

Impact of HR Practices on Employee loyalty and commitment: Mediating role of Job satisfaction

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Abstract: *HR Practices play crucial role towards employees' job related outcomes that ultimately leads towards effective organizational performance. The purpose of this study is to examine the relationship between HR Practices, loyalty and commitment with mediating role of job satisfaction in banks of Gujranwala Pakistan. Study is descriptive and quantitative in nature. Survey questionnaire method has been adopted and data have been collected by applying simple random sampling technique. Results revealed that HR practices are significantly and positively related to employees' loyalty and their commitment. Moreover, findings also depicted that job satisfaction significantly and partially mediate the relationship between HR practices, loyalty and commitment.*

Key words: *HR Practices; Employee commitment; Employee loyalty and job satisfaction*

1. INTRODUCTION

The changing environment of technology, globalization, and demands of customers not only revolutionize the organizations but also create extreme competition among them. In order to compete with these organizations need to be implementing such strategies that differentiate it from others (Fanelli and Medhora, 1998)[6]. HRM is the strategic approach towards the most valued assets of the organization like people working who take part in achieving the strategic goals of the organization (Armstrong, 2006)[3]. HRM Practices are considered as an important element in the success of an organization (Stavrou-Costea, 2005)[28]. HRM Practices such as training, compensations, working environment and employee's security helps a lot to improve firm's performance and the productivity of its employees (Lee and Lee, 2007). A number of studies have been conducted on manufacturing sectors but if we compare it with service sector then we come to know that huge productivity in the service sector as compare to manufacturing sectors. Face service in services organization closer the employees and customer which is very important in HRM in a service organization (Parkington and Schneider, 1979)[21]. HRM Practices are policies and procedure that depicts the relationship between management and its employees (Beer dwellerset al. 1984). In today's competitive environment employees are considered as very important in determining the success of the organization and have to retain them is also a challenge for the organization, the best way to compensate them an excess of their earnings (Sohail et al. 2011). In order to compete in the service sector, we have required satisfied and loyal workforce for

all organizations as well as banks (Singh, 2010). Similarly, the banking industry of Pakistan also facing that kind of strong competition and participate a significant job in Pakistan economy, it comprises 44 banks and 9847 branches all over the country (State Bank of Pakistan, 2011). This huge number of banks needs highly satisfied, motivated and loyal employees (Aleem et al. 2011). To retain employees and high-performance effective HRM Practices play an important role. So the current study purpose is to find the relationship among HRM practices on employee commitment, job satisfaction and loyalty in the banking sector of Pakistan.

2. LITERATURE REVIEW

2.1 HRM Practices

Human resource management are the policies and procedure involving HRM aspects of management regarding, planning, recruitment, selection, training and development, performance appraisal and labor relations (Dessler, 2007). In addition, Lee and heard (2000) proposed that Human resource management practices are the organizational assets that help an organization to main its effectiveness. It's considered as an important tool to change the employee attitude, behavior and job satisfaction, and the more important is an organizational commitment. Similarly HRM is the composition of policies, procedures, regulations, that determines employee behavior attitude and performance (Noe, Hollenbeck, Gerhart and Wright, 2007)[18]. Following are the HR practices that is derived from the existing literature as

Recruitment and selection: *It is all about finding, evaluating, and transmitting person to work as staffing*

(Harel, 1996) additionally recruiting and selecting with the profits of the firms (Terpstra and Rozell, 1993).

Training & Development: (Snell and Bohlander, 2007) summed up that Training means any activity that is initiated by organizations to promote learning within the organizations among members.

Compensation: According to Snell and Bohlander(2007), all the farms of pay, rewards, and benefits that are received by theemployee is compensation.

Performance Appraisal: Performance is a formalized process in which we check work monitoring and it's considered as a management tool to recover the employee performance and productivity (Shahzad, Bashir and Ramay, 2008).

2.2 HR Practices and Employee Commitment

Commitment is a way of generating and matched individual goal with the overall organization (Hall, Schneider and Nygren, 1970)[8]. So employee commitment can be defined as a degree to which employees excited (Akintayo, 2010)[2], loyal and attached with the organization (Ongori, 2007[19]; Bratton and Gold, 2007). Employee commitment has three multi-Dimensional Components like affective commitment, continuance commitment, and normative commitment (Mullins, 2001). Affective commitment is generally relatedto the working conditions and employee coordination and collaboration with other employees. Normative commitment is connected with the accountabilities: the social responsibility of firms to provide the jobs. Continuance commitment in terms and conditions of a job like leaving of the job is very difficult. Compensation and social benefits also play an important impact on employee commitment. On the basis of above mentioned literature, following hypothesis is proposed:

H1: HR Practices significantly and positively related to employee commitment

2.3 HR Practices and Employee Loyalty

Silvestro (2002) proposed that employee loyalty is the capability to stay in an organization. It is based on the ground that how much time is spent in the organization and to do the work for the organizations. Bettencourt, Gwinner, and Meuter (2001) suggested that Loyalty is the organizational citizenship behavior that shows employee commitment to organization through promotion of its interest. Loyalty is considered as an employee's successful feelings regarding his organization and his believes toward the organization (Kaisiarz, 2011). Employee empowerment determines the employees' perceived loyalty towards the organization (Masoodul Hassan, Saad Hassan, Muhammad Farooq and Asgheriqbal 2013). Similarly Rasha Abdel Aziz (2015) proposed that, recommendations used by employer can

increase employee loyalty through successful accomplishment of HRM Practices. Job analysis, training, career planning and compensation are the important variables in determining employee loyalty. Hence it can be proposed that:

H2: HR Practices significantly and positively related to employee loyalty

2.4 Mediating Role of Job Satisfaction

Employee job satisfaction is the positive and happiest feelings related his job that comes from appraisal of the job (Locke, 1976) and individual feelings towards job it may be positive or negative also referred to as job satisfaction (Oplatka and Mimon, 2008)[20]. Employee satisfaction is considered within empirical studies either as an overall feeling about the job, or as a related set of attitudes about various aspects of the job (Spector, 1997)[26]. Locke (1976)[16] describes job satisfaction a pleasurable or positive emotional state resulting from the appraisal of one's job and job experiences. . HR Practices is positively connected with employee job satisfaction because it play an important role in employee working if it's low then it lead to resigning of employees (HamdiaMudor and PhadettTooksoon, 2011). Factors like performance appraisal, empowerment, participation, training and development constituting HR Practices can be expected to influence the job satisfaction as whole. Hence,

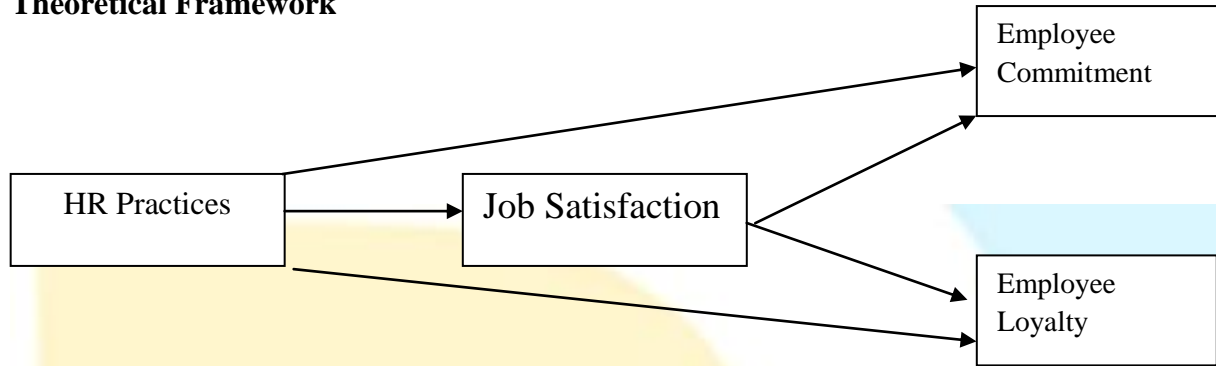
H3: There is positive and significant relationship between HR Practices and employee job satisfaction

Job satisfaction has three dimensions(1) job satisfaction relates to emotional response of an employee to a job situation (2) job satisfaction can be measured by estimating how well outcomes meet expectations (3) job satisfaction can be determined through several job-related attitudes (Stajkovic and Luthans, 1998)[27]. Job satisfaction is considered as important variable in formative employee commitment towards the organization (Abuga 2010)[1]. While Janssen (2001)[12] has argued that job satisfaction is the positive and negative feelings of employees towards organization that determines his loyalty and affects his performance (Choo and Bowly, 2007)[5]. Being loyal, employee took satisfaction and commitment at an individual level rather than at group level (Iden, 2014). Job satisfaction is considered as a significant factor in increasing employee performance and productivity, if an employee is satisfied with its job then he remain loyal and committed with the organization. Hence,

H4: Job satisfaction positively mediates the relationship between HR Practices and employee commitment.

H5: Job satisfaction positively mediates the relationship between HR Practices and employee loyalty.

Theoretical Framework



3. METHODOLOGY

3.1 Research Design

Current study is descriptive and quantitative in nature. Survey questionnaire method is used for the purpose of data collection. The instrument comprises two parts, the first part contains demographics (age, gender, educational level, nature of employment, length of employment) and the other is measured magnitude of behavior deals with the understudy variables (HR Practices, job satisfaction, employee commit and loyalty).

3.2 Sample and data

Our target population is employees of banks in the province, Punjab-Pakistan who are serving both privately as well as publically. Hair et al (2010) described a thumb rule that sample size can be obtained by multiplying the total items in a questionnaire by 10 so by following his methods. We distributed 200 questionnaires among the

employees and 190 questionnaires were received in response. After short listing the biased and incomplete questionnaires, we remained with 180 concrete responses. Data have been collected by applying simple random sampling technique.

4 ANALYSIS AND RESULTS

4.1 Demographics

The current study targeted population was employees working in the banks. Questionnaire floated in all banks. Most numbers of respondent exist between the age from 24 to 45, whose percentage is 70, 20% respondents belongs to the age of 45 to 55 and only 10% respondents from above 60 years. The length of their services ranges between 1-2year, 2-5year and above 10 years.

4.2 Descriptive & Correlation Analysis

Table-1

	Construct	Mean	SD	A	1	2	3	4	5	6	7
1	Training	3.75	.35	.79	--						
2	Recruitment and selection	3.65	.81	.74	.712**	--					
3	Performance appraisal	3.95	.75	.71	.529**	.442**	--				
4	Compensation	4.2	.73	.90	.208*	.169	.346**	--			
5	Employee loyalty	3.75	.73	.84	.468**	.433**	.438**	.456**	--		
6	Job satisfaction	3.73	.69	.85	.294**	.277**	.263**	.486**	.508**	--	
7	Employee commitment	3.98	.74	.77	.551**	.518**	.446**	.518**	.595**	.559**	--

The above-mentioned table is representing the descriptive statistics, reliability and Pearson correlation among all understudies variables. The highest correlation exists between the training and employee commitment (ranged from .551 to .559) except for training, which shows that training and employee commitment are strong positively correlated with small effects. All other variables job

satisfaction, employee loyalty are also correlated with HR Practices. The mean values are showing the trend of responses that most of them are laid towards agreeableness. Results indicate that alpha values for all variables are under acceptable range to prove data reliability.

4.3 Fit Indices for CFA Model

Table-2

Index of fit	Chi-square/(df)	P	GFI	AGFI	CFI	RMSEA
Value	3.0	.07	.93	.84	.94	.05

The above table illustrates the Goodness of Fit Chi Square and other values to determine that whether the chosen model has been an appropriate fit for reliability and validity check or not. Chi-square (χ^2/df) lacks consensus regarding an acceptable ratio for this statistic (Hooper, Coughlan & Mullen, 2008), recommendations range from as high as 5.0 (Wheaton, Muthen, Alwin and Summers, 1977)[30] to as low as 2.0 (Tabachnick and Fidell, 2007). Studies have shown that for low sample sizes GFI cut-off of 0.95 is more appropriate (Miles and Shevlin, 1998). As with the GFI, values for the AGFI range between 0 and 1 and it is normally accepted (Hooper, Coughlan & Mullen,

2008)[10]. A value of CFI ≥ 0.95 is presently recognised as indicative of good fit (Hu and Bentler, 1999)[11]. Lastly the value of RMSEA of below 0.08 shows a good fit (MacCallum, Browne and Sugawara, 1996). Thus, the results value of our measurement model being Chi-square=3.05, GFI=0.93, AGFI=0.84, CFI=0.94, RMSEA=0.056 being in the normal range of acceptance proves that our model is fit to check the reliability and validity of scale being used providing a green signal to proceed.

4.4 Confirmatory Factor Analysis

Table-3

Items	Factor Loadings	AVE	CR
Training & Development		0.522	0.835
TD1	.751		
TD2	.645		
TD3	.727		
TD4	.776		
TD5	.784		
TD6	.752		
Recruitment & Selection		0.634	0.75
RS1	.811		
RS2	.774		
RS3	.707		
RS4	.893		
RS5	.747		
Performance Appraisal		0.546	0.847
PA1	.874		
PA2	.838		
PA3	.871		
PA4	.781		
PA5	.946		
Compensation		0.615	0.856
C1	.886		
C2	.835		
C3	.852		
C4	.844		

C5	.772		
Employees Loyalty		0.714	0.825
EL1	.735		
EL2	.836		
EL3	.795		
EL4	.698		
EL5	.856		
Job Satisfaction		0.827	0.806
JS1	.796		
JS2	.602		
JS3	.714		
JS4	.785		
JS5	.869		
Employees Commitment		0.692	0.782
EC1	.743		
EC2	.850		
EC3	.692		
EC4	.541		

The measurement model has drawn to carry out the Confirmatory Factor. In order to check the convergent reliability and discriminant validity of data, this model and its fit indices has been illustrated. In order to check the reliability there are three major steps as being illustrated by Fornell and Larcker (1981)[7]. These steps involve the factor loading constructs value of comparative fit index (CFI) being greater than 0.7, the average variance extracted (AVE) being greater than 0.5 and the composite reliability (CR) being greater than 0.8. The results shown in **Table-3** illustrate that the majority

4.6

values of factor loading are greater than 0.7 and significant at 0.001, on the other side the CR and AVE values are all greater than 0.8 and 0.5 respectively. Thus, this result determines our scale convergent being reliable and proves the discriminate validity, which means that the items showing variances are for their own variables. This adds to the reliability and validity factor of the study and relationship of the variables involved.

4.5 SEM Regression Weights

Table-4

			Estimate	S.E.	C.R.	P
Employees Loyalty	<---	HR Practices	.427	.09	.05	.02
Employees Commitment	<---	HR Practices	.455	.08	.25	.01
Job Satisfaction	<---	HR Practices	.384	.12	.23	.04
Employees Loyalty	<---	Job Satisfaction	.413	.06	1.34	.02
Employees Commitment	<---	Job Satisfaction	.345	1.22	.54	.01

The above table shows the regression weights significance level for relationship hypothesized in H1, H2, H3, H4, and H5. The results show evidence that HR Practices shows positive and significant effects on employee loyalty, commitment and job satisfaction as

($p < 0.05$), hence H1, H2, and H3 are supported. Whereas, H4 and H5 are also positively and significantly mediated the relationship between independent and dependent variables as ($p < 0.05$) as according to above table.

4.7 SEM Mediation Analysis

Depicted the path analysis of given variables and their relationships by using SEM.

Table 5: Path Analysis

Independent Variables	Effects	Employees Loyalty	Employees Commitment
	Direct Effect	.416*	.416*
HR Practices	Indirect Effect	.483*	.483*
	Total Effect	.521*	.521*

Mediating variable: Job Satisfaction

In the above table, we check the mediating role of job satisfaction through mediation analysis. The total effect value 0.521 is greater than the direct effect value 0.416 indicates that it significantly mediates the relationship between HR Practices and employee loyalty. Similarly in second hypothesis total effect value is increasing from the direct effect which also indicates significant effect between HR practices and employee commitment.

5 CONCLUSION AND DISCUSSION

The main objective of the current study is to investigate effects of HR Practices on employee loyalty, employee commitment by considering job satisfaction as mediation in banking sectors in the province Punjab, Pakistan. The model helps the banking sector to improve employee loyalty, commitment, and job satisfaction. The finding shows that this study is important for atop organization that how they increase loyalty, commitment, and satisfaction. The research is discovering that how employees recognize the importance of training and development, compensation, and appraisal when they give opinion towards the loyalty of the firms. The findings show that employees are concerned with all these aspects as results show a very close relationship between independent variable, mediator and employee loyalty and commitment. Training and development, performance appraisal, compensation and selection all significantly determines the employee job satisfaction, commitment, and loyalty. This also reflects that all HR Practices dimensions have a positive relationship with job satisfaction, loyalty, and commitment. Pakistan is developing the country and employees are love get high compensation as compared to empowerment and performance appraisal. Past research depicts that to generate loyalty commitment and satisfaction monetary benefits play a crucial role (Javeed, Rafiq, Ahmed and Khan, 2012)[13]. Unlike previous studies that show therelationship of HR Practices and Job satisfaction, this study creates an understanding of regarding HR Practices with loyalty, job satisfaction, and commitment.

5.1 Practical implication

This study helps the managers in banking sectors that they should consider compensation, appraisal, training and selection to gain employee loyalty, job satisfaction, and commitment. In the way a well loyal and committed

workforce can be maintained in the banks minimizing the influence of job resignations and career shifts. The performance of the employees will also be enhanced and an employee oriented behavior will also be displayed to the employees by the management of banks.

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