

The Effects of Human Resources Management (HRM) Practices on Employee Performance with the Mediating Role of Employee Engagement

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Abstract

This research is carried out to examine the effect of human resources management (HRM) practice on employee performance and mediating role of employee engagement. Survey data has been collected among the front line to top level public sector in developer property industry. This study has used a sample of 318 employees using a stratified sampling technique. To analyse the data, this study has employed Smart PLS 3.0 version software. The result reveals that HRM practices namely, training and development, compensation, job security and promotion are significant and positively related to employee performance. The result also shows that, employee engagement can mediate the relationship between HRM practices and employee performance. This study uses social exchange theory as a guideline to examine and understand the relationship between HRM practice, and employee performance towards employee engagement. In addition, this study also makes important contributions for the practitioners who are in the field of public sectors particularly for managers who actually want to invest their resources for the well-being of their employees in preparing towards Industry 4.0. Future research could replicate and extend this study by adding other variables and samples from different industries to offer a better understanding of employee engagement at workplace.

Keywords: Human Resource Management (HRM) Practice, Employee Performance, Employee Engagement

1 Introduction

Organizations these days, face dynamic and continuously changing surroundings, where they are required to look for approaches with specific end goal to pick up a forceful advantage to outperform their competitors. By gaining a competitive advantage it has driven HR inside the organization as a key intensive component, more than any organization has seen (Allameh et al., 2014). Due to the current financial landscape surrounding globalization and new technologies, the shift to an information primarily based on economy and the quick entrance of latest competitors in the once conventional markets are becoming more distinguished, therefore, effective human resource management (HRM) more prominent significant for organizational performance than

ever before (Sparrow et al., 2004). In any organization, employees are considered as the pivotal vital resource.

Furthermore, due to the fact that government's performance is drastically stimulated by the way of their employees' job performance, the problem relating to the task performance of nearby authorities turns down with the query of how do the neighbourhood of government authority officers perform their personal jobs and responsibilities. Hence, employee's performance standards have been designed by the authorities to measure the performance of the organizations, while task performance will become the most crucial attention of directors and academics. Commercial enterprise is to properly control the human resources of the organization as the key to live on in these days' (Yaacob et al., 2014; N. K., Peace & Ernest, J.C, 2018). The performance of a company and its capability to assemble a sustainable advantage to compete can also depend on whether the practices associated with human resource management are correctly and properly implemented (Kochan et al., 2003; Rawashdeh & Karim Al-Adwan, 2012; Awais et al. 2019).

The importance and huge contribution of human resource to organizations cannot be overemphasised, as human resource is valuable and serves as the backbone of organisations internationally. Employees are a key resource that may be strategically positioned for an organisation to attain competitive advantage. It is asserted that resources which can be uncommon and precious that create competitive advantage. Studies have also shown that, organisations sustain competitive advantage via the management of scarce and valuable human resources (Khan, 2010). Therefore, this study is carried out in order to determine the outcomes of human resources management practice towards employees' performance in public sector. Other than that, employee engagement is likewise essential to be considered in the public sector because it could influence employees' performance, and give impacts on how satisfied the public is with the services provided (Jones and Harter, 2005).

Many extant studies advocate that human resource management practices have been a remarkable phenomenon in organizations, but its effects on employee performance with mediating role of employee engagement has not adequately discussed in workplace research literature (Rizal et al., 2014; Najwa et al., 2016). According to many scholars, this situation is due to several reasons with regards to previous studies. First, they have much explained about the traditional and contemporary human resource management role in workplace (Newman et al., 2016). Second, they have employed simple correlation method to assess the relationship between human resource management practices and employee engagement towards employee performance (Razak, 2016). Third, positivism paradigm has been used to develop different types of human resource management practices and this approach has little discussed the role of employee engagement and human resource management practices towards employee performance.

Consequently, the previous research has only delivered general outcomes and this may not offer ample help to be treated as important strategies by practitioners in enhancing their knowledge about the difficulty of employee performance construct and initiate improvement on the effectiveness of employee performance in dynamic organizations. Consequently, mediating role of employee engagement on employee performance is considered a viable research to fill the gap of literature in this field.

2 Purpose of the study

The Eleventh Malaysian Plan (2016-2020), has laid out the strategies in Malaysia's final leg in the journey closer to becoming an advanced country via 2020. In the Plan the government has defined six strategic thrusts to assist Malaysia in staying ahead of the challenges and opportunities in the fast-changing global and political panorama (Eleven Malaysian Plan, 2016). Under the 6th thrust which is re-engineering economic growth for more prosperity, one of the authority's goals is to rationalize public zone establishments for more productivity and performance. The 11th Malaysian Plan will prioritize on optimizing the authorities' structure, scale, and operating model to enhance the interest, flexibility, and ultimately the performance of public sector institutions.

According to Noe et al. (2011), human resource management is critical to the success of organizations because human capital has excellent competencies that make it valuable. In terms of organization strategy, an organization can succeed if it has a sustainable competitive advantage. Public services have been seen as bureaucratic red tape, politics influence, and being unprofessional (Ahmad et al., Halimah, 2017). Besides that, the Malaysian government has additionally disclosed its imaginative and prescient 2020 within the early 1990s to influence the country in accomplishing the reputation of a superior country by using the year 2020 (New Straits Times, 2015). As a way to gain this ultimate goal Malaysia must be a nation that is absolutely superior, in particular economically, politically, socially, spiritually, psychologically and culturally (Mohammad, 1991). In order for Malaysia to achieve these ultimate objectives, the country must be able to produce a knowledgeable, green, proactive and multi-skilled era by 2020.

Besides that, research on the influence of human resource practices on performance with specific reference to Malaysia have focussed on the private sector (Abdullah et al., 2009; Amin et al., 2014). However, studies on human resource management practices in Malaysian organizations are scarce (Osman et al., 2011). It has also been discovered that Malaysian firms do not consider the essentialness of embracing excellent HRM practices (Rowley & Abdul-Rahman, 2007; Wei et al., 2010). Therefore, taking into consideration the view that public sector is the biggest employer in Malaysia and given the gaps identified above, it is strategically significant to carry out a study on impact of perceived HRM Practices on employees' final results in Malaysian public sector with the mediating position of worker engagement.

Most studies have been done in the field of HRMPs and worker and organizational level performance especially in developed countries, which are concluded that the HRMPs are the important factors to predict workers' performance (Khan, 2010; Quresh et al., 2010; Talib et al., 2010; Waqas et al., 2016). Studies recommend that HR practices have an effect on organizational outcomes by shaping worker behavior's and attitudes (Ordiz & Fernández, 2005; Alfes et al., 2013). HRM practices shall enhance the skills and knowledge of workers and empirical studies have shown that HRM practices beneficially affect performance and motivation (Wright & Boswell, 2002; Paauwe & Boselie, 2005; Jiang et al., 2012; Akilanayaki Lingeswaran, 2018).

More specifically, HRM is hypothesized to fulfill employees' needs which enhances favourable attitudes, and finally improves overall performance (Dysvik & Kuvaas, 2008; Edgar & Geare, 2005). It has additionally been set up that there's a high quality and significant relationship between HRM practices and organizational performance (Teclmichael Tessema & Soeters, 2006; Koonmee et al., 2010; Quresh et al., 2010; Croucher et al., 2012; Ali Zeb et al., 2018). This is consistent with social exchange theory (SET) which argues that HRM practices make contributions to positive exchange relationships between employee and employer, specially while the needs of

individual workers are taken into consideration, to which employees reciprocate with favourable attitudes and behaviour (Davies & Gould-Williams, 2005).

Based on the literature above the following hypothesis is proposed:

H1: There is a significant effect of human resources management (HRM) practice on employee performance.

H1a: There is a significant effect between training and development on employee performance.

H1b: There is a significant effect between compensation on employee performance.

H1c: There is a significant effect between job security on employee performance.

H1d: There is a significant effect between promotion on employee performance.

H2: There is a significant effect between HRM Practice on employee performance

H3: There is a significant effect between employee engagements on employee performance.

H4: Employee engagement mediates the relationship between HRM Practice and employee performance.

3 Design and methodology

The study has been conducted on the employees of developer property industry (public sector) in Gelang Patah, Johor, which is the Forest City Country Garden, Eco Garden and Leisure Farm. The data were collected through survey method with 5-point Likert scale. The items of the questionnaire have been adapted from previously developed instrument and used by the different research scholars in their studies. A total of 400 questionnaires were distributed to the respondents. However, only 318 were returned. According to '10 times rule' the analysis of PLS-SEM is good to be conducted with only 20 samples in this case but more representation of samples have been considered for getting more acceptable results (Hair et al., 2017). Data collected is analyzed using IBM Statistical Package for the Social Sciences (SPSS version 23) software. The SPSS 23 will be used to key within the data and to generate the descriptive statistic that includes the demographic statistic and descriptive data. In order to analyzes the data, Partial Least Square Equation Model (PLS-SEM), is used to examine the relationship between all the variables.

This study uses the social exchange theory. This study proposes that top performance HR practices will have an effect on worker attitudes, besides, social exchange theory could deliver the theoretical foundation to provide an explanation for the variety of employees' engagement in influencing employee performance. In summary, social exchange theoretical foundation justifies the reasons why workers plan to have interaction more or less on their work, either positively or negatively, contingent upon the economic and socio-emotional resources received from their organization (Andrew & Sofian, 2011).

4 Analysis and findings

4.1 Descriptive analysis

As shown in Table 1 below, from 318 respondents, 292 respondents are male with 91.8% while the rest of the respondents are female with only 26 respondents (8.2%). In terms of age, the

highest number of respondents are from the age of 20-30 years old, with 219 respondents (68.9%), and the lowest number of respondents are from the age of 41-50 years old with only 11 respondents (3.5%). Next, is race which can be divided into three; first are Malay with 156 respondents (49.1%), second are Chinese with 126 respondents (39.6%) and lastly are others, with 36 respondents (11.3%). Besides that, Table 1 below also revealed the status of the respondents, from 318 respondents, highest number of respondents are from those who are married with 171 respondents (53.8%). As for the education level, the highest number of respondents are those with SPM level, with total number of 125 respondents (39.3%). In terms of job position, it can be divided into four;(1) CEO/President/Vice president, with 40 respondents (12.6%), (2) General Manager / Manager, with 53 respondents (16.7%), (3) Executive, with 11 respondents (3.5%) and (4) Others with 214 respondents (67.3%). Lastly, is the number of years of service. From the total of 318 respondents, it can be concluded that, majority of the respondents are working less than one year, with 259 respondents (81.4%).

Table 1: Demographic profile of respondent

Characteristics		Frequency	Percentage
Gender	Male	292	91.8%
	Female	26	8.2%
Age	20-30	219	68.9%
	31-40	88	27.7%
	41-50	11	3.5%
Race	Malay	156	49.1%
	Chinese	126	39.6%
	Other	36	11.3%
Status	Single	128	40.3%
	Married	171	53.8%
	Other	19	6.0%
Education level	SPM	125	39.3%
	Diploma	110	34.6%
	Bachelor Degree	60	18.9%
	Master degree	23	7.2%
Job Position	CEO/President/Vice President	40	12.6%
	General Manager/Manager	53	16.7%
	Executive	11	3.5%
	Others	214	67.3%
	Year of Services	Less than 1	259
	6-10 years	29	9.1%
	More than 10 years	30	9.4%

4.2 Evaluation of Measurement Model

Analysis were conducted to determine the validity and reliability of the measurement. Table 2 explains the convergent validity of measurement model. According to Hair et al (2006), items that have factor loading below 0.60 should be deleted. If the deletion of the item results in

an increase in the AVE and CR, then the item should be deleted. Any item with an outer loading that is $< .40$ is recommended to be deleted (Hair et al., 2014). Thus, 4 items were discarded; C9, C12, JS15, P21. Table 1 shows the factor loading after the item with low factor loading deleted due to insufficient factor loading below 0.6. The factor loadings of all remaining items range from 0.651 to 0.915, which exceeds the threshold of 0.6 as recommended by Hair et al. (2006). As for AVE, each variable of AVE should be more than 0.5 (Hair et al., 2012). From the table the result shows that all variables AVE range from 0.427 to 0.641, some of the AVE results are less than 0.5, however, all the values of AVE are accepted as according to Fornell and Larcker (1981) if AVE is less than 0.5, but composite reliability is higher than 0.6, the convergent validity of the construct is still acceptable.

In convergent validity, to test the reliability, it is measured using Cronbach Alpha and composite reliability (CR). Cronbach's alpha is the traditional measure to identify the reliability of the variables or constructs. The Cronbach's alpha value ≥ 0.7 is considered excellent but the value which is more than 0.6 is acceptable for ensuring the reliability of the construct. As presented in Table below all the extracted factors have good internal consistency. However, in PLS-SEM, composite reliability is measured for the constructs for ensuring reliability. Composite reliability is done to measure the internal consistency as from table 1 above, value for composite reliability are in the range of 0.788 till 0.842, which is higher than the suggested value of 0.7 by (Hair, 2007).

The discriminant validity of the instrument was verified by examining the square root of the AVE as recommended by Hair et al. (2011). To confirm the discriminant validity, Fornell and Laker (1981) method is used. They contended that later is satisfied if its independent variance is higher than shared value with other constructs as evident in the table (Hair et al., 2011). As shown in table below, the diagonal values that are highlighted in the bold text represent the square root of the AVE while the off-diagonals represent the correlations. The results of the Fornell-Larcker criterion confirm that the square root of a construct's AVE is higher than the correlations of the other constructs. Thus, all conditions to satisfy the discriminant validity of the measurement model have been met. Hence, Table 2 and Table 3 have established the convergent and discriminant validity of this study.

Table 2: Composite Reliability and Convergent Validity

Variable	Items	Loadings	Cronbach Alpha	AVE	CR
Training and development	TND1	0.682	0.910	0.926	0.613
	TND2	0.828			
	TND3	0.747			
	TND4	0.735			
	TND5	0.860			
	TND6	0.861			
	TND7	0.837			
	TND8	0.690			
Compensation	C10	0.865	0.773	0.855	0.665
	C11	0.707			
	C13	0.868			
Job security	JS14	0.718	0.665	0.795	0.493
	JS16	0.715			
	JS17	0.651			

	JS18	0.720			
Promotion	P19	0.754	0.821	0.882	0.653
	P20	0.886			
	P22	0.860			
	P23	0.720			
Employee performance	EP3	0.915	0.864	0.907	0.711
	EP4	0.746			
	EP5	0.871			
	EP6	0.832			
Employee engagement	EE1	0.825	0.930	0.942	0.673
	EE2	0.841			
	EE4	0.688			
	EE5	0.744			
	EE6	0.891			
	EE7	0.856			
	EE8	0.875			
	EE9	0.823			

Note: Items of C9, and C12, of compensation. JS15, of job security, and P21 of promotion were deleted due to the value of loading is less than 0.6.

Table 3: Fornell and Larcker Criterion

	#1	#2	#3	#4	#5	#6
#1 Compensation	0.815					
#2 Employee engagement	0.311	0.820				
#3 Employee performance	0.420	0.843	0.853			
#4 Job security	0.665	0.582	0.576	0.702		
#5 Promotion	0.691	0.514	0.553	0.702	0.808	
#6 Training and development	0.373	0.466	0.438	0.381	0.502	0.783

Note: Diagonals represent the square root of the AVE while the off-diagonals represent the correlations

4.3 Evaluation of structural model

Once the conditions to validate the measurement model were met, the structural model was then examined for the relationships between the constructs and to assess the model's predictive capability. When adopting PLS-SEM, this model is analysed on predictive relevance and statistical significance, as suggested by Hair et al. (2014). The relationship between the independent variables and dependent variable were examined by using Smart PLS. After bootstrapping procedures were conducted, only then the data of t-statistic can be obtained. Therefore, the proposed hypothesis is determined based on the result of the acceptance and rejection. Below are the two figures of the path coefficient. (see figure 1 and figure 2).

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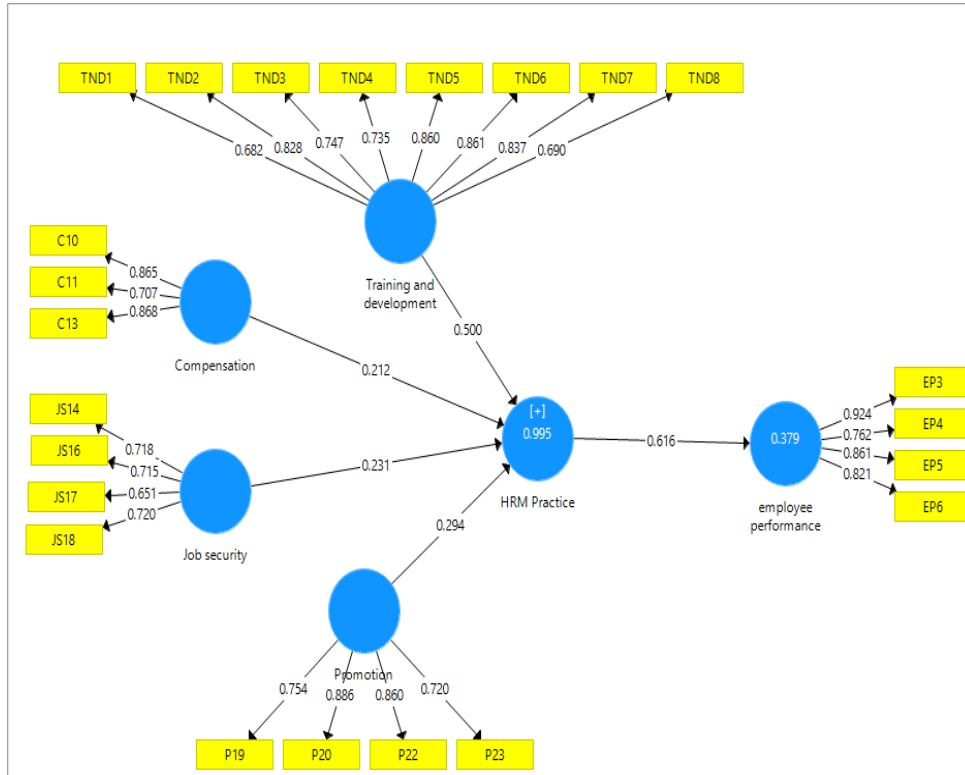


Figure 1: Path coefficient direct effect

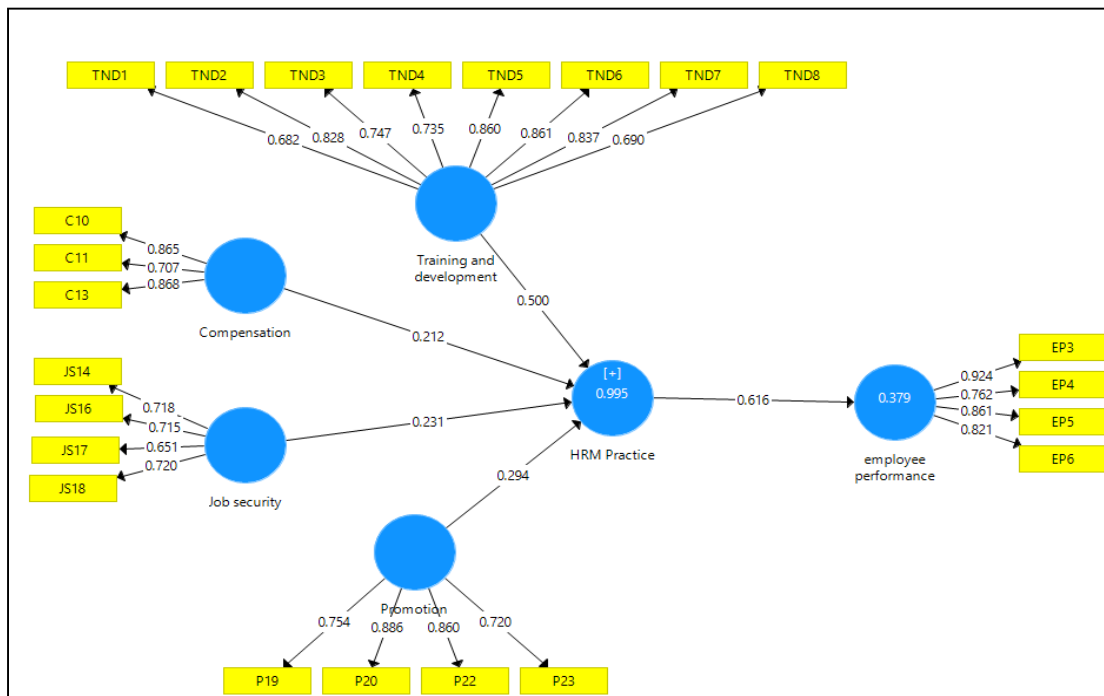


Figure 2: Path coefficient with employee engagement as mediator

Based on this study, as shown in Table 4 below, for the first hypothesis, hypothesis 1, the result indicates that there is an effect between two variables, as the result is $\beta = 0.170$, $t\text{-value} =$

5.639 at $p < 0.01$. The finding is similar with previous finding who has established that there is a positive and significant relationship between HRM practices and employee performance (Croucher et al., 2012; Koonmee et al., 2010; Quresh et al., 2010; Teclemichael Tessema & Soeters, 2006). As for Hypothesis 1a, the result indicates that there is an effect between two variables as the result is $\beta = 0.503$, $t = 14.323$ at $p < 0.01$. Previous studies have also revealed that there is a positive relationship between training and organizational performance (Abdullah & Haslinda, 2009; Katou & Budhwar, 2006; Khan, 2010; Singh, 2004; Talib et al., 2010). Next is hypothesis 1b, the result indicates that there is an effect between two variables as the result is $\beta = 0.191$, $t = 7.520$ at $p < 0.01$ which is similar with (Danish & Usman, 2010; Giorgio & Arman, 2008; Khan, 2010; Quresh et al., 2010; Shiah-Hou & Cheng, 2012). Hypothesis 1c is developed to identify the effect of job security on employee performance, $\beta = 0.249$, $t = 13.050$ at $p < 0.01$. The result indicates that there is an effect between two variables as the result is similar with findings by Bilal et al.(2014) and Senol (2011).

Following this, hypothesis 1d is developed to identify effect of promotion on employee performance. The result indicates that there is an effect between these two variables as the result is $\beta = 0.292$, $t = 14.336$ at $p < 0.01$. Findings is similar with Ahmad & Shahzad (2011) who did a study on the impact of compensation, promotion and performance evaluation practices on the employee performance. Hypothesis 2 on the other hand, is developed to identify effect of human resource management practice on employee engagement.

The result indicates that there is an effect between these two variables as the result is $\beta = 0.603$, $t = 10.782$ which is similar with findings by (Christian & Brian, 2011). For hypothesis 3 the result indicates that there is an effect between these two variables as the result is $\beta = 0.751$, $t = 26.160$. Previous studies have shown that employee engagement has a positive influence on organisational performance indicators such as: employee satisfaction, productivity, employee turnover, organisational commitment, and safety (Hallberg & Schaufeli, 2006; Saks & Karras, 2006; Bakker & Demerouti, 2014;). Thus, H3 is accepted.

Table 4: Hypothesis Testing

Hypothesis	Standard data	Standard error	t-value	Decision	
H1	HRM practices ->employee performance	0.170	0.030	5.639**	Accepted
H1a	Training and development -> employee performance	0.503	0.035	14.323**	Accepted
H1b	Compensation -> employee performance	0.191	0.025	7.520**	Accepted
H1c	Job security -> employee performance	0.249	0.019	13.05**	Accepted
H1d	Promotion -> employee performance	0.292	0.020	14.336**	Accepted
H2	HRM practice -> employee engagement	0.603	0.056	10.782**	Accepted
H3	Employee engagement -> Employee performance	0.751	0.029	26.160**	Accepted

The result for H4 is $\beta = 0.453$, $t = 11.087$ (see Table 5). It shows that employee engagement mediates the relationship between human resources management practices and employee performance and there is indirect effect between the variables. Besides, a considerable number of

earlier researches revealed that HRM practices have a positive impact on the employee performance (Bowra et al., 2012; Khan, 2010; Quresh et al., 2010). Similarly, HRM practices have been observed as an indicator of work engagement (Karatepe, 2013). Thus, H4 is accepted. Lastly, the variance accounted for (VAF) is calculated as suggested by Hair et al. (2014). The VAF determines the size of the indirect effect in relation to the total effect (i.e. direct effect + indirect effect): The VAF value is calculated and the value is $(0.170+0.453= 0.623)$. According to Hair , Hult, Ringle, and Sarstedt (2016), when the VAF would be less than 20% it can be concluded that that there is no mediation effect, VAF above 80% can be assumed that there is a full mediation while VAF larger than 20% and less than 80% can be characterized as partial mediation. Thus, in this study as in the table above, the VAF is 0.623 which indicates 62% and can be assumed that employee engagement mediates the relationship between HRM practice and employee performance.

Table 5: Mediation analysis of the effects of engagement on the relationship between HRM Practice and employee performance

Hypothesis	Effect	Relationship	Path coefficient	Std. Error	T-Value	Decision
	Direct without mediator	HRM Practice -> employee performance	0.170	0.030	5.639**	Accepted
H4	Indirect with mediator	HRM Practice -> Employee engagement -> Employee performance	0.453	0.041	11.087**	Accepted

5 Discussion

Overall, the results in this study conclude that firstly, there is an effect of HRM practices and employee performance. Employee engagement can strongly influence the relationship between human resources management practices and employee performance. Employees are the key assets to any organisation and if they are not given the right space and time to make a perfect blend of work and fun at workplace, then the sense of dis-engagement sets in the employees (MacLeod & Clarke, 2011; Ali et al. 2018;). Research on HRM practices and its effect on employee performance mediated by employee engagement is a very significant area due to the importance of human resources. However, most of the studies are carried out in the Western world which necessitates this study (Dei Mensah, 2014). It is therefore important that more researchers especially those in Asian continue to explore the area empirically.

This study used SET theory as a guideline to examine and understand the relationships between human resource management practice, and employee performance towards employee engagement. By using social exchange theory, finding from this study shows that, high performance HR practices can positively influence employee attitudes, besides social exchange theory could give the theoretical foundation to explain the variability of employees' engagement in influencing employee performance. In summary, social exchange theoretical foundation justifies the reasons why employees decide to engage more or less on their work, either positively

or negatively, contingent upon the economic and socio-emotional resources received from their organisation, or even decide to stay with their organisation (Andrew & Sofian, 2011). Besides that, this study also extends the knowledge of the direct and indirect relationship of human resources management practice towards employee's performance with employee engagement. Findings from this study are able to help researchers to gain deeper understanding and enhance their knowledge about HRM.

This study also contributes practically to organization in the Gelang Patah, Forest City Country Garden, Eco Garden and Leisure Farm. It will also make important contributions for the practitioners who are in the field of public sectors particularly for managers who actually want to invest their resources for the well-being of their employees. The findings could also make concrete suggestions on how organizations can improve employee engagement. Conducting a study in Malaysia would contribute to the breadth of research in employee engagement and increase the applicability of the construct. There are also few limitations highlighted from this research. Firstly, the limitation of this study is that the researcher could not capture and study in depth of the actual effect of HRM Practices on employee engagement. Besides, there are many other factors which may affect the level of employee performance but due to time restrictions, other factors were not considered for this research. This is because to study the actual impact of employees' behaviour needs comprehensive researcher with longer period. Lastly, this study is only conducted among employees at a public sector in Johor Bharu only, this is due to time constraint and ease of gathering information and data.

There are three major implications of this study: theoretical contribution, robustness of research methodology, and practical contribution. In terms of theoretical contribution, the findings of this study reveal that employee engagement act as important determinants of employee performance in organization. Previous studies have shown that employee engagement has a positive influence on organisational performance indicators such as: employee satisfaction, productivity, employee turnover, organisational commitment, and safety (Hallberg & Schaufeli, 2006; Saks & Karras, 2006; Bakker & Demerouti, 2014). With respect to the robustness of research methodology, the survey questionnaire data used in this study have exceeded the minimum standards of the validity and reliability analyses. Therefore, a more accurate and reliable finding could be expected. In terms of practical contribution, the findings of this study could serve as guidelines by managers to improve the design of performance appraisal systems in organizations.

6 Conclusion

In conclusion, this study has contributed to research that examines the link between HRM practices and work engagement. This study has also highlighted the importance of HRM practices to the improvement of employee performance. The variables for HRM Practices which is training and development, compensation, job security, and promotion would give an effect on employee performance. Additionally, the presence of employee engagement would help in the management of public sector organizations and they are encouraged to pay special attention towards HRM practices, in order to increase employee performance. This study could also be further developed by including more dimensions of HRM practices such as recruitment and selection, performance appraisal, and industrial relations. The sample size could also be increased. Further study could be extended to other sectors of the economy like insurance, manufacturing and oil and gas, with the inclusion of other factors that play a vital role in improving performance of employees. Next, further research should include moderating variables to investigate the moderating effects towards

employee engagement. Moderator variable can influence the strength of relationship between independent and dependent variables.

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