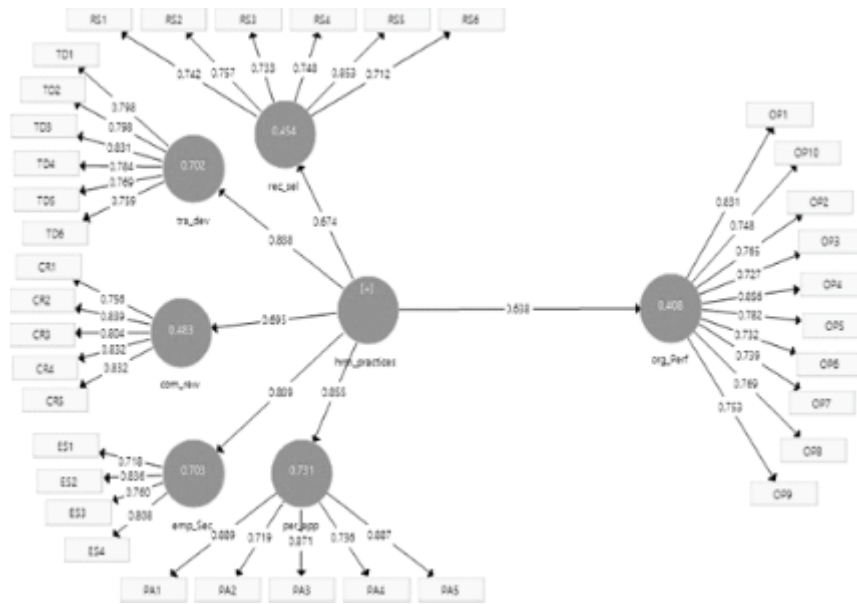
The reliability and validity of higher order construct was calculated using two stage approach. The Cronbach's alpha, rho_A, Composite reliability and AVE for HRM practices were 0.841, 0.899, 0.883 and .607, which were above the threshold (Hair et al., 2013). The table presented below shows that the results of measurement model exceeds the recommended values indicating sufficient reliability and validity.

Table 2. Validity and Reliability

Construct	Indicator	Std. factor Loading	CA	rho_A	CR	CR	AVE
Compensation and Rewards	CR1	0.756	0.873	0.88	0.907	0.907	0.661
	CR2	0.839					
	CR3	0.804					
	CR4	0.832					
	CR5	0.832					
Employment Security	ES1	0.718	0.787	0.794	0.863	0.863	0.611
	ES2	0.836					
	ES3	0.76					
	ES4	0.808					
Organizational Performance	OP1	0.831	0.924	0.929	0.936	0.936	0.595
	OP10	0.748					
	OP2	0.765					
	OP3	0.727					
	OP4	0.856					
	OP5	0.782					
	OP6	0.732					
	OP7	0.739					
	OP8	0.769					
	OP9	0.753					
Performance Appraisal	PA1	0.889	0.879	0.88	0.913	0.913	0.679
	PA2	0.719					
	PA3	0.871					
	PA4	0.736					
	PA5	0.887					
Recruitment and Selection	RS1	0.742	0.857	0.88	0.89	0.89	0.576
	RS2	0.757					
	RS3	0.733					
	RS4	0.748					
	RS5	0.853					
	RS6	0.712					
Training and Development	TD1	0.798	0.881	0.892	0.909	0.909	0.624
	TD2	0.798					
	TD3	0.831					
	TD4	0.784					
	TD5	0.769					
	TD6	0.759					

Source: Author's own findings

Note: CA=Cronbach alpha, CR= Composite reliability, AVE= Average variance extracted

Correlation matrix and Roots of AVE's

The discriminant validity of the constructs was established using Fornell and Larcker (1981) criterion. The results indicate that all square roots of AVE were higher than the inter-correlation values between the constructs. The table below explains that the discriminant validity of the model was well established.

Table 3. Fornell and Larcker criterion

	CR	ES	OP	PA	RD	TD
CR	0.813					
ES	0.531	0.782				
OP	0.451	0.706	0.771			
PA	0.432	0.608	0.468	0.824		
RD	0.291	0.364	0.21	0.732	0.759	
TD	0.512	0.763	0.623	0.564	0.333	0.79

Source: Author's own findings

Note: CR= compensation and rewards, ES= employment security, OP= organizational performance, PA= performance appraisal, RS= recruitment and selection, TD= training and development

HTMT criterion. If the HTMT value is greater than .85 or .90 indicates that there is a problem of discriminant validity (Henseler et al., 2015). All the values in the table presented below were less than .90, which indicates that there was no discriminant validity issue present in the model.

Discriminant Validity

Discriminant validity was further assessed using

Table 4. Heterotrait -Monotrait Ratio

|	CR	ES	OP	PA	RS	TD
CR						
ES	0.611					
OP	0.477	0.82				
PA	0.465	0.709	0.502			
RS	0.303	0.393	0.208	0.772		
TD	0.549	0.888	0.66	0.595	0.337	

Source: Author's own findings

Note: CR= compensation and rewards, ES= employment security, OP= organizational performance, PA= performance appraisal, RS= recruitment and selection, TD= training and development

Structural Model

To access the structural model, bootstrapping was used on 5000 subsamples to examine the significance and path coefficient as suggested by Hair et al. (2017). R^2 value is commonly used to evaluate the structural model.

Figure 2. Structural model assessment (HRMP and OP)
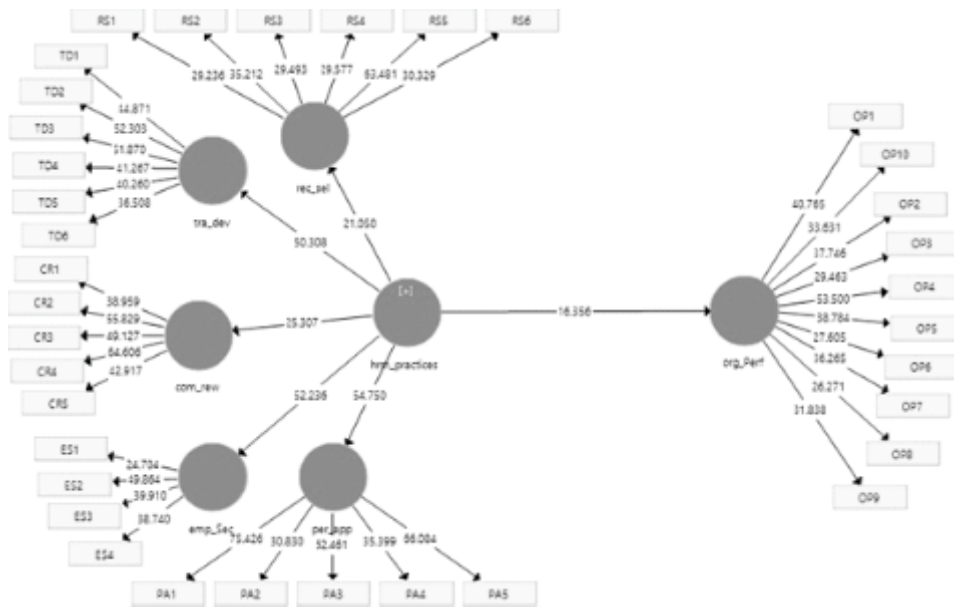
The value of R2 depicts that HRM practices explains 40 percent variance in organizational performance. The path analysis results indicate that there is a significant impact of HRM practices on organizational performance (β = 0.638, t>1.96, p<0.05). Path coefficient table revealed that the HRM practices have a significant impact on organizational companies. Therefore H1 is accepted.

Table 5. Path coefficient table

Relationship	Standardized Estimate	Standard Error	T Statistics	R Square
HRM Practices->Organizational performance	0.638	0.039	16.356	0.408

Source: Author's own findings

Note: HRMP= Human Resource Management practices, OP= organizational performance

Predictive relevance

The examination of cross-validated redundancy indices using blindfolding procedure indicates that the predictive relevance of the model. The Q2 value was 0.237, which is above zero, indicates that the model has moderate predictive relevance.

Table 6. Predictive relevance results

	SSO	SSE	Q² (=1-SSE/SSO)
Organizational Performance	4000.000	3052.657	0.237

Source: Author's own findings

Discussion

The present research intended to investigate the relationships between HRM practices and organizational performance. The measurement scales of all the constructs were adapted from the relevant literature. The reliability and validity of the measurement scales used in the present study was

also examined by evaluating the measurement model. This study provides an extension to the existing literature regarding the relationship between HRM practices and organizational performance by highlighting five major HRM practices. The results indicate that β value for the relationship between HRM practices and organizational performance was 0.638. The t-value for the path was also greater than 1.96. The results revealed that there was a significant relationship between HRM Practices and organizational performance. Therefore, H1 was accepted. The findings of the study contributes significantly to the existing literature as the proposed relationship focused on the employees' as well organizational outcomes.

Pattnaik and Sahoo (2020) revealed that training, compensation and performance appraisal practices and organizational performance were positively related. Sabiu et al. (2019) found that performance appraisal practices have a significant relationship with organizational performance (β= 0.28, t= 3.27). Torlak et al. (2018) revealed that training (β= 0.153), job security (β= 0.146) and career management (β= 0.375) practices have a significant relationship with organizational performance. Farouk et al. (2016) found that HRM practices have a significant relationship with organizational performance (β= 0.306, t= 3.706). Lee et al. (2010) revealed that HRM practices have a positive and significant relationship with organizational performance. Kaya (2006) found that HRM practices have a significant impact on organizational performance (β= 0.35, t= 3.17). Singh (2004) also revealed that training and compensation practices have a significant relationship with organizational and market performance. The relationship between HRM practices and organizational performance was statistically significant and the results corroborates with the previous studies (Haque, 2020, Sabiu et al., 2019; Waheed et al., 2019; Pattnaik and Sahoo,

2020; Lee et al., 2010). The present study also verified the results that HRM practices had a stronger relationship in improving the performance of the organization.

Implications of the study

The findings of the study have notable theoretical and managerial implications for Indian IT sector in particular and for global context in general. The study contributes to the HRM literature by confirming the existing relationships and has revealed that the effectiveness of HRM practices as a strategy to organizational performance. In the global competitive environment when an unexpected rise in the innovations is taking place, organizations do not want to undervalue the importance of human resource to meet the goals and objectives of the organization. Therefore, implementing an effective set of human resource management practices leads to better organizational performance. Therefore, the organizations should focus more on implementing effective HRM practices which leads to the improvement in employee and organizational outcomes. Retaining highly skilled employees has become an important concern among the organizations in this competitive scenario. The results found that HRM practices acts as a strong predictor and thus the findings will be useful for practitioners, policy- makers and human resource managers to design and implement the best HRM practices in the IT sector. The results will help the management by framing such HRM practices that signals the employees as the valuable assets of the organization and their contributions can help the organizations in improving the performance. To improve the performance, organizations should identify, attract and prepare for a workforce that can provide leverage to the organizations to maneuver roles by ensuring minimum impact on the productivity.

Limitations

Despite of having theoretical and managerial implications, the study has some limitations that need to be addressed by the researchers in future studies. First, study consisted of only five HRM practices, recruitment and selection, training and development, employment security, compensation and rewards and performance appraisal, therefore, future research can explore and include other HRM practices such as career planning, empowerment and information sharing. The relationship of such practices can be analyzed with dependent variables like satisfaction, commitment and turnover intentions. Also, the constructs used in the present study have been defined by examining the relevant literature, but future research studies could incorporate other constructs with different dimensions to measure the proposed relationships. Moreover, the results were based on the employees working in North Indian IT sector. Results of the study should be treated with caution if an attempt is made to generalize the findings to different sectors. The analysis was based on cross-sectional data. To overcome this limitation, further studies can use longitudinal data either in a different sector or geographical region to validate the proposed relationships.

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