

## Relationship between Human Resource Management Practices and High-Performance Outcomes in Financial Institutions

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### Abstract

The foundation of this study is the effect that HRM strategies have on the high-performance outcomes of financial institutions in Nepal, as measured by organizational performance. While productivity, quality, and innovation are variables of high-performance outcomes, recruitment and selection, training and development, performance appraisal, career planning, remuneration, employee participation, and job design are variables of HRM practices. The job design in this study has a significant sensitivity to organizational success in terms of high-performance, followed by employee participation and remuneration structure, according to an analysis of the beta coefficient. However, every other factor including career planning, training and development, and recruiting and selection has a favorable effect on the high-performance results of organizational performance. However, the impact of career planning, training and development, and recruiting and selection on high-performance outcomes is negligible. This research work suggested that to improve the performance levels of financial institutions, it is essential to invest sufficient funds for completing HRM practices, based on the scope of business.

**Keywords:** HRM practices, Productivity, Quality, Innovation, Performance outcomes

### Introduction

The current business era is characterized by globalization, which increases the potential for businesses to offer high-quality goods and services. Nevertheless, this potential also comes with a high level of competition for entrepreneurs, who must contend not only with domestic rivals but

also with global corporations. In today's market economy, the growing global rivalry has put more emphasis on customer satisfaction, speed of work, and business flexibility, which has generated obstacles for all kinds of enterprises. The competitive pressures that managers currently deal with will persist in the future as demands for organizational excellence increase. In order to accomplish such excellence, the core components of human resource management such as productivity, innovation, learning, high-quality work, teamwork, and reengineering need to be prioritized. In fact, in today's fast-changing economic environment, every organization's role must have a positive impact on organizational performance. HRM is responsible for managing an organization's most valuable resource, human capital. Adequate human capital management helps to achieve corporate goals (D'Aveni, 1994; Jackson & Schuler, 1995; Baird & Meshoulam, 1998; Otoo, 2019). Human resources (HR) are critical in the service industry, which depends largely on employee skills and competencies. To respect these abilities and competencies, the organization must establish consistent HRM procedures that define greater organizational outcomes (Delery & Doty, 1996; Rotea et al., 2023).

Proper resource management may ensure an organization's success and efficiency (Pradhan & Shrestha, 2022). The efficient handling of human resources in the organization and its operation is the primary focus of management, and it is the reason for organizational success and sustainability (Shrestha, 2022; Shrestha & Prajapati, 2023). According to Adhikari (2005), despite shifts in political and economic interests over the past ten years, there hasn't been a noticeable change in HR policies and practices at the company level. Nepal is currently only beginning to create its human resource management system. Managers in Nepal do not prioritize human resource planning and practices. The academics who study human resource management and its connection to performance take a variety of approaches. Guest (2002) outlined three popular methods for identifying the primary ways that HRM may improve the corporate and strategic fit models. In undeveloped countries such as Nepal, the human resource function is evident only in those firms that are knowledge-based or heavily reliant on technology. HR management must be effective in order for businesses to perform well (Shrestha & Prajapati, 2023).

Not unexpectedly, academics and practitioners alike welcomed the early study on HR practices and organizational performance with great excitement, and the statistics seem notable and authoritative (Richardson & Thompson, 1999). However, scholars in this field (Huselid, 1995; Guest, 2005) have identified some of the shortcomings of the study methodology used thus far, and a growing body of criticism has been directed towards the early work, which was almost entirely composed of quantitative data subjected to statistical analysis. The dependability of the data, the data's lack of breadth and depth, and the conceptual framework that the research was conducted within are the three areas of criticism about the assessment of HR policies and practices.

Few studies have been conducted in the Nepalese environment thus far by some scholars attempting to link company success with human resource practices. Gautam (2008) discovered that because of its national culture, Nepal has a higher level of affective commitment than other types of commitment. According to Adhikari and Muller (2001), there are advantages and disadvantages to transferring Western-style HRM recommendations to developing nations. The majority of managers and policymakers in Nepal are not persuaded by the advantages of investing in human resources. Specifically, the idea that individuals ought to be viewed like precious things is still not

widely accepted. This discipline has not been recognized as a research area by Nepalese academicians and scholars. The issues presented in this study pertain to examining the influence of human resource management practices on superior performance outcomes within financial sector entities. However, the common research issues of this study consist of what is the current status of the HRM practices in banking sectors in Nepal, what is the effect of HRM practices on behavior outcomes of banking sectors of Nepal, and what is the impact of moderating variables in between HRM practices and behavioral outcomes of financial institutions in Nepal? Therefore, the present study focuses on assessing the human resource practices in the financial institutions of Nepal. This study also attempts to find out the relationship between the adoption of such practices and their impact on performance.

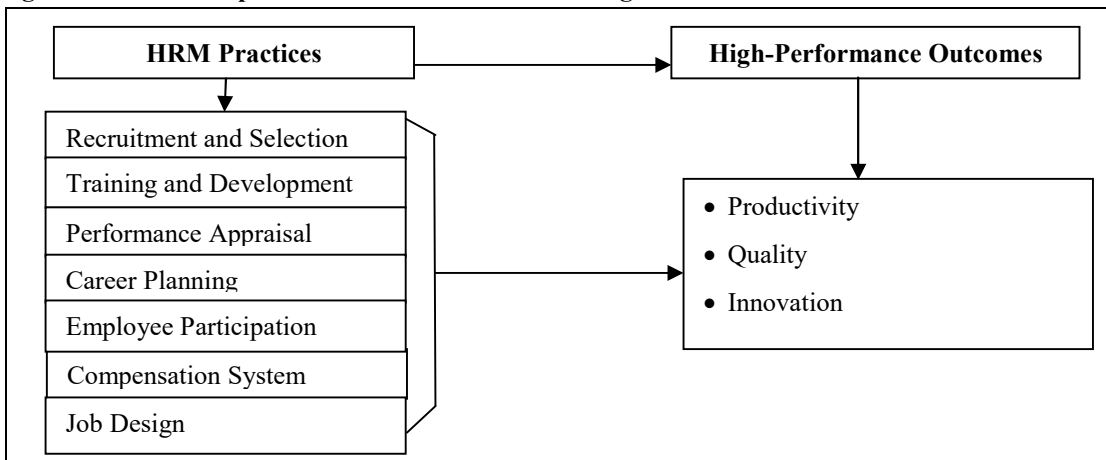
## Literature Review

### *Theoretical underpinning relating to relationship of HRM with High-Performance*

The literature emphasizes the importance of HRM in generating successful organizational performance outcomes and management (Garengo et al., 2022). Guest (1997) contended that little light is shed on how HRM practice and policy translate into excellent performance by either the descriptive or the strategic models. Researchers believe that HRM is only a small portion of the explanation for high-performance and propose that greater performance is likely when all of the subsystems, including the HRM subsystems, are in sync and mutually supportive. The descriptive approach places greater emphasis on employees' active participation in order-negotiating. On the other hand, organizational psychology is the source of the normative approach. It is assumed that effective HRM procedures draw on workers' dedication and motivation. The salient characteristics of this methodology are that HRM offers a logical amalgamation of various behavioral theories and elucidates the correlation between HR practices and high-performance outcomes of financial institutions. McDuffie (1995) established a foundation for the connection closely associated with expectation theory. Guest (1997) created a typology that illustrates the connection between HR procedures and organizational success based on this foundation. Numerous empirical research has been conducted to establish a connection between HR practices and financial, performance, behavioral, individual, and HRM outcomes. Researchers have maintained a relationship in this study between HRM practices and organizational success as measured by high-performance outcomes consisting of productivity, quality, and innovation.

### *Research Framework*

HRM practices affect employee abilities by acquiring and developing a company's human capital. Therefore, the evaluation of the empirical literature focuses on an earlier study assessing the relationship of HRM practices with employee high-performance in anticipation of an estimating model that centers on these dependent variables. This study attempts to establish a connection between how organizational performance is affected by HRM practices and high-performance consequences. Recruitment and selection, training and development, performance reviews, career planning, pay, employee involvement, and job descriptions are all components of human resource management that have a positive effect on employee performance in terms of high-performance outcomes such as productivity, quality, and innovation. This study framework is based on the research scope provided by Guest (1997).

**Figure 1: Relationship between HRM Practices and High-Performance Outcomes**

## Research Methods

### *Research Design*

In order to analyze the numerous difficulties highlighted, this study used a descriptive, correlational, and causal comparative research methodology. For the objective of gathering facts, conceptualizing, describing, and operating in quest of sufficient information regarding HRM practices and organizational performance in terms of high-performance outcomes in Nepal, the descriptive research design is employed. In order to determine the connection between HRM practices and organizational performance, this study has also used a correlation research approach. The research design used here is the same as that used in other studies, such as Guest, 1997. HR procedures create work environments that enable employees to receive the most information possible, delegate decision-making authority, and be inspired to meet company objectives (McDuffie, 1995; Wright et al., 1997).

### *Sources and Nature of Data*

Primary sources, such as questionnaires, were used to gather the data and information required to meet the research's objectives. Ten financial institutions comprised the commercial banks, development banks, finance companies, and micro-finance companies from which the study's data were gathered. Three areas of data were gathered for this survey study: high-performance outcomes, human resource practices, and respondent details. The questionnaire was created using previous research that Guest, 1997, had done. This research essentially considers the normative theory of the relationship that exists between HRM practices and the high-performance results of financial institutions.

### *Population and Sample Size*

The researcher administers the tools with the assistance of friends and expert recommendations. The responders were given a thorough explanation by the researcher of the study's goal and every feature of the questionnaire. The respondents who were chosen include workers who hold various positions in head office and branch offices across the nation, including management, officer, and

assistant positions. They are made aware that any information they submit will be handled in confidence and used solely for research. Ten financial institutions consisting of commercial banks, development banks, finance companies, and micro-finance companies are considered as samples for analysis in this study. 405 (89.01%) of the 455 questionnaires that have been sent have been fully completed and returned and these copies are used in the study.

### ***Measurement of HRM Practices and high-performance outcomes***

Recruitment and selection, training and development, performance appraisal, career planning, remuneration system, employee participation, and job design are the seven items that make up the measurement of HRM practices in this study. Its foundation is Huselid's normative theory of HRM practices (1997). Employee productivity, quality and innovation are among the high-performance outcomes that are taken into account while measuring the effectiveness of the organization. The foundation of this research work is Guest's (1997) normative theory of HRM practices and high-performance outcomes.

### **Results and Findings**

HR procedures are now seen as a crucial part of management in the modern company environment. The primary obstacle that firms will likely face in the future is the constant pursuit of a competitive edge. There is growing contention that organizations that possess the ability to obtain and employ scarce, valued, and unique resources will be the most equipped to tackle this challenge (Barney, 1991). Guest (2000) posited that a shift towards a behavioral model may lead us to consider the relationship between employee perception and behavior, as well as individual or group performance outcomes that impact unit performance and ultimately company performance.

The high-performance outcomes are regarded as the dependent variable (Y) in this research study, and the HR practices bundle is regarded as the independent variable (HRP). The regression formula has been utilized as:

$$Y = a + bHRP + e$$

$$= 29.912 + 0.251 \text{ HRP}$$

$$T = (17.322) \quad (17.272)$$

$$P = (0.000) \quad (0.000)$$

$$R = 0.520, R^2 = 0.392, \text{ Adjusted } R^2 = 0.383, F\text{-Value} = 64.21$$

$$P\text{-value for overall significance} = 0.000$$

It has a  $R^2$  of 0.392. This indicates that the model only accounts for 39.2% of the total variation; the remaining portion is explained by factors not examined in this study. The total p-value is 0.000, and the F-value is 64.21. Given that the F-value is significant at the 5% level of significance, the multiple regression model employed in this study is thus adequate and fit.

The computed p-value for the variable HR practices bundle is 0.000, indicating significance at the 5% level of significance. Thus, the HR practices bundle is a significant predictor of high-performance outcomes. Thus, it can be said that this variable significantly and strongly influences the high-performance outcomes of Nepal's financial institutions.

## Discussion and Conclusion

Many businesses recognize the importance of human resources in gaining a competitive advantage in today's highly competitive global business environment. Financial institutions are not the exception. Therefore, this study investigated the impact of HRM practices on high-performance outcomes of such institutions by using a multiple regression model. When looking at the beta coefficient, the sensitivity of a single variable job design to organizational performance is highest when looking at employee participation and remuneration structure. However, every other factor including career planning, training and development, and recruiting and selection has a favorable effect on the high-performance outcomes. However, the effects of career planning, training and development, and recruiting and selection on the behavioral consequences of high-performance outcomes are negligible. Therefore, as compared to other variables, these three HR practices are not very important predictors of high-performance outcomes of financial institutions.

In conclusion, the study discovered that all aspects of HR practices, including recruitment and selection, development and training, performance reviews, career planning, pay scales, employee involvement, and job designs, positively influence high-performance outcomes that affect organizational performance across the board. However, in terms of employee productivity, quality and innovation of high-performance; job design, employee participation, and compensation system variables have a significant impact on high-performance outcomes of financial institutions; in contrast, recruitment and selection, training and development, and career planning have minimal impact on high-performance outcomes of financial institutions. This study's main goal was to assess how best HR practices affected the high-performance outcomes of organizational performance that Pfeffer (1994) and Guest (2002) had defined. The researcher postulates that the following practices—recruitment and selection, training and development, performance appraisal, career planning, remuneration system, employee participation, and job design are related to organizational success based on Guest (2002). System-based recruitment and selection, training and development, career planning, performance appraisal, compensation system, employee participation, and job design all positively contribute to high-performance outcomes as indicated by nominal degrees of employee productivity, quality and innovation, according to regression coefficients of these activities. This could imply that Nepalese financial institutions look for qualified applicants in order to hire them. This suggests that the financial institutions in Nepal may enhance employee productivity, quality and innovation by investing a substantial sum of money in selecting the right candidates. This result is in line with those of Huselid (1995) and Guest (1997).

## Implications

A few specific criteria related to HRM practices were considered in this study in order to gather input from employees at the managerial and assistant levels of a chosen group of financial institutions. Additionally, the productivity, quality and innovation of specific financial institutions' workers have been used to quantify high-performance outcomes. The goal of this study is to preserve the relationship and correlation between the variables related to HRM practices and the high-performance outcomes of financial institutions.

The entities within the manufacturing, distribution, and service sectors have experienced considerable transformation due to the emergence of novel scientific advancements and the

application of such knowledge within the realm of commerce. For Nepalese organizations, the World Trade Organization's growth has presented both opportunities and threats. This study may shed light on the relationship between HRM practices and high-performance outcomes in the financial institutions of Nepal. The efficacy and caliber of the financial sectors business organizations offer their clients determine a great deal of their success. Taking these opinions into account, it is anticipated that this study will be beneficial in examining HRM practices in the financial sectors and how they affect the company and worker performance. In order to improve future organizational performance, top management, functional managers, and HRM managers will find the study's findings beneficial in designing their HRM practices within a strategic situation of finance institutions at both micro and macro levels. This study would be supportive for the managers to make decisions to maintain high-performance outcomes of financial institutions in Nepal.

### Research Limitations

The study is guided by appropriate research methodologies to come up with suitable findings. However, there are some important limitations under this study, which in the cross-sectional data used in this study prevents the time lag effects of the factors from being seen. The majority of the study's data were gathered via surveys from primary sources. As a result, the respondents' unique perceptions determine the validity of the results. Because every business has a different environment, the components of human resource high-performance outcomes considered in this study might not be equally applicable in every case. The study's characteristics related to human resource practices could not accurately reflect all firms, and it is limited to the manufacturing and service industries. As a result, the study's findings might not apply to every business unit.

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