

Impact of Recruitment and Selection and Compensation Practices on Perceived Employee and Organizational Performance in Indian Service and Manufacturing Organizations

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Abstract: In the context of the current global scenario HR practices play a very important role for increasing or decreasing the performances of employees which further affects the organizational performances. The objective of this study is to examine the impact of two factors of HR practices namely recruitment and selection and compensation practices on perceived employee and organizational performances in respect of service and manufacturing organizations of India. Data was collected through survey questionnaire from the service firms 105 and manufacturing firms 219 like banks (public and private) insurance firms, automobile firms, fertilizer industries, pharmaceutical firms, luxury item industries of India. This study provides evidence that there is a positive link between two factors of HR practices recruitment and selection and compensation practices with perpetual performances of employee and organization. As recruitment and selection and compensation practices are a good predictor of perceived employee and organizational performances, the industries (both service and manufacturing sectors) should pay attention to these two HR practices in order to ensure superlative performance. This study provides a direction for future research by suggesting increasing the data samples.

Key words: HR practices, recruitment and selection, compensation practices, perceived employee performance, perceived organizational performances, direction

INTRODUCTION

Corporate world is now a days characterized by rising competition, globalization of markets and advancement in technology in service and manufacturing organizations of India. Human resource practices play the most important role in the success of any organization. It comprises of a number of components like HR planning, job definition, job rotation, recruitment and selection, compensation, training, career planning, performance appraisal, promotion, etc. In this study, we are going to analyse and discuss about the effect of recruitment and selection and compensation practices on the perpetual performances of employee and organization. The variance of impact on service and manufacturing organizations in India is also derived.

Performance of any organization mainly depends upon the performance of its employees which mainly culminates to high market and organizational performances. Organizations are increasingly realizing that there are number of factors which contribute to its

success and therefore, the knowledge and skills of an organization's employees have become increasingly important to its competitiveness and progression.

Zheng and Hong (2006) and Croucher (2008) point out there is a positive and significant relationship between recruitment and selection and the performance of a firm. Sang (2005) also discovered a positive association between recruitment and selection and business performance. Ichniowski *et al.* (1997), Katou and Bedhwar (2006) and Wright *et al.* (2005) also reported similar positive results between recruitment and selection and performance in Canada, in Finland and in New Zealand. However, these studies were focused mainly on large corporate organizations of the world but we want to investigate them in Indian context and across manufacturing and service sectors.

A number of researchers have stated that compensation practices which is a part of HR practices are positively linked with organizational and employee performance (Guest and Conway, 2002; Harley, 2002; Gould-Williams, 2003; Park *et al.*, 2003; Wright *et al.*, 2003; Tessema and Soeters, 2006).

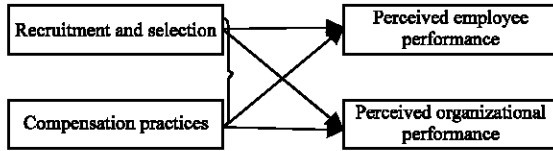


Fig. 1: Theoretical framework

Compensation means all forms of financial returns in terms of remuneration, allowances and incentives for the service provided by employees. It has been constantly implemented as a process to draw and hold talented skilled persons and also to influence their performances. Employee perceptions about their contribution to the organization what they achieve financially and how their return-contribution ratio compares to others inside and outside the organization, determine how fair they perceive their employment relationship to be (Adams, 1963).

The opinion that compensation policies are strategic, thus affecting the performance of the organization has gained considerable importance. The significance of a strategic outlook on compensation practices depends on various factors like its composition and procedures which differs from organization to organization. Employee compensation practices differ across employment units (e.g., organizations, business units and facilities) on several dimensions (Gerhart and Milkovich, 1992a, b; Gerhart *et al.*, 1992).

Financial models of compensation usually assume that increased effort for high performances requires greater participation by employees which is associated with disutility on their part. In order to provide incentives, these models predict the existence of reward systems that structure compensation so that a worker's expected utility increases with observed productivity.

This study is an effort to test the relationship between recruitment and selection and compensation practices with perceived employee and organizational performance in Indian service and manufacturing organizations. The main research questions of this study are, therefore (Fig. 1):

- Impact of recruitment and selection on perceived employee and organizational performance in Indian service organizations
- Impact of compensation practices on perceived employee and organizational performance in Indian service organizations
- Impact of recruitment and selection on perceived employee and organizational performance in Indian manufacturing organizations

- Impact of compensation practices on perceived employee and organizational performance in Indian manufacturing organizations

Literature review: The impact of HR practices on performances has been a extensively sought after area of research for years. HR practices are essentially the levers by which a pool of human capital can be developed.

The overall aim of recruitment and selection within the organization is to obtain the number and quality of employees that are required to satisfy the strategic objectives of the organization, at minimal cost (Ofori and Aryeetey, 2011). Researchers found a positive relationship between effective recruitment and selection practices and top-class performance (Harel and Tzafrir, 1996; Delany and Huselid, 1996). Available evidence indicates that there is a positive and significant relationship between recruitment and selection and the performance of an enterprise (Gamage, 2014). Sang (2005) for example discovered a positive association between recruitment and selection and business performance. Such were also of positive results between recruitment and selection and performance as seen in Ichniowski *et al.* (1997), Katou and Budhwar (2006) and Wright and Paul (2005). Other studies such as Syed (2012) have equally shown that implementing an effective recruitment and selection process is positively related to organizational performance. According to Sarkar and Kumar (2007) organizational performance is hinged on the approach which the organization adopts in the recruitment and selection of employees.

If competencies are the wheels for managing knowledge work, rewards (both extrinsic and intrinsic) are the engine. Compensation is the foundational rewards that are primarily financial in nature and satisfy financial needs for income. To reduce the gap between the objectives of the organization with the expectations of the employees, rewards play a vital role. An updated compensation systems of any successful organization should comprise of some basic privileges like efficient pay system to satisfy basic requirements which will be almost be equivalent to that of other organization and treatment of each member of the organization in terms of his or her individual needs. The application of skill and competence leads to high performance and performance is the criterion for evaluating effectiveness. Therefore, a pay-for-competence program, enhances productivity and product quality, reduces absenteeism, turnover and accident rates (Jyothi and Venkatesh, 2006).

Performance is defined as the record of outcomes produced on a specified job function or activity during a specified time period (Bernardin and Russell, 1993).

Performance management isn't just a once-a-year assessment; effective managers incorporate performance review and feedback as part of their day-to-day communications with employees.

Organizations base compensation on various factors. Some organizations pay more attention to these factors than others do. The term compensation means all forms of pay received by workers against their services provided to the organization. It can be further defined as two main types, direct financial benefits (salaries, wages, bonuses, etc.) and indirect benefits like concession, insurance, etc. Compensation and benefits help attract, retain and motivate employees. Probably the most fundamental part in the compensation literature is that compensation makes a difference in individual and organizational outcomes (Heneman, 1973; Milkovich, 1988).

Singh (2004) investigated the relationship between 6 HRM practices and firms level performance in India. Using regression and correlation analysis, the study found a significant relationship between the 2 HR practices namely training and compensation and perceived organizational and market performance.

Cowherd and Levine (1992) used a sample of 102 business units in 41 corporations to examine whether the size of the pay differential between lower-level employees and top management had any impact on product quality. Cowherd and Levine (1992) suggest that individuals often compare their pay to that of people higher in the organization structure. The employees from lower grade will try to reduce their effort if they see that they are not treated equally.

High HR practices have statistically significant association with employees result and outcomes (Huselid, 1995). According to Teseema and Soeters (2006), there is a positive correlation between employee performance and compensation practices. On the basis of the above literature we could easily relate compensation practices with perpetual performance of employees and organization. But we have to test its variance in service and manufacturing sectors in Indian context.

Recruitment and selection: Recruitment and selection are vital functions of human resource management for any type of business organization. It refers to the method of attracting and choosing applicants for employment. The quality of the employee of the firm greatly depends on the efficiency of this HR practice. Some of the organizations often confuse cost effective strategy with recruiting and selecting the wrong aspirants who are incapable of aligning with the aims and objectives of the organization.

The process of recruitment and selection involves the search for potential applicants for expected vacant positions. Recruitment involves those activities that influence the number or type of applicants and/or whether a job offer is accepted (Boudreau and Rynes, 1985; Breaugh, 1992). Selection is the process of collecting and analyzing the information about an individual to determine if job offer should be made (Gatewood and Field, 1994).

The process of staffing employees in the organization consists of finding, evaluating and assigning individuals to work (Schneider and Schmitt, 1986). Research has shown that valid selection tests are very useful in employee selection (Schuler and Jackson, 1987) and implementing an effective staffing process is positively correlated with organizational performance (Terpstra and Rozell, 1993). However, other types of selection testing also are effective at predicting the potential of job applicants (Guion, 1991; Hunter and Hunter, 1984). A robust selection system test's a probable employee's potential for a particular post and reduces the firm's level of uncertainty when faced with an external candidate (Holzer, 1987). Thus, up to a certain point, the more standardized the selection procedure is across applicants, the more the method operates as an effective selection technique. When the best people are selected for the job, productivity increases.

Compensation: Compensation is the total sum of the financial and non-financial pay provided to an employee by an employer in return for work performed as required from time to time. Essentially, it's a combination of your pay, benefits, bonuses, insurance and any other incentives you may receive. Armstrong (2005) stated that compensation management is an integral part of human resource management approach to productivity improvement in the organisation.

Compensation refers to all types of pay or reward going to employees and arising from their employment (Gary, 2007). Compensation is very important to employee because it is one of the main reason for people to work. Moreover, it is the median for organization to affect motivation in several ways in order to achieve the specific goals and objectives of the organization. A substantial body of work has provided evidence that compensation has an impact on firm performance (Oladipo and Danlami, 2011).

As an integral part of human resource management, compensation helps in inspiring the employees and increasing organizational performances. According to Bob (2001), compensation processes are based on

compensation philosophies and strategies and contain arrangement in the shape of policies and strategies, guiding principles, structures and procedures which are devised and managed to provide and maintain appropriate types and levels of pay, benefits and other forms of compensation.

Perceived employee performance: Performance of work, in terms of quantity and quality, expected from each staff member is called the performance of the employees. It is one of the most important factors that affect the performance of the organization. These standards are the foundation for performance evaluation.

Perceived organizational performance: The ultimate goal of a business organization is higher financial performance or maximization of wealth for stake holders (Becker and Huselid, 1998; Horngren, 2006). According to the earlier studies (Delaney and Huselid, 1996; Harel and Tzafrir, 1999; Singh, 2004) the respondents were asked to assess their organization's performance in comparison to the performance of their competitors. The respondents were asked about the product quality, customer satisfaction, new product development, ability to attract and retain employees and relations between employees and management. Following the earlier research done in this line of research Delaney and Huselid (1996) and Harel and Tzafrir (1999). The measures used were relative or benchmarked, in the sense that they were derived from questions that asked the respondents to assess organizational performance of their company in relation to the performance of their competitors (Annexure 1).

MATERIALS AND METHODS

Sample and data collection: The criteria for selecting an organization were that the minimum number of employees in the last financial year was 1000. The sample included service and manufacturing firms from India.

The design method of this study incorporated responses to a survey questionnaire. The primary data for two independent variables (recruitment and selection and compensation practices) and two dependent variables (perceived employee and organizational performances) were collected through this survey from HR professionals of various service and manufacturing organizations in India. The survey is based on questionnaires used by Mussie *et al.* (2006) and Singh (2004). The reply was required on a 5 point Likert scales (endpoints: 1 = Strongly disagree, 5 = Strongly agree).

Respondents: The above procedure generated responses from around 105 service organizations and

219 manufacturing organisations out of a sample size of over 600 organisations and thus, overall response rate was around 51%. Population for the study were comprised of HR professionals working in service and manufacturing organizations in India, comprising of various industries, i.e., banking (public and private) insurance, etc., as well as from the Indian manufacturing firms like automobile, fertilizer, pharmaceutical, paints, metals, etc. The survey was administered consisting of first round e-Mail, follow-up e-Mails and second round e-Mails.

Procedures for data analysis: SPSS 20.0 package was used to perform required calculations. On the basis of the literature review, the following hypothesis are framed:

- H₁: recruitment and selection and compensation practices have positive relation with PEP (Perceived Employee Performance) in Indian service organizations
- H₂: recruitment and selection and compensation practices have positive relation with PEP (Perceived Employee Performance) in Indian manufacturing organizations
- H₃: recruitment and selection and compensation practices have positive relation with POP (Perceived Organizational Performance) in Indian service organizations
- H₄: recruitment and selection and compensation practices have positive relation with POP (Perceived Organizational Performance) in Indian manufacturing organizations

RESULTS AND DISCUSSION

Description of variables used for statistical analysis

Independent variables: Recruitment and Selection (RS); Compensation Practices (CP).

Dependent variables: Perceived Employee Performance (PEP); Perceived Organizational Performance (POP). For finding out the relationship between the independent variables recruitment and selection and compensation practices with dependent variables perceived employee performance and perceived organizational performance Pearson correlation and regression analysis was performed (Table 1-3).

The Pearson's *r* for the correlation between the recruitment and selection and perceived employee performance is 0.737 and between compensation practices and perceived employee performance is 0.706. This means that both the independent variable RS and CP are positively correlated with dependent variable PEP in Indian service organizations (Table 4-6).

Table 1: Reliability analysis (Service organization)

Analysis	α -values
Recruitment and selection	0.829
Compensation practices	0.760
Perceived employee performance	0.826
Perceived organizational performance	0.731

Table 2: Descriptive statistics of independent variable RS and CP with PEP (Service organization)

Factors	Mean	SD	N
PEP	3.87	0.655	105
RS	4.07	0.619	105
CP	4.01	0.609	105

Table 3: Pearson correlation coefficients between independent variables (RS and CP) and dependent variable (PEP) in service organizations

Factors	PEP	RS	CP
PEP			
Pearson correlation	1	0.737**	0.706**
Sig. (2-tailed)		0.000	0.000
N	105	105	105
RS			
Pearson correlation	0.737**	1	0.835**
Sig. (2-tailed)	0.000		0.000
N	105	105	105
CP			
Pearson correlation	0.706**	0.835**	1
Sig. (2-tailed)	0.000	0.000	
N	105	105	105

Correlation is significant at the 0.01 level (2-tailed)

Table 4: Regression analysis of independent variables (RS and CP) with PEP in service organizations

Model	R	R ²	Adjusted R ²	SE of the estimate
1	0.755 ^a	0.570	0.561	0.43427

^aPredictors: Constant, CP, RS

Table 5: Analysis of variables (ANOVA^a)

Models	Sum of squares	df	Mean square	F-value	Sig.
Regression	25.456	2	12.728	67.491	0.000 ^b
Residual	19.236	102	0.189		
Total	44.693	104			

^aDependent variable: PEP; ^bPredictors: (Constant), CP, RS

Table 6: Analysis of coefficients

Models	Unstandardized coefficients ^a (B)	Standardized coefficients ^a (β)	SE	t-values	Sig.
Constant	0.488	0.296		1.649	0.102
RS	0.514	0.125	0.486	4.116	0.000
CP	0.322	0.127	0.299	2.533	0.013

^aDependent variable: PEP

Coefficient of regression has been calculated to measure the degree of contribution of recruitment and selection and compensation practices to the perpetual employee performance of service organizations in India. The regression analysis indicates that recruitment and selection and compensation practices collectively contributes 57% to the perceived employee performance.

Table 7 and 8 depicts that the perception of employees are positive for a proper recruitment and selection and compensation practices process.

Table 7: Descriptive statistics of independent variable RS and CP with POP (service organization)

Factors	Mean	SD	N
POP	3.91	0.643	105
RS	4.07	0.619	105
CP	4.01	0.609	105

Table 8: Pearson correlation coefficients between independent variables (RS and CP) and dependent variable (POP) in service organizations

Factors	POP	RS	CP
POP			
Pearson correlation	1	0.729**	0.763**
Sig. (2-tailed)		0.000	0.000
N	105	105	105
RS			
Pearson correlation	0.729**	1	0.835**
Sig. (2-tailed)	0.000		0.000
N	105	105	105
CP			
Pearson correlation	0.763**	0.835**	1
Sig. (2-tailed)	0.000	0.000	
N	105	105	105

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

Table 9: Regression analysis of independent variables (RS and CP) with POP in service organizations

Model	R	R ²	Adjusted R ²	SE of the estimate
1	0.781 ^a	0.611	0.603	0.40518

^aPredictors: (Constant), CP, RS

Table 10: Analysis of ANOVA^a

Models	Sum of squares	df	Mean square	F-value	Sig.
Regression	26.263	2	13.132	79.987	0.000 ^b
Residual	16.745	102	0.164		
Total	43.009	104			

^aDependent Variable: POP; ^bPredictors: (Constant), CP, RS

Table 11: Analysis of POP in service organization

Models	Unstandardized coefficients ^a (B)	Standardized coefficients ^a (β)	SE	t-values	Sig.
Constant	0.467	0.276		1.692	0.094
RS	0.315	0.117	0.304	2.701	0.008
CP	0.538	0.119	0.510	4.535	0.000

^aDependent variable: POP

Table 12: Reliability analysis (Manufacturing organization)

Analysis	α -values
Recruitment and selection	0.706
Compensation practices	0.721
Perceived employee performance	0.762
Perceived organizational performance	0.708

Table 9 indicates that the regression equation was significant, $R^2 = 0.611$. In other words, the multiple correlation coefficients between the independent and the dependent variables were positive, the independent variable accounted for 61.1% of the variance in the perceived employee performance (Table 9-11).

Table 12-14 show that factors recruitment and selection and compensation practices are independently positively correlated with perceived employee performance with value of 0.840 and 0.828, respectively.

Table 13: Descriptive statistics of independent variable RS and CP with PEP (Manufacturing organization)

Factors	Mean	SD	N
PEP	3.86	0.788	219
RS	3.78	0.812	219
CP	3.82	0.827	219

Table 14: Pearson correlation coefficients between independent variables (RS and CP) and dependent variable (PEP) in manufacturing organizations

Factors	PEP	RS	CP
PEP			
Pearson correlation	1	0.840**	0.828**
Sig. (2-tailed)		0.000	0.000
N	219	219	219
RS			
Pearson correlation	0.840**	1	0.925**
Sig. (2-tailed)	0.000		0.000
N	219	219	219
CP			
Pearson correlation	0.828**	0.925**	1
Sig. (2-tailed)	0.000	0.000	
N	219	219	219

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

Table 15: Regression analysis of independent variables (RS and CP) with PEP in manufacturing organizations

Model	R	R ²	Adjusted R ²	SE of the estimate
1	0.851 ^a	0.724	0.721	0.41647

^aPredictors: (Constant), CP, RSTable 16: Analysis of PEP (ANOVA^a)

Models	Sum of squares	df	Mean square	F-value	Sig.
Regression	98.119	2	49.060	282.847	0.000 ^b
Residual	37.465	216	0.173		
Total	135.585	218			

^aDependent variable: PEP; ^bPredictors: Constant, CP, RS

Table 17: Analysis of PEP factors

Models	Unstandardized coefficients ^a (B)	Standardized coefficients ^a (β)	SE	t-values	Sig.
(Constant)	0.697	0.136		5.113	0.000
RS	0.494	0.091	0.509	5.419	0.000
CP	0.341	0.089	0.358	3.810	0.000

^aDependent variable: PEP

Table 18: Descriptive statistics of independent variable RS and CP with POP (Manufacturing Organization)

Factors	Mean	SD	N
POP	3.83	0.802	219
RS	3.78	0.812	219
CP	3.82	0.827	219

The model summary shows that the value of coefficient of determination is 0.724 which means 72.4% variation in case of service sectors is being explained by the two independent variables. The standardized beta coefficients are showing significant positive relationship for recruitment and selection (Table 15-17).

The above result shows that for obtaining standard POP the role of recruitment and selection as well as compensation practices is very important (Table 18-20).

Table 19: Pearson correlation coefficients between independent variables (RS and CP) and dependent variable (POP) in manufacturing organizations

Factors	POP	RS	CP
POP			
Pearson correlation	1	0.954**	0.953**
Sig. (2-tailed)		0.000	0.000
N	219	219	219
RS			
Pearson correlation	0.954**	1	0.925**
Sig. (2-tailed)	0.000		0.000
N	219	219	219
CP			
Pearson correlation	0.953**	0.925**	1
Sig. (2-tailed)	0.000	0.000	
N	219	219	219

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

Table 20: Regression analysis of independent variables (RS and CP) with POP in manufacturing organizations

Model	R	R ²	Adjusted R ²	SE of the estimate
1	0.972 ^a	0.945	0.944	0.18910

^aPredictors: Constant, CP, RSTable 21: Description of POP ANOVA^a

Models	Sum of squares	df	Mean square	F-value	Sig.
Regression	132.656	2	66.328	1854.861	0.000 ^b
Residual	7.724	216	0.036		
Total	140.380	218			

^aDependent variable: POP; ^bPredictors: Constant) CP, RS

Table 22: Description of POP coefficients

Models	Unstandardized coefficients ^a (B)	Standardized coefficients ^a (β)	SE	t-values	Sig.
Constant	0.144	0.062		2.334	0.020
RS	0.500	0.041	0.506	12.077	0.000
CP	0.470	0.041	0.485	11.572	0.000

^aDependent variable: POP

In the ANOVA (Table 20-22) the significance for recruitment and selection was found to be 0.000. This can be interpreted as the relationship between recruitment and selection and perceived organizational performance is significant. This result proves that there is also relationship between compensation practices and perceived organizational performance.

CONCLUSION

One of the main goal of this study is to find out the existing relationship between recruitment and selection and compensation practices with perceived employee and organizational performances in service and manufacturing sectors in India. To that end we have presented the impacts of recruitment and selection and compensation practices on perceived employee and organizational performances from where the variance for both the sectors has been depicted.

Survey data were collected from 321 HR professionals from service and manufacturing firms in

India. The results showed that correlation coefficient for recruitment and selection 0.954 and compensation practices 0.953 were highest in manufacturing organization for obtaining perceived organizational performance at 0.05 level of significance.

The biggest predictor for perceived employee performance was found to be recruitment and selection ($\beta = 0.486$; $p = 0.000$) in service organization and in case of manufacturing it is more significant with a value of $\beta = 0.304$; $p = 0.008$. Though, statistical significance could be found between compensation practices and perceived organization performances in both service and manufacturing organizations but it was low. The biggest predictor of perceived organizational performance was found to be recruitment and selection in service sector. Overall we can conclude that the influence of these two factors of HR are necessary for increasing all types of performances but its influence is more in service organization than in manufacturing organization.

The results are matching with the findings of Qureshi and Tahir where he concluded that all the HR practice including recruitment and selection and compensation practices are positively correlated. The results are also consistent with the findings of Singh (2004) who concluded that compensation has positive effects on organization and employee's performance. The findings of this research may offer valuable inputs to the different types of organizations in India.

LIMITATIONS

One reason for the paucity of research in this area is sampling issue. Another limitation of this study is the fact that the relationship between any personnel function and a firm's performance is not direct.

SUGGESTIONS

There are other determinants of employee performance which are not focused in this research. Due to time constraints and small sample size the generalizability of results can be challenged. It leaves some questions open for future research.

ANNEXURE

Annexure 1

Measurement of items: Respondents are asked to indicate the degree to which they agree or disagree with the following items related to different HRM issues. All the items will be measured on a five point scale ranging from 1, 'strongly disagree' to 5, 'strongly agree'. Please mention your industry type _____.

Recruitment and selection practices:

- Presence of written and operational recruitment and selection policy
- Presence of clear job description and specification

- Presence of attractive salary scales that can attract qualified applicants
- High role of merit in recruitment and selection exercise
- Presence of a good image that attract qualified applicants

Compensation practices:

- Presence of attractive compensation system
- Presence of equitable internal salary
- Presence of equitable external salary
- Presence of salary that reflects performance
- Presence of salary that encourages better performance

Perceived employee performance:

- My performance is better than that of my colleagues with similar qualifications
- My performance is better than that of employees with similar qualifications in other organizations
- The performance of my organization is better than that of other organizations

Perceived organizational performance:

- Quality of products or services
- Development of new products or services
- Ability to attract employees
- Ability to retain employees
- Satisfaction of customers or clients
- Relations between management and employees

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