

Impact of Human Resource Management on Employee Performance: Mediating Role of Employee Engagement Among Some's in Nepal

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Abstract

The purpose of this research is to investigate whether human resource management impacts employee performance as well as how employee engagement acts as a mediator in Nepal's small and medium-sized enterprises. This investigation will be carried out using a quantitative approach. Purposive sampling was used to select 215 small and medium-sized businesses from Nepal as the study's sample size. Data analysis tools like SPSS and Smart PLS were employed. The research demonstrates that using effective practices in human resource management have a significant positive effect on employee engagement and performance. Employee performance is impacted by employee engagement. Employee engagement is mediated by the relationship between human resources management practices & employee performance.

Introduction

The current business climate has made it very enticing for firms to adopt new strategies in the face of rapidly shifting personnel conditions. As additional responsibilities and issues at work have grown vital to their performance, organizations have become harder to motivate and lead their workforces. The workforce's lack of interest and involvement leads to employee disengagement. Some of the causes include inadequate compensation and benefits provided by the employer, a lack of opportunity for training and professional progress, and inefficient leadership (Kavyashree et al., 2023). If they feel undervalued, two out of every three workers will leave their company, and 87% of businesses appreciate employee loyalty. A person may have the opportunity to have a career that is advantageous to the company and the employees if they are highly motivated at work. Employee engagement will improve performance and aid the firm in achieving its goals (Arpiani & Mulyana, 2023).



Small and medium-sized businesses (SMEs), which make up the majority of companies globally, play a vital role in the expansion of the global economy for creating employment opportunities. Over 50% of the employment opportunities in the world and almost 90% of all businesses are accounted for by them. Formal SMEs can account for 40% of the GDP in developing nations. According to the World Bank, SMEs produce seven out of ten new formal jobs in emerging nations. Typically, the presence or absence of an HR department depends on the overall size of the firm. In Nepal, the percentage of small and medium-sized firms is close to 90%. According to the Nepali government, less than 100 people are employed by small and medium-sized businesses, and their fixed assets are valued at no more than \$100 million. 69% of businesses in Nepal have HR departments, according to research that looked at a variety of industries, including manufacturing, services, and others (Gautam, 2011; Agrawal, 2009). SMEs contribute for 22% of the GDP and employ roughly 1.7 million people (Kharel & Dahal, 2020).

Human resource management in Nepal has been the subject of numerous studies (Gurung & Choi, 2019; Gautam, 2015) the management of human resources and employee performance in Nepal (Kharel & Dahal, 2020); and others (Chalise & Pokharel, 2022); however, there has been little research on employee engagement as a mediating role. Human resource management, employee engagement, and employee performance are all topics with little research in Nepal. Numerous research gaps must be filled in light of the information provided above. In order to better understand employee performance and human resources management have associations, recent research is looking for the mediating role of employee engagement.

Objectives

1. To explore the relationship between human resource management practices and employee engagement.
2. To examine the relationship between human resource management practices and employee performance.
3. To investigate the relationship between employee engagement and employee performance.
4. To identify the mediation effect of employee engagement on the relationship between human resource management practices and employee performance.



Literature Review

Performance of employees is predicted to be low if they have a negative opinion of HRM procedures, and vice versa (Robbins & Judge, 2013). As a result, using appropriate HRM practices like compensation, training, and job assessments will foster innovation and increase worker productivity in the company (Silva et al., 2020). Training, pay, and organizational dedication positively and considerably influence employee performance. The organizational commitment also considerably and positively influences the direct and indirect benefits of training and pay (Anugrah, 2020). Job satisfaction, organizational commitment, and performance are likely to be hampered by inefficient and unfair hiring, promotion, training, opportunity for career development, and shifting compensating, and rewarding procedures (Atteya, 2012). Employee empowerment, training, and advancement were all positively connected with employee performance (Rumman et al., 2020). After development and training, performance appraisal has second-highest impact on employee performance. Additionally, enhancing employee performance via HRM procedures is an essential challenge for the growth of a firm, which must be understood by the organization particularly because it may negatively impact the latter's effectiveness if it is not carefully planned and implemented (Hee & Jing, 2018).

Hypothesis 1: “There is a significant positive effect of human resource management practices on employee performance.”

According to the study (Hoque et al., 2018), the remuneration system can promote employee engagement by enhancing workers' wellbeing at work. The study's conclusions suggest a link between HRM initiatives and employee engagement. Employers who used HRM strategies reported a rise in employee engagement and empowerment to carry out their given responsibilities more effectively (Kavyashree et al., 2023). When HRM procedures are implemented and effectively used within businesses, the level of employee engagement in their jobs increases. In order to achieve long-term success, HRM practices should be given top priority in company settings, according to the study's findings (Aktar & Pangil, 2018). Employee engagement is positively and significantly correlated with HRM practices. It contends that having efficient HRM policies and practices in place at work conveys to staff members a strong message that they are respected, cherished, and acknowledged by their employers (Aktar & Pangil, 2017). Employee



engagement is facilitated by a variety of elements, including pay, and it is also highlighted that contented workers are more effective and productive. So, according to (Indriyani & Heruwasto, 2016), the notion that workers were adequately reimbursed for the task they had previously accomplished was a contributing factor in employee engagement. In accordance with (Jha & Kumar, 2016), an engaged worker is someone who is more involved, seeks for performance, has an open mind to learning new things, and works well in a team. They also understand how they contribute in the organization's overall strategy.

Hypothesis 2: “There is a significant positive effect of human resource management practices on employee engagement.”

Hypothesis 3: “There is a significant positive effect of employee engagement on employee performance.”

Employee performance is impacted by aspects of HRM practices. Management is urged to pay strict attention to HRM procedures to increase employee performance, and employee engagement is also important in this regard (Taib et al., 2018). Employee involvement indirectly influences training and performance among employees, claim (Sendawula et al., 2018). According to Hoque et al. (2018), employee engagement plays a part in mediating the link between pay and performance. Employee engagement, in accordance with Ahmed et al. (2016), mediates the link between HRM procedures and worker performance.

Hypothesis 4: “Employee engagement mediates the relationship between human resource management practices and employee performance.”

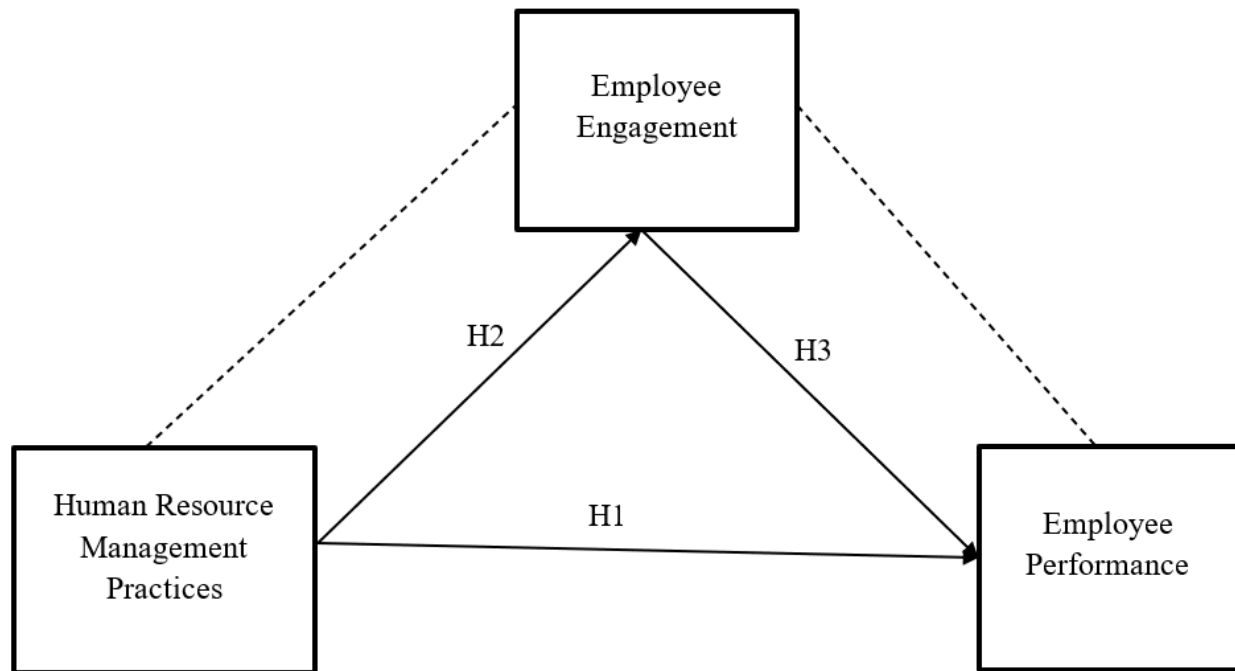


Figure 1. Conceptual Framework

Methodology

The study investigates the mediating role of employee engagement regarding the relationship between employee performance and human resource management practices. The responses were scored on a Likert scale, with 1 being "strongly disagree," and 5 being "strongly agree" on a scale of 1 to 5. The variables used in human resource management are derived from (Hassan, 2022; Rumman et al., 2020), while the variables used in employee engagement are derived from (Rumman et al., 2020). Also taken from (Rumman et al., 2020) is the variable used to measure employee performance. Respondents of the study are from small and medium enterprises of Nepal. Purposive sampling was utilized to collect the sample. And the study's sample size is 215 employees. The study's SEM model is the most recent iteration of Smart PLS, version 4. Structural equation modeling combines measurements and structural models.

Data analysis and Discussion



This section includes descriptive analysis, measurement model, structural model.

1 Descriptive analysis

In the study total number of males is 54.42% followed by total number of females is 45.58%. Total number of married employees is 63.72% followed by unmarried employees is 36.28%. The education of employees with master degree is 40% followed by 35.35% have bachelor, less than bachelor is 20.93% and PhD is 3.72%. The employees experience less than 5 year is 45.58% followed by 36.28% of 6 to 10 year experience employees, 11 to 15 year experience employees are 11.16% and above 15 years are 6.98% respectively. Small enterprises are 74.42% followed by medium enterprises is 25.58% respectively. The nature of enterprises that in service industry is 31.15% followed by manufacturing industry is 29.30%, tourism is 24.19%, agro and forest is 11.16%, construction is 2.80%, energy is 0.93%, information and communication technology is 0.47% respectively. Structural equation modeling combines measurements and structural models.

2 Measurement Model

The measuring model employs observable variables to evaluate the latent variable (Kang & Ahn, 2021). In this work, Cronbach's alpha & composite reliability were used as measuring tools. According to Ma et al. (2020) deemed acceptable a Cronbach alpha of better than 0.60, and Hair et al. (2021) deemed acceptable a composite reliability score exceeding 0.70. The AVE must be at least 0.50 for the construct to be deemed satisfactory (Hair et al., 2021). The Cronbach alpha, the composite reliability, & the average variance extracted (or AVE) are displayed in Table 1.

Table 1. Reliability

	Cronbach's alpha	Composite reliability	Average variance extracted (AVE)
Employee Engagement	0.610	0.830	0.71
Employee Performance	0.721	0.822	0.535
HRM Practices	0.706	0.819	0.531

Source: Data and information from this research



The Fornell-Larcker criterion evaluates correlations between latent variables to the AVE's squared root of the construct to determine whether a test has discriminant validity. Any two constructions that are most related to one another should have square roots that are smaller than their respective AVEs (Hair et al., 2021). In table 2 the Fornell-Larcker criterion is displayed.

Table 2. Fornell-Larcker criterion result

	Employee Engagement	Employee Performance	HRM Practices
Employee Engagement	0.843		
Employee Performance	0.630	0.732	
HRM Practices	0.432	0.478	0.729

Source: Data and information from this research

2 Structural Model

The structural model is made up of the connections and relationships between latent variables (Kang & Ahn, 2021). The path coefficients used in the study were beta, standard deviation, t-values, and P-values. The model also displays the Effect Size (f^2) and the coefficient of determination (R^2). The route coefficient reveals how strongly the latent variables are connected. The route coefficient often falls between -1 and +1. The hypothesis was accepted and supported when the t-value was in excess of 1.96 and the p-value was below 0.05, which is at the five percent acceptable level. (Hair et al., 2021). The p-value, t-value, standard deviation, and standard beta are all included in table 3.



Table 3. Hypothesis testing

	Std Beta	SD	T value	P value	Result
HRM Practices -> Employee Performance	0.253	0.074	3.433	0.001	Accepted
HRM Practices -> Employee Engagement	0.432	0.057	7.557	0.000	Accepted
Employee Engagement -> Employee Performance	0.521	0.058	8.932	0.000	Accepted
HRM Practices -> Employee Engagement -> Employee Performance	0.225	0.038	5.980	0.000	Accepted

Source: Data and information from this research

In table 3 shows that hypothesis (H1) “There is a significant positive effect of human resource management practices on employee performance” has (t-value = 3.433, p-value = 0.001) which is accepted. And also, Silva et al. (2020) stated that “There is a significant effect of human resource management practices on employee performance”. Similarly, hypothesis (H2) “There is a significant positive effect of human resource management practices on employee engagement” has (t-value = 7.557, p-value = 0.000) which is accepted. And, Hoque et al. (2018) stated that “There is a relationship between of human resource management practices on employee engagement”. And also, hypothesis (H3) “There is a significant positive effect of employee engagement on employee performance” has (t-value = 8.932, p-value = 0.000) which is accepted. As well as, Jha and Kumar (2016) stated that “There is an effect of employee engagement on employee performance”. Likewise, hypothesis (H4) “Employee engagement mediates the relationship between human resource management practices and employee performance” has (t-value = 5.980, p-value = 0.000) where which is accepted. And also, Sendawula et al. (2018) stated that “There is



a mediation effect of employee engagement in the relationship between human resource management practices and employee performance”.

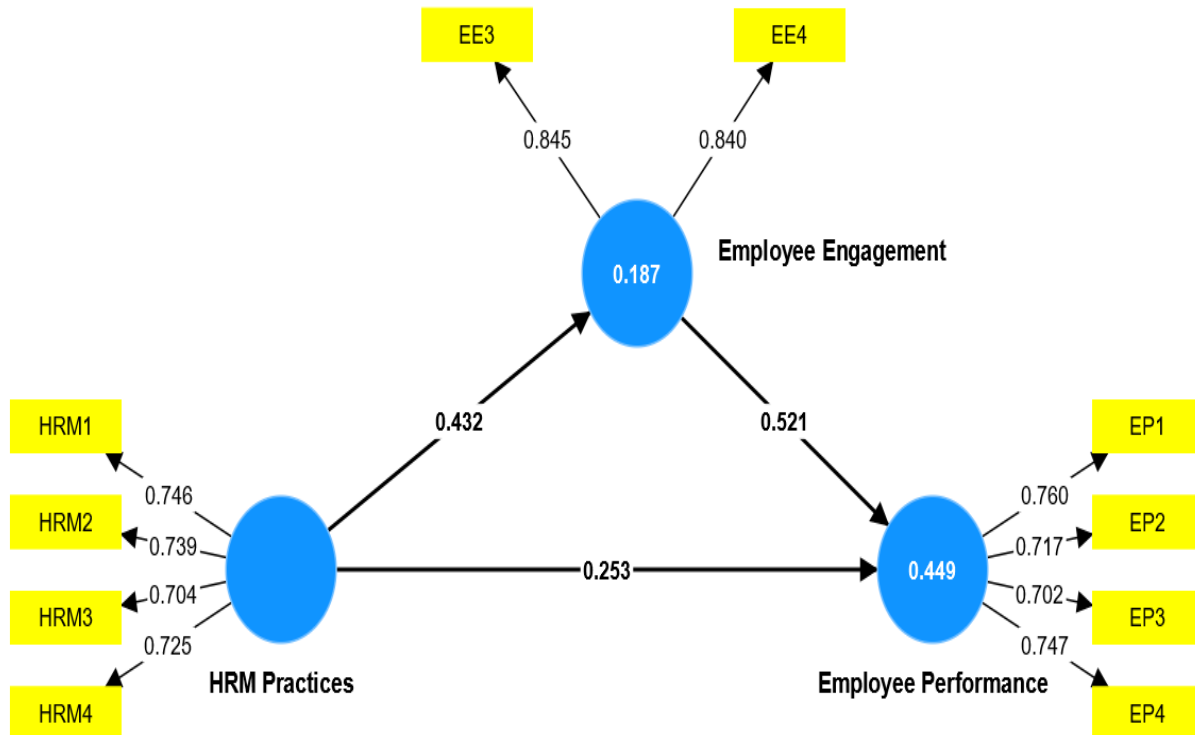


Figure 2. Structural Equation Model

Source: Data and information from this research

The coefficient of determination (R^2) indicates how much variance in an endogenous construct can be explained by its predictor construct. R square values of 0.67, 0.33, 0.19, and less than 0.19 are classified as substantial, moderate, weak, and very weak, respectively, by Chin (1998). Employee engagement, which has an r -square value of 0.187, and performance, which has an r -square value of 0.449, are both deemed to be very weak and moderate, respectively, according to this analysis.

The effect size (f^2) measures how much a predictive factor affects the endogenous variable (Hair et al., 2021). Effect sizes of 0.02 to 0.14 have been classified as small, 0.15 to 0.34 as medium, and 0.35 as large (Cohen, 2013). Employee engagement has a large effect of 0.401 on



employee performance in this study, HRM practices has a medium effect of 0.230 on employee engagement, and HRM practices has a small effect of 0.094 on employee performance.

Conclusion

The conclusion is presented according to the objectives of the research which are describe below:

5.3.1 Objective 1 “To explore the relationship between human resource management practices and employee engagement.” In conclusion, the aim of this study was to explore the relationship between HRM practices and employee engagement. It is clear from a thorough analysis of pertinent academic writings and practical studies that effective human resource management techniques are essential for promoting employee engagement in firms. According to the research, efficient development and training programs, equitable and open systems for managing performance, and supportive leadership practices all help to increase employee engagement. The report also emphasizes the significance of work-life balance initiatives, effective communication, and recognition and incentives programs in fostering employee engagement. These findings highlight how important it is to match organizational objectives with HR strategies in order to increase employee engagement, which will increase job satisfaction, efficiency, and overall organizational performance. The likelihood of cultivating a highly engaged workforce increases with an organization's investment in establishing effective human resource management procedures, which in turn raises worker motivation, commitment, and loyalty levels.

5.3.2 Objective 2 “To examine the relationship between human resource management practices and employee performance.” The purpose of this study was to look into the relationship between human resource management practices and employee performance. The effectiveness of employees within firms is significantly impacted by the human resource management strategies used, according to extensive study and analysis. The results show that favorable performance appraisal systems, thorough development and training initiatives, efficient hiring and selection procedures, and encouraging leadership behaviors all enhance employee performance. The study also emphasizes how crucial effective communication, employee rewards and recognition, and a healthy work environment are to raising employee performance. These observations highlight the necessity for strategic human resource management strategies to be



given top priority by firms in order to maximize employee performance. Organizations can increase organization performance and success by putting money into these activities to create a favorable workplace that encourages employee enthusiasm, satisfaction, and productivity.

5.3.3 Objective 3 “To investigate the relationship between employee engagement and employee performance.” In summary, the aim of this study was to investigate the relationship among employee engagement & worker performance. It is clear from a careful review of the relevant literature and actual data that there is a strong correlation among employee engagement and performance. The findings indicate that motivated, committed, and more satisfied workers produce better performance results because they are more engaged at work. Employees that are more engaged are more inclined to go above and above, take initiative, and show higher levels of efficiency, imagination, and innovation. The study also emphasizes the significance of meaningful work, competent leadership, and a supportive organizational culture in boosting employee engagement and therefore improving performance. Organizations that emphasize and invest in employee engagement methods are more likely to see greater indicators of employee performance, improving organizational success in general.

5.3.4 Objective 4 “To identify the mediation effect of employee engagement on the relationship between human resource management practices and employee performance.” This study aimed to understand how employee engagement impacted the relationship between worker performance and human resource management practices. Employee engagement is clearly shown to play a substantial mediating role in the relationship between employee performance and human resource management procedures concluded a thorough review of pertinent literature and empirical data. According to the findings, deliberate hiring and selection, thorough development and training, unbiased performance review processes, and encouraging leadership behaviors all have a positive effect on the employee engagement. The study also shows that employee involvement serves as a mediating mechanism, transferring these practices' beneficial effects on worker performance. greater levels of inspiration, fulfillment, and dedication are displayed by engaged workers, which improves performance results. These results highlight the critical employee engagement's position as a mediator between HR procedures and employee



performance, emphasizing the significance of organizations aligning their HR practices to support employee engagement to enhance overall performance and success.

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