

## **Human Resource Management Practices and Organizational Performance: An Empirical Study of Manufacturing and Service Institutions of Nepal**

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### **Abstract**

*Modern HRM policies and strategies are replacing traditional personnel concepts in HRM practices, which are continuously changing in Nepalese enterprises. This study is focused on assessing the human resource practices in the manufacturing and service institutions in Nepal and their relationship with organizational performance in terms of employee turnover and productivity. The required data were collected from 12 manufacturing companies and 23 service providing institutions by administering a set of questionnaires. Data were processed on SPSS and EViews. The correlation results suggested that there is negative association between HRM practices and employee turnover whereas there is positive association between HRM practices and productivity. The regression results suggested that there is a negative impact of HRM practices on employee turnover whereas there is positive impact on productivity.*

*Keywords:* HRM practices, employee turnover, productivity, team work, organizational performance

### **Introduction**

The business world has become a village, and businesses are being challenged by fierce competition from all over the globe. The emerging global competition, focus on customers, speed and flexibility have created challenges in all types of organizations in modern market economy. The competitive forces that managers face today will continue to confront in future demand of organizational excellence. The effort to achieve such excellence are through the fundamental elements of the human resource management that is focusing on learning, quality, team work and reengineering which are driven by the way organization get things done and how they treat their people. All these are linked with human resource management practice and organizational performance. Further, better human resource practices have a significant impact on the organizational performance (Rani, 2019). In this context, human resource managers should pay much attention in analyzing human need and talent planning with the aim of adjusting workforce and making them adaptable to response the changing environment (Lionel et al., 2023).

There are several approaches given by the scholars in the field of human resource management and its relationship with performance. Guest (2002) prescribed three dominant approaches in defining the key way in which human resource management might enhance corporate and the strategic fit model. When it comes to developing nations like Nepal the role of human resource is visible only in those organizations, which either are knowledge organizations or are technology intensive organization.

The initial research on HR practices and organizational performance was, unsurprisingly greeted with much enthusiasm by academics and practitioners alike, and the figures appear impressive and authoritative (Richardson & Thompson, 1999). However, researchers (Guest, 2005; Huselid, 1995) in this area have recognized some of the limitations of the research approach to date and there has been an increasing body of criticism related to early work, which was almost, completely comprised of quantitative data analyzed statistically. The criticism in relation to the assessment of HR policies and practice relates to three areas: the reliability of the data; the lack of depth and breadth in the data; and the conceptual model within which the research was carried out.

Early attempts to link HRM with organizational performance relied on the common-sense belief that improving the way people were managed inevitably led to enhanced firm performance (Ulrich, 1997), without seeking to justify this linkage in theoretical terms. In the wake of the different research projects, it was argued in one review that the subject was no longer theoretical, and that a variety of different theories, including general system theory, role behaviour theory, institutional theory, resource dependence theory, human capital theory, transactions cost economics, agency theory and the resource-based theory of the firm had been used to explain the HRM performance linkage (Jackson & Schuler, 1995).

The employee performance, which may result from, enhanced employee commitment. earlier research directly analyzed HR policies and employee performance and, in many cases, a statistically significant relationship has been found (Arthur, 1994; Koch & McGraht, 1996; McDuffie, 1995). So far only Patterson et al. (1997) and Guest et al. (2000) have analyzed productivity and quality in relation to commitment as well as in relation to HR practices. Patterson et al. (1997) did find significant relationships between employee performance and commitment and between employee performance and HR practices. Similarly, Lionel et al. (2023) found that the effective HR practice creates organizational commitment. However, in contrast, Guest et al. (2000) found no direct relationship between HR practices and commitment and also a relationship between commitment and employee performance outcomes.

Regarding the human resource management in Nepalese business organizations, very few researches have been made by linking the business strategy, human resource management and human resource outcome. Adhikari (2005) suggested that there has been no significant change at firm level HR policies and practices even after the changes in the economic and political priorities in the last decade Nepal is still at the initial stage of the development of human resource management. Human resource planning and practices are not in the priorities of Nepalese managers.

In Nepalese context, to date few studies have been carried on by some scholars linking the human resource practices with firm performance. Gautam (2003) found that Nepal has high affective commitment rather than other commitment due to the national culture. Adhikari and Muller (2001) have found that there are opportunities and challenges for a transfer of western type HRM prescriptions to developing countries. Nepalese managers and policy makers are generally not convinced about the benefits of investment in human resources. In particular, it is yet to be recognized that people should be treated as valuable assets. Nepalese researchers and academicians have not considered this field as the field of research. The present study focuses on assessing the human resource practices in the manufacturing and service sector institutions in Nepal. In this context, this study attempts to analyze the impact of human resource management practice on organizational performance in the perspective of Nepalese manufacturing and service sectors organizations

### ***Significance of the Study***

The innovation of new science and technology and implementation of that knowledge in business has contributed for repaid change in production, distribution and service sectors. The introductions of automation, robotics and computerization system in manufacturing sectors have brought new change in production process. Similarly, volumes of business of service sectors organizations have also been in increasing trend. These bring rapid change in the concept of human resource management and their importance. The evolution of World Trade Organization has brought both opportunity and threat for Nepalese organizations.

Majority of researchers on the RHM and performance linkage have focused in eh manufacturing sector, in the western context with a few cases with the emerging markets such as China and India. This study might give an insight on the relationship between HRM and performance in the context of least developed countries like Nepal.

HR practices in Nepalese organizations are undergoing continual transition, moving from former personnel concepts to modern HRm policies and strategies. This trend stems

from a series of societal, technological and political changes that have occurred in Nepal over the last two decades. The HR manager must cope with the influences of these changes and at the same time allow the firm to preserve and even enrich its human capital value. In such a scenario, Nepalese business organizations can remain no exception. The success of the business organization largely depends on the effectiveness and quality of the services that they provide to the customers. Keeping these views into consideration, this study is expected to be fruitful to explore the HRM practices that exist in the manufacturing and service sectors and their effects on the organization and employee performance. However, there are some notable research limitations as mentioned:

- i. This study is based on cross sectional data, which fails to show the time lag effects of the variables under study.
- ii. The constituents of human resource outcomes used under this study may not be equally applicable in all organizations having different context.
- iii. The human resource practice variables used under this study may not clearly represent all organizations.
- iv. This study is confined only to limited manufacturing and service sectors. It is therefore, the finding of this study may not represent all the business units.
- v. Most of the data used in the study are collected from primary sources through survey method. Therefore, the validity of the data depends upon the individual perception of the respondents.

## Methods

Descriptive, co-relational, and causal comparative research design have been adopted to conduct this research. The descriptive research design is used for the purpose of fact-finding, conceptualization, description, and operation searching for adequate information in the context of HRM practices and employee and organizational performance in Nepal. This study has also adopted correlation research design to establish the relationship between HRM practices and performance. Moreover, this study also adopted causal comparative research design to determine the relationship between HRM practices and employee and organizational performance in Nepal. The research design adopted in this study is identical as the previous researches taken place, for example Guest, 2002. HR practices build job infrastructure that can provide maximum amount of information to employee, decentralize decision making, and motivate employees to attain organizational goals (McDuffie, 1995; Wright et al., 2005).

For the purpose of fulfillment of the objectives of the research, necessary data were collected through primary sources especially by distributing and collecting questionnaire.

Data used in this were collected from 12 manufacturing company and 23 service sector institutions. In this research, two categories of information namely employee turnover and productivity of the organizations were collected. The questionnaire was developed from the prior literature as used by Guest, 2002.

Some significant statistical and general quantitative tools were used for data analysis purpose. The statistical used for the purpose of the analysis of data were mean, standard deviation and analysis of variance. Further correlation analysis was used to show the relationship among the variables under study. The Cronbach's Alpha was measured to test the reliability of the data. F test was used to determine the goodness of fit and whether significant difference existed between the means of the variable under study or not. Since this study focused on relationship between HRM practices and employees' and organizational performance, Pearson correlation and descriptive statistics were used for analyzing numerical data. SPSS and EViews were used to process and analyze the data.

### ***Research Framework and Hypothesis***

The state of HRM in Nepalese business firms are analyzed based on the different types of HR practice like training and development, performance appraisal, career planning, compensation system, job design, recruitment and selection and so on. Moreover, the other variables like size, degree of expansion and previous performance are also considered to show their effects on the adoption of the HR practices. Eventually, the effects of the HR practices variables on comprised of both manufacturing and service sectors institutions functioning as public limited and private limited company forms. This study attempted to examine the impact of HRM practices; recruitment and selection, training and development, performance appraisal, career planning, compensation, employee participation, and job description on the employee turnover and productivity as proxies of organizational performance.

The broad objectives of this study are to explore the relationship between the uses of human resource management practices and its impact on employees and organizational performance. Its objective is also to compare the result obtained in the manufacturing and service sector organizations. Based on above objectives and relation, the following hypotheses are explored:

H 1: There would be an association between proper use of HRM practices and employee turnover.

H 2: There would be an association between greater use of HRM practices and labour productivity.

## Results

### *State of HRM Practices in Manufacturing and Service Organizations*

It was attempted to show the state of HRM practices in manufacturing and service sector organizations. HRM practice variables were studied based on the prior literature available in the field. The components of HRM practices studied were training and development, performance appraisal, career planning, employee participation, compensation, job definition and recruitment and selection. These components were studied from the universalistic as well as configurationally perspectives. The "universalistic" perspective alleges that certain HRM practices are always better than other and all organizations should adopt such practices on every occasion for a better performance. The "configurationally" perspective asserts that multiple interdependent HR practices must cope with each other to best enhance firm performance (Wright and McMohan, 1992).

### *Correlation Matrix*

This study has provided correlation between two dependent variables were employee turnover (ET) and productivity(P) and independent variables were Recruitment and Selection (RS), training and Development (TD), Performance Appraisal (PA), Career Planning (CP) Compensation System (CS), Employee Participation (EP), and Job Definition (JD). The upper bound presented non-parametric spearman correlation coefficient and lower bound presented parametric Pearson correlation between dependent variables and independent variables.

**Table 1**  
*Correlation Matrix*

Variables	TD	PA	CP	EP	C	JD	RS	ET	P
TD	1								
PA	.300**	1							
CP	.481**	.669**	1						
EP	.405**	.558**	.616**	1					
C	.366**	.594**	.653**	.436**	1				
JD	.314**	.421**	.528**	.397**	.487**	1			
RS	.404**	.417**	.518**	.436**	.441**	.555**	1		
ET	-.153**	-.355**	-.372**	-.271**	-.394**	-.233**	-.369**	1	
P	.471**	.292**	.465**	.366**	.255**	.370**	.341**	-.303**	1

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Correlation coefficient between various HRM practices variables training and development, performance appraisal, career planning, employee participation, compensation, job definition and recruitment and selection, employee turnover and productivity is presented in Table 1. The Pearson correlation showed that there are negative correlations between Employee Turnover and HRM variables and they are statistically significant at 5 percent level. In contrast, the result showed that there are positive correlations between Productivity and HRM variables at 5 percent significance level.

The correlation results suggested that there is negative association between HRM practices and employee turnover. The result also indicated that there is positive relationship between HRM practices and productivity of the organization. The result is supported by prior hypothesis set by Guest, 2002. Furthermore, the result concluded that higher the HRM practices, higher the organizational performance.

### ***Regression Results of HRM Practices on Employee Turnover***

The regression result of effect of HRM practices on employee turnover is presented in Table 2.

**Table 2**

*Regression Coefficients Taking Employee Turnover as Criterion Variable*

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	8.241	0.745			0.000**
RS	0.251	0.051	-0.228	4.207	0.025*
TD	0.215	0.048	-0.218	3.989	0.051
PA	0.334	0.067	-0.248	4.359	0.061
CP	0.243	0.056	-0.212	4.219	0.031*
CS	0.317	0.061	-0.232	4.121	0.057
EP	0.322	0.065	-0.223	3.351	0.051
JD	0.443	0.072	-0.261	4.331	0.055

R = 0.751, R Square = 0.628, Adjusted R<sup>2</sup> = 0.612, F-stat = 38.122, F-sig = 0.000

\* $p < 0.05$ . \*\* $p < 0.01$ .

The  $R^2$  is 0.628 %, which indicates the HRM practices explained only 62.8 % of the total variance of employee turnover. Even though coefficient is insignificant, a majority of the coefficients are negative. The result suggested that there is a negative association between HRM practices and employee turnover. All the However, job design has more impact on employee turnover as compare to other variables. While analyzing the beta

coefficient, it is found that all the variables have negative impact on employee turnover. However, job design has more negative impact on employee turnover as compare to other variables.

### ***Regression Results of HRM Practices on Productivity***

The regression result of effect of HRM practices on productivity is presented in Table 3.

**Table 3**

*Regression Coefficients Taking Productivity as Criterion Variable*

Model	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta	t	
(Constant)	7.456	0.732			0.000**
RS	0.231	0.045	4.101	0.234	0.015*
TD	0.221	0.039	3.281	0.287	0.012*
PA	0.342	0.056	4.312	0.256	0.031*
CP	0.225	0.032	3.986	0.212	0.021*
CS	0.343	0.072	4.232	0.245	0.001*
EP	0.315	0.061	3.151	0.212	0.023*
JD	0.456	0.076	4.456	0.276	0.000**

R = 0.768, R Square = 0.673, Adjusted R<sup>2</sup> = 0.601, F-stat = 41.101, F-sig = 0.000

\* $p < 0.05$ . \*\* $p < 0.01$ .

The  $R^2$  is 0.768 %, which indicates the HRM practices explained only 76.8 % of the total variance of productivity. All the coefficient is significant, all of the coefficients are positive. The result suggested that there is a positive association between HRM practices and productivity. All the However, job design has system has more impact on organizational productivity as compare to other variables. While analyzing the beta coefficient, it is found that all the variables have positive impact on organizational productivity. However, job design has more positive impact on productivity as compare to other variables.

### **Discussion**

The correlation results suggested that there is a negative association between HRM practices and employee turnover. The results support the prior hypothesis set by Guest (2002). The result also indicated that there is a positive relationship between HRM practices and productivity of the organization. Similarly, the regression result showed that only 62.8% of the total variance of employee turnover is explained by the HRM practices described under this study. On the other hand, the HRM practices hold 67.30



percent explanation power on the variation of employee productivity. The result suggested that there is a positive association between HRM practices and productivity. This result is consistent with the findings of Lionel et al. (2023) and Rani (2019).

Moreover, the status of the HRM practices in Nepalese service and manufacturing institutions seems progressive in different dimensions such as recruitment and selection. On the other hand, this study found that the Nepalese organizations are being more conscious in performance-based reward rather than traditional reward system. Moreover, they tend to promote reward and recognize their employees based on their operating performance. This also leads to support the fact that some of the business organizations started to give less priority to age and seniority and adopt the same policies for all in their performance evaluation management. Some Nepalese business organizations are found using team-based job design that fosters the specialization as well as the synergy in the team assignment which ultimately minimizes employee turnover and maximizes their productivity as well as performance of the organization.

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