

## HR Practices and Organizational Performance: What Role Does Employee Satisfaction Play?

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### Abstract

*Maintaining employee safety and satisfaction can result in increased sales, lower costs, and a stronger bottom line. Employees often support the company's mission and work hard to help it achieve its goals when they believe the company has its best interest at heart. Hence, the study aims to examine the role of employee satisfaction between HR practices and organizational performance. A quantitative research methodology and a deductive research approach are used to assess the relationship between variables. HR practices, such as selection, training, compensation, performance evaluation, and employee engagement, were used as independent variables, and their effect on organizational performance, the dependent variable, was measured, with employee satisfaction as a mediating variable. The primary data was obtained from Pakistani bank employees using a 5-point Likert scale questionnaire, and the data was analyzed using smart PLS. According to the results of this study, HR practices are found to be substantially and positively linked to organizational success. In the present study organizational performance and employee satisfaction and have been assessed as unidirectional measures in the context of the impact of HR practices on the performance of the banking industry. In the future, the addition of secondary data will add value to the findings of the present study. The study's findings would also act as effective guidance for other organizations in terms of the value of HR practices that result in profit maximization.*

**Keywords:** HR Practices, Banking Industry, Employee Job Satisfaction, and Organizational Performance.

### Introduction

In this emerging world, organizations are playing a vital role in the development of the country. Organizational performance depends upon its human capital and human capital is often supposed to contribute to competitive advantage due to its immaterial, socially complex nature and firm specification. organizational performance can be increase through the selection of appropriate personnel on excellence then give them rewards according to their talent that encourages the employees consequently and they will be loyal and committed to the organization and will be helpful to increase the organizational performance (Hammadi & Hussain, 2019). Organizations select their personnel from diversified and challenging environments (Constantinescu & Kaptein, 2020) and trying to hire more competent workforces significantly. The organizational preference of selecting the right person for the right person specifically

from their organization is known as Human Capital Management (HCM) (Mayo, 2016). El-Kassar and Singh, (2019) recognized the underprivileged organizational performance and need for improvement in the HR department furthermore, Maheshwari & Vohra, (2015) highlighted the need to add subjectivity in HR functions like recruitment and selection, training and development, performance appraisals, salary, and compensation because intellectual skills and social skills are assumed as the strategic resources of the industries which can be developed through the engagements of human capital (Yong et al., 2019). Human resource management now shifted into human capital management (Hitt, Biermant, Shimizu, & Kochhar, 2001). Human capital management involves employing the right person for the right job therefore Human capital management aim to achieve organizational mission (Liebowitz, 2019). HCM is a set of activities and tasks that lead to maintaining and developing the workforce (Kalinina & Valebnikova, 2017). It is the combination of knowledge, skills, innovations, and the ability of the organization's employees to meet the goals (Massaro et al., 2019). As per resource base theory, Organizational resources can provide the foundation to nurture the organization's capabilities that lead to organization success (Colbert, 2004). Human capital is the resources of the organizations in addition it plays a vital role in organizational development.

The success of the organizations depends upon their workforce that is why organizations need to focus on their valuable employee satisfaction (Merkus, 2019). The banking industry of Pakistan is facing difficulties to implement HR practices because of numerous confidentialities (Nawaz, 2019). Hence, lack of HR practices leads to a negative impact on the performance of the organization that is why there is a need to bridge the gap between HR practices and organizational performance. Still the banking industry in Pakistan unable to catch the appropriate employees that can be productive for the industry. in this regard, Affective events theory (AET; Weiss & Cropanzano, 1996) argued that job experiences are the proximal triggers of employee affective reactions, which in turn predict job satisfaction. Hence, the importance of human capital cannot be ignored. There has been little empirical research on the relationship between HR practices and organizational success Esteban-Lloret (2018) therefore, the scholar aim to examine the impact of HR practices on organizational performance, as well as the role of employee satisfaction in the relationship between HR practices and organizational performance.

This study assumes that employees are important assets to organizations and that organizational competitiveness is dependent on them. As a result, successful implementation of HR practices in the sense of human resource management in the organization would have a direct influence on corporate performance. The objective of the study are;

- To identify the dimensions of HR practices
- To examine the role of employee satisfaction between HR practices and organizational performance.

## **Literature Review**

### **HR Practices and Human Capital Management**

Human resource (HR) practices are essential to an organization's development. Employee recruiting, selection techniques, market-oriented development, performance management, proper communication systems, social security evaluations, and strategic planning are all significant HR practices (Ybema, 2020). Employees are one of the most significant stakeholder groups for an organization because they engage in its everyday operations and embody basic intangible capital resources, contributing expertise, network, and cultural influence to its success (Pedrini, 2007). One of the most critical factors in the performance of any organization is an efficient human resource management strategy. Human capital is an essential component of an organization hence, employees engage in organizational activities consciously and unconsciously. To achieve the organizational objectives employees need to develop themselves professionally. Bakke in 1966 described that Human capital management emerged from human resource management. According to

Lynn, (2000) Human capital can be described through employees' skills, abilities, knowledge, and experience. The ability of a human to interact with each other and to use their expertise in the organization is called human capital management. The success of the firm depends upon the selection, development, appraisal, and rewarding of employees that can increase their confidence and knowledge stock of organization so, human capital is the significant contributor of the firm that's why the human resource is the fundamental part of the corporate strategy (Narasimha, 2000). HCM is a systematic approach to people management that focuses on the expertise, talents, abilities, and potential of an organization's employees to grow and (Al Karim, 2019)(Merkus, 2019). HCM provides guidelines and promotes the start-up of systems for evaluating and meeting future people's requirements. provide the framework for implementing policies and practices that strengthen people's practices by creating opportunities for learning and continuous growth. Barney (2002) describes human capital as gaining experience through training and judgment of wisdom and insight from an organization's management as Human Capital. Human capital management is denoted by the employee's knowledge, skills, attitudes, capabilities, and behavior towards the organization (Wan, 2007).

### **HR Practices and Organizational Performance**

Numerous studies found the different dimensions of HR practices that are essential for human capital management in the organization (Stratone & vătămănescu, 2019). Human capital is basic skills and knowledge earned by employees through experience and utilized by the organization to produce economic growth (Barrena-Martinez, 2019). Human capital is the mutual efforts of employees and management to sequence and progress human capabilities to achieve organizational goals. as per Al Karim, (2019) training and development, have significant impacts on organizational performance. Training, willingness to change in the workplace and job satisfaction of employees are the prerequisites that stimulate the employees to be innovative and pioneer (Corley et al., 2019). Hence, the training and development of employees play a vital role to enhance the capabilities of the employee. According to Bodla and Ningyu, ( 2017) HR practices are considered important contributors to organizational performance, and recruitment and selection, training of the employee, performance appraisal, and are the dimensions of HR practices.

The ability of an organization to retain its employees by providing sufficient services is a successful organization because the performance of employees creates a strong relationship with the organization (Rondeau, 2006). (Bodla & Ningyu, 2017) examined the impact of HR practices on an individual as well as organizational success and found that salary increment as a reward system in the organizations has a positive influence on organizational performance. Furthermore, the finding of Ahmad et al., (2019) suggest that businesses and organization should develop a consistent strategy to connect performance and incentives of employee that leads. According to Aguinis et al. (2013), monetary rewards are essential factors in employee motivation and achievement, and they play a major role in organizational success returns. According to Galbreath (2006), businesses that invest in enhancing the social skills and responsible aspects of their employees improve their workers' quality of life have a positive and important impact on organizational success. According to Collier and Esteban (2007), HR practices contribute to organizational performance because they inspire employees to participate in organizational activities. As a result, employees believe that the company cares for their professional growth and that their work atmosphere is supportive of their efforts. According to Sharma and Devi (2009), the numerous HR practices affect the social responsibility that strengthens desired social conduct in workers, resulting in a greater contribution to long-term organizational performance and development. Ali, Rehman, Ali, Yousaf, and Zia (2010) discovered a significant relation regarding organizational support, HR policies, and organizational commitment to workers that subsequently enhance the organization's financial efficiency. Shen and Benson (2016) discovered that organizational HRM practices are an indirect source of individual success than helping the employee to developed organizational identification. Organizational success is the way to assess the level of their effectiveness. The ability to set objectives and goals to achieve its results, as well as to enhance overall organizational performance is the most essential goal of the organization. Researchers face challenges in identifying and evaluating organizational performance because organizations have

several and similar overlapping, objectives (Vlachos, 2008). According to (Absar et al., 2010) the term "organizational performance" is often used to describe the overall state of an organization and its policies. Organizational success can be measured both financially and non-financially (Yang et al., 2009). In this regard, Stella (1987) investigated the positive correlation between human resource planning and organizational performance. As per Selase, (2018) employee selection based on justice values would ensure high employee productivity and a culture of mutual respect and loyalty in the organization. Similarly, R argued that employees are chosen and positioned based on their expertise, experience, and skills rather than nepotism until it has been determined that diversity is being used synergistically and that there is no discrimination as a result, the best person-organization fit is established, which translates into higher firm value, improved operational efficiency, and sequential development. To emphasize the importance of maintaining justice Qi-li, (2018) described that preventing discrimination and nepotism will create the best person-organization fit. Hence, adopting and adhering to selection standards is expected to increase the positive effect of the HRM activities on organizational success. According to Sweetland, (1996) Human capital theory assumptions describe that the skills and knowledge acquire by individuals through appropriate training in the organization will increase the efficiency of the individuals as well as organization. Hence, the organizational investment in empowering employee in term of implementing HR practices will make individuals more productive that will be more effective for the organizations (Starr, 2018).

**H1:** HR practices are positively related to organizational performance.

### **HR Practices And Employee Job Satisfaction**

Employee satisfaction refers to how satisfied an employee is with his or her work. According to (MADAN, 2017), job satisfaction refers to how people feel about their employment and different aspects of their jobs. Motivation, success, leadership, attitude, and conflict are all related measures to job satisfaction in organizations (Lee, 2019; Shenoy & Uchil, 2018). According to Esteban-Lloret et al., (2018) employees want to develop themselves while working in the organization hence, employee training and development provide the opportunity to promote an employee on higher designation as well as retain job satisfaction. As per Rana & Malik, (2017) HR practices including performance appraisal system, organizational support, and training and development is expected to improve the employee that leads to job satisfaction. According to Bodla & Ningyu, (2017) employees' performance, satisfaction and commitment are greatly influenced by performance appraisal. Furthermore, Saari and Judge (2004) concluded after reviewing various studies that the most important factors influencing employee satisfaction are organizational fair policies (i.e HR practices) hence, Job satisfaction is a multifaceted phenomenon (Parvin and Kabir, 2011). Employee compensation plan, workplace environment, and organizational engagement are some factors involved in job satisfaction (Lane et al., 2010). In this regard, (Ahmad et al., 2019) explained that A compensation and benefits plan of the organizations effectively translates its point on how much priority and value they place on their workers. Hence, HR practices and policies promoting transparency, protecting employees, and avoiding ambiguity over compensation amounts that leads to employee job satisfaction in the organization. In this connection, several organizations implemented appropriate compensation systems to improve incentives and, as a result, employee job satisfaction. The literature on the relationship between job satisfaction and organizational success is extensive (Springer, 2011).

As per (Rodriguez & Walters, 2017) training and development and effective communication properly equip staff so that they will be more satisfied with the organizational support which will strengthen the organization. According to Parsons and Broadbridge (2006), when developing an incentives plan, organizations must understand the variations like each sector and the context of each organization. They further concluded that organizational HR activities have a beneficial impact on employee work satisfaction. According to (Wright & Cropanzano, 2000) employee attitudes and emotions are affected by job satisfaction. As a result, organizational performance appraisal systems make it clear that each person is responsible for their success and should be assessed equally and without discriminating. As a result,



implementing HR practices would enhance employee satisfaction and boost the positive effect of performance assessment on organizational performance. Based on the literature, the following hypothesis is proposed in this study:

**H2:** HR practices are significantly related to job satisfaction.

### **Employee Job Satisfaction and Organizational Performance**

The relationship between employee job satisfaction and organizational success has received a lot of attention and debate. Job satisfaction is one of the metrics used by companies to assess their results. Employees who have a good attitude about their work are more likely to be happy with their jobs and more able to contribute to their organizations, resulting in higher organizational efficiency (Wu et al., 2013). Employees who are more satisfied and empowered would contribute to the firm's value, operating performance, and growth rate. Proper recruitment process in the organizations will lead to developed employee satisfaction as well as motivation as a result, job productivity and quality will increase that will be helpful to achieve organizational success (Maheshwari & Vohra, 2015).

According to (Kang & Busser, 2018) employees are dedicated and committed to the firm's value, leading to the success of the organizational efficiency, and growth rate. in this connection According to Lawler (2005), the relationship between organizational performance and employees is not purely task-based. Hence, (Hartinah et al., 2020) encourage workers to participate in organizational decision-making to increase their job satisfaction, sense of belonging, and engagement that will lead to increased organizational performance. According to (Setiawati & Ariani, 2020) managers are responsible to fulfill workers' needs and improve their work satisfaction that will surge their efforts to achieve organizational outcomes (Pettit et al., 1997). Therefore, Salary increments are considered a motivating tool in the organization that enhances employee job satisfaction. As Urbanski (1986), discovered that efficiently empowers workers to improve organizational performance. In addition, Job satisfaction has a significant impact on organizational performance including financial performance, service performance, and behavior performance (Shiu and Yu, 2010). Hence, based on the above literature scholar proposed the following hypothesis.

**H3:** Employee satisfaction has a positive relation to organizational performance.

**H4:** Employee satisfaction will mediate the relation between HR practices and organizational performance.

### **Research Methodology**

The present study is exploratory and the target populations are the professionals from the banking industry of Pakistan, who have a better knowledge of HR and HCM practices. Hence, data is gathered from the managerial staff of the banks who have experience in formulating and implementing a policy regarding employee skills and human capital in the organizations. The judgmental sampling technique and adopted questionnaire from previous studies is used for the data collection Etikan and Bala, (2017) from the largest city of Pakistan; Karachi. After data collection, data is cleaned then apply for further quantitative tests to find the results of the study. The questionnaire was consist of demographic questions, screening questions, and scaling questions. A total of 30 items are used in this study, which represents dependent and independent variables and mediating variables. To rate the questions, the Likert scale technique is used from strongly disagree to strongly agree (Ivanov, 2018). To find the result of the study, the quantitative research method, deductive research approach, and PLS-SEM technique are used in this study (Creswell & Creswell, 2017). The current study's population consists of managers employed in the banking sector. 250 questionnaires were provided to managers either directly or by third-party managers. To retain confidentiality, questionnaires were given in sealed envelopes and obtained from managers in the same manner. A total of 250 questionnaires were obtained at the end of the given period. Nineteen of them were discarded due to insufficient data, leaving 231 questionnaires for further study.

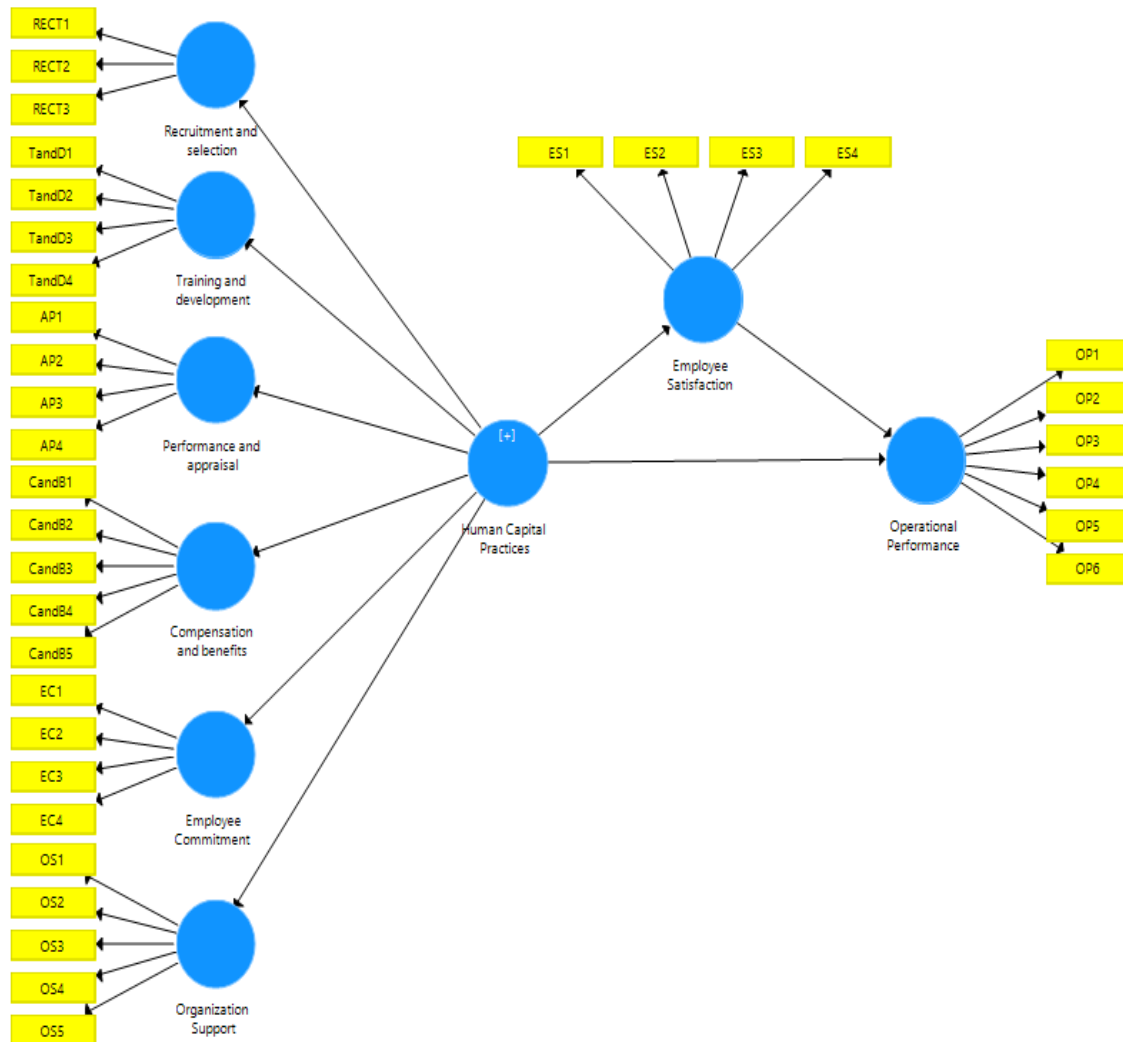


Figure 1: PLS Path Model

## Data Analysis

### The Measurement Model

The measurement model is used in this study to assess the measure's reliability and validity. These two steps are described in detail in the following section.

### Reliability

To assess reliability, a variety of parameters are used. Cronbach's alpha represents the internal consistency of a metric when all scales are equally consistent (Wong, 2013). Cronbach alpha values between 0.65 and 0.95, according to (Hair Jr et al., 2017) are considered sufficient. Cronbach alpha and composite reliability values in Table 1 are all greater than or equal to 0.7 (Bagozzi & Yi, 1988). This suggested that the data's accuracy and reliability are unchanged.

## Validity

To evaluate the data's validity, convergent and divergent validity are used (Wong, 2013). The coherence of an object with its measure is referred to as convergent validity. Three separate parameters outer loadings, average variance derived (AVE), and indicator reliability are used to test the validity. The degree to which the indicators of a particular construct and that construct are converging is defined as convergent.

Table.1 Empirically Evidence of the indicators and Constructs reliability and Validity

Constructs	Indicators	Factor Loading	AVE	$\alpha$	CR
Recruitment & Selection(RandS)	RECT1	0.845	0.681	0.765	0.865
	RECT2	0.845			
Training & Development(TandD)	RECT3	0.784	0.741	0.838	0.759
	TandD1	0.769			
	TandD2	0.691			
	TandD3	0.780			
Performance Appraisal(PA)	TandD4	0.760	0.585	0.760	0.848
	PA1	0.742			
	PA2	0.812			
	PA3	0.831			
Compensation & Benefits(CandB)	PA4	0.661	0.594	0.817	0.875
	CandB1	0.810			
	CandB2	0.880			
	CandB3	0.838			
Employee Commitment(EC)	CandB4	0.803	0.609	0.782	0.859
	CandB5	0.439			
	EC1	0.804			
	EC2	0.900			
Organizational Support(OS)	EC3	0.808	0.550	0.787	0.857
	EC4	0.758			
	OS1	0.554			
	OS2	0.786			
Employee Satisfaction(ES)	OS3	0.796	0.610	0.786	0.862
	OS4	0.836			
	OS5	0.773			
	ES1	0.797			
Organizational Performance(OP)	ES2	0.774	0.736	0.928	0.943
	ES3	0.830			
	ES4	0.719			
	OP1	0.876			
HR Practices	OP2	0.891	0.912	0.923	0.852
	OP3	0.883			
	OP4	0.777			
	OP5	0.857			
	OP6	0.857			
	RECT	0.740			
	TandD	0.664			
	PA	0.883			
	CandB	0.802			
	EC	0.735			
	OS	0.847			

The indicator or factor loadings are the first criteria to use when searching for convergent validity. According to Hair et al., (2012), an indicator's factor loading should be greater than 0.708. The factor loadings for all indicators are listed in Table 1. Except few indicators, nearly all indicators have a factor loading greater than 0.708. The AVE values of both constructs, however, are greater than 0.50, so these factor loadings are appropriate (Bagozzi & Yi, 1988). All AVE values greater than 0.5, as shown in Table 1, clearly imply that the model and data have convergent validity.

### Discriminants Validity

In the present study, scholars followed the (Fornell & Larcker, 1981) criterion to evaluate the discriminant validity. According to this criterion, the squared root of AVE for each latent variable should be greater than its correlations with other variables (Chin, 1998). Table 2 presented the discriminants validity of the study.

Table 2 Fornell-Larcker Criterion

Latent Variable	1	2	3
HR practices	0.871		
Organizational Performance	0.438	0.785	
Employee satisfaction	0.538	0.365	0.821

### Path Coefficient

As per the rule of (Hair Jr et al., 2017) to determine the significance of path coefficients, scholars performed the standard bootstrapping procedure with samples of 5000 bootstraps in smart PLS and simultaneously generated the direct and indirect (mediating ) effect of path coefficients. H1, in examining the influence of HR practices on organizational performance the result indicated ( $\beta = 0.017$ ,  $t = 0.367$ ) that empirical values are not supporting. regarding the influence of HR practices on employee satisfaction (H2), our results indicated ( $\beta = 0.471$ ,  $t = 10.478$ ) the empirical support. Consequently, H3, in examining the influence of employee satisfaction on organizational performance the result indicated ( $\beta = 0.715$ ,  $t = 20.008$ ) empirical support. lastly, we examine the mediating effect of employee satisfaction. According to Preacher and Hayes, (2008), our results of HR Practices on Organizational Performance in the presence of employee satisfaction indicated ( $\beta = 0.335$ ;  $t\text{-value} = 8.345$ ) that employee satisfaction has a mediating effect. Consequently, H4 also found empirical support. The results of path analysis are presented in Table 3.

Table 3: Path analysis

Relationship	$\beta$	SE	t-value	Support
H1 HR practices -> Org Performance	0.017	0.042	0.367	NO
H2 HR Practices -> Emp satisfaction	0.471	0.045	10.478***	Yes
H3 Emp Satisfaction -> Org Performance	0.715	0.038	20.008***	Yes
Note: *** $p < 0.01$				
<b>Mediating effect of employee satisfaction</b>				
H4 HR Practices -> Emp Satisfaction -> Org Performance	0.335	0.041	8.342	Yes



Table 4:  $R^2$  (Coefficient of determination) and  $Q^2$  (Predictive Relevance)

<i>Construct</i>	$R^2$	$F^2$	$Q^2$
HR practices	56%	0.273	0.279
Organizational Performance	26%	0.932	0.125
Employee satisfaction	n/a	0.000	n/a

### R-Square ( $R^2$ ), and ( $Q^2$ ) Predictive relevance

The R-square (coefficient of determination) estimates model accuracy (Henseler et al., 2009); (Hair Jr et al., 2016). In social science research settings, a minimum of 0.10  $R^2$  is considered satisfactory (Falk & Miller, 1992). Greater the value of R-square ( $R^2$ ) construed that independent/cause variables are more clarifying explain constructs. The value of  $R^2$  0.75, 0.50, and 0.25 are considered substantial, moderate, and weak (Joe F. Hair et al., 2011). In last, we examined the predictive relevance of our research model using blindfolding procedures. According to (Geisser, 1974; Stone, 1974) model's predictive relevance ( $Q^2$ ) value should be greater than zero. The value of  $R^2$  and  $Q^2$  are presented in Table 4.

### Conclusion

The aim of this study was to investigate the impact of HR practices on organizational success in the presence of employee job satisfaction as mediating variable. Human capital is an organization's most valuable asset and a source of long-term competitive advantage therefore; HR Practices seeks to maximize the effectiveness and efficiency of human as well as organizational resources to achieve organizational and individual objectives. The findings of the study indicated that the employees in the banking industry perceive that a proper recruiting process in organizations will result in increased employee satisfaction and motivation.

As a result, work efficiency and quality will improve, which will contribute to achieving organizational success. Furthermore, proper training and development, appropriate performance measurement system, organizational support, and fair compensation system will be satisfying the employee that will contribute to the success of the organizations. Furthermore, the findings suggest that employee satisfaction influences their decision-making, and that approaches can improve customer satisfaction, service quality, and employee productivity. The significance of the relationships between organizational HR practices, job satisfaction, and organizational success in the banking sector has been highlighted by this study. The study's results have important implications for both researchers and bank executives. First, despite the existence of studies in other disciplines on the interrelationships between HR practices, employee job satisfaction, and organizational success, no empirical study has previously been addressed in the context of the banking industry. Second, by understanding the relationships between the dimensions of HR Practices, the banking industry will be able to build a career development-oriented motivation system to improve job satisfaction and a solid reward-based motivation system to improve workplace performance. Other service industries might be interested in the results of this study on managers' perceptions of HR activities and work satisfaction factors. For example, the hotel industry. This research is beneficial to the service industry because it offers a valuable tool for measuring organizational efficiency. The scope of this study was to determine the effect of HR activities on job satisfaction and organizational efficiency in the banking industry.

Future studies could look at other divisions besides HR to gain a better understanding of organizational motivation and work satisfaction factors. Furthermore, the study was limited to the specific banking industry in Pakistan. Other sectors and countries could be included in a future study. Finally, work satisfaction is used as a mediating variable in this study's analysis of organizational success. Other constructs, such as transformational leadership or organizational transparent communication, can be added in the future to enhance the research's credibility.

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