

## Chapter 1 : Introduction

### 1.1. General Background

An organization uses a set of diverse HRM practices, and each HRM practice in a group is related to the other, particularly when they are a part of coordinated systems (Huselid 1995; Meyer and Smith 2000).

The impact of human resource management (HRM) practices on the overall performance of organizations has been a leading theme of research in the past decade in the developed countries and the results have been encouraging, indicating positive association between HR practices and firm performance (Dyer and Reeves 1995; Huselid 1995; Becker and Gerhart 1996; Guest 1997; Cully et al. 1999; Harel and Tzafrir 1999; Appelbaum et al. 2000; Kuldeep Singh 2004).

In this study we have examined the relationship between two HRM practice areas (Performance Appraisal, Training and Development) from a bundle of HR practices and Organizational Commitment and Turnover Intention. The findings of the research have revealed a positive relationship between a bundle of HR practices, which includes practices from two HR areas namely Performance Appraisal, Training and Development and Organizational Commitment. It is also showed that the negative relationship between organizational commitment and turnover intention.

If we look at the history of HRM and its practices, we have to trace back its origin from United States in the 1950s. But in UK, HRM was emerged after mid to late 1980s. During and after the World War II, Americans strived to increase productivity of the workforce. At the other hand they emphasized to link the HRM practices with the organizational commitment and performance. In the initial days all these efforts provided a soft push to the concept of personnel management. Later on the concept of employee/personnel management witnessed further transformation, it was evolved as "personnel administration" and later emerged as "human resources". The original functions of HRM were shaped throughout the world in the 1970s and 1980s.

The core theme of "Human Resource Management" accentuates employees are assets and not the costs. The antecedents and origin of HRM reflects that this function was moving beyond a reactive

planning and consulting approach then altered as proactive planning and consulting approach. Status of HR began to take place, particularly due to the requirement of new competencies to carry out the HR functions effectively.

The HR department's responsibilities have gradually become broader and more strategic since emergence of "Human Resource Department" within the organ gram of the organization charts.

During the early days, the main concerns of personnel departments were hiring and firing, administer the payroll and benefit plans. However, the emergence of technology in the areas like screening, tests / interviews, compensation and performance appraisal, the personnel department started paying special attention to employee selection, training and promotion. However if we look at the common functions of the HR department, it performs acquisition, maintenance, development and termination functions.

Acquisition is the welcoming door of HR department, where organization decides the total human power required and the expected sources of supply. Integrating these two aspects are called HR strategy. This process is treated as most critical because of the recruitment, selection and socialization of new employees in the organization.

Maintenance relates to the retention of the employees. For sustained growth, organizations need to retain employees by providing better pay & perks, working conditions and career path.

Development comprises both training and development, which entails by providing skills, knowledge and attitude. With the introduction of "managing organizational change" development has acquired tremendous attention of HR parishioners.

Termination deals with separating the services of employees, in the form of resignation, retirement, dismissal, layoffs, voluntary separation schemes etc. This concept has been given importance due to privatization policies of last government, which moved plenty of people in to jobless category. People now have closed eyes on new government regarding their policies for the creation of new jobs and what action they take for individuals expelled from jobs on account of privatization.

In nutshell, the HRM covers wide range of functions and within each function there exists sub-functions which are equally important. However, the main concern of Human Resource Department is to provide and retain optimum strength of employees for onward success of the organizations. It's also the main function of the Human Resource Department to keep committed the employees with the organization. HR experts agree on six core functions, as given below:-

- i. Human Resource Planning as per current and future human resource needs.
- ii. Hiring process that is composed of recruitment, selection and socialization.
- iii. Compensation policies for the employees.
- iv. Performance management at each level.
- v. Training and development issues relating to individual, organizational and environmental needs.
- vi. Effective working relationships to foster harmony.

Certainly, all these six functions have equal importance for the organization.

This study is the first step in an attempt to explore the impact of a bundle of HR best practices on Organizational Commitment. It has followed the argument of a large group of researchers (Wright et al, 2003; Huselid, 1995; Becker, 1998; Guest 2002) that HR practice affects Organizational Commitment.

Finding value creation processes generated by HR practices will encourage businesses to use available human resource to the benefit of individual organizations. The positive relationship revealed by this study will also impact well-being of employees by brining improvement is quality of life. Human Resource is the most precious resource through which any business is able to create value and if this resource is strategically deployed it can also be a great source of competitive advantage but only if we are able to retain them through innovative measures adopted in the field of HRM (Becker & Huselid, 1998; Guest, 2002).

The majority of prior HRM studies have focused on the effects of HRM at the organizational level (Arthur 1994; Huselid 1995) rather than at the individual level. At the organizational level, a human resource manager is often asked to fill out a questionnaire that includes questions covering the

whole organization (e.g., techniques with regards to training, performance appraisal, staffing, etc.). However, very few studies considered the perceptions of individual employees regarding the effectiveness of the organization's HRM practices (Boselie and Wiele 2002). The studies that examined effects of HRM at the organizational level have focused on the organization's performances such as sales growth, productivity, and turnover (e.g., Arthur 1994; Huselid 1995), but very few studied the impact of HRM practices on individual employees' attitudes (e.g., organizational commitment) (Edgar and Geare 2005; Ogilvie 1986) and behavioral intentions such as intention to leave (Batt and Valcour 2003; Hemdi and Nasurdin 2006).

The few studies that investigated the impact of employee perceptions of HRM practices on organizational commitment (OC) considered only individual practices, such as training (Bartlett 2001), salary levels (Ritzer and Trice 1969), and performance-reward contingencies (Rhodes and Steers 1981) rather than the effects of HRM practices as a whole system (Agarwala 2003).

An employee's commitment to an organization develops as a result of an exchange relationship (Gouldner 1960; Shore and Tetrick 1991). This exchange relationship has been investigated in the light of social exchange theory (Gouldner 1960; Blau 1964). According to Blau (1964), social exchanges entail unspecified obligations, in which an individual does a favor and there is an expectation of some future return though the time and the form of this occurrence are often unclear. Social exchanges may also involve reciprocity (Blau 1964). Reciprocity has been defined as the norm which obligates the recipient of benefit to repay the donor in some way (Gouldner 1960). Therefore, an employee/employer relationship may be viewed as social exchange. The employer may acknowledge the employee's efforts by offering opportunities and benefits, and in return employees may feel obligated to reciprocate and become more committed to the organization (Tansky and Cohen 2001). Hence, HRM practices and policies have been suggested as factors that can increase OC among employees (Ogilvie 1986; Arthur 1994; Meyer and Smith 2000; Agarwala 2003) and lower the intention to leave (Meyer and Allen 1987; Meyer, Allen and Smith 1993).

Research has repeatedly shown that HRM practices are related to organizational commitment among employees in general (e.g., Allen et al., 2003; Meyer & Smith, 2000; Zacharatos, Hershcovis, Turner, & Barling, 2007). According to Wright and Kehoe (2008), such links are favored by three types of HRM practices: those aimed at improving ability, increasing motivation, or providing opportunity to participate in decision making.

## **1.2 Problem Statement**

Extensive review of the literature reveals critical nature of impact of HRM practices on organizational commitment. Organizational commitment is an individual attitude that reflects one's identification with and involvement in a particular organization (Mowday *et al*,1979).Commitment can also be defined as the relative strength of an individual's identification with and involvement in a particular organization (Mowday, Porter and Steers, 1982, p. 27).

In most of the research it has been established and much evidences suggests that public organizations are not very good at creating environments that facilitate employee commitment (Balfour and Wechsler, 1991). A new interest has emerged in human capital as a source of competitive advantage. To get and retain intellectual assets is a major element of an organization's strategy (Becker & Huselid, 1998). Previously majority of research has demonstrated significant relationship between HR practices and Individual and Organizational Outcomes (Sels, 2006) but could not establish the processes through which HR practices created value for individuals and organizations (Wright et al, 2003).

As Best strategic plans always cater for its human side. A competent, committed and highly involved work force is the one required for best implementation of business strategy (Wood, 1999). To achieve this goal, we should be able to know the mechanism and modus operandi of making available such a work force. While in search of this mechanism Wright et al (2003) have found that there is a positive relationship between a bundle of HR best practices and Organizational

Commitment. We categorized HR practices in two areas of Performance Appraisal, Training and Development.

Earlier Ichniowski et al (1995), while studying 26 steel plants for impact of certain HR practice bundle have found that a system of HR best practices have tremendous effects on worker of the plants. They have however found considerably low effect of individual employment practices. Consistent with the findings of Ichnowiski stated above, Michie and Seehan-Quinn (2001) have found that those HR practices are more likely to succeed which are introduced as a bundle of complementary practices. Research have found that each practice area has its own importance but alignment in all these areas is required to achieve significant improvement in employee commitment, which can be an explanation of the lower effect of individual practice areas on performance of employees (Collins & Porras, 2004).

Visionary companies like 3M, American Express, and Citicorp spend almost 40 hours per annum at average for training of its employees (Collins & Porras, 2004). Through training the organizational culture and employee behavior can be aligned to produce positive results. This will further the process of employee development.

Wright et al (2003) while discussing the impact of HR practices has emphasized that an employee will be motivated to exert discretionary effort if proper performance management system is in place and is augmented by compensation system linked with the performance management system. The employee should be able to see a direct link between his behavior and personal outcomes to perform better. Whereas if employees have an open system to communicate and participate, they will be concerned about the organization and will be pointing out problems and suggesting solution earlier than its identification by management (Wright et al, 2003).

Gautam et al (2005) defined Organizational Commitment as a mindset categorizing employee's commitment to the organization as a whole. Organizational Commitment gives direction to behavior and employees having strong organizational commitment will contribute positively to the organization (Dockel, 2003). Wright et al (2003) have argued that the linking function of

Organizational commitment can be explained by performance theory presented by Campbell (1990) which states that people's actions have an impact on the organizational goals and performance is behavior which can be classified in to three different types of Job behavior i.e. In role or expected behavior, which is the behavior dictated by the company for a particular job or is expected from the employee in accordance with level of skills, norms and rules of a profession. Extra-role is going above the expected behavior, meaning use of discretionary efforts to the benefit of one's organization above the expected level of performance. Dysfunctional or counter-productive (harmful behavior) is one never expected in organizational settings and if adopted will harm the organization. Employees with such behavior are a liability eating up resources, setting off its positive contribution towards organization. Time thefts, internet surfing/chatting during working hours are some examples of such behavior. It is the attitude of the employee which can influence work related behavior and HR practices are a lever of employee attitude (Wright et al, 2003). As explained by performance theory the use of discretionary effort in achieving organizational goals is a reflection of commitment of an employee. This commitment comes through development of a sense of identity and alignment of personal outcomes to organizational outcomes. Investment on employees through HR practices helps achieve this goal (Guest, 2002).

From the above discussion it is clear that HR practices are positively related to Organizational Commitment, thus a theoretical framework is constructed to show the flow of the effects of HR practices on Organizational Commitment. To apply the model universally, further research is required in developing nations, which apart from generalizing the model may also help us gain insight into the cultural difference between developing and the developed economies.

However, in Malaysia, the research in this field is very limited. Furthermore, the findings from the Western context may not be generalized to the Malaysian context. Subsequently, there are possibilities that the findings of Western researchers such as Kuvaas (2006) may bear significance in the Malaysian environment. As stated by Vance et al., (1992), there is a significant difference in

management style between US and the Pacific Rim countries. Bearing this in mind, this study intends to explore these important relationships, within the Malaysian context.

In light of the insufficient findings in this area, there are two purposes of the present research: (1) to explore the relationships between HRM practices namely Performance Appraisal, Training and Development and Organizational Commitment in Malaysia; and, (2) to explore the relationships between Organizational Commitment and Turnover Intention in Malaysia.

There is a growing consensus among practitioners and academics that organizational HRM practices must ultimately contribute to the firm's financial performance. Agarwala (2003) states that as research focusing on the firm-level impact of HRM practices has emerged in recent years, several problems with this type of research have been identified. Theoretical evidence on the relationship between HRM practices and organizational effectiveness indicates that HRM practices influence employees' commitment level and other HR performance measures, which in turn influence organizational effectiveness (Yeung and Berman 1997; Agarwala 2003).

Therefore, scholars have called for an investigation of the missing link (mechanism) (employee attitudes, behaviors, and perceptions) between a firm's HR system and the firm's financial performance (Agarwala 2003).

This study may provide incremental knowledge about those HRM practices or systems that have a greater impact on a firm's performance (lower turnover) than others, as not all HR practices boost value and not all HR practices may be as equally effective in increasing the commitment level and lowering turnover intentions (Warech and Tracey 2004). Therefore, findings of this study may distinguish between those HR practices, which may assist in lowering the turnover intentions, from those that are simply neutral or worse, which may increase turnover intentions (Warech and Tracey 2004).

HRM practices are distinguished on the basis of inducements offered by an employer to an employee. Such inducements and investments in employees increase employees' expected outcomes and make a job more attractive (Shaw, Delery, Jenkins and Gupta 1998).



### **1.3 Research Questions**

- a) Is there a significant relationship between Performance Appraisal and Organizational Commitment?
- b) Is there a significant relationship between Training & Development and Organizational Commitment?
- c) Is there a significant relationship between Organizational Commitment and Turnover Intentions?

### **1.4 Objectives of the Research**

The objectives of this research are:

- a) To determine the relationship between HRM practices namely Performance Appraisal, Training and Development and Organizational Commitment in Malaysia
- b) To determine the relationship between Organizational Commitment and Turnover Intentions

### **1.5 Significance of the Research**

As far Malaysia is concerned, there has been limited, or fewer studies on issues related to the effect of HRM practices namely Performance Appraisal, Training and Development, Organizational Commitment and Turnover Intentions. The results and findings from this research would generate new conclusion to enrich the existing literatures on HRM practices namely Performance Appraisal, Training and Development, Organizational Commitment and Turnover Intentions in Malaysia.

The intention of this research is to help organizations in Malaysia to evaluate their existing HRM practices namely Performance Appraisal, Training and Development, by enhancing Organizational Commitment, while reducing employee Turnover Intentions.

## **1.6 Limitations of the Study**

Although the present study provides useful insights into the outcomes of HRM practices namely Performance Appraisal, Training and Development, the contributions should be viewed in light of several limitations.

First, it is limited by the sample used, which provides a group of employees, mainly from the Klang Valley. Such a sample profile has its benefits but also limits the generalizability of the findings.

Second, this study was conducted across a large number of organizations, making it impossible to control for the actual content of the HRM practices namely Performance Appraisal, Training and Development used in the organizations. Therefore, the measure used in the study may not represent all aspects of HRM practices namely Performance Appraisal, Training and Development. For example, informal coaching was not discussed, yet coaching is a form of employee control and appraisal (Pettijohn et al., 2000, 2001).

Third, the data reported in this study were gathered at one point in time, making it impossible to draw inferences of causality or rule out the possibility of reverse causality.

Fourth, the variables were assessed based on employees' self-reports, which potentially can introduce distortion through self-serving bias. Future research is needed that assesses influence tactics from independent sources such as peers. Since the findings are based on self-report measures, it means that common method variance may be a problem (Podsakoff & Organ, 1986).

There has not been much of a research done in Malaysia, specifically in the area of HRM practices namely Performance Appraisal, Training and Development and to find the relationship with the Organizational Commitment.

Therefore, the research was developed based on prior researches which were conducted elsewhere which could not represent the Malaysian context appropriately.

This is probably due to the style in management and the Malaysian culture which could have an effect on the implementation of the HRM practices namely Performance Appraisal, Training and Development in Malaysia (Vance et. al, 1992).

This research was carried out particularly in the area of HRM practices namely Performance Appraisal, Training and Development and how it could lead to employees' organizational commitment and turnover intention. There are previous literatures which suggest that performance appraisal satisfaction may have influence on job satisfaction (Boles, Madupalli, Rutherford & Wood, 2007; Lambert, 1991), job involvement (Lambert, 1991) and absenteeism (Albion, Fogarty, Machin & Patrick, 2008; Cohen & Golan, 2007).

## 1.7 Research Structure

The research structure comprises with five chapters as per Figure 1.1 :



