

ENHANCING HR OUTCOMES THROUGH BEST HR PRACTICES AND ORGANISATIONAL COMMITMENT: A CONCEPTUAL SCHEMA FOR SMEs

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ABSTRACT

The aim of this paper is to study the in-depth context of HR outcomes and organizational commitment linked with best HR practices and proposed a framework of HR practices to elucidate its influence on OC and HRO in small and medium-sized enterprises. A comprehensive review of current literature is used to develop the ground for this paper. Six HR practices are selected to examine its impact on OC and HRO. Based upon number of different empirical approaches the conceptual framework and propositions are developed to test the relationships between HR practices, and OC and HRO in SME. These findings provide a basis for developing a model to advance the HRP, OC and HRO in SME. The proposed conceptual framework should be test empirically across the SME sectors in different businesses and industries and results from different geographical and cultural settings may also be explore. This study could be of practical value for SMEs owner/ managers, who want to maximize the OC and HRO through effective implementation of HR practices that support their organization. This paper makes a significant contribution by developing a conceptual framework to maximize the OC and HRO through HRP in SMEs.

Keywords: *HR practices; Organizational commitment; HR outcomes; Conceptual model; SME*

Introduction:

In current epoch organizations are persistently facing the innovative challenges to substantiate their position in the business world. They are supposed to respond swiftly to technological changes, global competition, deregulation, and rapid demographic changes. The unrestrained business environment limits the option for business processes efficiencies, and on the counterpart, retention, competencies and commitment of employee is become one of the emerging challenges facing by many business organizations. This issue become more crucial in small and medium enterprises (SME). Many studies found that retention, competencies and commitment of employees, are recognize as a vital for the achievement of

organizational goals (Chew and Chan, 2008; Falkenburg and Schyns 2007; Zheng et al., 2006; Osman et al., 2011). Essentially more organizations are now realizing the significance of employees and consider it as a strategic issue, hence, adaptation of effective HR practices program may provide an edge for organizational sustainability and regarded as a competitive advantage in the business. This study is intended to develop some propositions to examine theoretical impact of HR practices on organisational commitment and HR outcomes in small and medium scale firms. Based upon the critical review of relevant literature this study proposed a conceptual framework for the development of the research model.

Conceptualization of Literature and Propositions Development:

Past literature has found that, successful organisations share a fundamental philosophy of valuing and investing in their employees (Anand, 1997; Maguire, 1995). In fact several research studies have described human resource management as a means of achieving competitive advantage (Delery, 1998; Huselid, 1995; Pfeffer, 1994; Walker, 2001). Literature on human resource had identified that there are three major philosophies on human resource practices on which the existence structure is build, the universalistic approach, contingency approach and configurational approach. The universalistic approach argued that execution of identifiable set of best practices could lead to organizational improvements (Kochan and Osterman, 1994; Pfeffer, 1994). The contingency approach attempt to contextualize the various HRM practices to different organizational setting and strategies (Arthur, 1994; Youndt et al., 1996). The configurational viewpoint claims that a good fit between various HRM practices and organizational strategy would improve the HRM-firm performance relationship (Becker and Gerhart, 1996). However, regardless of these different ideologies, there are a number of common HRM practices that are overlapping in the three approaches in improving organizational commitment (Chew and Chan, 2008) and HR outcomes (Zheng et al., 2009).

Consistent with this perspective, it is very important for any organization to be able to measure its HR outcomes and to evaluate their HR practices. Retention of employees (Chew, 2004) along with employee competency and employee congruence are equally important issues for organisations (Zheng et al., 2009) and are considered as the result of best HR practices (Tharenou et al., 2007; Kok and Hartog, 2006; Zheng et al., 2006). Essentially, in a current epoch organisations are now realising that employee retention is the strategic issue and represents a competitive advantage (Walker, 2001; Youndt et al., 1996). Moreover HR outcomes indicators include retention/turnover, competency, commitment and congruence (Beer et al., 1984). The examination of HR outcomes also has a strategic value and its periodical evaluation provides a competitive advantage to owner/manager as a whole subsequently this evaluation may affect the organizational success factors (Zheng, 1999; 2001; Zheng et al., 2006; 2009; Tharenou et al., 2007; Kok and Hartog, 2006).

The changes in the organisational structure, increasing demand in employee competency and decline in job security -due to the dynamic environment- have changed the psychological contract between employer and employee (Holm and Hovland, 1999). The bounding between employer and employee on the bases of loyalty has changed due to the competing response toward the individual gain. Nowadays employers emphasise "employability" rather than long-term loyalty in a specific job (Cappelli, 1999; Ko, 2003).

Human Resource Practices and Human Resource Outcomes:

Many researchers are agreed that human resource of the firm is potentially one of the significant sources of sustainable competitive advantage for organizations hence HRM affect firm performance by improving employee behaviour (Kok and Hartog, 2006; Zheng et al., 2009; Pardo and Moreno, 2009; Becker and Gerhart, 1996; Delery and Doty, 1996; Ferris et al., 1999; Huselid, 1995; Pfeffer, 1994). Unfortunately, most empirical studies ignored the causal relationship of HRM chain (Kok and Hartog, 2006) i.e. the link between HR practices and HR outcomes.

The HR policies and practices reflect the relationship between management and employees. These practices include recruitment and selection, training and development, performance management, job design, compensation, and career planning (Pardo and Moreno, 2009; Zheng et al., 2009; 2006; Chew and Chan, 2008; Kok and Hartog, 2006; Oakland and Oakland, 2001; Delery and Doty, 1996; Jackson and Schuler 1995; Schuler, 1997; Guest, 1997; 1987; Devanna et al., 1984).

Those HR practices help firms to improve the HR outcome, which is the ultimate goal of HR practices in each firm. It includes staff commitment, competency and flexibility (Zheng et al., 2006), which in turn leads to improved staff performance (Koch and McGrath, 1996). Numbers of HRM models have been developed in general. This study shows the well-known HR models of Beer et al. (1984), Guest (1987) and Guest (1997) which depict the link between HR practices and HR outcomes and indicates the relatedness between these two. These models depicting the causal relationship between HR practices and HR outcomes and address the key ideas about HR and effectively offer a comprehensive map of the field. Furthermore, these models classify HR practices and HR outcomes, and indicate the relatedness between HR practices and HR outcomes (Zheng, 2006). However some other HR models like Devanna et al. (1984), Schuler and Huber (1993) and Schuler (1997) have mentioned HR practices variables and organizational performance indicators but have not report specific HR outcome indicators.

Though the HR practices mentioned in these models are common however despite commonalities these models do not provide a consistent and unified list of HRM practices for empirical testing. Few of the main reasons of this inconsistency are the differences in the demographic, cultural and sectoral factors which may influence the adaptation of HR practices. It is obvious that HR practices may vary from sector to sector, industry to industry and region to region.

Theoretical Models of HRM and its Outcomes:

The link of HR practices and HR outcomes was first identified by Beer et al. (1984) in which he specifically identified four HR outcomes which include commitment, competence, congruence and cost effectiveness (in terms of retention of employees) influenced by four HR practices which includes employee influence, HRM flow, reward systems and work system. Further with the discussion

“employee’s influence” is considered as the delegated level of authority, responsibility and power. “HRM flow” is the process of practicing recruitment & selection, placement, promotion, appraisal and assessment and termination functions. “Reward system” refers to the compensation and motivation of employees. Lastly, the “work system” defines as the design of job/task and alignment of people.

This framework specifically determines the effect of HRM and concluded that best HR practices would increase the employees’ commitment and competence, sustain employees’ congruence and decrease the cost in term of decreasing the turnover intention of employees. Beer et al. (1984) proposed HR outcomes may not represented all the criteria linked with HR practices however the effectiveness of human resource practices considers these outcomes as ‘reasonably comprehensive’ which mapped the important determinants and effects of HR practices and HR outcomes. Moreover, Beer et al. (1984) suggested that addition and subtraction of HR factors depends upon organizational environment. This includes the geographic location, sector, industry, firm size, technology and ownership of the organization. Despite the organizational environment differences researches validate the contention that appropriate HR policies would result in favourable HR outcomes (Zheng et al., 2006).

Armstrong (2003) considered that this framework is based upon believe and philosophy of managers’ of the firm that how they link the employees involvement and enterprise development and what HRM practices and policies could accomplish these objectives. Beer et al. (1984) also stressed upon the line managers role. According to their point of view line managers should accept more responsibility for ensuring the alignment and competitive strategy and personal policy and have the mission of setting policies that manage personal activities which are developed mutually (Agbodjah et al., 2010).

Likewise, Guest (1987) also identifies the effect of human resource practices on HR outcomes. In his model he identified a set of policies and practices that would lead to HR outcomes. In his view, balanced use of HRM policies was the only means to achieve HR outcomes which includes integration, employee commitment, flexibility/adaptability and quality. Similarly Guest (1997) come up with an integrated model hypothesizing that if an integrated set of HRM practices is applied in a coherent manner, the goals of high commitment, high quality and task flexibility will be achieved and superior individual behavioural outcomes will result. This hypothesis was proved correct (Zheng, 2006) and illustrated that HR practices have a direct effect on behaviours of workers in terms of increase in employee commitment, quality of work and flexibility. In this model, HR practices are more effectively map and classified in HRM inputs and outcomes, moreover this model clarifying the relationship between practices and outcomes in a more comprehensive manner (Zheng et al., 2006). However the criticism on Guest (1987) model, that several of the performance

indicators can be seen to be HRM outcome variables, can also be said of this model (Zheng et al., 2006).

Other researches also analyse the relationship between HRM practices and its outcomes and found a direct relationship between them. Literature reports that various studies examined the positive influence of HR on employees’ commitment (Chew and Chan, 2008; Chew, 2009; Zheng et al., 2006; Hoque, 1999; Bae and Lawler, 2000), employees’ retention (Fey et al., 2000; Ordiz, 2000; Gelade and Ivery, 2003; Zheng et al., 2009; Chew and Girardi, 2008; Chew et al., 2005; Chew and Entrekin, 2004), employees’ competence (Zheng et al., 2006; 2009; Paul and Anantharaman, 2003; Katou and Budhwar, 2006; Tharenou et al., 2007; Ostroff and Bowen, 2000; Arthur et al., 2003; Wright and McMahan, 1992; Dyer and Reeves, 1995) and employees congruence (Zheng et al., 2006; 2009; Ostroff and Bowen, 2000; Fey et al., 2000).

Empirical Studies on HRM and its Outcomes:

The linked between HR practices and HR outcomes was also examined empirically. There are numbers of empirical studies that have been conducted in this area. Further these studies also added firm performance in the model and measured the effect of HR practice on HR outcomes and firm performance. Some well-known and widely accepted studies include Arthur (1994), Huselid (1995), Youndt et al. (1996). The sample of these studies was the American firms. Many studies on the same topic have also been conducted in Asia and Asia Pacific as well which include Ngo et al. (1998), who explore the relationship among HR practices, HR outcomes and firm performance in Hong Kong. Chang and Chen (2002) also examined the influence of a range of HRM practices on firm performance in Taiwan. All these studies validate that the adoption of HRM practices enhances HR outcomes and organizational performance. A latest and very interesting study by Zheng et al. (2006) has also explored the relationship and effect of HR practices on HR outcomes and firm performance. The uniqueness of this research is the sample of study which is SMEs in China. The findings of this study revealed that the adoption of appropriate HR practices generates better HR outcomes. However, not all HRM practices led to improved HR outcomes in SMEs. This study identified employee commitment as the key HR outcome.

All these empirical studies measured the impact of HR practices as a ‘bundle’. The ‘bundle’ approach is, within a holistic HRM system, the factors that most contribute to performance can be identified, and the interaction between different HRM practices can be observed (MacDuffie, 1995; Snell et al., 1996; Youndt et al., 1996).

Consistent with the discussion, it is concluded that employee retention/turnover is the most common HR outcomes as identified by almost all researchers. Studies suggest that high-involvement work practices will enhance employee retention (Huselid, 1995; Chew and Chan, 2008) which is considered as one of the important HR outcome. Chew and Chan (2008) argue that organizations are striving to create a positive organizational climate in an attempt to retain valuable employees through various

human resource management (HRM) initiatives. Further, Robbins and Coulter (2008), Neo et al. (2010), Stone (2011) and Dessler et al. (2007) considered employees retention as the outcome of HR practices in organization. Studies on HR practices and employee retention stated that both are highly correlated with each other (Khan et al., 2011a; Mudor and Tooksoon, 2011; Nelson and McCann, 2010) as effective HR practices affect retention by shaping employee behavior and attitude (Ostroff and Bowen, 2000) hence in return the turnover intention of employee will be minimized (Davies, 2001; Walker, 2001) and employee retention will be maximized. As Khan et al (2011a) collected the responses of 400 employees of public and private banks of Pakistan and reported high, positive and significant effects of HR practices on employee retention. Likewise, Mudor and Tooksoon (2011) also posited that HR practice positively and significantly correlated with job satisfaction and hence are strong predictors of employee retention. Therefore, we make the following proposition:

P1. The greater emphasis on best HR practices will lead to maximize the HR outcomes among SMEs.

Human Resource Management and Organizational Commitment:

The commitment of employees with organization is of significant value. Management, HR department and manager are always involved to build and practice effective HR policies which in turn increase the organizational commitment among employees. Organizational commitment is considered as the most important construct of employee attachment (Sommer et al., 1996). Organizational commitment has a strong connection with employee behaviour and performance (Benkhoff, 1997). Indeed organizational commitment considered as a critical success factor. The focus on employee by an organization is demonstrated by the monetary and non-monetary benefits they receive (Williams, 1999) and the service that is devoted to them (Payne, 2000). Apparently if employee believes that organization is less committed to them then they may respond by feeling less committed to the organization (Chew, 2004).

The organizational commitment has been assumed connected with human resource practices (Sanders et al., 2008; Savaneviciene and Stankeviciute 2011; Shahnawaz and Juyal, 2006; Ashraf and Joarder 2010; Yew, 2007; Chew and Chan, 2008) and HR outcomes (Wright and Kehoe, 2007; Chew, 2004; Conway, 2004; Zheng et al., 2006; Beem, 2007; Gollan, 2005). Over the years, organizational commitment emerged as the most recognized and investigated construct of employee attachment to organization (Chew, 2004).

Human resource practices determine the extent of organizational commitment which always needs to fulfil the objectives of the firm. Hollway (1991) pointed out the impact of HRM which leads to shift in labour management practice from coercion to the attempted production of self-

regulated individuals. Organizational commitment has considered as the most important construct of employee attachment (Sommer et al., 1996). Previous studies on best practices in HRM (Barney and Wright, 1998) validate the contention that an effective mix of HR practices could improve organizational commitment and intention to stay (Chew and Chan, 2008).

Tsui et al. (1997) studied about the employee attitudes and found that employee commitment is directly associated with the interaction of human resource practices and perceptions. Dyer and Reeves (1995) revealed four levels of HRM effectively worked on the level of employee, organizational, financial, and market. He further elaborated that HRM practices build the positive behaviors like, satisfaction and commitment as well as negative ones like absenteeism and turnover. Organizational outcomes focus primarily on operational performance measures such as quality, productivity, and customer satisfaction. HRM assign central importance to commitment to the objectives of the organization (Walton, 1985). Parker et al. (2003) proposed that employee attitude could be directed by the human resource management which in turn enhance the organization commitment level. Human resources management practices within the organization are one of the organizational factors that have been associated with organizational commitment (Meyer and Allen, 1997). Storey and Sisson (1993) proposed HRM as one of the defining characteristics which administrated organisational culture to achieve employee commitment.

However, HRM policies and practices in SMEs are different from the large scale organization and would differently affect organizational commitment. Studies on HR practices and organizational commitment state that both are highly correlated with each other (Shahnawaz and Juyal, 2006; Chew and Chan, 2008; Nasurdin et al, 2008; Yew, 2007; Savaneviciene and Stankeviciute, 2011; Finegan, 2000; Paré et al., 2001; Wright and Kehoe, 2007; Prabhakar and Ram, 2011). Thus, the following proposition is proposed:

P2. The greater emphasis on best HR practices will lead to improve the organizational commitment among SMEs.

Organizational Commitment and HR Outcomes:

Commitment to an organization involves willingness to exert effort in support of that organization, group, or person (Wright and Kehoe, 2007) which leads to get positive results in overall organizational success (Wright et al., 2002) as well as in HR outcomes (Chew and Chan, 2008). Chew (2004) indicated that organization commitment of an employee suggestive by human resource outcomes as employee attitudes and behaviours (including performance) reflect their perceptions and expectations, reciprocating the treatment that they receive from the organisation. This claim proved in the study by Arthur (1994) that organisational level also suggests that human resource practices affect organisational outcomes by shaping employee behaviours and attitudes.

Retention supposed to be one of the important determinants of HR practices outcome. Organizations that are competing at par have high retention rate (Ashraf and Joarder, 2010; Falkenburg and Schyns 2007). Organization commitment has directly linked with retention as Meyer and Allen (1997) reported a positive relationship between affective commitment and employee retention. Mowday et al. (1979) posited that matching of values and beliefs, between the committed employee and organisation, exert honest and committed effort for organization and increase desire to stay with the organisation. Conway (2004) and Zheng et al. (2006) also illustrated the association of retention to organization commitment.

High rate of turnover in any organization leads to believe that the employees are not satisfy with at least one practice/object of HR. Turnover can be control by employed the strategies which can enhance the organizational commitment of an employee. Martin (1989) defines the causal relation, between commitment and turnover, which leads to lowering the turnover intention. Beem (2007) created the link between the direct participation and organizational commitment to prevent high levels of turnover. Same findings shared by Gollan (2005), Guest (1987) and Zheng et al. (2006) as they showed that higher staff commitment may in turn lead to lower levels of staff turnover.

Organizations usually perform as their employees behave to their respective job descriptions and duties. If the employees are highly productive in their work the organization exertion must also link positively to it. Beem (2007) and Zheng et al. (2006) studies revealed the relationship of organization commitment and congruence by the employee competency. Meyer and Allen (1997) proposed that employees who have executed the high level of commitment to the organization are more effective and competitive than the other employees. In other study the conclusion refers to organizational productivity and individual performance will improve as a result of congruity between an individual's and the organization's values, beliefs and goals (Schneider et al., 1995).

Competency of an employee is the main factor which provides the competitive edge to the organization. Organization commitment uplifts the competency of an employee as it works as a motivator for him/ her to use best skill(s) to cease the task. Organizational commitment directly leads the employee to participate more through suggestions relating to the service; to be more effective in their delivery of the service and to promote the firm to third parties. Wiener (1982) following the organizational commitment characteristics as it indicates a personal preoccupation such as devoting a great deal of personal time to organization-related actions and thoughts with the organization. Peccei and Rosenthal (1998) verified the relationship between an individual's commitment and competency of an employee that individual's take on to his/ her continuous improvement on the job for the benefit of customers and exert effort on the job on behalf of customers, Zheng et al. (2006) also stated that the

employee competency is associated with organizational commitment.

Becker et al. (1997) showed the three HR outcomes (retention/turnover, congruence and competency) as the results of employee skills, motivation, and work design, and these outcomes linked with operational and eventually through financial market outcomes. Parker et al. (2003) study also showed the glimpses of relationship between individual climate perceptions and work outcomes such as employee attitudes, psychological wellbeing, motivation and performance with retention/turnover, congruence and competency. And it is proposed that:

P3. The greater emphasis on organizational commitment will lead to improve the HR outcomes among SMEs.

Conceptualization of Framework:

Based on the above literature review, aligned with research objectives, a conceptual framework is developed to examine the effect of HR practices on organizational commitment and HR outcomes. The conceptual framework embraces three major variables, which are used to develop the basic model of relationship among HR practices, organizational commitment, and HR outcomes. The link between HR practices and organizational commitment and the HR outcomes are illustrated in Figure 1.

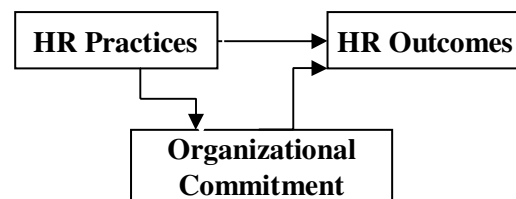


Figure 1: Proposed Conceptual Framework

Conceptually the HR practices construct characterised by six factors (i) staffing, (ii) job design, (iii) training and development, (iv) performance appraisal, (v) compensation, and (vi) career planning. Previous studies has indicated that HR practices is linked with organizational commitment (Chew and Chan, 2008; Wright and Kehoe, 2007; Nasurdin et al., 2008; Prabhakar and Ram, 2011; Sanders et al., 2008) and HR outcomes (Zheng et al., 2006, Osman et al., 2011; Pardo and Moreno 2009, Huselid, 1995; Youndt et al., 1996; Ngo et al., 1998).

Chew and Chan (2008) and Sanders et al. (2008) comprehensively reported a positive relationship between HR practices and organizational commitment. Likewise, Zheng (2006) and Osman et al. (2011) found a strong relationship between HR practices and HR outcomes. Thus the model embedded that HR practices affect the level of organizational commitment and HR outcomes directly. Moreover organisational commitment moderates the effect of HR practices on HR outcomes.

Managerial implications:

In current business milieu, best HR practices can enable SMEs to gain competitive advantages in the industry. SMEs

are initiating to implement HR practices for long term benefits. This research is practically contribute in a way that SMEs, who are initializing the implementation of best HR practices, will be able to maximize the organizational commitment and HR outcomes and can examine the impact of HR practices on OC and HRO. Although many SMEs have practiced HR activities, however, a need to develop an altered model is required, specifically for SME. Further empirically it should also be tested that what HR practice(s) can contribute most towards OC and HRO.

Academic implications:

Given the significance of HR outcomes in organizations, many researches have increasingly focused on the best ways for improving it. Although past studies have attempted to study the relationships between theories from HRP and OC and HRO, there is still a lack of study in the relationship of HRP with OC and HRO. This study proposed OC as a new element in the model which includes practices from HRP to examine if these practices will result in improved HR outcomes.

Conclusion:

HR outcomes positioned as an important challenge faced by the owner/manager of SME. Research studies showed the link among HR practices and organizational commitment (Chew and Chan, 2008; Wright and Kehoe, 2007; Sanders et al., 2008) and HR outcomes (Zheng et al., 2006; Osman et al., 2011; Pardo and Moreno 2009, Huselid, 1995) in terms of retention (Meyer and Alan, 1991; 1997), competency (Beer, 1984) and satisfaction (Purcell et al., 2003). Previous studies found that best HR practices may increase the OC of an employee which in turn maximize HR outcomes (Meyer and Allan, 1997; Huselid, 1995, Youndt et al., 1996). However, HR practices may also directly increase HR outcomes (Beer et al., 1984; Guest, 1997). However, empirical evidence is still required to prove this contention statistically, in the context of SMEs. Literature suggests that the HR outcomes can be measure by determining the retention rate of employee (Guest; 1997), increase in competencies (Beer et al., 1984) and satisfaction (Purcell et al., 2003) among the workforce and performance of employees. However it is not that simple, the evaluation of HR practices and its role is become more complex in context of SME. The SME have fewer budgets for their HR department which is not enabling them to be autonomous. A customize HR practice bundle may bring best out of limited resources, and may substitute the scarcity of financial funds.

In the management of best HR practices the literature has not yet come up with a specific mechanism through which HR practices can bring desired outcomes. This brief literature review tries to explore all those HR concepts that seem to be strongly influenced in small and medium sized organizations to increase the HR outcomes. Moreover, this relationship combined with OC can also contribute in getting the SME a competitive advantage in the industry.

This combination is become more essential in an era of high dynamics and rapid change. To portray a workable picture, a conceptual framework has been proposed which reviewed the existing theoretical knowledge, efforts to explore the relationship among the concepts under consideration, and finally has the objective to contribute an alternative way out for success for the SMEs through customize HR practices which influence the commitment and outcomes in terms of employees. Perhaps the HR system as presented in this paper is clear along with some important variables that may influence owner/manager mind-set.

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