

## THE MEDIATING ROLE OF EMPLOYEE PERFORMANCE: ASSESSING THE IMPACT OF SHRM PRACTICES ON ORGANIZATIONAL PERFORMANCE

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### Abstract

The study aims to examine the impact of training and development on organizational performance, with a mediating role of employee performance. The importance of Human Resource Management (HRM) practices in achieving organizational success has gained recognition, as organizations realize that it is people who drive their performance. However, many companies have not fully embraced HRM practices, including training and development, due to affordability, fear, or a lack of understanding of their value and contribution. The primary objective of HRM is to ensure organizational success through a competitive, competent, and self-motivated workforce. Rigorous HRM practices, particularly training and development, play a vital role in achieving this objective. Extensive research has been conducted to establish the connection between HRM practices and organizational performance, and numerous studies have found positive relationships between them. This study will be investigating the impact of training and development on an organizational performance. Additionally, the study aims to examine the mediating role of employee performance between HRM practices and organizational perceived performance. The findings of this study will be contributing to the existing body of knowledge on HRM practices and their impact on organizational performance. It will provide insights into the significance of training and development in enhancing employee performance and subsequently driving organizational success. The study will also shed light on the mediating role of employee performance in the relationship between HRM practices and organizational perceived performance. By understanding the linkages between training and development, employee performance, and organizational performance, organizations can make informed decisions about the implementation and improvement of HRM practices. Ultimately, this study aims to highlight the importance of effective HRM practices, particularly training, and development, in achieving organizational success in today's competitive business environment.

## Introduction

The importance of Human Resource Management (HRM) practices gained recognition in the corporate and professional communities as it became clear that it is people who drive organizational success, not just buildings. While HRM is not a new concept, it represents an evolved form of people management. In today's business environment, there is a significant need for HRM to ensure that organizational objectives are achieved through effective people management. While organizations have always aimed for a strong HRM system for success, only a few companies have established separate HRM departments due to affordability, fear, or a lack of understanding of the value and contribution of HRM practices, particularly training and development. The foremost objective of HRM is to ensure organizational success through a competitive, competent and self-motivated human asset. This is possible only when there are rigorous procedural HRM practice particularly training. Ulrich (1997) said that to capitalize on new opportunities, HRM systems could be the main source. Sett (2004) argued that the globalization of the South Asian economy has been accompanied by an increasing use of HRM practices.

The success of an organization is primarily dependent on its most important resource: its people. but this assumption has been challenged by those who believed that organizational success depended on effective implementation of appropriate HRM policies and procedures. There is substantial research answering two main questions (i) Do HRM practices make a positive impact on organizational performance? (ii) What can be done to make HR a good thing? Rurcell et al. (2003). Extensive research has been conducted to establish the connection between HRM practices and organizational performance. Ulrich (1997) human resource practices appear to matter, as confirmed by survey results, though the degree of results varies in the different populations and sample size. Huselid & Becker (1996) conducted a study of 740 companies and concluded that organizations having HRM practice training and development were better performers. Patterson et al. (1997) examined the link between organizational performances and human resource practices, and identified significant variation where productivity increased by (18%) and profitability by (19%) with good HR management. Thompson (1998) studied the impact of high-performance work practices like Training and development and job rotation and found positive relationship with organizational performance. Teseema et al. (2006) studied Training and development in relationship with perceived employee performance and found a positive relationship. Singh (2004) found that there was a positive relationship amongst several HRM practices training ( $r = 0.32$ ), compensation system ( $r = 0.32$ ) employee participation ( $r = 0.32$ ) with firm performance. Out of these practices only Training ( $\beta = 0.37, 0.39$ ) which clearly speaks about the importance in the field of corporate performance. Wan et al. (2002) examined the positive relationship between Training and development and firm performance. Results calculated through regression suggested that effective

implementation of Training increased organizational performance. Hierarchical regression results reflected a possibility that different aspects of performance could be affected by different HRM variables. This study is designed to investigate the impact of training and development on organizational performance index comprising on perceived organizational performance; Marris, Tobin's Q, Return on Equity, and Return on Assets, with mediating role of employee performance between HRM practices and organizational perceived performance, as done by (Delaney, 1989; Cucher Gershenfeld & Barney, 1991; Katou, 2008; Ya-Fen, et al. 2009; Choi, 2010; Delery & Doty, 1996; Harel & Tzafrir, 1999; Wright & McMahan, 1992; Arthur, 1994; Pfeffer, 1994; Lado & Wilson, 1994; Huselid, 1995; MacDuffie, 1995; Becker & Gerhart, 1996; Batt, 2002; Datta, 2003; 15 Singh, 2004; Gerhart, 2005; Teseema, et al. 2006; Chenhall, 2007; and Budhwar, et al. 2010).

### **Training & Development (T&D)**

“Training is something we hope to integrate into every manager's mindset” (Chris Landauer)

A key component of human resource management (HRM) that can significantly affect organisational success is employee training and development. Higher levels of employee engagement, productivity, and retention are frequently observed in organisations that make investments in their employees' training and development. Training and development initiatives can improve workers' knowledge and abilities, which can lead to greater job performance and favourable business results, according to research. Additionally, such initiatives can promote a culture of ongoing education and improvement, which can help an organisation become more creative and adaptable. Given the advantages of employee training and development, it is becoming more and more important for businesses to include such initiatives in their overall HRM strategies. Chris Landauer recommends incorporating training and development into every manager's mindset to ensure that the organization can fully leverage its human capital.

In present competitive market organizations, the need training remains a major activity of Human Resource Development (HRD) practice (Nordhaug, 1989) for employee development and their Developing competencies and skill sets (Gritz, 1993). To perform effectively, at a managerial position, employees go through dynamic process of training and development (Baldwin & Padgett, 1994). Training activities are considered as an strategic integral exercise to acquire competitive advantages over the competition by treating employees a valuable assets for the organisation (Barney, 1995). In this competitive world, one of the key strategies to attain competitive advantage is, conducting a comprehensive training programme properly which helps to achieve organizational objectives and career progressions (Dobson & Tosh, 1998) by increasing organizational and employee's productivity (Ng & Siu, 2004). 21 Training organized for

bilateral benefits (employees and organization) contributes to high effectiveness (Noe, 1986). Enhancing employees' performance is a high demanding and continuous practice that enables organizations to compete within the competitive marketplace. It is possible when employees' attitude, knowledge and skills are developed on a regular basis. Although training is an expensive activity yet it can give various advantages, like improved employee performance, increased productivity and employee development (Elangovan & Karakowsky, 1999).

## **THEORETICAL AND EMPIRICAL WORK**

Extensive theoretical and empirical research has demonstrated the positive impact of training and development on organizational performance. By keeping up-to-date with skills and knowledge, employees can improve their job performance and contribute to the organization's competitive edge. This is particularly true when it comes to fostering a culture of innovation, change, and development, which is essential for staying competitive in today's business environment. (Booth & Snower, 1996). Importance of training and team working is increasing because of interdependency and integration of assignments at site. Russell et al. (1985) A study conducted on retail stores found a significant positive correlation between the percentage of trained employees and organizational performance, as measured by volume per employee and store image. Training evolves employees' professional approach and positive aptitude, in addition to skill enhancement that contributes substantially towards revenues (Pfeffer, 1998.a) People are the most valuable asset' nobody can rebuff it. employees are undervalued, undertrained, and underutilized, which can lead to stress, low job performance, and reduced profitability (Bartel, 1994). Sels, et al. 2003; Singh, 2004). Organizations invest in employee training and development to improve their attitude, skills, abilities, and job performance. When training is aligned with the organization's goals and objectives, it has a positive impact on organizational performance. (Arthur, 1994; Huselid, 1995; Wan, et al. 2002; Patrick, et al. 2003; (Elangovan & Karakowsky, 1999 Training is critical for organizations to meet their staffing needs and to develop their employees' knowledge and skills. Training programs can offer numerous benefits, such as staff development, increased productivity, and improved job performance. However, these programs can be costly investments, and there is growing concern about their cost-effectiveness. Many organizations are adopting training and development programs to gain strategic advantages and achieve high levels of performance. (Brown, 2005) practitioners and researchers are investing substantial money, effort and time to figure out the essence of employee training from the last 30-plus years (Emadi, et al. 2007). In this research study, training and development is considered as an independent variable to test T&D contribution into organizational performance.

## Variable framework and hypotheses

Variance in the dependent variable, perceived organizational performance, Marris Ratio, Tobin's Q, ROE and ROA can be explained by one independent variable Training and development the independent variables training & development, were taken for the study. Intervening variable employee performance was used to test mediation. To measure organizational performance, Marris ratio, Tobin's Q, Return on Equity, Return on Assets and organizational perceived performance were selected. Thus, the independent variables considered here would significantly explain the variance and perceived organizational performance and the employee performance was used as mediating variable between dependent and independent variables.

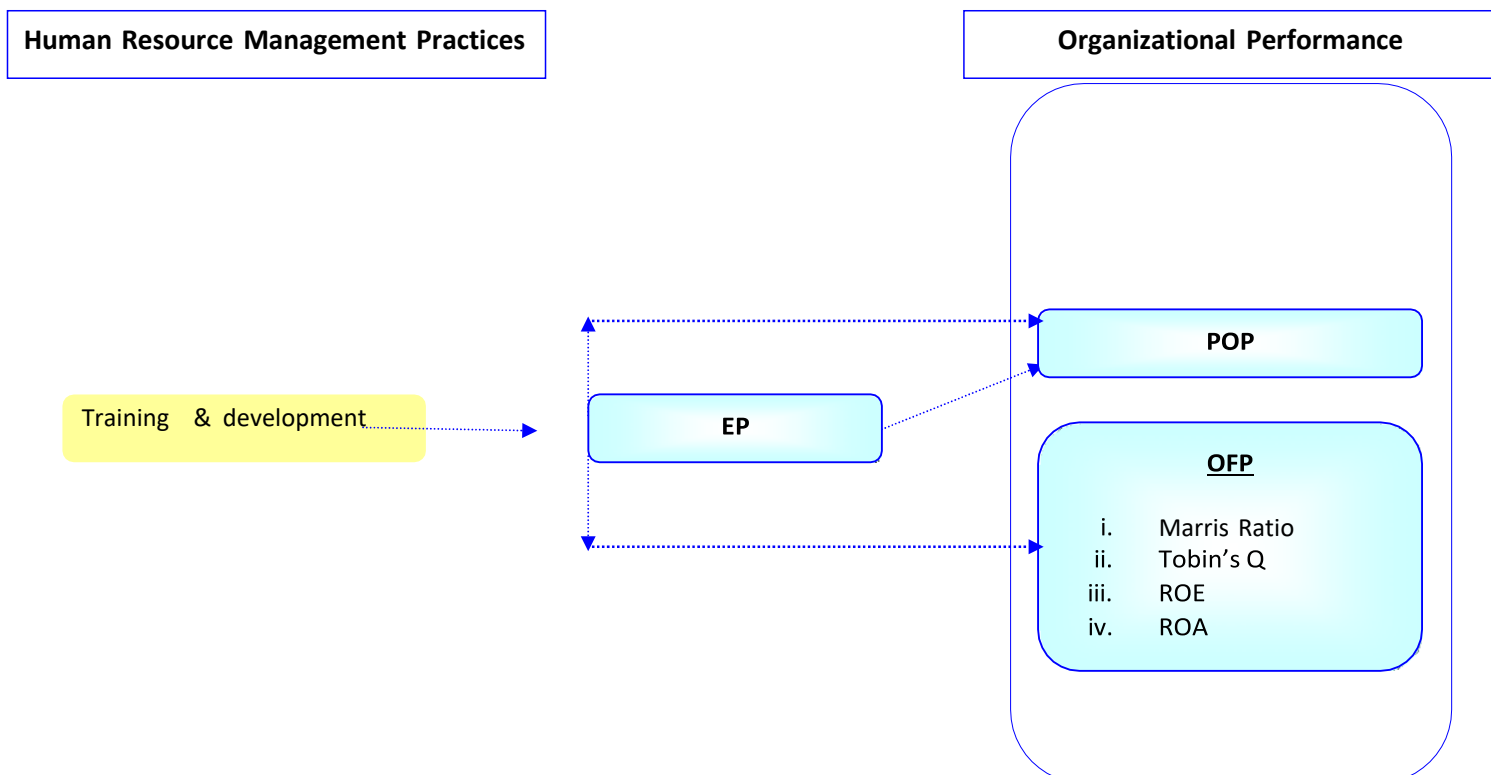
### Training & Development

H1a: Training & Development positively effects Perceived OrganizationalPerformance.

H1b: Training & Development positively effects Organizational FinancialPerformance.

H1c: Employee Performance mediates relationship between Training & Development and Perceived Organizational Performance.

### Theoretical model



## METHODOLOGY

### Sample and survey procedure

350 HRM professional of 129 different listed companies from 5 different financial sector industries were selected for the study of National stock exchange of India. the sample of employees was obtained CIME (2022) online data available. The data collection focused on large organisations having separate HR department or training centre for employees which is managed by experienced professionals. Respondents were asked to consider the overall management of the majority of employees in the workplace for which they had HRM responsibility. nearly 27 per cent response rate delivering a sample of respondents from most industry groups. Most of the respondents (72.8 per cent) were the most above rank of DM HRM manager or a senior member of HRM Banking, Insurance, Leasing, , and Investment was organized In our sample 41 per cent of the workplaces agreed that they had good employee relations, scoring 5 and above (agree responses) on this 7 point scale. Two of the managers did not respond to the question regarding a union presence in their company, while 145 managers answered positively and 32 managers answered negatively. Of these177 respondents (82 per cent) were from workplaces with a union presence and 32 (18 per cent) were from workplaces without a union presence.

### Measures

The survey covered questions were designed on seven points Likert scale with options from strongly agree to strongly disagree. Each option was assigned a scale. 7 = strongly agree, 6 = agree, 5 = somewhat agree, 4 = indifferent, 3 = somewhat disagree, 2 = disagree and 1 = strongly disagree. To measure the training and development, used by Snell & Dean (1992), Boselie et al. (2001), Singh (2004), Laka (2004), Qureshiet al. (2007). Like most researches in social sciences, in this study, the questionnaire was used for primary data collection. The testing of the hypotheses required the construction of scales which have validity, reliability and unidimensionality (Kerlinger & Lee, 2000) The questionnaire was divided into two sections (A) and (B), (A) consisted of personal and company information based on nominal and ordinal scaling, while section (B) contained questions relating to Human Resource Management practice which training nad development

**Table 1: Descriptive Statistics**

	N	Minimum	Maximum	Mean	S. D
Industry Type	50.0	2.00	3.00	1.68	1.27
Organizational Life	50.0	2.00	54.00	22.38	22.46
No of Employees	50.0	1.0	14.000	4.157	5.206
Gender	50.0	2.00	2.00	1.78	.42
Age	50.0	24.00	35.00	32.34	7.26
Education	50.0	12.00	17.00	17.00	.99
Experience	50.0	2.00	20.00	7.71	4.93
TD	50.0	3.30	5.90	6.55	.70
Valid N (list wise)	50				

Result shows that almost all the sample respondents agreed with all the questions asked about different training and development as mean values for all the variables are more than ( $m > 5$ ) and standard deviation value is lesser than one ( $SD < 1.0$ ).



**Table 1.2: Correlation Matrix of demographic variables**

	InT	OrL	Gender	Age	Edu	Exp	NOE	POP	EP	TD
InT	1									
OrL	-.13	1								
Gender	-.23	.285*	1							
Age	-.414**	.273	.317*	1						
Edu	-.300*	-.034	-.296*	.063	1					
Exp	-.423**	.259	.459**	.837**	-.103	1				
OP	-.221	-.205	-.223	.085	.377**	.096	.247	1		
EP	-.232	-.06	-.136	.089	.284*	.038	.452**	.519**	1	1
TD	-.361*	-.153	.021	.139	.456**	.114	.352*	.695**	.641*	.673*

\*. Correlation is significant at the 0.05 level (2-tailed). \*\*. Correlation is significant at the 0.01 level (2-tailed).

the correlation values suggest a significant positive relationship between the variable training and development ( $r = .695$ ) ( $r = .641$ ) is having a strong positive correlation ( $r = .679$ ) with organizational performance and positive ( $r = .335$ ) with employee performance.

Reliability At initial stage coefficient alpha (Cronbach, 1951) was applied. Data was analysed to measure reliability. The study computed separate and combined reliability estimates, which are similar to the normally used coefficient alpha statistics. Cronbach value beyond ( $\alpha = .7$ ) signifies acceptable reliability (Cuieford, 1965)

#### Reliability Analysis

(Cronbach's Alpha)	(□) Values
<b>Perceived Organizational Performance (POP)</b>	(□ = .742)
Quality of products/services has been improved.	.80
Development of new products or services is major activity in our organization.	.80
Organizational ability to attract employees has improved.	.79
Ability to retain employees is a major strength of our organization.	.79
Satisfaction of customers/clients is preferred concern of our organization.	.80



Management and employees are having trustful relationship with each other .79 Market  
Share of organization has been increased. .80 Our company has  
better standing in the market now, as compared to last 5 years. .81 Organization shares are  
improving in the stock exchange. .80  
Organization sets SMART targets for the employees. .80

### Employee performance

( $\square = .763$ )

Quantity of employees' work output has improved in last five years. .74  
Coming up with new ideas is appreciated in the organization. .74  
Most of the employees achieved organizational goals of last 5 years. .71  
Targets given to different employees are often met. .72 Over  
all employees targets achievements has improved over the last 5 years. .73 Employees  
feel happy to work in teams. .73  
Majority of employees can work independently and give high performance. .71  
Employees in organization have been enabled to make decisions well. .70 Employees'  
communication skills have been improved in this organization. .72 Employees'  
competencies are in line with the org. operational and strategic goals. .71 **Training &**

### Development

( $\square = .821$ )

Our organization conducts extensive Training and Development (T&D) programs .76  
Employees at each job normally go through T&D programs every year. .76 Training  
needs are identified through a formal need assessment mechanism. .73  
There are formal training programs to teach new employees the skills they need to  
perform their job .75  
Trainings needs identified are realistic, useful and based on the business strategy  
of the organization .75  
There are formal training evaluation methods to assess effectiveness of training. .75 The  
organization has a system for calculating the cost and benefit of training. .74 T&D has  
helped reduce employee turnover in our organization .76  
T&D has resulted in higher employee performance in our organization .74 T&D has  
resulted in higher productivity and financial returns for the organization. .76

hypothesis H1, i.e., Employee performance mediate relationship between training & development and perceived organizational performance, same process was repeated to regress the model by using training and development as independent variable. The main effect size reduced from ( $\beta = .281, p < .000$  to  $\beta = .217, P < .000$ ) while change in explained variance was reduced from ( $\Delta R^2 = .069, p < .001$  to  $\Delta R^2 = .040, p < .000$ ). Thus, after controlling the effect of the mediator, main effects were reduced; therefore, it can be said that employee performance mediates the relationship between training & development and perceived organizational performance.

### Limitations of data collection

Data were collected from the single source of the human resource professional. The fear with a single source is that it may cause common method bias for the independent and dependent variables, producing inflated estimates of the relationships between the variables (Podsakoff and Organ, 1986). However, the four dimensions derived from the data in the factor analysis shown in Table I suggest that this is not the case and surveys filled out by a single well-informed informant are a common procedure when sample size and costs may become prohibitive (Klassen and Whybark, 1999)

### Results

Regression Analysis, (POP) as dependent and HRM practices as independent variable

	Banking Industry			Insurance Industry			Investment Industry		
	B	R <sup>2</sup>	Sig.	B	R <sup>2</sup>	Sig.	B	R <sup>2</sup>	Sig.
Training & Development	.461	.132	.001	.440	.071	.043	.228	.025	.204

Regression Analysis, (Marris Ration) as dependent and HRM practice as independent variable

Banking Industry Insurance Industry Investment Industry.

Banking Industry			Insurance Industry			Investment Industry		
B	R <sup>2</sup>	Sig.	B	R <sup>2</sup>	Sig.	B	R <sup>2</sup>	Sig.

Training & Development	-0.722	0.018	0.313	0.099	0.000	0.953	0.049	0.019	0.365
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Regression analysis with financial performance indicator Marris ratio as dependent variable and Training and development as an HRM practice as independent variables were tested in three industries. T&D significant contribution towards the financial performance of tested Training and De ( $\beta = .1.333$ ,  $P = .004$ )

## Discussion of Findings

The questions framed on demographics relationships, such as age, gender, education, experience, industry type, organization life and number of employees' variables with perceived organizational and financial performances. The results indicated that some demographic variables had significant relationship with perceived organizational performance and with organizational financial performance indicators. The age demonstrated no significant relationship with perceived organizational and financial performance matching with Karatepe et al. (2006); while Gender is significantly and positively correlated with Perceived Organizational Performance, contrary to the findings of Karatepe et al. (2006); The findings of this study suggested that demographic variables play relatively minor part towards perceived organizational and financial performances( Karatepe et al. 2006). Training & development programs in organizations based on training need assessment, performance appraisal, customization and practically applicable with skills imparting capability are indicating positive correlation with employee performance and Perceived Organizational Performance. These results were similar to the findings of (Russell, et al. 1985; Arthur, 1994; Huselid, 1995; Wan, et al. 2002; Patrick, et al. 2003; Sels, et al. 2003; Singh, 2004; Katou, 2008; Tseng, et al. 2009). Their findings supported the argument that training was an expensive activity but it could give different advantages i.e. improved employees performance, increased productivity and employee development. Training and development has positive impact on perceived performance in banking and insurance industries. Performance appraisal has positive impact on perceived performance of banking, insurance and modaraba industries. Furthermore, it has positive impact on Marris Ratio of investment industry. Mediation regression analysis proved mediation between selected HRM practice and Perceived Organizational Performance. Employee performance when treated as mediator showed partial mediation between recruitment & selection and Perceived Organizational Performance. Very little mediation has been proved between training & development and POP. Perceived Organizational Performance in the financial sector measured through (quality of products or services, development of new products or services, ability to attract employees, ability to retain employees, satisfaction of customers and relations between management and employees, marketing activities, growth in sales, profitability and increase in the market share of the organizations) was tested with different six HRM practices. Delery & Doty 1996 said that larger

exercise of specific HRM practices would always result in improved organizational performance. The results of this study were in conformity with Delery & Doty 1996 Perceived Organizational Performance in the financial sector measured through (quality of products or services, development of new products or services, ability to attract employees, ability to retain employees, satisfaction of customers and relations between management and employees, marketing activities, growth in sales, profitability and increase in the market share of the organizations).

## Conclusion

Companies that implement transparent hiring processes, well-planned training programs, and employee involvement in decision-making tend to achieve high levels of performance. These organizations become appealing investment opportunities for both local and foreign investors, leading to substantial growth in economic activities. As employee performance plays a mediating role between HRM practices and organizational performance, implementing motivating HRM practices can enhance employee performance, thereby boosting overall company performance.

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