

The Relationship between Human Resource Practices and Firm Performance

Case Study: The Philippine Firms Empirical Assessment

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Abstract—This study on “The relationship between human resource practices and Firm Performance is a speculative investigation research. The purpose of this research are (1) to provide and to understand of HRM history and current HR practices in the Philippines (2) to examine the extent of HRM practice among its Philippine firms effectively; (3) to investigate the relationship between HRM practice and firm performance in the Philippines. The survey was done to 233 companies in the Philippines. The questionnaire is divided into three parts a) to gathers information on the profile of respondent, b) to measures the extent to which human resource practices are being practiced in their organization c) to measure the organizations performance as perceived by human resource managers and top executives as compared with their competitors in the same industry. As a result an interesting finding was that almost 50 percent of firm performance is affected by the extent of implementation of HR practices in the firm. These results show that HR practices that are in line with the organization’s strategic goals are important for future performance.

Keywords—Economic Growth, Firm performance, Human Resource Practices, Management.

I. INTRODUCTION

HUMAN resource management (HRM) refers to the policies, practices and systems that influence employees’ behavior, attitudes and performance [6]. Human resource practices include determining human resource needs, recruiting, screening, training, rewarding, appraising and also attending to labor relations, health and safety and fairness concerns [6], [7]. The effective implementation of HRM practices in organizations is a key source of competitive advantage and has been shown to have a positive relationship with company performance [11], [5], [4], [9].

The current economic crisis, globalization, and fierce competition are now forcing firms to look again and re-examine their importance of HRM to help them to navigate through these challenging times. The importance of HRM as a competitive advantage had been long embraced by companies, however in many countries in Southeast Asia, awareness of the importance and value of HR as competitive advantage has yet to be appreciated as observed on their analysis of HRM in the Philippines.

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Based on the discussion above, it would be interesting to examine HR practices among firms in Philippines, and does the implementation of HR practices do have an impact on firm performance. Hence the objectives of this research are stated below:

- to provide an understanding of HRM history and current HR practices in the Philippines;
- to examine the extent of HRM practices among Philippine firms; effectively; and
- to investigate the relationship between HRM practices and firm performance in the Philippines.

II. HISTORY OF PHILIPPINE HR PRACTICES

Philippine, HR practices, system and regulations are largely influenced by the Hispanic American colonization experience in 1833. During this time Philippine HR practices are categorize into two mainstreams. First: Hispanic American values and Second: Ethnic- oriented values. When Philippines gained independence from the Spaniard (World War I) the wider aspects of human resource practices was not given priority, as the main focus was mainly on work simplification. **Industrial Welfare** was the first form of human resource management (HRM). During this time trade unions started to be formed. This was the start of **collective bargaining Human Resource Management** has changed in name various times throughout history the welfare association was formed later changed to Chartered Institute of Personal and Development. The armed forces focused on how to test abilities and IQ along with other research human factors at work. During the 2nd World War the **Personnel Department** established and trained staffs to improve their ability and personality development. In another study, focusing on human resource development, an emphasis on only a few HR practices was found: training and development, performance appraisal management, career planning and development. In this research, that the history of HRD in Philippine is not clear due to a lack of empirical evidence.

A. Current Human Resource Practice

Philippine is a country of 92.34 million people as of 2010, 94.85 as of 2011 and as of 2012 97 million people. The population rate of the Philippines increased about of 3%. 92.8 were employed as of the year 2010, every year the employment rate increased about 1%. The unemployment increased slightly from 6.9% (2010) to 7.1% (2012) due to the

world economic crises. Philippine has seen economic growth from 2010 – 2012 of 3.6%. Much of the country's manufacturing is in sophisticated industries like computer components, electronics, medical products, and services such as information technology, business process outsourcing and health care. The Philippine government maintains its economic growth because they sustain some trainings and special programs to indigent despite the world economic crises. Nowadays, the trend companies in Philippines are moving forward performance based reward systems. This can be seen by a survey done by NEDA and NSO on 233 companies in Philippines, in which 86.3 % of respondent companies linked the salaries of their executive to their performance of productivity while, 81.1% did so for their non-executive[3]. It observes that a seniority emphasis in the reward system is weakening in Philippine and promotion based on seniority as a reward for loyalty is being replaced with a performance and merit system [1], [2].

TABLE I
 HUMAN RESOURCES IN PHILIPPINES

	2010	2011	2012
Population (million)	92.34	94	97
Labor Force Participation Rate (%)	63.7	64.3	64
Employment Rate (%)	92.8	92.9	93.0
Unemployment Rate (%)	6.9	7.0	7.1
Underemployment Rate (%)	17.0	19.1	22.1
GDP Growth (%)	7.3	10.6	14.3
Per Capita Income (US dollars)	3.691.28	3.951.67	4.139.92

Notes: *estimate ; forecast
 Source: NEDA / NSO

In terms of training, Philippine government provides and promotes technical and vocational courses to train employees beyond the basic skills required to perform their contractual scope of work. This has led the Philippine government to intervene and promote training and development for the workforce. Besides this, in 2007 the Philippine government also established the Human Resource Development Fund. According to the Department of Labor and Employment (DOLE) Philippines employment and economic growth increased because they provide training and skills to the out of school youth, less fortunate people and related groups who has the knowledge to the countries development [3].

III. RESEARCH DESIGN

A. Survey Instrument

The survey instrument used in this study was adapted from various studies. The questionnaire used in this study is divided into three parts. The first part of the questionnaire gathers information on the profile of respondents, and questions regarding gender, level of education, years of experience in the HR field, type of industry the organization is in and ownership of the organization are asked. The second part of the questionnaire measures the extent to which human

resource practices (human resource planning, staffing, job/work design, training, performance appraisal, compensation and occupational health and safety aspects) are being practiced in their organization. Respondents are requested to rate these aspects based on a five-point Likert scale ranging from 1 = not at all, 2 = small extent, 3 = moderate extent, 4 = large extent to 5 = very great extent. Lastly, the third part of the questionnaire measures the organization's performance as perceived by Human Resource Managers and top executives as compared with their competitors in the same industry. In this part, respondents rate the performance of their organization based on a five-point Likert scale with 1 = much lower than competitors, 2 = lower than competitors, 3 = about the same, 4 = higher than competitors and 5 = much higher than competitors.

B. Sample

The unit of analysis for this study is in the different companies and sectors. Two hundred thirty three from different industry sectors were contacted and asked to participate in this survey. These organizations were suggested by NEDA and NSO. Listing of HR attendees from two HR consultation and training firms. The two HR consulting were NortgateArinso Philippines and Manila Consulting Group, Inc. They provided the researchers with a list of companies from Manila. The questionnaires were distributed then collected either online, by mail or administered personally, and when researchers attended HR workshops. First, the respondents were asked to describe the current practice of the HR department they were asked point a 5 scale (1= will be the smaller extent 2= will be the small extent 3=will be the moderate extent 4= large extent 5= will be very great extent). Second, the respondents were asked about their organization's performance as compared with their competitors they were to rate based on a 5 point scale (1= much lower 2= lower 3= about the same 4= higher 5=much higher).The response rate was 27.1 percent, meaning that 217 questionnaires were collected in this study.

C. Method Analysis

Frequency distribution was used to describe the profile of the sample. The next method of analysis used is reliability analysis to test internal consistency of the scales. This was then followed by computation of means and standard deviation of all variables used in this study. The variables used refer to the HR practices and organization performance. Finally regression analysis was performed. The R 2 value was computed to examine the goodness predictive validity so that it can be used to predict a future behavior.

IV. RESULTS

Table II summarizes the demographic profile of the respondents. In terms of respondents, 41 percent were male and 57.6 percent were female. The remaining percentages are concluded as missing data. As for the level education of respondents responding to the questionnaire, they are mostly graduates with a first degree (48.4 percent), with diploma

graduates contributing 16.1 percent of the total respondents. The respondents are gathered from various industries, although the largest group was from the service industries (42.8 percent), followed by manufacturing (29.6 percent) and information technology (10.1percent). In addition, respondents' years of experience in managing HR functions was also examined. As indicated in Table III, the majority of the respondents have at least more than three years' experience in managing human resource functions.

TABLE II
 PROFILE OF RESPONDENTS

Variable	Frequency	Percentage
<i>Gender</i>		
Male	108	41.0
Female	125	57.6
<i>Level of education</i>		
Certificate	23	10.6
Diploma	35	16.1
First degree	105	48.4
Master's degree	32	14.7
Professional certificate	10	4.6
Ph D	7	3.2
<i>Years of experience in HR functions</i>		
Less than 1	6	2.8
1-3	73	33.6
4-6	46	21.2
7-9	23	10.6
10-12	21	9.7
13-15	11	5.1
More than 15	25	11.5
<i>Industry</i>		
Services	93	42.8
Manufacturing	64	29.6
IT/computer	22	10.1
Agriculture	3	1.4
Property	4	1.9
Others	13	6.0
<i>Foreign ownership</i>		
Yes	51	23.5
No	165	76.5

Thus, the researchers conclude that the respondents are sufficiently well versed with their companies and their human resources practices and are able to comprehend the needs of the questionnaire. In the next section, the goodness of the measure was then examined by performing a reliability test to measure the internal consistency of the scale used in this study. According to Pallant (2007), reliability can be assessed by measuring internal consistency, which refers to the degree to which the items that make up the scale are measured in the same underlying attribute [12]. One commonly way to measure reliability is Cronbach's coefficient α . Nunnally (1978) recommends a minimum level of 0.7 for α as the acceptable threshold [10]. As shown in Table IV, there are ten variables are used in this study; the number of items for each variable is shown. In this current study, all of the variables have good internal consistency, with all of the Cronbach α values exceeding the recommended level of 0.7. Once the internal consistency of the scale had been determined, a descriptive analysis was computed to analyze the extent of HR

practices implemented by Philippine firms. As indicated in Table V, variables 1-10 represent the extent of the human resource practices that are currently being implemented in Philippine organizations. Table III suggests that most companies in the Philippine practice a moderate to large range of Human Resource practices, with a range of mean score of 3.00-3.43. An examination of what the companies think of their current performance (mean = 3.43, SD = 0.676) shows that most companies perceived that they performed in a range between about the same to higher as compared with other firms in the same industry. Next, a regression analysis was performed to evaluate each independent variable and also the variables as a group in terms of their predictive power. Table V shows the results of the regression analysis. The R² value is 0.497, suggesting that 49.7 of variation in the dependent variable – i.e. organizational performance – can be explained by variation in the ten independent variables. In other words, nearly 50 percent of the change in organizational performance is caused by the effectiveness of implementation of human resources practices in organizations. The independent variable that contributes the most towards organizational performance in this study is employee relations and communication with a value of 29 percent, followed by job/work design (24 percent) and career planning (23 percent).

TABLE III
 RELIABILITY COEFFICIENTS FOR MAJOR VARIABLES

Variable	Number of items	Cronbach's α
Human resource planning	8	0.901
Staffing	7	0.764
Job/work design	9	0.853
Training and development	9	0.945
Performance appraisal	8	0.893
Compensation	5	0.698
Employee relations and communication	8	0.895
Career planning	4	0.910
Health and safety	6	0.942
Organizational performance	13	0.948

TABLE IV
 DESCRIPTIVE STATISTICS FOR MAJOR VARIABLES

Variable	Mean	SD
Human resource planning	3.27	0.869
Staffing	3.13	0.687
Job/work design	3.00	0.710
Training and development	3.17	0.940
Performance appraisal	3.43	0.834
Compensation	3.16	0.709
Employee relations and communication	3.27	0.822
Career planning	3.00	0.964
Health and safety	3.27	0.960
Organizational performance	3.43	0.676

TABLE V
 RESULT OF REGRESSION ANALYSIS

Regression result for extent of HR practices and firms' performance	Beta
Human resource planning	-0.11
Staffing	0.08
Job/work design	0.24*
Training and development	-0.46
Performance appraisal	0.02
Compensation	0.06
Employee relations and communication	0.29*
Career planning	0.23*
Health and safety	0.06
F value	20.05**
R ²	0.474
Adjusted R ²	0.451

Notes: * $p < 0.05$; ** $sig. F = 0.000$

V. DISCUSSION OF RESULTS

Based on the results, we can conclude that the effectiveness of implementing HR practices in a company does indeed have a major impact towards a firm's performance. Our finding shows that HR practices have an impact of nearly 50 percent on firm performance. Thus, this form of analysis could help organizations to realize and be more aware of the importance of human resource practices and the need to integrate and align HR into the firm's strategic plan. Firms in the Philippines should also emphasize strategic effectiveness, almost firms in Philippines practice a moderate number of HR practices in their companies.

The regression analysis shows that three main HR practices seem to have the highest influence on organizational performance:

1. employee relations and communication
2. Job/work design
3. career planning

Employee relations and communication allow employees to know about the organization's espoused values and HRM practices, giving them a channel to voice their complains and grievances, hence closing the gap and minimizing any conflict that might occur in the workplace.

The second highest influence is job/work design. This refers to the degree to which employees are given the freedom to decide, participate and get involved in their area of work. This enables employees to feel empowered and to exercise flexibility in their jobs, and hence to be more motivated in the workplace. This is consistent with the Herzberg two-factor motivation theory, which proposes that employees will be motivated to perform if intrinsic factors such as responsibility, recognition and personal growth are offered to employees. The third highest influence is career planning, through which career paths are made known to employees. This creates a sense of empowerment of employees regarding their career paths, hence encouraging employees to be more enthusiastic in achieving their career goals. This will lead to increased productivity and performance of the firm. The three influences mentioned above are also in agreement with what was proposed in the Job Characteristics Model of Hackman and

Oldham [8]. Communication (feedback), meaningfulness and responsibility (job/work design and career planning) may lead to work motivation, growth satisfaction, and general satisfaction and work effectiveness [8].

VI. LIMITATION AND RECOMMENDATION FOR FUTURE RESEARCH

Although this study has shown the importance of human resource management practices for organizational performance, it does have its limitations. Firstly this study has been conducted in one national context (Philippine) and was limited to central Philippines. Hence the findings and conclusions drawn from this research are representative of the Philippines context only. It is recommended in future to include other countries in this research. In addition, a cross-national comparison of HR practices can also provide a greater insight into the importance of HR practices towards the well-being and sustainability of an organization.

In addition, this study only includes the views of HR managers and top executives, and hence may only provide perceptions of the management point of view. Therefore, it is recommended that researchers include the perceptions and views of other employees in order to provide a more holistic view of this study. Lastly, this study also recommends further research to incorporate other moderating variables such as the legal and regulatory environment and organizational characteristics

VII. CONCLUSION

This paper attempts to explore the extent of implementation of HR practices among companies in the Philippines and to establish a relationship between HR practices and firms' performance. An interesting finding was that almost 50 percent of firm performance is affected by the extent of implementation of HR practices in the firm. These results show that HR practices that are in line with the organization's strategic goals are important for future performance.

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