

# Impact of HR Practices on Organizational Performance through Employee Engagement: A Review and Research Agenda

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**Abstract:** Due to the Globalization organizations are facing emerging challenges now-a-days in form of acquisition, developing and retaining the key organizational talent in the highly dynamic business environment. The dynamic business scenario requires companies as well as their HR teams to think out-of-the box, and come up with revolutionary HR practices and approaches to keep the employees motivated and enhance the overall organizational performance in order to survive in this volatile environment. The success of an organization depends upon several factors but the most crucial factor that affects the organization performance is its employees. In the age of competitiveness, organization cannot be able to bear the loss of prospective human resource. These firms do not want their proficient employees to leave (Cascio 2000; Glebbeek&Bax, 2004). Human resource (HR) practices and employee engagement are the key for enhancing the firms' performance and received substantial attention in recent research on management sciences. On the basis of existing literature, this conceptual paper attempts to focus on the importance of HR practices and employee engagement to sustainable organizational success on a long term basis. The paper proposes a relationship between HR practices and employees' level of engagement with organizational performance. This study reveals a positive relationship between these variables. The present study is based on the vast research literature in the domain of human resource management in Indian context and beyond, and hence it exhort researchers to carry out relevant studies in this field.

**Keywords:** HR Practices, Organizational Performance, Employee Engagement, Employee Retention.

## I. INTRODUCTION

As the world is becoming more competitive and unstable than ever before, the firms are seeking to gain competitive advantage at all cost and are turning to more innovative sources through HRM practices (Sparrow, Schuler, & Jackson, 1994). HRM practices have been defined in several aspects. Schuler and Jackson (1987) defined HRM practices as a system that attracts, develops, motivates, and retains employees to ensure the effective implementation and the survival of the organization and its members. Besides, HRM practices is also conceptualized as a set of internally consistent policies and practices designed

and implemented to ensure that a firm's human capital contribute to the achievement of its business objectives (Delery& Doty, 1996).Likewise, Minbaeva (2005) viewed HRM practices a set of practices used by organization to manage human resources through facilitating the development of competencies that are firm specific and generate organization knowledge to sustain competitive advantage. Practice is the process of an organization by which available resources are developed, combined, and transformed into value offerings (Teece, Pisano &Shuen 1997). Practice is a talent of an organization to set up its real or insubstantial assets, to execute the duty, and a commotion to advance productivity (Amit & Schoemaker, 1993). HR practice is supported going on carrying, increasing or replacing knowledge in the organization (Saa-Perez & Garcia-Falcon, 2002).

For an organization to sustain in competitive environment effectively, the researchers have exclaimed that human resource practices repeatedly perform comparative activities (Arthur, 1994; Delery& Doty, 1996). Several researchers have emphasized human resource as a determining factor of organizational performance (Morrow *et al.*, 2007).

It was found that HRM Practices including recruitment and selection, compensation and benefit, performance management system and training and employee involvement have a significance impact on employee turnover. Wright et al. (1994) viewed HR practices as the means through which employee perceptions, attitudes, and behaviors are shaped.

## II. HUMAN RESOURCE MANAGEMENT PRACTICES

HR practice is broader concept and an important aspect of organizational management. It aims to affect the level of employee engagement and influence directly those who work within the organization. This includes organizational culture, communication practices, HR activities and systems which further affects the organizational performance.

Against this milieu, it is concluded that HRM practices relate to specific practices, formal policies, and philosophies that are designed to attract, develop, motivate, and retain employees who ensure the efficient &effective functioning, overall performance and survival of the organization.

### A. Organizational Performance:

Organizational effectiveness capture organizational performance and advantage the countless internal performance results generally linked with more effective or efficient processes. Organizational performance is one of the most important variables in the management research and arguably the most important indicator of the organizational performance. Managers began to understand that an organization is successful if it accomplishes its goals (effectiveness) using a minimum of resources (efficiency).

#### B. Research Methodology:

This paper is planned to review the existing literature available on HR practices and employee engagement. It was designed to develop a concrete understanding of HR practices, employee engagement and primarily to address the relationship of HR practices and employee engagement with organizational effectiveness and performance. The paper is based on secondary data obtained through articles, journals, research papers, and various literature studies of different authors which can be further explored and furnished by primary data.

The first part of this paper mainly describes the relationship between HR practices and organizational performance through reviewing the research papers and articles. The second part focuses on the extent to which overall organizations performance is enhanced through employee engagement and HR practices. It is a comprehensive review of various research papers. The author has tried to narrate and combined the different viewpoints and ideologies of many researchers and authors who have done a rigorous research on the impact of HR practices, employee engagement on the overall organizational performance.

#### C. Rationale of the Study:

By studying the best HR practices adopted in service as well as manufacturing firms, this paper intends to study relationship between HR practices, employee engagement and the organizational performance. Due to the fast changing scenario, it has been found that the engaged workforce and HR practices can foster the culture of performance and improvement in any kind of organization. Therefore, new practices in HR and employee engagement can lead to positive impact on organizational performance. Hence the study tries to find out how HR practices can affect the organizational performance through the engaged employees.

#### D. Objectives of the Study:

- To study the relationship between HR practices, employee engagement approach and organizational performance.
- To bring out the HR outcome (enhanced Organizational Performance) reflected by the levels of engagement of employees and HR practices in the organizations.
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### III. LITERATURE REVIEW

#### A. HR Practices and Organizational Performance:

Much concern has been exposed for the deliberate participation of the Human Resource and its impact on

organizational effectiveness and performance (Analoui, 2002). It has been recommended that there is a relation between an organizational effectiveness and the utilization of its human resources (Storey, 1998; Guest, 2002; Caliskan, 2010). The HRM Practices (or systems) may influence organizational performance indirectly through HRM outcomes. However, a direct effect of HRM policies on organizational performance may also be present (Katou& Budhwar, 2007).

In the past, researchers had a tendency to employ the phrase 'organizational performance' to signify monetary and economic measures.

Pfeffer (1994) and Guest (2002) recommended that universal Human resource practices must be considered as predecessor to firm effectiveness. Several researchers have emphasized human resource as a determining factor of organizational performance (Morrow *et al.*, 2007), and an association between core competencies and organizational performance is projected, principally with a particular focus on the association between human resource capability and organizational effectiveness. The conceptual and empirical links between HRM practices and employee engagement, and between engagement and performance, are not well established (Guest, 2014; Sparrow, 2014; Sparrow and Balain, 2010).

The studies have been conducted in various regions of the world to show a significant relationship between improving the working environment and employee performance.

One of the conceptual studies evaluated the links between the systems of high performance work practices and firm performances. Results based on national sample of nearly one thousand firms indicate that these practices have an economically and statistically significant impact on both employee outcomes (turnover& productivity) and short& long term measures of corporate financial performance (Mark A Huselid, 1995). It has also been found that HR practices can help to create a source of sustained competitive advantage.

One of such study sought to evaluate the effect of human resource management practices on organizational performance of Lorestan University (2002). The sampling method used of this study is a stratified random. The sample size of 140 was selected for this study. A standard questionnaire was used for data collection to measure organizational performance. A significant relationship between HR policies, practices and organizational effectiveness and performance exists (Belfield and Mardsen, 2002).

Another such study examined the impact of innovative HR practices on organizational commitment through collecting the data from 21 HR experts of various public and private undertakings and consultancy firms. (Tanuja Aggarwala 2003).

One such study was undertaken through a convenient sample of 153 managers from Selangor based private firms in Malaysia. It has been identified that the HRM practices create an impact on company performance (Dr. Zaini Abdullah, 2009).

Another study has also been carried out in the similar region through the convenient sampling technique in 85 large scale manufacturing firms in Sarawak. An interesting pattern of relationship between HR practices and organizational performance has been suggested (Dr Abang Azlan Mohamad, 2009). Various studies conducted in the country have also examined the effect of human resource management on the productivity of the organization.

Another study in the similar field has also revealed the positive relationship between organizational commitment and HR practices through a predictive design with a sample of 50 autonomous business units.

Another such study focuses on the seven basic variables (practices) of human resource management. A positive effect of human resource management on the productivity and performance of the organizations has been examined (Ayesha Jahanian, 2012).

An empirical study conducted by (Andre AR Veenendal (2015) in manufacturing firms analyses that the innovative climate can moderate the relationship between certain HR practices and innovative work behavior.

Organizational commitment and HR practices are significantly related to operational measures of performance such as efficiency & effectiveness which leads to the enhanced performance of any organization (Patrick M. Wright, 2003). It has been proven through studies that HR practices, employee engagement and organizational performance are directly linked.

#### *B. Employee Engagement and Organizational Performance:*

Employee engagement is a workplace approach resulting in the right conditions for all members of an organization to give of their best each day, committed to their organization's goals and values, motivated to contribute to organizational success, with an enhanced sense of their own well-being.

Kahn (1990, 2010) described engagement as the harnessing of people's selves to their work, such that they fully invest their physical, cognitive, and emotional resources in their work roles. In essence, work engagement is manifested as energy, involvement and a focused striving towards the achievement of organizational goals (Macey and Schneider, 2008; Schaufeli et al., 2002). Schaufeli (2014) argued that despite having slightly different perspectives there are core commonalities between the Kahn (1990) and the Schaufeli et al. (2002) conceptualizations and measures of engagement. Schaufeli noted that both share similar physical-energetic (vigor), emotional (dedication), and cognitive (absorption) components. Although it is unlikely there will ever be universal agreement about a single definition and measure of engagement, energy, involvement and a willingness to contribute to organizational success is nevertheless core to the construct (Bakker et al., 2011). To date, there has only been limited research examining how HRM practices influence individual and organizational outcomes through employee

engagement (e.g. Alfes et al.2013a, b; Sparrow, 2014; Truss et al., 2013).

Irrespective of whether an organization has, for example, a strategic focus on HPWS through self-managed teams or flexible work arrangements (Jiang and Liu, 2015), or on engagement, they will nevertheless focus on selection, socialization, performance management, and training. Other researchers have focused on similar core HR practices (Shipton et al., 2006; Sun et al., 2007)

Research has also shown that organizational climate can influence job resources and job demands (e.g. Dollard and Bakker, 2010), that in turn influence personal resources such as the psychological experience of safety, meaningfulness, and availability, that in turn influence engagement (Kahn, 1990; Mayet al., 2004). Engagement has also been argued to influence the extent to which employees engage job crafting behavior (Times et al., in press), and the extent to which they will voice ideas, suggestions, and concerns (Morrison, 2014).

Various studies have been conducted by researcher on employee engagement.

Saloni Devi (2017) conducted a research on "The impact of employee engagement on organizational performance: A study of select private sector banks." The purpose of the study is to have deep analysis of the relationship between Employee Engagement and Organizational Performance and its outcomes. Data for this study were collected from private banks via questionnaire. The model extracted on the basis of review of literature has revealed the positive relationship between Employee Engagement and Organizational performance which is further, validated through Structure equation modeling.

Arti Chandani<sup>\*</sup>, Mita Mehta, Akanksha Mall and Vashwee Khokhar (2016) conducted a study on "Employee Engagement: A Review Paper..." The objective of this article was to identify the factors which affect the employee engagement and mainly to find out its impact on employee retention and performance of people as well as the organization itself. After reviewing numerous research papers and lot of literature in this area the authors have reached to the conclusion that HR practices must be implemented effectively to strengthen the employee engagement program which ultimately leads to organizational performance.

Prof. Priyadarshni Nidan (2016) conducted a research on "To study the impact of employee engagement on employee productivity and motivational level of employee in retail sector". The purpose of this exploratory research study was to identify impact of employee engagement on employee productivity and motivational level of employee in Retail sector. The author comes up to the conclusion that managers must critically analyze the drivers of employee engagement to enhance employee retention and productivity which paves a way for overall performance of the organizations.

Ms. Hetal Jani and Dr. Ram Kumar Balyan (2016) conducted a research on “Impact of Employee Perceive HR Practices on Employee Engagement.” The objective of this study was to identify HR Practices’ impact on employee engagement that indirectly facilitate employees’ intrinsic motivation and psychological empowerment. A survey of employees of pharmaceutical sector has been done and model is tested on the data collected. The study includes 400 Medical Representatives from pharmaceutical companies in Gujarat State. The result of the study shows a positive correlation between employees perceived HRM Practices and employee engagement.

Joseph Jakisa Owor (2015) conducted a research on “Human resource management practices, employee engagement and organizational citizenship behaviors (OCB) in selected firms in Uganda.” The purpose of this study was to investigate the relationship between human resource (HR) practices, employee engagement and organizational citizenship behaviors’ (OCB) in selected firms in Uganda. Self-administered questionnaire of four scales were administered to sampled employees of soft drink and sugar firms Kampala, Mukono and Buikwe districts of Uganda. Hypotheses were tested through correlation and hierarchical regression. The study has revealed that many antecedent variables were significantly related to employee engagement and employee engagement was significantly related to OCB. The hierarchical regression analysis results shows that five antecedent variables demonstrated a significant relation with OCB - role clarity, collaboration, job security, compensation fairness and development.

Dr. Naval Garg and Dr. Brij Sharma (2015) conducted a research on “The Mediating Role of Employee Engagement in the Relationship between High Performance Work Practices and Job Performance.” The present study explores the direct effect of HPWPs (High Performance Work Practices) on job performance and the indirect effect through mediation of employee engagement. This paper studies HPWPs through three variables i.e. employees' awareness level, availability of HPWPs and employees' perception regarding effectiveness of HPWPs. The present study reveals that HPWPs and job performance are also found to be highly correlated.

Philipos P Gile (2013) conducted a research on “The Effect of Human Resource Practices on Employee Performance in Hospitals: A Systematic Review. The author conducted a systematic review of the literature for the purpose to understand the link between the major management practices and employee performance and to forward suggestions that will guide further research on how research in such a complex relationship might best be undertaken. This paper is a review of 106 relevant articles (out of the total 398 articles as per the set criteria) published in pre-eminent international refereed journals between 1994 and March 2013. The review covers the linkages between HR practices on employee performance guided by key theoretical framework/model.

#### IV. CONCLUSION

The concept of HRM practices and its importance is rising now days due to the globalization which poses various challenges for the survival of the organizations in this highly competitive environment. The HRM practices that deal with people, performance, information and work because they create an environment and infrastructure that affects employees, customers, effectiveness and the overall performance of an organization. Employee engagement is also gaining lot of popularity now-a-days and impacts organizations in many ways. A number of studies have been conducted to investigate the impact of HRM practices on various aspects including the innovation, job satisfaction, efficiency, productivity and performance of the organization.

Presently organizations are facing challenges not only to retain the existing employees but to keep them engaged fully through implementing the unique HRM practices and due to the growing competition. It has been observed that organizations’ with higher levels of employee engagement outperform their competitors in terms of profitability. Engaged employees can help the organization achieve its mission, execute its strategy and generate important business results. Organizations adopt the most up-to-date HRM practices in order to accomplish the organizational goals through engaged employees. Best HRM practices are advantageous for both employee and employer; it plays an important role in enhancing the performance and for the constructive growth of the organization.

##### A. *Significance of the Study:*

This study has the utmost importance for all kind of organizations to achieve better performance, to originate and implement best HRM practices which will be beneficial to improve employee employer relations, financial performance, and employee productivity and ultimately contribute to overall organizational performance. In considerable and insubstantial extent the organizations need to invest in such practices to get more and more involved and committed employees to gain the competitive advantage of organizations.

##### B. *Expected Contribution:*

The present study conveys that appropriate HRM Practices act as catalyst and facilitator for increasing Employee Engagement, enhancing the Satisfaction and Commitment of the employees in the organizations. This will have far reaching implications for the firms in terms of specific areas being identified for further development. Studies similar in nature can be carried out in other industrial sectors. This study is also beneficial for the students, research scholars, HR practitioners and leaders also.

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