Impact of Human Resource Management Practices on Organizational Citizenship Behavior in Nepalese Financial Institutions

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ABSTRACT

Human resource management (HRM) practices refer to all the activities necessary for manpower management of the organization. It is the process of acquisition, development, utilization, and maintenance of human resources in the organization for its long-term sustainability. The emergence of a liberal economy and globalization bring a rapid change in HRM practices and its impact on organizational citizenship behavior for improving organizational competitive strengths. At present human resources are said to be the human capital that can play a significant role in improving competitive advantage and sustaining business activities of all organizations including financial institutions. The purpose of this study is to examine the impact of HRM practices on the organizational citizenship behavior of employees working in Nepal's financial institutions, which include commercial banks, development banks, finance companies, and insurance companies. In this study, HRM practices involve four variables consisting of training and development, performance appraisal, compensation system and employee participation. For the study, the opinions of 405 employees of financial institutions working at managerial, officer and assistant levels are taken into account. Pearson Correlation is used to determine the relationship between HRM practices and organizational citizenship behavior, whereas multiple regression is used to examine the impact of HRM practices on organizational citizenship behavior. The findings reveal that HRM practices have a positive association and also have an impact on the organizational citizenship behavior of Nepalese financial institutions.

Keywords: Employees, Financial institutions, Human resources, HRM practices, Organizational citizenship behavior

INTRODUCTION

Human resource involves all the people from top-level to subordinate levels working in an organization. It also represents to skill, attitude, knowledge, and performance of employees. At present, employees are taken as the potential resources of the organization and it is the important part of the human resource management (HRM) function that needs to motivate and maintain potential employees in the organization for its long-term functioning. HRM refers to all the activities necessary for manpower management of the organization. It is the process of acquisition, development, utilization, and maintenance of human resources in the organization for its long-term sustainability. It is concerned to maximize both employees and organizational effectiveness. It combines the organizational and individual interests of employees through the effective use of human resources. HRM acts as a personnel unity that is manifested in the form of human resources or employees as a part of assets owned by a company to gain a better understanding of the life of an organization. The organization can be from the private sector or the public sector. From a managerial standpoint, the concept of HRM serves as a perspective through which to construct a strategic management structure for the relationships between various job offerings (Boxall, 1996). HRM has always played a critical role in dealing with various organizational challenges, which in turn requires some form of contribution from organizational management to support the company’s strategic goals. When HR professionals have a firm grasp of the organization’s business objectives, they can translate those objectives into measurable human resource practices (Ulrich, 1997).

Human resource management seeks to improve the effectiveness of an organization’s workforce in order to achieve its objectives more effectively. It is concerned with the organization’s human resources and seeks to develop and sustain its high-quality efforts in a complex and ever-changing environment. Maintaining communication with employees, involving them in important decision-making processes, and encouraging their commitment and identification with the organization are all part of it. HRM practices are the significant means that can support the development of the concept of organizational citizenship behavior where employees perform...
activities in the organization more than their job description. It can develop the feeling of commitment and
dedication of accomplishment of assigned jobs in an effective way along with supporting in other activities
beyond the job descriptions.

Certain companies’ organizational changes into a more dynamic and complex environment tend to
improve resources’ effectiveness and performance by achieving a competitive advantage. As a result, HRM
practices had the potential to assist the organization in gaining a competitive advantage through the support of
individual human resource competencies that can add measurable value to the company (Collins & Clark, 2003).
The application of HRM practices is experienced as a challenge to understanding the skills, knowledge, and
motivation demonstrated by employees, which in turn leads to managerial evaluations to determine what the most
important factors are influencing employee behavior in a variety of ways leading to certain strategies (Bowen &
Ostroff, 2005). This generates employee support in the form of good behavior, which may result in some form of
explicit contribution, known as organizational citizenship behavior (OCB). OCB has been extremely important
in organizational life, and it may be more important than ever given the increased level of global competition,
emphasis on customer-oriented services, and job requirements that rely on team-based structures (Fassina, Jones,
& Uggersley, 2008). It is also referred to as “extrarole behavior that is extremely important in workplaces and for
organizations” (Tanaka, 2013; Shrestha, 2016; Shrestha, 2019a).

In the context of Nepalese organizations, most of the entrepreneurs and managers are not initiating to
maintain a link between HRM practices with that of organizational citizenship behavior. However, managers
of some corporate organizations are trying to maintain the relation between HRM practices and organizational
citizenship behavior so that a good working environment can be maintained along with the maximization of
organizational productivity. Most Nepalese researchers and academicians have not considered this field as the
field of research because of ignoring its validity (Pradhan, 2019). Therefore, this research work is concentrated
to find out the situations of HRM practices in financial institutions and their impact on organizational citizenship
behavior of employees engaged in such institutions. In this regard, the research seeks to raise and attempt to
answer the three questions listed below.

RQ1 What is the current state of HRM in Nepalese financial institutions?
RQ2 What is the relationship between Nepalese financial institutions’ HRM practices and organizational
citizenship behavior?
RQ3 What impact does HRM have on the organizational citizenship behavior of Nepalese financial institutions?

Literature Review

According to Gupta and Shaw (2014), employee recruitment and selection, training and development,
performance appraisal, compensation system, and employee participation have been the focus of attention in
HRM practices and organizational citizenship behavior in the current working environment. Employees who
are treated with supportive HRM practices have a proclivity to exhibit higher levels of OCB (Sivapragasam
& Raya, 2018). OCB has been identified as a critical factor in improving employee performance at the
workplace (Chiaiburu et al., 2017). Incentive pay serves as a significant driver of positive employee attitudes
and behavior, which improves organizational operations and effectiveness (Shaw & Gupta, 2015). To ensure
OCB, pay structures that are based on individual contribution, salary requirements that match those of external
similar organizations, and competence-related allowances must be implemented (Makau, Nzulwa, & Wabala,
2017). Aside from compensation, other practices such as recruitment and selection, training and development,
performance appraisal, and career development all play an important role in employee satisfaction and behavior
(Berber, Morley, Slavi, & Poór, 2017). (Alfes et al., 2013) recently used Social Exchange Theory (SET) as the
theoretical framework to examine the relationship between perceived HRM practices and OCB. SET is founded
on the principles of reciprocity and obligation. SET indicates that while employees are treated fairly by one
source, they are expected to respond with positive attitudes and behaviors toward that same source in return
(Harris, Lavelle, & McMahan, 2018). HRM practices, from the standpoint of social exchange, can provide an
encouraging indication to employees about management’s concern for their well-being and desire to establish a
long-term relationship with them (Gould-Williams, 2016). As a result, employees are expected to have positive
attitudes and behaviors in return (Kim & Ko, 2014). As a result, SET is deemed to be the most appropriate theory
for investigating employee behavioral intentions in an organizational setting (Kehoe & Wright, 2013). A series
of HRM practices can not only produce a higher level of corporate performance, but they can also have a direct
impact on the top management teams’ external and internal social networks (Collins & Clark, 2003). During the
process of company management and development, they identified the following aspects of high-performance
human resource practice: job design, recruitment and selection, training and development, compensation system,
performance appraisal, and employee participation (Prieto & Pérez-Santana, 2014).

In the context of Nepal, employees have given priority to the compensation system available in the organization for their behavior along with other HRM practices (Adhikari & Mueller, 2001). It is the main reason that the present study attempts to investigate HRM practices in Nepalese financial institutions and their impact on organizational citizenship behavior. The current study considers four variables of HRM practices: training and development, performance appraisal, compensation system, and employee participation. Training and development refer to the introduction of efficiency development programs for employees consisting of technical skills and managerial skills (Pradhan & Shrestha, 2021). Training is still a key component of Human Resource Development (HRD) practice (Nordhaug, 1989) in organizations for employee development and competency building (Gritz, 1993). To perform effectively, employees in management positions must go through a dynamic training and development process (Baldwin & Padgett, 1994). Training and development help to improve the working efficiency of the employees which ultimately helps to develop positive behavior towards the organization and its activities (Kirkpatrick, 1998). Performance appraisal is the process of evaluating how well employees do their jobs. The results of performance appraisal are widely used for making different HR-related decisions such as wage and salaries, performance feedback, transfer and promotion, and to strength the HR information system (Pradhan, 2020a; 2020b). It is a basic tool for evaluating job-relevant strengths and weaknesses within and among employees to operate an effective performance management system in the organization. It provides a ground to review the strength and weaknesses of the employees and provide the opportunity to improve skill in future performance by improving weaknesses.

It is a formal system for assessing, evaluating, and influencing an employee’s job-related attributes, behavior, and results. The goal is to determine how productive an employee is and how that employee’s productivity can be improved. The compensation system is positively related to the following aspects of the firm’s performance: product quality, product development, profit, market share, customer satisfaction, and sales growth (Kalleberg & Moody, 1994). Higher pay contributes to a better social climate between management and the rest of the workforce (Kalleberg & Moody, 1994). Increased pay contributes to a decrease in turnover (Arthur, 1994). Incentive compensation improves perceived organizational performance (Delaney & Huselid, 1996). Positive effects of performance-based pay on productivity Outcome-based incentives for sales, customer satisfaction, and profit increased with competition intensity and proportion of upscale customers but decreased with supervisory monitoring level (Banker et al., 2001). Employee involvement, also known as job involvement (Shrestha, 2019b) practices has a positive impact on productivity and product quality (Williams & Anderson, 1991). Participation in decision-making is related to organizational commitment in a positive way. After the formation of teams, quality and labor productivity improved over time (Banker et al., 2001). Employees are allowed to make cost and quality decisions, they are asked to participate in decisions by their superiors, and they are allowed to suggest improvements in the way things are done. Organizational citizenship behavior is defined as a concept that requires comprehension of the behavioral causes of performance, as well as an individual’s spontaneous behavior (Mossholder, Richardson & Settoon, 2011). The concept of OCB was not specified as a primary requirement of organizational work but was viewed as a voluntary participation attitude to improve the organization’s effectiveness. OCB is reflected as something that is discretionary and does not belong in the form of an official role or needs in the organization (Armstrong, 2006) so that individuals have a choice that can be preferred more to determine the job length in terms of effort, care, innovation, as well as productive attitude closely linked to discretionary behavior and associated with positive outcomes for the sake of efficiency and organizational performance (Hutchinson, 2013). Volunteering for extra job activities, assisting coworkers, and making positive comments about the company are all examples of OCBs at work (Luthans, 2012). Following the study of Organ et al. (2006), such activities constitute the aspects of many previous research studies that classify these main operational dimensions of OCB, namely: altruism, conscientiousness, sportsmanship, courtesy, and civic virtue.

Research Methods

Research Design

For fact-finding, conceptualization, description, and the search for adequate information in the context of HRM practices and their impact on organizational citizenship behavior in Nepalese financial institutions, descriptive, correlational, and causal-comparative research designs were used. This study’s research design is similar to previous studies, for example (Armstrong, 2006; Guest, 2005).
Sources and Nature of Data
To achieve the research objectives, the necessary data and information were gathered using primary sources, namely a questionnaire. This study’s data came from ten commercial banks, seven development banks, five finance companies, and ten insurance companies. In this survey research, two types of information were collected for analysis: detailed information from respondents about HRM practices and organizational citizenship behavior. Guest (2005) used prior literature to develop the questionnaire. In this study, the normative theory of maintaining the link between HRM practices and organizational citizenship behavior was taken into account.

Population and Sample Size
Employees from Nepal’s financial institutions at various levels, including management, officers, and assistants, were chosen as the population. This study used employees from ten commercial banks, seven development banks, five finance companies, and ten insurance companies as samples. They are informed that any information they provide will be kept strictly confidential and used solely for research purposes. In total, 450 questionnaires were distributed, with 405 (90%) of the copies that were completely filled out and returned being used for the study.

Research Framework and Hypotheses
This study focused on HRM practices in Nepalese financial institutions, including training and development, performance appraisal, compensation systems, and employee participation. Furthermore, the purpose of this study was to determine the impact of HRM practices on the organizational citizenship behavior of Nepalese financial institutions. The following research framework is presented based on a review of various literature:

![Research Framework](image)

The following hypotheses are investigated based on the aforementioned objectives and relationships:

- **Hypothesis 1**: Training and development have a positive and significant relationship and effect on organizational citizenship behavior in Nepalese financial institutions.
- **Hypothesis 2**: Performance appraisal has a positive and significant relationship and effect on organizational citizenship behavior in Nepalese financial institutions.
- **Hypothesis 3**: The compensation system has a positive and significant relationship and effect on organizational citizenship behavior in Nepalese financial institutions.
- **Hypothesis 4**: Employee participation has a positive and significant relationship and effect on organizational citizenship behavior in Nepalese financial institutions.

Analysis and Results
**Status of HRM Practices in Nepalese Financial Institutions**
It was tried to show the state of HRM practices in Nepalese financial institutions. HRM practice variables were investigated using prior literature in the field. Training and development, performance appraisal, compensation system, and employee participation were the components of HRM practices studied (Pradhan, 2019; Pradhan, 2020a). These components were investigated from both a universalistic and a configurational standpoint. According to the “universalistic” viewpoint, certain HRM practices are always superior to others and should be implemented by all organizations on every occasion for improved performance. Multiple interdependent HR practices must coexist in order to best improve firm performance, according to the “configurationally”
perspective (Wright, McMahan, & McWilliams, 1992). In the context of Nepalese financial institutions, it was found that some degree of HRM practices have been implemented to develop organizational citizenship behavior through employee job satisfaction so that organizational performance can be improved.

**The Relationship between HRM Practices and Organizational Citizenship Behavior**

This study found a link between one dependent variable, organizational citizenship behavior (OCB), and four independent variables, training and development (TD), performance appraisal (PA), compensation system (CS), and employee participation (EP). Table 1 displays the parametric Pearson correlation between the dependent and independent variables. The p-value is shown in parenthesis * and **, which indicate that the coefficient is significant at the 5% and 1% levels, respectively.

**Table 1. Pearson Correlation**

<table>
<thead>
<tr>
<th>Variables</th>
<th>TD</th>
<th>PA</th>
<th>CS</th>
<th>EP</th>
<th>OCB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training and Development (TD)</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance Appraisal (PA)</td>
<td>0.300***</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compensation System (CS)</td>
<td>0.481***</td>
<td>0.669***</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee Participation (EP)</td>
<td>0.405***</td>
<td>0.558***</td>
<td>0.616***</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Organizational Citizenship Behavior (OCB)</td>
<td>0.366***</td>
<td>0.594***</td>
<td>0.655***</td>
<td>0.436***</td>
<td>1</td>
</tr>
</tbody>
</table>

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

The correlation results revealed positive correlations between Organizational Citizenship Behavior and HRM practices variables such as TD, PA, CS, and EP, which are statistically significant at the 5% level. The correlation results indicated a positive relationship between HRM practices and organizational citizenship behavior; however, the compensation system has a high level of correlation with organizational citizenship behavior. The findings also revealed a positive relationship between HRM practices and OCB. Guest (2005) established a prior hypothesis that is supported by the result. Furthermore, the findings concluded that the greater the HRM practices, the greater the organizational citizenship behavior.

**Impact of HRM Practices on Organizational Citizenship Behavior**

Organizational citizenship behavior is considered the dependent variable Y in this regression model, and four HRM practices variables, including training and development, performance appraisal, compensation system, and employee participation, are considered the independent variables. Table 2 depicts the impact of four variables on organizational citizenship behavior:

**Table 2. Regression Results**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>t</th>
<th>Beta</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>B</td>
<td>Std. Error</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training and Development (TD)</td>
<td>7.242</td>
<td>0.745</td>
<td>0.000**</td>
<td></td>
</tr>
<tr>
<td>Performance Appraisal (PA)</td>
<td>0.251</td>
<td>0.051</td>
<td>4.207</td>
<td>0.228</td>
</tr>
<tr>
<td>Compensation System (CS)</td>
<td>0.215</td>
<td>0.048</td>
<td>3.989</td>
<td>0.218</td>
</tr>
<tr>
<td>Employee Participation (EP)</td>
<td>0.334</td>
<td>0.067</td>
<td>4.359</td>
<td>0.248</td>
</tr>
<tr>
<td>R= 0.453; R² = 0.325; Adjusted R² = 0.268; F-Value= 25.185</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: *p<0.05, **p<0.01

a. Dependent Variable: Organizational Citizenship Behavior

\[ Y = a + b_{TD} \cdot TD + b_{PA} \cdot PA + b_{CS} \cdot CS + b_{EP} \cdot EP + \epsilon \]

\[ T = (7.242) , (4.207) , (3.989) , (4.359) , (4.219) \]

p- value = 0.025*, 0.021*, 0.000**, 0.031*

R= 0.453; R²= 0.325; Adjusted R² = 0.268; F- Value= 25.185; Overall p-value = 0.000**
The R² value is 0.325. This means that only 32.5 percent of the total variation is explained by this model, with the remainder explained by variables not included in this study. The F-score is 25.185, and the overall p-score is 0.000. As a result, the multiple regression model used in this study is fit and appropriate, as evidenced by the ANOVA table, which shows that the F-value is significant at the 5% level of significance. Training and development, performance appraisal, compensation system, and employee participation all have calculated p-values of 0.025, 0.021, 0.000, and 0.031 that are significant at the 5% level of significance. As a result, all variables are predictors of organizational citizenship behavior. When the beta coefficient is analyzed, the sensitivity of a single variable compensation system to organizational citizenship behavior is high (0.248), followed by employee participation (0.231), training and development (0.228), and performance appraisal (0.218), indicating that all variables have a positive impact on organizational citizenship behavior. Therefore, all the hypotheses are accepted. However, when compared to other variables, the compensation system has a greater impact on organizational citizenship behavior.

Table 3: Hypotheses Results

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hypothesis 1: Training and development have a positive and significant relationship and effect on organizational citizenship behavior in Nepalese financial institutions.</td>
<td>Accepted</td>
</tr>
<tr>
<td>Hypothesis 2: Performance appraisal has a positive and significant relationship and effect on organizational citizenship behavior in Nepalese financial institutions.</td>
<td>Accepted</td>
</tr>
<tr>
<td>Hypothesis 3: The compensation system has a positive and significant relationship and effect on organizational citizenship behavior in Nepalese financial institutions.</td>
<td>Accepted</td>
</tr>
<tr>
<td>Hypothesis 4: Employee participation has a positive and significant relationship and effect on organizational citizenship behavior in Nepalese financial institutions.</td>
<td>Accepted</td>
</tr>
</tbody>
</table>

Discussion and Conclusion

The survival of an organization is dependent on the contribution of key elements of HRM practices. The present research aimed to assess the impact of HRM practices variables such as training and development, performance appraisal, compensation system, and employee participation on organizational citizenship behavior in Nepalese financial institutions. In the context of Nepalese financial institutions, it was discovered that some degree of HRM practices had been implemented to develop organizational citizenship behavior through employee job satisfaction to improve organizational performance. The current study’s findings revealed a positive relationship between HRM practices and organizational citizenship behavior, with the compensation system having a high level of relationship. The sensitivity of the compensation system to organizational citizenship behavior is high, followed by employee participation, training and development, and performance appraisal. Similarly, Acquaah (2004) stated that the purpose of HRM practices was to develop employees’ skills and abilities while also increasing employee motivation and retention of valuable employees (Snell and Dean, 1992). According to Morrison (1994) and Ahmed (2016), HRM practices and OCB are significantly related, and these practices will lead to higher levels of OCB. It means that if Nepalese financial institutions should invest a significant amount and effort in the development of proper HRM practices to develop good organizational citizenship behavior so that business turnover and profitability level of the institutions would be improved.

REFERENCES


