HUMAN RESOURCE MANAGEMENT PRACTICES AS ANTECEDENT OF ORGANIZATIONAL PERFORMANCE: A SYSTEM DYNAMICS APPROACH

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ABSTRACT
The purpose of this paper is to explore, based on the General Systems Theory, the importance of Human Resource Management (HRM) practices and their impacts on employee as well as organizational performance in developing countries context. Substantial developments have been seen in the human resource related areas of the organizations of the developed world but the scenario is still not very encouraging in developing counties like Pakistan. Organizations in developing countries are still following the traditional HR models that emphasize on managing the routine office activities. However, the current need is to develop a capable HR system to highlight the area where the particular HRM practices are proved to be useful to attain the targeted organizational performance. For this purpose System Dynamics approach was used to demonstrate the linkages between HRM practices and organizational performance in causal loop form in order to analyze the effect of different HRM practices on organizational performance. Through the causal loops results obtained, suggestions have been developed to enhance the efficiency and effectiveness of HRM practices for the improvement of organizational performance.

Keywords: HRM Practices, Employee Performance, Organizational Performance, System Dynamics
INTRODUCTION

Human Resource Management (HRM) is a planned approach to execute the functions of an organization through effective management of people (Truss, 2001). From the perspective of an organization, HRM is responsible for providing the right people for the right time at right places to achieve the organizational objectives with the utmost quality (Zellars & Fiorito, 1999). HRM is very important organ of every organization whether it’s public, private, profit or non-profit because it manages the most important asset of an organization. It provides a healthy environment for employees where their capabilities are effectively utilized and their abilities developed to meet the challenges of their jobs (Rose & Kumar, 2006). An organization cannot promote team work among employees to work in groups or teams in order to achieve the organizational goals without having sound HRM practices in the organization. Organizations that have sound HRM practices are more likely to compete in the market. They often accomplish the desired results by offering growth opportunities to their employees with potential to rise. Furthermore, HRM provides employees opportunities for developing their skills, abilities and knowledge eventually enhancing the creativity of the employees (Wang, 2008).

The HRM practices play an important role in enhancing the organizational performance. The use of high performance work practices, including the employee recruitment, selection, incentives, rewards, performance appraisal, employee engagement and providing training and development to the employees, can improve the skills, abilities and knowledge of the organizations (Ghanam & Cox, 2007). The improvement in the skills and knowledge of competent employees tends to increase their level of satisfaction, motivation, commitment with the organization and can lead to low turnover and can enhance the retention of the competent and potential employees.

Organizations are constantly looking for the systems and processes that can help them to cope with the dynamics of the business environment through building a linkage between organizational system and its performance (Sterman, 2001). The activities of HRM practices are the interlocking processes of the system. In order to improve the organizational performance, the high quality of the understanding of the applications to run these processes is required (Hafeez & Abdelmeguid, 2003). Most of the organizations want to predict the future human resource level of their organizations with the intention to forecast the hiring, training and rewarding needs for
improving the organizational performance. For this purpose a good understanding of the dynamics of HRM practices and organizational performance is required.

In developing countries like Pakistan, HRM is still erroneously considered as the administrative function that is liable for handling the minor and routine tasks in the organizations (Khalid, Ilyas & Rehman, 2014). The use of outdated and ineffective HRM practices hampers and slows down the individual as well as organizational performance (Rynes, Brown, & Colbert 2002). The current scenario is different, because getting the best outcome with the least input is the concern of every organization. This objective can only be achieved by developing a capable HRM system that helps identify the areas in which specific HRM practices are evidenced to be effective to raise the organizational performance (Sterman, 2001). For this purpose, the system dynamics approach is used to develop the best combinations of HRM practices with organizational performance.

**HRM Practices**

Human Resource Management is the necessary function of any organization in order to make people and the organizations grow. HRM has evolved and its beginning starts around the end of the 19th century (Becker, 1996). At that time HRM was viewed as the “Personnel,” to defend the women and the industrial environments; it then gradually changed into the other functions including employee hiring, firing, attendance, and compensation.

Human Resource Management is a process of managing people in the organization. Organizations depend on the people in order to operate in a market for the accomplishment of organizational goals, tasks and objectives (Arthur, 1994). An organization is nothing without having the competent people in the organization and if the people are removed from the organization or they are inefficient, the organizations are just like a pile raw material or machines (Rose & Kumar, 2006). Organizations consists of different resources like financial, physical and human, HRM practices provide solutions to the issues concerning recruitment, selection, defining job descriptions, communicating duties and responsibilities, employees needs and performance analysis (Wang, 2008).

As the organizations are made up of the people so in order to achieve their goals, organizations need to effectively recruit, select, and train their employees (Farooq & Hameed,
Organizations need to achieve the best possible output by developing employees’ skills, knowledge and abilities. Organizations can motivate employees by providing them health and safety benefits, incentives and rewards which makes them more committed towards the organization (Joseph & Dai, 2009). Performance of the organizations depends a lot on the performance of the employees. If employees are satisfied and motivated they certainly perform well, ultimately enhancing the performance of the organization. It is, therefore, important that success or failure of the organizations depends on the employees of the organizations despite the type of the organization whether it is private or public, education or health, SMEs or not for profit organization (Arthur, 1994).

Huselid (1995) stated that HRM practices play an important role in enhancing the organizational performance. He pointed that HRM practices can improve the skills and attitudes of employees by making them more competent and capable hence improve the profitability of the organizations. In today’s challenging environment, HRM practices become very important for attaining competitive advantage among organizations. In order to achieve the organizational objectives, organizations are working on to retain the employees by satisfying them with providing the necessary benefits. To retain the employees and motivate them to perform well, organizations design an HRM system to align it with the HR practices in order to achieve the best possible results (Tan & Nasurdin, 2011; Rynes, Brown & Colbert, 2002). Moreover, the employee commitment is very important, because if the employees are committed with their work, they will be more psychologically attached with the organizations. The psychological attachment is basically employee loyalty which leads to reduce employee turnover and is considered the most important element to retain employees in the organization for long time.

Pfeffer (1994) stated that HRM practices are essential factors in order to sustain competitive advantage in the organizations. He discussed that the tangibles in the organizations are easily replaced or imitated by other organizations like furniture, technology, machinery and equipment etc. However the most essential asset of the organizations are the people that are not easily imitable by other organizations. Organizations can keep this reserve sustained and make them more efficient to work in a better way by listening their grievances and solving their issues and conflicts with the proper implementation of HRM practices. Research suggested that the organizations in which the employees possess necessary set of skills, knowledge and abilities to
perform their jobs with the effective integration of HRM practices, showed a positive relation between the HRM Practices and organizational performance (Bowen & Ostroff, 2004).

There is a need that people of the developing countries should correct their misperceptions or misunderstandings about the proper implementation of HRM in the organizations. It is true that an effort is required for the proper implementation of HRM practices in the organizations in the early and the developmental stage. However, at the later stage, HRM provides many benefits for the employees and for the organization as well (Ogedegbe, 2014). HRM practices prove to be a blessing to organizations of developing countries with the effective recruitment, selection, training and reward system. They place the right person at the right time for the right job, provide a suitable employee with required learning and training skills. Organizations can enhance their performance by developing the existing skills and abilities of these employees according to the requirement of their job (Wang, 2008).

HRM develops strategies and plans and creates an environment for employees in which they feel a sense of belonging with the organization. Their level of satisfaction and motivation increases by having effective HRM practices in the organization (Farooq & Hameed, 2011). In this regard, HRM practices are considered as blessing for any organization because if employees are satisfied and motivated, their level of involvement with the organization increases. Moreover, employees show more commitment towards organization. Employee commitment leads to less employee turnover. Committed people show enthusiasm by spending their time in the organization and work whole heartedly which leads to enhance the performance and productivity of the organization which is the ultimate purpose of the organizations.

General Systems Theory by Kuhn (1974) suggested that organizations are made up of different components and systems and by knowing one part, enables to know something about the other. It is very important to have a developed HRM system in the organizations in order to attain the organizational goals with proper integration of HRM practices. The issues and problems of organizations do not get solved without a sound HRM system (Stermen, 2001). More importantly it becomes difficult to manage people and identify the performance gaps without capable systems in an organization. An organization can use countless combinations of HR practices because the internal fit can align the HR practices with the targeted organizational performance. So there is a
dire need in organizations in developing countries; to analyze current global HRM trends and produce identical performances by effectively aligning HRM practices with system dynamics.

System Dynamics

System Dynamics was developed in 1956, it’s basically concerned with how things change with the passage of time (Forrester, 1996). The System Dynamics Model was based on the philosophy to understand how the dynamic behavior of a system is affected by its structure based on the organizational policies and decisions (Stermen, 2001). System Dynamics approach helps to review and manage complex feedback systems by testing different scenarios. A System Dynamics Model is traditionally based on the “Causal Loop” and “Flow Diagram” (Lyneis & Ford, 2007). The effective alignment of different HRM practices with the organizational performance is depicted through causal loops and presented in the flow diagram.

With the help of the above mentioned literature, it is therefore suggested that the alignment of specific HRM practices in a systematic way create an ideal situation to grow and helps to improve organizational performance significantly.

METHODOLOGY

System dynamics is a methodology and a modeling technique for visualizing different variables. It shows how different variables are interconnected with each other (Forrester, 1961). System Dynamics is a relatively new concept used for framing, drawing, understanding and for discussing the complex problems and issues. This methodology was proposed by J.W Forrester (1961) in order to help managers to get better understanding of the processes and for analysis of the data. The purpose of using this model in this study is to recognize the relationship between different HRM practices and their effect on the employee and organizational performance in developing countries organizations. The software used for this modeling is I Think Software, introduced by Barry Richmond in 1985. This software is used for the modeling, presentations and professional simulations and also helps to build, design, and simulate models for estimation.

Causal Loop Diagram

The causal loop diagram is used to visualize the inter-relationships between different variables and how these variables are connected with each other. In the following diagram there are two balancing loops and two reinforcing loops.
There are two balancing loops in the model. The first balancing loop B1 shows that if organization effectively implements HRM practices then there is an effective recruitment and selection which indicates the right person for the right job. When right person is selected at the right place according to his level of expertise, the one can feel satisfaction and can perform his job well. The high employee satisfaction and optimum performance can reduce the organizational cost of over and over hiring the employees. Moreover, the efficiency of organizations increases which in turn enables organizations to achieve their goals (Stermen, 2001). The second balancing loop B2 in the model is between the employee commitment and turnover. When employee commitment increases, the level of employee psychological attachment will also increase. The employee psychological attachment increases the loyalty and motivation of employee and they show more engagement with the organization. They spend more time at working rather than at home which in turn reduces the turnover (Hafeez et al., 2003).

The first Reinforcing loop is between the training and development of employees and the competitive advantage of the organization. One of the major responsibilities of HRM is to provide training and development to the employees. When organization provides proper training and development to employees, they get the opportunity to sharp their existing skills or develop new skills according to the requirement of the organization which make employees self-driven. The employees who get self-driven, are more able to take risks as challenges to sharp their skills and discover new opportunities to innovate the organization. Innovation increases the competitive advantage of the organizations which in turn leads to sustainability in the market (Sveiby, 2002).

The second reinforcing loop is formed by the incentives and rewards, employee cooperation, level of satisfaction, employee involvement and absenteeism. If the organization provides extra financial rewards to the employees for their exceptional performance then the employees cooperation increases which will increase their satisfaction. Employee satisfaction increases the level of their involvement which leads to less absenteeism and increased employee performance (Ogedegbe, 2014). Effective recruitment and selection leads to the person-job fit in the organization which resulted in favor of organization to save money by over and over recruiting the employees, which eventually leads the employees to perform well and increase the productivity of the organization and thus cause a balance loop.
FIGURE 1
Integrated Model with Reinforced and Balanced loops using plus/negative signs
DIFFERENT COMPONENTS OF MODEL INDEPENDENTLY

FIGURE 2
Reinforced Loops

FIGURE 3
Balanced Loops
FIGURE 4
Reinforced Loops

FIGURE 5
Balanced Loops
The causal loop diagram in system dynamics leads to the formation of the development of the stock and flow diagram. In system dynamics, the dynamic behavior of the system is supposed to arise due to the principle of Accumulation. More specifically this system states that the dynamic behavior in the system occurs when the flows can accumulate in the stocks causing them to increase and decrease. The dynamic behavior of the system arises when there is something that flows through the pipe and collects or accumulates in the stock. The stocks have a number of inflows and outflows in the system.

According to literature conducted on the HRM practices (Sveiby, 2002; Stermen, 2001; Wang, 2008; Jiang, Lepa, Jia Hu, & Baer, 2012) and its impact on employee and organizational performance, the following stocks, inflows, outflow, source and sink are identified in the diagram (Figure 6) built by using Vensim software.

The above mentioned stock and flow diagram (Figure 6) explains that when HRM practices are significantly driven in organizational systems and its structure, then organization become capable to perform better. The recruitment and selection function is identified as the most
important function of the organization. If right persons are selected to the right jobs then they can perform in a better way by effectively using their qualification and experience (Tessema & Soeters, 2007). The skills and learning of competent workforce can further be upgraded by providing them proper training and development. These trainings can improve their current skills and also enhance their capacity to learn new skills and do their jobs effectively (Farooq & Hameed, 2011). After getting through the proper training and development programs, the employees get trained and become self-driven, ultimately the satisfaction of employees towards doing their work increases which further increases their motivation and morale (Ogedegbe, 2014). The incentives and rewards connected to the employee’s performance can increase their cooperation which increases the level of employee engagement and commitment towards organizational activities. If the employees are provided with these kinds of benefits, obviously they will show more involvement and commitment towards the organization and ultimately the performance and the productivity of the organization will also increase by having competent and potential employees (Bowen & Ostroff, 2004). These factors can increase the performance of employees and organizations as well. This can only be possible by effectively and efficiently managing the people in organizations with adequate implementation and systematic alignment of HRM practices.

**IMPLICATIONS OF FEEDBACK LOOP IN HRM**

Feedback loop is very important in HRM as it is essential for changing the behaviors and attitudes of individuals in the organization (Stermen, 2001). By using the feedback loop organizations can enhance or improve the efficiency and effectiveness of the system as it is the most important part of management. If there is no feedback system in the organization, it is not possible to have the feedback of system or have any idea of what system needs for further improvements and the response of the organization towards these concerns (Farooq & Hameed, 2011). A feedback can provide the success and failures of the system. It may be positive or negative, called balancing or reinforcing. A positive feedback indicates the organization is performing well, whereas the negative feedback loop indicates the system may have some problems (Sveiby, 2002).

HRM is considered the most important concern of every organization as it controls the people in the organization. The management of people is the main task because no organization succeeds without having competent people in it. No matter, how much skilled workforce the
organizations have, if the necessary benefits are not provided to the employees they become demotivated and dissatisfied that can badly affect employee as well as organizational performance. On the contrary, if organizations have the adequate alignment of organizational policies with HRM practices, employees skills, abilities and knowledge are improved (Wang, 2008).

If the organization provides the employee benefits such as incentives and rewards, development programs, performance appraisal for identifying the performance gaps of the employees and then fulfill these gaps by providing the necessary trainings to the employees in order to improve their skills; employees get supportive environment from the management, hence motivated to achieve the organizational goals. In today’s dynamic and changing world, there is a challenge for the organizations to compete in the market for the competitive edge to attain sustainability (Ogedegbe, 2014). To attain competitive edge, organizations need employees with the potential to perform tasks in creative and innovative manner. Innovation is very important for any organization to remain in the market, organizations should be innovative as people want change and innovation. HRM plays an important role in attaining the competitive advantage by having potential and competent employees to perform.

**DIRECTIONS FOR FUTURE RESEARCH**

Besides the importance of HRM practices, the critical scenario in developing countries is the evident gap between the usefulness of the HRM practices and their application. The need is to develop a framework that accord with the application of both soft and hard HRM practices. The developing countries like Pakistan, require more organizational output to compete with the developed world. For this purpose, organizations should be aware of the benefits of the systematic integration of different HRM practices to get the desirable organizational performance. If more and more stakeholders become aware of the importance of the effectiveness of HRM practices, it would attract management to think about the importance of HRM practices and develop the best fit between organizational performance and HRM practices.

**REFERENCES**


