HRM Practices and Organizational Performance in Hospitals

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Abstract: The purpose of this paper is to examine the relationship among the HRM Practices, and Organizational Performance. For this study, a sample of 250 nurses was drawn from the population of 600 nurses using a structured questionnaire from four Leading hospitals in Tiruchirapalli district. The results of Partial Least Square Path Modelling (PLS-PM) have shown that Out of the five HRM practices, Two HRM practices viz., Recruitment and Selection, Training and Development are found to be significant predictors of organizational performance.

Keywords: Organizational Performance, HRM Practices, Partial Least Square – Path Modeling (PLS-PM)

I. Introduction

Human resource management (HRM) is defined as the productive use of people in achieving the organization’s strategic business objectives (Stone, 2009). Storey (1995) proposed that HRM has both “soft” and “hard” dimensions. There are some who treat HRM as the entire field of “people management” without specific favorable approach. On the other hand, there are others who focus on the “hard” dimension, likely to apply a utility approach to the management of human resource such as through utilization of a highly committed and capable workforce in order to maximize output of individual and organization. In HRM research, there are two dominant normative models influencing how firms should make decision in workforce management: the “best-fit” model and “best-practice” model (Boxall and Purcell, 2000). The “best-fit” model postulates that HR strategies will be more effective if they fit certain critical contingencies in the business environment, e.g. social, industry and organizational factors. On the contrary, the advocates of the “best practice” model display universalism and adopt “best practice” in the way they manage the workforce. Boxall and Purcell (2000) conclude that most firm HR strategies are created to suit environmental contingencies, favoring the “best-fit” model.

However it does not invalidate all “best practice” thinking. In general, the HRM practices deployed by organizations are staffing i.e. HR planning, recruitment and selection; HR development i.e. training, development and career planning and development; compensation i.e. direct and indirect financial compensation and nonfinancial compensation; safety and health; and employee and labor relations (Mondy, 2010). HRM practices enable the shaping of employees’ skills, abilities, values, belief, attitudes and behaviors through hiring, socializing and developing a firm’s pool of human. For instance, providing training and development to employees, such as on-the-job training, job rotation, coaching, mentoring, in-basket training, case study etc. can help to improve the knowledge, skills, experience, abilities and motivation of employees. Pfeffer (1998) identified seven dimensions of effective people-oriented management that has led to substantially enhanced profitability. These are: employment security, selective hiring, self-managed teams, organizational performance-based high compensation, extensive training, reduced status distinctions and extensive sharing of information.

Organizations have increasingly recognized the potential for their people to be a source of competitive advantage. Not too long ago, so called HR functions was the preserve of “Personnel Managers” whose duties were to recruit and select, appraise, promote and demote. These superficial duties could be performed by any manager, it therefore never seemed necessary to employ an expert in the form of a human resource manager let alone create a whole department dedicated to HRM. Little attention was paid to human resource management issues and its impact on organizational performance.

In today’s competitive and rapidly changing business world, organizations especially in the service industry need to ensure maximum utilization of their resources to their own advantage; a necessity for organizational survival. Studies have shown that organizations can create and sustain competitive position through management of non-substitutable, rare, valuable, and inimitable internal resources (Barney, 1991). HRM has transcended from policies that gather dust to practices that produce results. Human resource management practices has the ability to create organizations that are more intelligent, flexible and competent than their rivals through the application of policies and practices that concentrate on recruiting, selecting, training skilled employees and directing their best efforts to cooperate within the resource bundle of the organization. This can potentially consolidate organization performance and create competitive advantage as a result of the historical sensitivity of human resources and the social complex of policies and practices that rivals may not be able to imitate or replicate their diversity and depth.
Lately, organizations are focused on achieving superior performance through the best use of talented human resources as a strategic asset. HRM policies or strategies must now be aligned to business strategies for organizational success. No matter the amount of technology and mechanization developed, human resource remains the singular most important resource of any success-oriented organization. After all, successful businesses are built on the strengths of exceptional people. HRM has now gained significance academically and business wise and can therefore not be relegated to the background or left in the hands of non-experts. Attention must be paid to the human resources organizations spent considerable time and resources to select.

Armstrong (2009) defines Human Resource Management (HRM) as a strategic and coherent approach to the management of an organization’s most valued assets; that is, the people working there who individually and collectively contribute to the achievement of its objectives. Moreover, Human resource management practices can be defined as a set of organizational activities that aims at managing a pool of human capital and ensuring that this capital is employed towards the achievement of organizational objectives (Wright and Boswell, 2002). The adoption of certain bundles of human resource management practices has the ability to positively influence organization performance by creating powerful connections or to detract from performance when certain combinations of practices are inadvertently placed in the mix (Wagar and Rondeau, 2006). So if we think human resource management as just the services any manager may provide in recruiting and selecting, appraising, training and compensating employees, then we rather would have to take the backseat for those who understand the influence HRM has on corporate performance to take the centre stage. Research has recorded a positive relationship between human resource management practices and corporate performance. Thus in order to stimulate corporate performance, management is required to develop skilled and talented employees who are capable of performing their jobs successfully (Klein, 2004).

Achieving better corporate performance requires successful, effective and efficient exploit of organization resources and competencies in order to create and sustain competitive position locally and globally. HRM policies on selection, training and development, performance appraisal, compensation, promotion, incentives, work design, participation, involvement, communication, employment security, etc must be formulated and implemented by HRM specialist with the help of line managers to achieve the following outcomes: competence, cooperation with management, cooperation among employees, motivation, commitment, satisfaction, retention, presence, etc.

In fact, Ahmad and Schroeder (2003) found a positive influence of human resource management practices (information sharing, extensive training, selective hiring, compensation and incentives, status differences, employment security, and decentralization and use of teams) on organizational performance as operational performance (quality, cost reduction, flexibility, deliverability and commitment). In furtherance of this assertion, Sang (2005) also found a positive influence of human resource management practices (namely, human resource planning, staffing, incentives, appraisal, training, team work, employee participation, status difference, employment security) on organization performance.

Research Objectives

- To examine the influence of HRM Practices on Organizational Performance in Hospitals.
- To test and validate the proposed research model

II. Review Of Literature

Recruitment and Selection

‘Recruitment which is the process of generating a pool of capable people to apply for employment to an organization and selection which is the process by which managers and others use specific instruments to choose from a pool of applicants a person or persons more likely to succeed in the job(s) given management goals and legal requirements’ Bratton and Gold (2007, p 239). Recruitment and selection can play a pivotal role in shaping an organization’s effectiveness and performance, if organizations are able to acquire workers who already possess relevant knowledge, skills and aptitudes and are also able to make an accurate prediction regarding their future abilities. Performance improvement is not only a result of well functioning system but also depends on effective human resource strategies that succeed in recruiting and maintaining a committed and motivated workforce (Al-Ahmadi, 2009).

Recruitment and selection has become ever more important as organizations increasingly regard their workforce as a source of competitive advantage. It is often claimed that selection of workers occurs not just to replace departing employees or add to the number but rather aims to put in place workers who can perform at a higher level and demonstrate commitment (Ballantyne, 2009). This function of HR is presented as a planned rational activity made up of certain sequentially-linked phases within a process of employee resourcing, which itself may be located within a wider HR management strategy. The process of recruiting and selecting may come in four stages: defining requirement, planning recruitment campaign, attracting candidates and selecting candidates (Armstrong, 2010).
Compensation and Reward

Compensation processes are based on compensation philosophies and strategies contained in the form of policies, guiding principles, structures and procedures which are devised and managed to provide and maintain appropriate types and levels of pay, benefits and other forms of compensation. This constitutes measuring job values, designing and maintaining pay structure, paying for performance, competence and skill and providing employee benefit. However, compensation management is not just about money, it is also concerned with that non-financial compensation which provides intrinsic or extrinsic motivation (Bob, 2011). Compensation has a motivational effect and therefore implies that having a compensation structure in which the employees who perform better are paid more than the average performing employees is vital to enhancing organizational performance (Hewitt, 2009). The growing recognition and consensus that compensation promotes productivity is consistent with the early work of Peter Drucker (1956) that states “happy workers are productive workers.”

Performance Appraisal

Performance appraisal of employees is the systematic evaluation of employees’ performance and potential for development during a certain period of time by supervisors or others who are familiar with their performance. It is one of the oldest and widely used management practices. Performance appraisal is an indispensable tool for an organization because the information it provides is highly useful in decision making regarding issues such as promotion, merit increases transfer, discharge, training and development. Not only is performance appraisal useful for the above issues, it may also increase employee’s commitment and satisfaction. Wiese and Buckley, (1998). However, there has been a great realization that it is more important to focus on defining, planning and managing performance than merely appraising performance Pareek and Rao, (2006). The increased competitive nature of the economy and rapid changes in the external environment has forced many organizations to shift from reactive performance appraisals to proactive performance management to boost productivity and improve organizational performance (Nayab, 2011). Prasad (2005) defines performance management as the process of planning performance, appraising performance, giving its feedback, and counseling an employee or teams to improve performance. As Armstrong (2006) put it, performance management is a systematic process for improving organizational performance by developing the performance of individual and teams. Performance management is one of the most important developments in the field of HRM probably propelled into visibility in the early 1980’s as a result of the growing importance of total quality management.

Teamwork

According to Ingram (2000) teamwork is a strategy that has a potential to improve the performance of individuals and organizations, but it needs to be nurtured over time. Organizations need to look at strategies for improving performance in the light of increasingly competitive environments. Top managers need to have the vision to introduce teamwork activities within the organizations, the sensitivity to nourish it and the courage to permit teams to play an important part in decision making. Conti and Kleiner (2003) reported that teams offer greater participation, challenges and feelings of accomplishment. Organizations with teams will attract and retain the best people. This in turn will create a high performance organization that is flexible, efficient and most importantly, profitable. Profitability is the key factor that will allow organizations to continue to compete successfully in a tough, competitive and global business arena. According to Rabey (2003) recognition of culture are the primary focus of the individuals who are working in teams. Perceptive managers know and constantly capture the benefits of the team. The theory concentrates on the influence of culture in discouraging significant strategic change in employee attitude (Mussel white, 2001).

Training and Development

A formal definition of training and development is any attempt to improve current or future employee by increasing an employee’s ability to perform through learning, usually by changing the employee’s attitude or increasing his or her skills and knowledge. While training is seen to be the process of imparting specific skills, development is said to be the learning opportunities designed to help employees grow. According to (Armstrong 2001:543) training is the formal and systematic modification of behavior through learning which occurs as a result of education, instruction, development and planned experience. Training has the distinct role in the achievement of an organizational goal by incorporating the interests of organization and the workforce (Stone R J. Human Resource Management, 2002). For training to have a better effect on performance, its design and delivery should be well executed.

Training remains a vital to enhancing employee performance. The organizational commitment or “the relative strength of an individual’s identification and involvement in a particular organization” (Pool & Pool, 2007, p. 353) depends on effective training and development programs. According to these authors,
organizations demonstrating keen insight make provisions for satisfying the training needs of their current workforce. Cheng and Ho (2001) indicate that adequate training produces marked improvements in employee communication and proficiency of performances as well as extending retention time. Moreover, when programs target communication skills with co-workers, there are significant increases in profit as well as a greater number of reported positive working relationships that are formed. Also, training and education have been shown to have a significant positive effect on job involvement, job satisfaction, and organizational commitment (Karia & Asaari, 2006). Moreover, poor performance reviews due to inadequate job training can produce employee dissatisfaction and conflict.

**Organizational Performance**

Researchers have different opinions of what performance is. Organizational performance continues to be a contentious issue in the management research circles. Javier (2002) equates performance to the famous 3Es; economy, efficiency and effectiveness of a certain programme of activity. According to Richard et al (2009) organizational performance encompasses three specific areas of firm outcomes; financial performance (profits, return on assets, return on investment, etc), product market performance (sales, market share, etc), and shareholder return (total shareholder return, economic value added, etc.). Organizational performance is the organization’s ability to attain its goals by using resources in an effective and efficient manner Daft (2000). We can put organizational performance as the actual output or results of an organization as measured against its intended outputs, that is; goals and objectives. Performance should not be confused with productivity; according to Ricardo (2001), productivity is a ratio depicting the volume of work completed in a given amount of time. Performance is a broader indicator that could include productivity as well as quality, consistency, effectiveness, efficiency and other factors.

A study by Chien (2004) found that there were five major factors determining organizational performance, namely: Leadership styles and environment, Job design, Organizational culture, Model of motive and Human resource policies. The concept of performance borders on both what has been achieved and how it has been achieved. Organizational performance can be measured in a number of different ways. The most obvious way to measure what has been achieved and the approach used in any studies, is by reference to key performance indicators (KPIs) which are usually to do with financial results (profitability) or productivity. Measuring the „how” is more difficult. It has to rely extensively on qualitative assessments of organizational capability or effectiveness.

**Research Model**

Through the literature review it is clear and evident that there could be interrelationships between the dimensions of HRM practices and Organizational Performance. But, there is few empirical supports to prove that HRM practices has a significant and positive effect on Organizational Performance. This research curiosity has led to the construction of following research model (Fig. 1) and its corresponding hypotheses.

**H1.** Recruitment and selection has significant positive association with Organizational Performance.

**H2.** Compensation and reward has significant positive association with Organizational Performance.

**H3.** Performance appraisal has significant positive association with Organizational Performance.

**H4.** Teamwork has significant positive association with Organizational Performance.

**H5.** Training and development has significant positive association with Organizational Performance.

![Figure 1. Proposed Research Model](image-url)
III. Research Methodology

This basically is an empirical study and as the name suggests it relies on experience or observation alone, and it can even be without due regard for system and theory (Kothari, 2004). This is basically a data-based research, which can give conclusions based on observation. As far as the approach is concerned, it is both qualitative as well as quantitative in nature. Literature pertaining to HRM practices and Organizational Performance have been studied to understand the relevance of each one of them, and also, to study their antecedents and consequences of the same and used in the formulation of the working hypothesis.

Respondents

The respondents are employees who are working in four private hospitals in a particular district of Tamil Nadu. The workforce comprises over 600 professional Nurses who render services to patients in the respective hospitals. The sample size of the study is 250 nurses. Disproportionate simple random sampling was adopted. The reliability and convergent validity of the instrument have been verified. Finally, the metric in the form of a self-administered questionnaire with 5-point Likert scale was distributed to 300 nurses (response rate 83%), who are basically Nurses, to collect data.

Questionnaire

The questionnaire consists of two parts namely Part I and Part II. The part I contained 9 questions on Demographic factors of users such as Name, age, gender, Marital Status, educational qualifications, experience, department, designation and Annual Income. Part II consists of the conceptual factors such as Recruitment and Selection with 5 questions, Compensation and Reward with 4 questions, Performance Appraisal with 3 questions, Team Work with 2 questions, Training and Development with 2 questions and Organizational Performance with 10 questions. The scaling values are 1- Strongly Agree; 2- Agree; 3- Neutral; 4- Disagree; 5- Strongly Disagree.

Sample Characteristics

Out of 250 respondents, 38 percent of the nurses were between the age group of 21-30 years. 57 percent of the nurses were married. 44 percent of nurses were diploma holders. About 53 percent of nurses were Staff Nurses. 34 percent of Nurses were working in Both Clinical and Technical department. About 72 percent of Nurses were drawing a monthly salary ranging from 10000 to 20000 per month.

IV. Data Analysis

Reliability and Validity

The study has employed ‘Cronbach alpha coefficient’ for assessing the reliability of the scale. According to Nunnally (1978), Cronbach alpha level of 0.60 or above is considered to be acceptable for construct. Also, Convergent validity of all the constructs was examined using the measure of Average Variance Extracted (AVE) that is the average variance shared between a construct and its items (Fornell & Larcker, 1981). Chin et al 1999 & 2003 indicated that a construct with an AVE of over 0.5 is expected to have adequate convergent validity.

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>No. of items</th>
<th>Cronbach’s Alpha value</th>
<th>AVE value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recruitment and selection</td>
<td>5</td>
<td>0.96</td>
<td>0.53</td>
</tr>
<tr>
<td>Compensation and Reward</td>
<td>4</td>
<td>0.85</td>
<td>0.56</td>
</tr>
<tr>
<td>Performance Appraisal</td>
<td>3</td>
<td>0.86</td>
<td>0.65</td>
</tr>
<tr>
<td>Team Work</td>
<td>2</td>
<td>0.73</td>
<td>0.57</td>
</tr>
<tr>
<td>Training and Development</td>
<td>2</td>
<td>0.74</td>
<td>0.53</td>
</tr>
<tr>
<td>Organizational Performance</td>
<td>10</td>
<td>0.82</td>
<td>0.53</td>
</tr>
<tr>
<td>Total Items</td>
<td>26</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 1. presents that all the constructs namely Recruitment and Selection, Compensation and Reward, Performance Appraisal, Team Work, Training and Development, and Organizational Performance exhibit adequate reliability with internal consistency values of 0.96, 0.85, 0.86, 0.73, 0.74, 0.82 respectively which is greater than recommended alpha value of 0.60. Also, The AVE of each of construct was over 0.40 which satisfies the standard values.

Model Validation

In order to test the proposed Hypothesis, this study employed a construct level Correlation analysis as an initial verification. Visual PLS is used to compute the constructs scores. Using these constructs scores as a
base, the study explored the relationship between the variables using SPSS package 21.0. The construct correlation has been presented in the Table 2.

### Table 2. Construct Level Correlation of Model

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Independent variables</th>
<th>Dependent Variables</th>
<th>Pearson’s Correlation</th>
<th>Significance level at 1 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>Recruitment and Selection</td>
<td>Organizational Performance</td>
<td>0.282</td>
<td>0.000</td>
</tr>
<tr>
<td>H2</td>
<td>Compensation and Reward</td>
<td></td>
<td>0.141</td>
<td>0.000</td>
</tr>
<tr>
<td>H3</td>
<td>Performance Appraisal</td>
<td></td>
<td>0.116</td>
<td>0.000</td>
</tr>
<tr>
<td>H4</td>
<td>Team Work</td>
<td></td>
<td>0.135</td>
<td>0.000</td>
</tr>
<tr>
<td>H5</td>
<td>Training and Development</td>
<td></td>
<td>0.311</td>
<td>0.000</td>
</tr>
</tbody>
</table>

The correlation table indicates that there exists a positive relationship between HRM practices and Organizational Performance. Staples et al (1998) indicated that through the bivariate correlation are significant between the construct, it is still required to assess the path coefficient in the structural model as a causal effect. Efron (1979, Efron and Gond, 1983) expressed that in order to ensure that path coefficients are statistically significant, this study has employed a bootstrap and jack knife re-sampling procedures to estimate standard errors for calculating values using visual PLS. The results are examined and the t-statistic value at the 0.05 level is 1.96. If the t-statistic value is greater than 1.96, the path is considered to be significant.

### Figure 2. Structural Equation Results of Model

![Structural Equation Results of Model](image)

### Table 3. Bootstrap Summary of Model and Hypothesis Result

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Entire sample estimate</th>
<th>Mean of sub sample</th>
<th>Standard error</th>
<th>t-Statistic</th>
<th>R square value</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>-0.287</td>
<td>-0.1479</td>
<td>0.0888</td>
<td>-3.2311</td>
<td>0.174</td>
<td>Significant</td>
</tr>
<tr>
<td>H2</td>
<td>0.026</td>
<td>0.1952</td>
<td>0.0971</td>
<td>0.2678</td>
<td></td>
<td>Insignificant</td>
</tr>
<tr>
<td>H3</td>
<td>0.023</td>
<td>0.2798</td>
<td>0.1069</td>
<td>0.2152</td>
<td></td>
<td>Insignificant</td>
</tr>
<tr>
<td>H4</td>
<td>0.045</td>
<td>0.2065</td>
<td>0.0828</td>
<td>0.5435</td>
<td></td>
<td>Insignificant</td>
</tr>
<tr>
<td>H5</td>
<td>-0.3</td>
<td>-0.1541</td>
<td>0.0972</td>
<td>-3.085</td>
<td></td>
<td>Significant</td>
</tr>
</tbody>
</table>
As presented in Fig. 2 and Table 3, the path linking Recruitment and Selection to Organizational Performance was found to be significant at 0.05 level (beta= -0.287, t= -3.2311), indicating Recruitment and Selection has significant effect on Organizational Performance. This provided support for H1.

The path linking Compensation and Reward to Organizational Performance was found to be significant at 0.05 level (beta=0.026, t= 0.2678), indicating Compensation and Reward has no significant effect on Organizational Performance. This provided no support for H2.

The path linking Performance Appraisal to Organizational Performance was found to be significant at 0.05 level (beta=0.023, t= 0.2152), indicating Performance Appraisal has no significant effect on Organizational Performance. This provided no support for H3.

The path linking Team Work to Organizational Performance was found to be significant at 0.05 level (beta=0.045, t= 0.5435), indicating Team Work has no significant effect on Organizational Performance. This provided no support for H4.

The path linking Training and Development to Organizational Performance was found to be significant at 0.05 level (beta= -0.3, t= -3.085), indicating Training and Development has significant effect on Organizational Performance. This provided support for H5.

Collectively, HRM practices explained about 17 percent of the variance in the Organizational Performance of nurses.

V. Discussion

It is theorized that organizational performance are to be predicted by HRM Practices viz., Recruitment and Selection, Compensation and Reward, Performance Appraisal, Team Work and Training and Development.

The overall results of the structural model analysis revealed that Two out of five HRM practices (Recruitment and Selection and Training and Development) acted as significant predictors in organizational performance.

From the analysis, it is revealed that Recruitment and Selection had a significant effect on organizational performance. It implies that the right selection of nurses with adequate qualifications and traits will enable the hospitals in enhancing the performance of hospitals.

From the results, it was determined that Compensation and Reward had no significant effect on organizational performance. It reveals that the compensation and reward policy adopted by hospitals does not encourage the employees i.e. nurses, in enhancing their productivity which leads to the enhancement of organizational performance.

It is further identified that Performance Appraisal had no significant effect on organizational performance. This finding implies that performance appraisal does not serve as motivator and enabler for the hospitals in enhancing nurses’ productivity and performance. So it is recommended that the mechanism of performance appraisal need to be administered properly which will result in better organizational performance.

On other hand, Team work did not have impact on organizational performance. This may be due to absence of strong incentives to individuals who in turn will have to support their team members by way of knowledge sharing on procedures, across all departments. The results also show that the need for collaborative culture is not properly recognized by the nurses.

Training and Development are found to be significant and contribute towards organizational performance in Hospitals. It is evident that training and development provided by hospitals create a platform for nurses to capture and share working knowledge which can used to enhance their individual performance which may result in the enhancement of organisational performance. It is also clear that the training needs of nurses have been fully met by the Hospitals Management.

VI. Conclusion

In conclusion, the purpose of this study is to investigate the relationship between the practices of HRM and organizational performance among nurses in Hospitals. A sample of 255 nurses was drawn from four leading hospitals in a district. A model is developed and tested using structured modelling approach. The empirical findings have revealed that Recruitment and Selection and Training and Development have potential impact on organizational performance. It is concluded that when there are healthy HRM practices in Hospitals, it will result in the development of individual productivity and organizational performance in hospitals.

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DOI: 10.9790/487X-1811013441 www.iosrjournals.org
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