

**THE CONTRIBUTION OF HUMAN RESOURCE PRACTICES TO
ORGANIZATIONAL PERFORMANCE: EVIDENCE FROM
SRI LANKAN MANUFACTURING CONTEXT**

Palagolla, N.^a and Wickramasinghe, V.^b

^aUniversity of Rajarata, e-mail: nisha_rjt2004@yahoo.com

^bUniversity of Moratuwa, e-mail: vathsala@mot.mrt.ac.lk

ABSTRACT

The objective of this paper is to show the importance of human resource (HR) practices as a powerful organizational strategy to pursue better organizational performance. The paper discusses quantitative findings of an empirical study on how HR practices namely training and development, performance appraisal, rewards, and employee relations practices (independent variable) contribute to organizational performance (dependent variable) through employee work effort (mediator). The study is based on a random sample of twenty manufacturing firms in Sri Lanka and the data were collected from senior managers through a structured questionnaire. The analysis of data is based on mean scores, correlations, and four – step regression procedure. The overall results support that employee work effort partially mediates the HR - performance relationship. The results imply that the adoption of HR practices leads to employee work effort, which in turn leads to organizational performance. The most influential HR practices on this relationship are performance appraisal, pay, benefits, and career path.

Keywords: HR practices, Human Resource Management (HRM), Organizational Performance, Employee Work Effort.

INTRODUCTION

Almost all organizations in the globe are constantly making enormous efforts to improve performance with the ever increasing market competition by reducing costs and enhancing quality, productivity, efficiency, innovations etc. that has been the norm of the present day businesses (Becker and Gerhart, 1996). Human resource (HR) of organizations is the means by which all these efforts are enabled. Therefore, it is a general consensus that HR in any organization is a pre-eminent organizational resource that can drive organizations towards success or failure (Delaney and Huselid, 1996). Therefore, the quality of HR is crucial to succeed. In other

words, a competent, committed, and motivated workforce is a strategic asset of any organization for the attainment of organizational objectives. Thus, any failure in attaining organizational objectives invariably turns back to the way how employees are managed at work (Snell and Youndt, 1995). In that sense, firms' HR practices play a major role thereby its importance allied to firms' HR function has been accelerated. In general, HR practices refer to the activities that are aimed at creating high performance or high commitment (Moriones and Cerio, 2002) among employees that create overall well-being of organizations. Ngo et al. (2008, p. 73) describes HR practices as "the exact mechanisms aimed at the

acquisition, development, and motivation of human capital". Allied to this, human resource management (HRM) is "a strategic, integrated and coherent approach to the employment, development and well-being of the people working in organizations" (Armstrong, 2009, p.4). Itami (1987 cited from Becker and Gerhart, 1996) emphasized that a properly developed HRM system acts as an invisible asset that enhances firm's capabilities when it is embedded in the operations of the firm.

These comments imply that effective system for HRM is a powerful internal resource/strategy in contemporary organizations. Schuler and MacMillan (1984) identified HR practices as a source of competitive advantage. Therefore, the prime responsibility of HRM is to attract, select, control, motivate, develop, and retain a suitable workforce. In support, Singh (2000) described that the aim of developing and managing HR function within an organizational context is to assure employees with adequate competency, motivation, and learning for the achievement of its strategic business objectives. Although traditionally HR function has not been regarded as a strategic asset, presently HR is regarded as a valued and very important asset and its effective management shows significant contribution to organizational performance (Bae and Lawler, 2000; Becker and Huselid, 1998; Delaney and Huselid, 1996; Fey and Bjorkman, 2001; Huselid, 1995; Katou, 2008; Katou and Budhwar, 2006; MacDuffie, 1995; Youndt et al., 1996). Thus, HRM has been a critical investment (Opatha, 1997). Therefore, the facts behind HRM stimulate

managers and professionals in competitive businesses to re-think HRM as a value creation process and an appropriate HRM system is required to produce strategically focused employee and in turn organizational performance. Therefore, diverse market forces do impose firms towards effective HRM portfolio in order to become supreme over their rivals. If for instance, today's businesses have been adopting a variety of HRM practices namely, staffing, training and development, rewards and recognition, employee relations, pay and benefits etc. in order to improve performance and competitiveness in the global marketplace. Therefore, contemporary organizations treat human resource management practices as productive investments rather than cost to be minimized (Becker and Huselid, 1998). Thus, effective HR practices have been substantial and an integral part of the organizational success.

Theoretical Foundation

Theory in any discipline is important as it diminishes the complexity of the empirical world through prediction and explanation of the issues or the relationships thereby both researchers and the practitioners would be benefitted by sound theoretical application and development (Wright and McMahan, 1992, emphasis added). However, the idea behind this is that the application of right theory in empirical investigations is highly critical since all decisions by researchers and practitioners will depend on it and will go hand in hand as a practice. From the outset, it can be seen that empirical researchers of HRM use many theories, models, approaches etc. and most of which

were generally focused on the importance of HR practices to promote positive organizational outcomes (Fleetwood and Hesketh, 2008). In general, theories guide to understand what is happening in the practice. In particular, it explains how HR practices affect on organizational performance through individual level HRM outcomes towards business objectives.

From the long past to date, many scholars in the field of HRM have theorized resource – based view of the firm (Barney, 1991, 1995; Conner, 1991; Wernerfelt, 1984). Resource-based view (RBV) argues that the unique resources of a firm enable sustainable competitive advantage and in turn lead superior long – term performance of the firm. In other way, RBV's primary focus is the relationships among strategy, HR practices, and the HR capital pool (Wright and McMahan, 1992). RBV is actually a blend of both organizational economics and strategic management (Wright and McMahan, 1992) and it describes that firms can create unique resources, thus competitive advantage by implementing strategies in a way that can exploit their internal strengths through responding to environmental opportunities while neutralizing external threats and avoiding internal weaknesses (Barney, 1991). For that, organizations have to form value creating strategies in formal terms, HR practices which can't be easily imitated by their competitors. Furthermore, Barney (1991) noted that the resource based view provides an influential framework in discussing the strategic management perspective of the impact of human capital on firm performance. Also, firm's valuable,

rare, non imitable and non substitutable resources are regarded as bundles of tangible and intangible assets. This view provides an economic foundation in order to examine HR role in firm's competitive advantage (Barney and Wright, 1998). It is apparent that the RBV of the firm has been the widely using theoretical application in most of the empirical studies and which has been oft-repeated topic in theoretical discussions due to its recognition and potential in assessing the value of HR and related HRM practices in creating firm's competitive advantage and other positive outcomes (Barney and Wright, 1998; Colbert, 2004; Ismail et al., 2010; Mata *et al.*, 1995; Wright et al., 1994).

Therefore, in relation to the current study HR practices can be readily regarded as a powerful internal resource with a strategic value since HR practices are the primary means through which firms create their human capital pool at work and thus achieve strategic business objectives. Also, HR practices are falling in Barney's resource classification as a powerful *organizational capital* since which underpin planning, controlling, coordinating, motivating the workforce. Further, effective HR practices are core to attract and retain competent workforce for effective functioning of the business. Thus, the differences in HR practices make differences in overall business performance (Becker and Huselid, 1998). Overall, in line with the RBV, business performance can be regarded as a function of HR practices. This has been the core concept of the RBV (Barney, 1991, 1995) and this study is

therefore in line with this core concept of the RBV.

Research Problem

Surprisingly, at present even after 20 years of extensive research on this phenomenon, contribution of HR practices on firm performance has still been a rapidly evolving research theme in the HRM arena due to key gaps in the empirical knowledge (Fabi et al., 2010; Guest, 1997; Guest, 2011; MacDuffie, 1995). Although the theories that underpin HRM have stipulated a positive relationship between HR practices and firm performance, the past empirical results reveal a mix of both positive and negative as well as less significant and weak relationships (Katou and Budhwar, 2007; Chan *et al.*, 2004) thereby the empirical findings are not conclusive. Accordingly, Delaney and Huselid (1996) and Guest et al. (2003) argued that there is still a debate on the theoretical HR – performance relationship due to some contradictory empirical findings. According to MacDuffie (1995, p. 197), only few studies have been able to confirm the positive HR – performance relationship empirically. Therefore, it is argued that why some empirical studies do not support the theories because the extant theories have clearly stated that the effective management of HR will result in HR outcomes such as employees' ability, motivation, commitment, behavior (discretionary effort) that in turn enhance firm performance.

However, as Guest (1997, p.263) highlighted, “it is not clear why this association exists”. He further asserted that “At present the studies report a promising association between HRM

and its outcomes, but we are not yet in a position to assert cause and effect” (p. 274), because so far there is a lack of convincing explanations on major elements of this link. Thus, Guest further asserted the need to improving theoretical and analytical frameworks explicitly for describing the HR – performance linkage (p. 263). In line with this ideas, Guest (2011, p. 3) wrote “there was insufficient evidence to explain why there was an association”. Wright and McMahan (1992, p.315) also stressed the need of more theory based empirical research since the existing perspectives for viewing SHRM have not yet been subjected to consistent rigorous empirical tests. As Fabi et al. (2010, p.117) emphasized “although several studies show positive relationship between HRM and organizational performance, the mechanisms behind this relationship remain poorly understood”. Therefore, Fabi and colleagues highlights the need of a more systematic approach to HRM. Becker and Gerhart (1996, p.797) added that the “extant research suggests that HR systems have considerable economic potential, but there is little consensus on how to achieve that potential”. According to MacDuffie (1995, p.197), only few studies have systematically described the conditions under which the HR – performance relationship is strongest. Consequently, it claims further attention on theoretical and analytical frameworks of this subject in order to analyze carefully how HRM leads performance and its underlying factors. Moreover, the HR – performance relationship has been much more complex than ever before due to the ever increasing competitiveness in contemporary

businesses. Hence, it is required very comprehensive thereby complex models to study how HR practices lead firm performance. Therefore, some researchers argue the mechanism or the process through which HR practices promotes organizational performance is still unexplored (Becker and Huselid, 1998; Becker and Huselid, 1999; Katou, 2011). Further, it is noted that there are very few studies have focused the impact of HR practices on firm performance in a very complex manner (Katou, 2011). Moreover, scholars in the line of SHRM point out the existing body of empirical studies are relatively limited (Becker and Gerhart, 1996; Becker and Huselid, 1998). Further, most research in this regard are confined to the western manufacturing contexts, and thus findings seem to be not conclusive (Wickramasinghe and Gamage, 2011). David Guest is one of the eminent scholars in this field who has carried out longitudinal reviews on HRM and performance asserted that 'we need to ensure that the research is not confined to the USA. We can now say with increasing confidence that HRM works. But this is a skeletal finding and we need to put a lot of flesh on the bones' (Guest, 1997, p. 274). This is a highly significant base for future research, because the credibility of HR – performance relationship will be enhanced if it is viewed in diverse country contexts using comprehensive as well as close to reality analytical models. Therefore, in sum it raises a question:

How do HR practices contribute to organizational performance?

Research Objectives

There are two objectives in order to better answer the research problem.

1. To examine the HR –performance relationship through the mediation of employee work effort.
2. To identify the most influential HR practices on employee work effort and organizational performance.

Significance of the Study

This study possesses some noticeable values and findings that contribute both the theory and practice of HRM. The context of this study is Sri Lankan manufacturing industry, which in broader aspect represents the non – western context and in particular represents the context of Asian developing countries, where it lacks extensive academic research in order to establish HR – performance relationship. Although, effect of HR practices on firm performance has been relatively well tested in the Western economies, it has no direct implications for the non – western context owing to structural, cultural and developmental differences. Therefore, some major facets of this relationship are still vague and exists an empirical gap of knowledge. The design of this research will answer this problem to some extent thereby any party who are directly or indirectly involved with the HR function in particular HR practitioners, line managers and the top management will be directly benefitted in their future HR related tasks. This study conceptualizes employees work effort as a mediator between HR practices and organizational performance because it is generally agreed that employees' individual level outcomes will be transferred to the

organizational level outcomes. Therefore, it unlocks the black box of HR – performance relationship and shows a clear picture of how HR practices happen to affect on firm performance. The practical implication of this study ranks very high since Sri Lanka is a developing country in the South Asian region and it has not yet shown a certain standard in HRM. The majority of firms operating in the manufacturing industry are small enterprises (DCS, 2006) and these firms are lacking with standard HR practices under a HR manager and a HR department. Therefore, the findings of this research would be highly significant as that will assist them to see the present situation in HRM and thereby develop appropriate policies in order to standardize HRM among manufacturing firms in Sri Lanka in a way it will foster socio-economic wellbeing in the manufacturing sector and nations as a whole.

RESEARCH DESIGN

This study is a cross sectional study employed a deductive and quantitative approach. Also, this research involves hypotheses testing in the positivist perspective in order to clearly explain the HRM – performance relationship.

Sample and Data Collection

A random sample of twenty manufacturing firms where 200 or more persons employed and located in the Western province of Sri Lanka was chosen from the data provided by the Department of Census and Statistics (DCS, 2006). Twenty senior managers participated as respondents since they are well aware of firms' current HR practices, employee work effort, and dimensions of firm

performance. Thus, a structured questionnaire based survey was carried out for collecting data during November 2011 - January 2012. The questionnaires were self administered during site visits of each firm and the data were also collected during the visits.

Measures and Reliability

The variables involved in this study were measured by adopting similar measures used in past empirical studies (Ali and Opatha, 2008; Gomes *et al.*, 2011; Opatha, 2003b; Serasinghe and Opatha, 2007; Ulrich, 1997; Williams, 2003). All the measures were rated based on a five point likert type scale ranging from 1=strongly disagree to 5=strongly agree. Cronbach's Alpha coefficients of all the variables in this study are above 0.8, thereby assure higher internal consistency of the items of each measure.

Research Model

This study has derived a research model from both theoretical and empirical evidence on HR – performance relationship. The argument behind this model is that the HR practices in organizations work as a strategic asset for developing employees to work with greater effort in a way organizations achieve higher performance. In other way, organizational performance is a firm level construct that depends on how people work (employee work effort) and then employee work effort is an outcome of how organizations treat its employees.

Thus, HR practices are the means by which management treat its employees thereby, HRM is a strategic approach

in developing employee competency, motivation, commitment etc. towards the ultimate purpose of gaining greater employee effort at work. It denotes theoretically and empirically that the success of any organization heavily depends the quality of its HR (Opatha, 2008). Aponso (2000) noted that “people should understand people” which means that people can get the best from people by responding to their needs and motivation. Figure 01 shows the schematic representation of the research model. It is generally known that all these individual level HR outcomes such as competency, motivation, commitment etc. are mutually exclusive and its final effect is employee work effort. For instance, in the practical sense, there is no guarantee that only competent employees work well or only

motivated employees work well etc. Therefore, employee work effort is an ultimate aggregate result of employees’ prior level outcomes and therefore, employees work effort is one of the most appropriate outcome variables to mediate HR – performance relationship.

Independent Variable(s)

The independent variables of this study are HR practices. The study has categorized nine HR practices into four distinct groups as follows.

1. Training and development: training, career path
2. Performance appraisal
3. Rewards: pay, benefits
4. Employee relations: grievance handling, participation, health and safety, communication

Figure 01: Schematic Representation of the Research Model

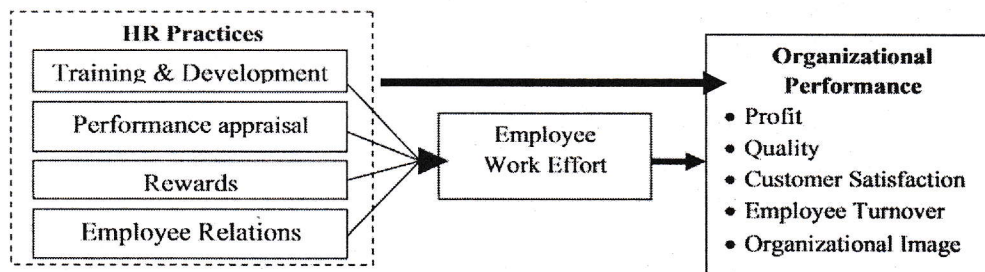


Figure 01: Schematic representation of the research model

Each HR practice was measured according to number of key features related to the effective design and implementation of HR practices such as analyzing requirements, monitoring service, revising, assuring fairness, developing employees, integrating with other HR practices, and aligning with overall business objectives.

Mediating Variable

The only intervening/mediating variable in this study which links HR practices and organizational performance is employee work effort. Accordingly, employee work effort is meant by the extent to which employees exert at work. In particular, this study measures employee work effort using the following scale relating to the generally expected outcomes of employee work effort

such as quantity, quality, efficiency, presence, and innovations at work (Table 01).

In the review of past literature, it was obvious that employee effort at work was given a less consideration as a HRM outcome that urges further empirical investigations. However, few researchers have tested how employee effort and other similar constructs such as employee involvement at work can mediate the HR – performance relationship (Boselie, 2010; Shih et al., 2012).

Table 01: Employee Work Effort Scale

No.	Item
1	Our employees often achieve targets assigned for them individually or as groups.
2	Our employees often complete their daily workload.
3	Our employees often perform better than what is expected at work.
4	Our employees often maintain the quality of their work.
5	Our employees often complete their work on time.
6	Our employees rarely be absent at work.
7	Our employees often show improvements at work.
8	Our employees suggest new ideas for product and process developments.

Source: Authors Constructed

Dependent Variable

The only dependent variable of this study is organizational performance. According to past empirical studies, organizational performance can be measured diversely (Bae and Lawler,

2000; Gomes et al., 2011; Salaheldin, 2009; Jusoh *et al.*, 2008; Parthiban and Goh, 2011; Rao, 2006; Rouse and Putterill, 2003). For instance, it can be considered financial measures, non financial measures or a combination. Therefore, this study has adopted fair criteria to measure organizational performance covering financial (profit), operational (quality), customer related (customer satisfaction), employee related (employee turnover), and organizational (organizational image) aspects.

Hypotheses

There are four hypotheses drawn for this study based on the theoretical arguments of the RBV of the firm (Barney, 1991, 1995) as well as Baron and Kenny (1986, p. 1177) and Frazier and colleagues' (2004, p.125) four conditions to explain the mediation. Accordingly, it is hypothesized that,

H1: HR practices are positively and significantly associated with organizational performance.

H2: HR practices are positively and significantly associated with employee work effort.

H3: Employee work effort is positively and significantly associated with organizational performance.

H4: HR practices positively and significantly contribute to organizational performance through a complete mediation of employee work effort.

RESULTS AND DISCUSSIONS

This paper deals with three major statistical findings to show the extent

to which HR practices are adopted in contemporary manufacturing firms in Sri Lanka and how HR practices relate and contribute to organizational performance through employee work effort.

Adoption of HR Practices

Table 02 shows the mean scores (M) of HR practices to reveal the level of HRM adoption in terms of their effective design and implementation. The level of HRM adoption was redefined as “low”, “moderate”, and “high” (see below table 02) based on the five point likert scale used in the questionnaire for rating the data.

Table 02: Adoption of HR Practices

HR Practices	(M)
Training and development	3.75
<i>Training</i>	3.73
<i>Career path</i>	3.78
Performance appraisal	3.65
Rewards	3.72
<i>Pay</i>	3.56
<i>Benefits</i>	3.88
Employee relations	3.58
<i>Grievance handling</i>	3.65
<i>Participation</i>	3.46
<i>Health and safety</i>	3.53
<i>Communication</i>	3.68
Overall HR Practices	3.68

Source: Survey Data

Scale: Low (M<3), Moderate (M<4), High (M≥4)

Results show that the adoption of overall HR practices in the selected manufacturing firms is moderate (M=3.68) while it has been same with all the individual HR practices considered in the study. However, the highest level of adoption was reported from training and development practices (M=3.75) and the lowest

level of adoption was reported from employee relations practices (M=3.58) albeit employee relations have been a major determinant of organizational effectiveness.

Further, in relation to the individual HR practices, the highest level was reported from the benefits (M=3.88) whilst the lowest was reported from employee participation (M=3.46) in management decision making. It is also notable that the rewards practices in those organizations are considerably sound (M=3.72). In contrast, the adoption of pay and health and safety practices shows that they are considerably less among the HRM initiatives of the organizations.

The Relationships

In investigating how and which HR practices mostly contribute to organizational performance; it is highly significant to establish the relationships between predictor variables and the outcome variables at different points of the model. Accordingly, this paper examines how individual HR practices relate to employee work effort and organizational performance, and then how employee work effort relates to organizational performance.

HR Practices and Organizational Performance

Table 03 shows the relationships between individual HR practices and organizational performance using Pearson's correlation coefficients. In establishing relationships, it is substantial to examine the direction, strength, and the level of significance of each individual relationship.

Results show that almost all HR practices are positively and significantly correlated with organizational performance except grievance handling and participation practices in this study. It makes sense that higher the level of adoption of HR practices in connection with their effective design and implementation results in higher level of organizational performance and vice versa.

Table 03: Relationships between HR Practices and Organizational Performance

HR Practices	Organizational Performance (r)
Training & Development	.59**
Training	.45*
Career path	.68**
Performance Appraisal	.92**
Rewards	.81**
Pay	.71**
Benefits	.75**
Employee Relations	.76**
Grievance Handling	.39
Participation	.37
Health & Safety	.55*
Communication	.61**
Overall HR Practices	.92**

Source: Survey Data

** Correlation is significant at the 0.01 level

* Correlation is significant at the 0.05 level

Of these HR practices, performance appraisal ($r=.92^{**}$), benefits ($r=.75^{**}$), pay ($r=.71^{**}$), career path ($r=.68^{**}$), and communication ($r=.61^{**}$) practices respectively show strong positive correlations with organizational performance at a higher

level of significance (99%). This denotes that as far as organizations concern about employees' career appraisal, rewards and career development relatively lead towards higher performance than other HR practices of the firm. Therefore, it substantiates the first hypothesis (*H1*) of the study. This finding is practically acceptable since all HR practices do not affect organizational performance in the same way. The direct recipients of HR services are the employees. Therefore, how HR practices relate to organizational performance depends on how HR practices relate to the employees.

HR Practices and Employee Work Effort

The purpose of effective adoption of HR practices in any organization is to enhance employee work effort towards organizational performance. Therefore, it is worth to examine how firm's HR practices relate to its employee work effort (Table 04) since that may in turn contribute organizational performance. On the other hand, the relationships between HR practices and employee work effort denote that how far the employees are treated through the HRM function of their firm.

Table 04: Relationships between HR Practices and Employee Work Effort

HR Practices	Employee Work Effort (r)
Training & Development	.55*
Training	.41
Career path	.66**
Performance Appraisal	.95**

Rewards	.91**
Pay	.84**
Benefits	.81**
Employee relations	.87**
Grievance handling	.52*
Participation	.44
Health & safety	.64**
Communication	.
Overall HR practices	.98**

Source: Survey Data

** Correlation is significant at the 0.01 level

* Correlation is significant at the 0.05 level

The general consensus behind HR practices and employee work effort is that higher the level of adoption of firm's HRM and higher the employee effort at work and vice versa.

Results show a similar finding as with the relationships between HR practices and organizational performance. It is obvious that HR practices affect organizational performance through employee work effort. Therefore, finding same HR practices in both relationships are highly practical. Accordingly, it can be emphasized that performance appraisal ($r = .95^{**}$), pay ($r = .84^{**}$), benefits ($r = .81^{**}$), career path ($r = .66^{**}$), and communication ($r = .64^{**}$) practices respectively show strong, positive, and highly significant (99%) relationships with employee work effort. It senses that employees exert at work if they are challenged by appraising their performance, rewarded well, and provided with career development opportunities. These are in fact major concerns of any workforce, thereby highly sensible. However, training ($r = .41$)

and health and safety ($r = .44$) practices of these firms did not show strong and significant bearing on employee effort at work. The overall result substantiates the second hypothesis ($H2$) of the study.

Employee Work Effort and Organizational Performance

Table 05 shows the relationship between employee work effort and organizational performance. This is an important relationship that needs to be established for explaining how HR practices contribute to organizational performance through employee effort at work. Since employee work effort as the mediator or the intervening variable of this study, it is required to be related with the dependent variable (organizational performance) as it was with the independent variable (HR practices) in order to reveal the mechanism behind the direct relationship between HR practices and organizational performance. In other words, this relationship shows whether employee work effort can mediate the HR – performance relationship.

As per the result in table 05, employee work effort is positively, strongly, and highly significantly (99%) correlated with organizational performance. Therefore, it means that higher the employee work effort, higher the organizational performance and vice versa.

Table 05: Relationship between Employee Work Effort and Organizational Performance

Mediator	Organizational Performance (r)
Employee work effort	.90**

Source: Survey Data

** . Correlation is significant at the 0.01 level

The use of employee work effort as a mediator between HR – performance relationship seems more practical because employees are the direct recipients of HRM services thereby it comes like a link of how organizations serve its employees and in turn employees decide how they may serve the organization. Therefore, it substantiates the third hypothesis (*H3*) set for the study. In sum, these correlations (table 03, 04, and 05) show that HR practices relate to organizational performance directly as well as indirectly through employee work effort.

The Impact

Although the correlations are a good sign of relationships between variables, it is required to assess the strength of each relation by calculating unstandardized regression coefficient (β) and the level of significance (p) in order to explain how HR practices contribute organizational performance through the mediation of employee work effort. In addition, the regression coefficients of individual HR practices are also analyzed in order to identify the most influential HR practices on the HR – performance relationship.

In favor, Baron and Kenny (1986, p. 1177) and Frazier *et al.* (2004, p. 125) elaborate that there must hold four conditions for establishing the mediation. Accordingly, the first step is to show that there is a significant relation between the predictor (independent variable) and the outcome (dependent variable). The second step is to show that the predictor is related significantly to the mediator. The third step is to show that the mediator is related significantly to the outcome. However, it is not sufficient just to correlate the mediator with the outcome since then the effect of the mediator is estimated without controlling the effects of the predictor. Therefore, the third regression must consider independent variable and the mediator variable simultaneously as predictors on the outcome. Then the fourth step is to show the strength of the relation between the predictor and the outcome (step 01) is significantly reduced when the mediator is added simultaneously as a predictor to the regression. Further, based on the regression coefficient and the level of significance estimate for the predictor of this regression, it is required to decide complete or partial mediation. Therefore, each link of the model was regressed using the four – step regression procedure (performed with three regression equations) and the results are discussed as follows.

Impact of HR Practices on Organizational Performance

According to the results (Table 06), the overall unstandardized regression coefficient (β) of the relation between overall HR practices and organizational performance is 1.05 and $p = .00$ ($p < .01$), thereby there is a

significant relation between HR practices and organizational performance and in other words, HR practices affect organizational performance. Therefore, the first condition of the mediation analysis is met. Also, it confirms further the first hypothesis (H1) of the study.

In order to identify most influential individual HR practices on organizational performance, a regression was carried out with all the nine HR practices as the independent variables and organizational performance as the dependent variable. Result generated only one regression model in which all the nine HR practices were entered (Table 06). Accordingly, the top four contributors are performance appraisal ($\beta = .78$) followed by pay ($\beta = .30$), career path ($\beta = .19$), and benefits ($\beta = .15$) as they show the highest significant relative contribution in the prediction of organizational performance. Interestingly, these findings are in line with the correlations of the same (Table 03).

Table 06: Impact of HR Practices on organizational Performance

Individual HR Practices	β	Overall HR Practices		
		β	R^2	p
Training	.08*	1.05	.84	.00
Career Path	.19**			
Performance Appraisal	.78**			
Pay	.30**			
Benefits	.15**			
Grievance Handling	.06*			
Participation	.10			
Health & Safety	.13*			
Communication	.13*			

Source: Survey Data

Outcome: Organizational performance
 ** $p < .01$; * $p < .05$

Also, the impact of overall HR practices on organizational performance can be explained by the value of the adjusted multiple correlation square (R^2) that is 0.84. It means that there is 84.3 per cent of total variance in the level of organizational performance by the influence of HR practices of the firm which is considerably very large.

Impact of HR Practices on Employee Work Effort

The regression result (Table 07) revealed that the unstandardized regression coefficient ($\beta = 1.16$) related to the relation between overall HR practices and employee work effort is significant ($p < .01$). Therefore, the second condition of the mediation analysis is met. Also, it confirms further the second hypothesis (H2) of the study.

Table 07: Impact of HR Practices on Employee Work Effort

HR Practices	β	β	R^2	p
Training	.08*	1.16	.95	.00
Career Path	.25**			
Performance Appraisal	.24**			
Pay	.30**			
Benefits	.21**			
Grievance Handling	.09*			
Participation	.15			
Health & Safety	.01			
Communication	.01*			

Source: Survey Data

Outcome: Employee work effort
 ** $p < .01$; * $p < .05$

Moreover, the findings also revealed relative individual contribution (β) of each HR practice to employee work

effort. Accordingly, the highest contribution has made by pay ($\beta = .30$) followed by career path ($\beta = .25$), performance appraisal ($\beta = .24$), and benefits ($\beta = .21$) practices respectively. In fact, these top four HR practice regardless the order are in line with the strength of correlations between HR practices and employee work effort shown in Table 04.

Interestingly, the overall findings related to the relative contribution of individual HR practices to the prediction of employee work effort and organizational performance is considerably equal as per correlations and regressions analyses. It denotes that performance appraisal, pay, benefits, and career path practices could be the most influential HR practices on organizational performance directly as well as indirectly through employee work effort.

Regression results (Table 07) considering overall HR practices as the independent variable and employee work effort as the dependent variable reveal the impact of overall HR practices on employee work effort is very large according to the value of the adjusted multiple correlation square ($R^2 = 0.951$). Consequently, 95.1 per cent of total variance in the level of employee work effort can be explained by the influence of overall HR practices of the firm.

Impact of Employee Work Effort on Organizational Performance

According to the four – step regression procedure, the third condition to fulfill the mediation is to show the relation between the mediator and the outcome. Therefore,

in relation to the present study, a regression analysis was carried out where HR practices and employee work effort simultaneously has been the predictors and the outcome has been organizational performance. The reason behind this regression is that it is not sufficient just to assess the relation between mediator and the outcome without considering the effect of the predictor. This is because the mediator and the outcome may be related as they are both caused by the predictor. Thus the initial variable (predictor) must be controlled in establishing the effect of mediator on the outcome.

According to the result shown in Table 08, the unstandardized regression coefficient related to the relation between employee work effort and organizational performance is still significant ($\beta = .74$ and $p < .01$). Therefore, it fulfills the third condition of mediation. Also, it confirms further the third hypothesis (*H3*) of the study.

As per the fourth step, it decides a complete mediation or a partial mediation. Accordingly, a complete mediation occurs when the unstandardized regression coefficient of the predictor is zero when the predictor and the mediator are entered simultaneously to the model as predictors (indirect relation) or it can also be argued when it is less and not significant. Also, a complete mediation occurs if the indirect effect ($a \times b$) equals the total effect. The indirect effect in this case is the effect of HR practices on employee work effort (if *a*) and of employee work effort on organizational performance (if *b*). The total effect is the direct

effect of HR practices on organizational performance.

Results show that the unstandardized β coefficient of HR practices is .67 that is less than the direct relation between HR practices and organizational performance ($\beta = 1.05$), but it is greater than zero and still significant. Therefore, it seems that employee work effort partially mediates the effects of HR practices on organizational performance. Going further, a partial mediation was confirmed since the indirect effect of HR practices on organizational performance is less ($1.16 \times .74 = 0.86$) than the total effect of this relation which is 1.05. Accordingly, the strength of mediation (Shrout and Bolger, 2002) is 0.82 ($0.86/1.05$). Therefore, about 82 per cent of the total effect of HR practices on organizational performance is mediated by employee work effort which is considerably high. Thus, employee work effort is highly powerful mediator on the HR – performance relation. Also, this is practically justifiable since organization's success or failure is mainly depends on how its employees effort at work that in turn depends on how an organization manages its employees. Hence, if employees are treated well, the return will also be well.

Table 08: Impact of HR Practices and Employee Work Effort on organizational Performance

Predictors	β	p	R	R ²
HR practices	.67	.02	.92	.83
Employee work effort	.74	.00		

Source: Survey Data

Outcome: Organizational Performance

The results also revealed that HR practices and work effort in concert strongly and significantly relate to organizational performance ($R = .92$) and its relative contribution to the prediction of organizational performance is 83 per cent ($R^2 = .83$) that is still considerably very large, but it is also bit less than the contribution made alone by HR practices ($R^2 = .84$). The overall findings are graphically represented in Figure 02. Thus, the findings show firm's HR practices contribute to organizational performance through a partial mediation of employee work effort. This finding reveals the mechanism between HR practices and organizational performance to some extent. Hence, the findings partially substantiate the fourth hypothesis ($H4$) of the study.

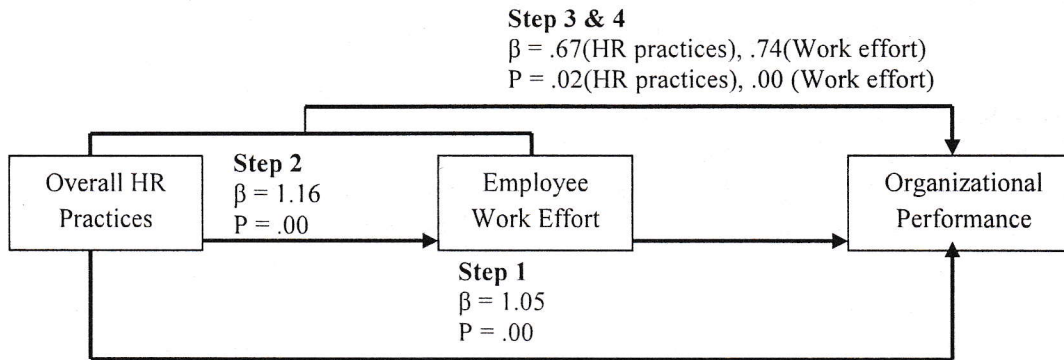
CONCLUSIONS, IMPLICATIONS, AND FUTURE RESEARCH

The purpose of this paper is to show the importance of the adoption of HR practices in firms as an extremely influential source of organizational performance. In favor, the correlations presented in the analysis (Table 03 and 04) show that the majority of HR practices are strongly and positively

correlated with employee work effort and organizational performance at a

higher level of significance.

Figure 02: Testing the Mediation



Accordingly, performance appraisal, pay, benefits, and career path were found as major contributors to employee work effort and organizational performance. This finding was further confirmed by the results of the regression analyses (Table 05 and 06). Further, the overall unstandardized regression findings of this study met the first three conditions of mediation and according to the fourth step, it was decided that employee work effort partially mediates the HR – performance relationship. The results imply that HR practices affect on organizational performance (step 01), HR practices affect on employee work effort (step 02), employee work effort affect on organizational performance (step 03), and the final step implies that HR practices affect on employee work effort and employee work effort in turn affect on organizational performance since the β value of overall HR practices when analyzed simultaneously with employee work effort is greater than zero, but

considerably less ($\beta = .67$) than the β value of HR practices when regressed alone ($\beta = 1.05$). Also the relation is still significant ($p < .05$).

The findings of this paper are therefore highly significant since most strikingly it contributes to opening the black box between HR practices and organizational performance. In fact, it contributes to the dearth of the extant empirical knowledge thereby supports the credibility of the theoretical establishment of the HR – performance relationship.

Also, the findings of this study would be very helpful for the key players of the HRM function, management of the contemporary organizations, and the manufacturers as a whole to rethink of the adoption of HR practices as a very reliable source of increased employee work effort and organizational performance. Thus, effective HRM will bring both organizations and its employees to a win – win situation.

Moreover, the findings indirectly imply that the effective adoption of HR practices may enhance the socio – economic status of the nations through individual outcomes and improved productivity of all organizations (Opatha, 1992; June 28, 2011). However, the findings would be more reliable if the study could be based on a larger sample as well as the investigations could be carried out longitudinally rather than having cross sectional investigations.

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