



UNIVERSITI PUTRA MALAYSIA

**MEDIATION EFFECTS OF BEHAVIOR OUTCOMES IN THE
RELATIONSHIPS BETWEEN HUMAN RESOURCE PRACTICES
AND FIRM PERFORMANCE**

DAVOOD BABAEI

FPP 2011 35

**MEDIATION EFFECTS OF BEHAVIOR OUTCOMES IN THE
RELATIONSHIPS BETWEEN HUMAN RESOURCE PRACTICES AND
FIRM PERFORMANCE**

By

DAVOOD BABAEI

**Thesis Submitted to the School of Graduate Studies, Universiti Putra Malaysia
in Fulfilment of the Requirements for the Degree of Doctor of Philosophy**

July 2011

DEDICATION

To My wife and my daughters who stayed with me in difficult times

Abstract of thesis presented to the Senate of Universiti Putra Malaysia in
Fulfilment of the requirement for the degree Doctor of Philosophy

**MEDIATION EFFECTS OF BEHAVIOR OUTCOMES IN THE
RELATIONSHIPS BETWEEN HUMAN RESOURCE PRACTICES AND
FIRM PERFORMANCE**

By

DAVOOD BABAEI

July 2011

Chairperson : Professor Aminah Ahmad, Ph D

Faculty : Educational Studies

In this study the researcher examined the relationships between human resource practices (HRPs), firm performance (service quality), and the mediation effects of employees' behavior outcomes including organizational citizenship behaviors (OCBs), employees' abilities and employees' motivation. The HRP studied included job description, selection, training, reward, career development, job security, performance appraisal, and participation practices.

Data were collected from a sample of 104 branches of a public bank and 75 branches of a private bank from two Iranian banks located in Tehran, the capital city of Iran. From each branch, three personnel (a manager or an assistant manager and two non-managerial employees) and five customers served as the source of the data. A total of 176 managers or assistant managers, 352 non-managerial employees, and 781 customers participated in this study. The study takes the branch as the unit of analysis, rather than the customers or bank personnel.

To test this mediation model and examine if the hypothesized model fit the data, Structural Equation Modeling (SEM) analysis was used. To assess the relationships among variables, before evaluating the fit of the structural model, the researcher defined measurement model to verify that the measurement variables used to reflect the unobserved constructs do so in a reliable manner. SEM was utilized to test the fitness of the model and to provide evidence of discriminate validity through chi-square difference tests. Amos 16.0 (SPSS Inc., 2009) was used to analyse the measurement model and structural model for the direct and indirect relationships between HRP and firm performance; including employees' behaviour outcome variables as mediator variables.

The results showed that OCBs and employees' motivation fully mediated the relationship between reward practices and firm performance. It was

further realized that OCBs and employees' abilities partially mediated the relationship between performance appraisal practices and firm performance. The study revealed that employees' abilities and motivation partially mediated the relationship between participation practices and firm performance. Further, the result showed training practices had an indirect significant relationship with firm performance through employees' abilities. The career development practices were found to have had an indirect significant relationship with firm performance through employees' motivation in this study. However, the results showed that in this examined model, job description, selection and job security did not have any significant effect on employees' behavior outcome variables and firm performance.

To identify differences in firm performance between the private and the public Iranian banks the independent-samples t test analysis was used. The results of the test indicated that there was no significant difference in firm performance between private and public banks in Iran.

Overall, this study provides a more comprehensive understanding of the role of human resource practices in increasing firm performance. The findings of the current study provided insights into the role of HRPs, OCBs, employees' ability, and employees' motivation in firm performance. Furthermore, it becomes important for organizations to build strategic practices in terms of

training, career development, reward, participation, and performance appraisal.

Hence, organizations need to focus on improving their human resource practices, thereby, enhancing employees' ability and motivation and firm performance. Therefore, under such good practices, a benign cycle will be formed which promotes the employees' behavior outcome variables of employees to improve firm performance in terms of service quality.

**Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia
sebagai memenuhi keperluan untuk ijazah Doktor Falsafah**

**KESAN PENGANTARAAN PEMBOLEHUBAH PERILAKU HASIL KERJA
PEKERJA DALAM HUBUNGAN ANTARA AMALAN SUMBER MANUSIA
DAN PRESTASI SYARIKAT**

Oleh

DAVOOD BABAEI

Juli 2011

Pengerusi : Profesor Aminah Ahmad, PhD

Fakulti : Pengajian Pendidikan

Dalam kajian ini penyelidik meneliti hubungan antara Amalan Sumber Manusia (ASM), prestasi syarikat (kualiti perkhidmatan), dan kesan pengantaraan dari hasil perilaku pekerja termasuk perilaku warga organisasi (OCB), kemampuan pekerja dan motivasi. Amalan Sumber Manusia yang dikaji meliputi kebolehan kerja, pilihan, latihan, ganjaran, pembangunan kerjaya, jaminan kerja, penilaian prestasi, dan amalan penyertaan.

Data dikumpul dari sampel 104 cawangan bank awam dan 75 cawangan bank swasta dari dua bank di Iran yang terletak di Teheran, ibukota Iran. Dari setiap cawangan, tiga personel (seorang pengurus atau pembantu pengurus dan dua pekerja bukan pengurusan) dan lima pelanggan menjadi sumber data. Sebanyak 176 pengurus atau pembantu pengurus, 352 pekerja bukan pengurusan, dan 781 pelanggan menyertai dalam kajian ini. Kajian ini mengambil cawangan sebagai unit analisis, bukan pelanggan atau pegawai bank. Kemudian item tinjauan disemak semula untuk mencerminkan tahap unit analisis dengan menukar tumpuan item ke cawangan.

Dalam usaha mencapai objektif kajian, data dianalisis dengan menggunakan *Structural Equation Modeling* (SEM) dengan perisian AMOS 16, selaras dengan penelitian literatur yang disediakan. Sebuah model pengantaraan telah diuji untuk menentukan sama ada model yang dihipotesiskan berpadanan dengan data empirikal yang dikumpul.

Untuk menilai hubungan antara pembolehubah, sebelum menilai kesesuaian (fit) struktur model, penyelidik mengenalpasti model pengukuran untuk mengesahkan bahawa pengukuran pembolehubah yang digunakan dapat mencerminkan konstruk yang tidak dicerap dengan cara yang boleh dipercayai. SEM telah digunakan untuk menguji kesesuaian model dan mendapat bukti *validity discriminate* melalui ujian perbezaan *chi-square*. Amos 16.0 (SPSS Inc, 2009) digunakan untuk menganalisis model pengukuran dan model struktur dalam hubungan langsung dan tidak

langsung antara ASM dan prestasi syarikat, termasuk pembolehubah perilaku hasil pekerja sebagai pembolehubah perantara (*mediator*).

Hasil kajian menunjukkan bahawa OCB dan motivasi pekerja menjadi perantara sepenuhnya dalam hubungan antara amalan ganjaran dan kualiti perkhidmatan. Hasil kajian juga mendapati bahawa OCB dan kemampuan pekerja menjadi perantara secara separa dalam hubungan antara amalan penilaian prestasi dan kualiti perkhidmatan. Keputusan kajian menunjukkan bahawa kemampuan pekerja dan motivasi pekerja menjadi perantara secara separa dalam hubungan antara amalan penyertaan dan kualiti perkhidmatan. Selanjutnya, hasil kajian menunjukkan amalan latihan mempunyai hubungan tidak langsung yang signifikan dengan kualiti perkhidmatan melalui kemampuan pekerja. Amalan pembangunan kerjaya didapati mempunyai hubungan tidak langsung yang signifikan dengan kualiti perkhidmatan melalui motivasi kerja pekerja dalam kajian ini. Namun, hasil kajian menunjukkan bahawa dalam menguji model kebolehan kerja, pilihan dan jaminan kerja didapati tidak mempunyai pengaruh yang signifikan terhadap pembolehubah perilaku hasil kerja pekerja dan kualiti perkhidmatan.

Untuk mengenalpasti perbezaan prestasi syarikat antara bank swasta dan awam di Iran, analisis ujian t persampelan bebas digunakan. Hasil ujian menunjukkan tiada perbezaan signifikan bagi prestasi syarikat antara bank swasta dan awam di Iran.

Secara keseluruhan, kajian ini memberikan pemahaman yang lebih menyeluruh tentang peranan amalan sumber manusia dalam meningkatkan prestasi syarikat. Penemuan kajian ini memberikan kefahaman jelas terhadap keberkesanan ASM dan peranan OCB dan kemampuan pekerja dan motivasi dalam prestasi syarikat. Selain itu, kajian ini penting bagi organisasi untuk membina amalan strategik dalam latihan, pembangunan kerjaya, penghargaan, penyertaan, dan penilaian prestasi

Dengan itu, organisasi perlu fokus kepada usaha untuk memperbaiki amalan-amalan sumber manusia yang seterusnya dapat meningkatkan kebolehan pekerja, motivasi pekerja dan kualiti perkhidmatan. Oleh kerana itu, dalam amalan-amalan yang baik tersebut, kitaran sempurna akan terbentuk yang seterusnya mempromosikan perilaku pekerja dalam meningkatkan prestasi syarikat dalam perkhidmatan berkualiti yang tinggi.

ACKNOWLEDGEMENTS

I would like to thank the members of my dissertation committee including Prof. Dr. Aminah Ahmad, Associate Prof. Dr. Khairuddin Idris, Dr. Zoharah Omar, and Associate Prof. Dr. Hamid Rahimian. Their guidance and support was instrumental in data collection, analysis, and completion of this dissertation. I would also like to acknowledge and thank Dr. Faramarz Azizmalayeri from Universiti Putra Malaysia for his help with data analysis and editing procedures. I would also like to acknowledge all of the managerial and non-managerial employees of Mellat and Eqtesad Novin Bank to have kindly participated in the study. Specifically, I would like to thank all of the teachers and mentors in my life who guided me along my education journey.

I certify that an Examination Committee has met on (date of viva) to conduct the final examination of Davood Babaei on his Degree of Doctor of Philosophy thesis entitled “Mediation Effects of Employees’ behavior outcome variables in the Relationships between Human Resource Practices and Firm Performance” in accordance with Universiti Pertanian Malaysia (Higher Degree) Act 1980 and Universiti Pertanian Malaysia (Higher Degree) Regulations 1981. The committee recommends that the candidate be awarded the Doctor of Philosophy.

Members of Examination Committee were as follows:

Turiman Suandi, PhD

Professor Dr.

Faculty of Educational Studies
Universiti Putra Malaysia
(Chairperson)

Bahaman Abu Samah, PhD

Associate Professor

Faculty of Educational Studies
Universiti Putra Malaysia
(Internal Examiner1)

Jegak Uli, PhD

Associate Professor

Faculty of Educational Studies
Universiti Putra Malaysia
(Internal Examiner2)

Emerita Sharon L. Pugh, PhD

Associate Professor

(External Examiner)

BUJANG BIN KIM HUAT, PhD

Professor and Deputy Dean
School of Graduate Studies
Universiti Putra Malaysia

Date:

This thesis was submitted to the Senate of Universiti Putra Malaysia and has been accepted as fulfilment of the requirement for the degree of Doctor of Philosophy.

The members of the Supervisory committee were as follow:

Aminah Ahmad, PhD

Professor
Faculty of Educational Studies
Universiti Putra Malaysia
(Chairperson)

Khairuddin Idris, PhD

Associate Professor
Faculty of Educational Studies
Universiti Putra Malaysia
(Member)

Zoharah Omar, PhD

Faculty of Engineering
Universiti Putra Malaysia
(Member)

Hamid Rahimian, PhD

Associate Professor
Faculty of Educational Administration
Allameh Tabataba'i University, Tehran, Iran
(Member)

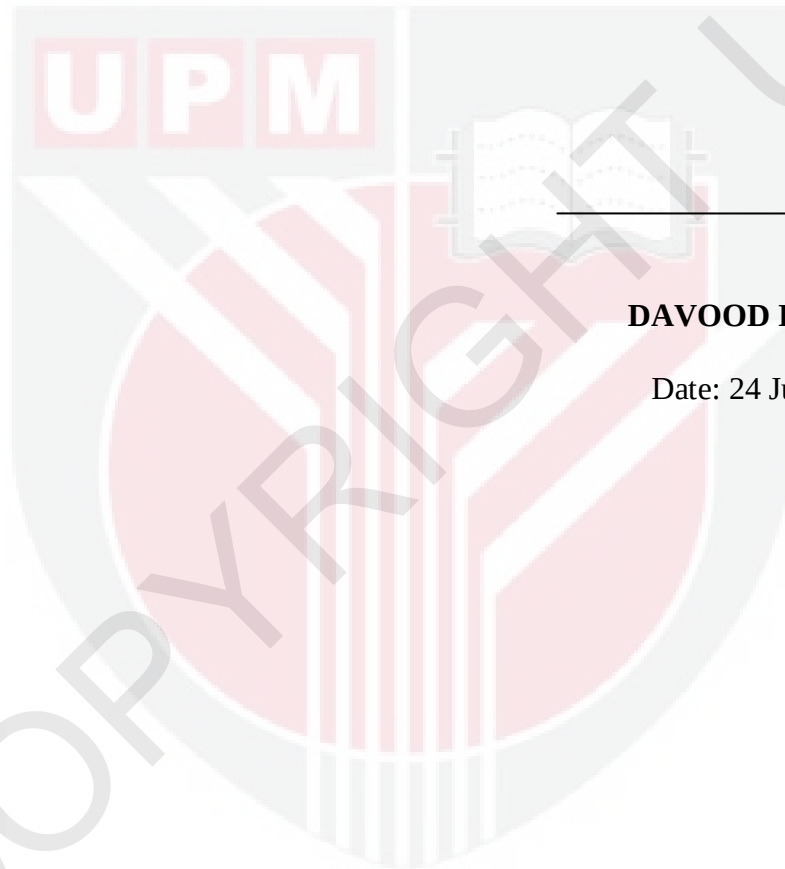
HASANAH MOHD GHAZALI, PhD

Professor and Dean
School of Graduate Studies
Universiti Putra Malaysia

Date:

DECLARATION

I declare that the thesis is my original work except for the quotation and citation which have been duly acknowledged. I also declare that it is not been previously, and is not concurrently, submitted for any other degree at Universiti Putra Malaysia or other institute.



DAVOOD BABAEI

Date: 24 July 2011

TABLE OF CONTENTS

	Page
DEDICATION	ii
ABSTRACT	iii
ABSTRAK	vii
ACKNOWLEDGEMENTS	xi
DECLARATION	xiv
LIST OF TABLES	xviii
LIST OF FIGURES	xx
 CHAPTER	
1 INTRODUCTION	1
1.1 Background of the problem	1
1.2 Problem statement	5
1.3 Purpose of study	9
1.4 Objective	9
1.5 Significance of the research	11
1.6 Limitations of the research	14
1.7 Operational definition	15
 2 REVIEW OF THE LITERATURE	18
2.1 Introduction	18
2.2 Variables	19
2.2.1 Human resource practices	19
2.2.2 Firm performance	24
2.2.3 Organizational citizenship behaviour	26
2.2.4 Employees' ability	28
2.2.5 Employees' motivation	29
2.3 Theories and models	30
2.3.1 Expectancy theory and Guest's Model	31
2.3.2 Morrison's model	34
2.3.3 Kleiman's Model	36

2.3.4	Social exchange theory	40
2.4	Review of previous research	42
2.4.1	Human resource practices and firm performance	42
2.4.2	Employees' behavior outcome variables and firm performance	48
2.4.3	Employees' behavior outcome variables as mediating variable	53
2.5	Summary and Conclusion	57
3	METHODOLOGY	59
3.1	Introduction	59
3.2	Research framework	60
3.3	Research hypothesis	61
3.3.1	Main and secondary hypotheses	63
3.4	Measurement and instrument	65
3.5	Independent variables	66
3.5.1	Pre-selection practices	66
3.5.2	Selection practices	67
3.5.3	Post-selection practices	67
3.6	Mediator variables	70
3.7	Dependent variable	71
3.8	Pilot test	72
3.8.1	Survey translation procedure	73
3.9	Reliability and validity	74
3.10	Population of Study	78
3.10.1	Method and Formula to Determine Sample Size	80
3.11	Sampling Procedure	81
3.12	Data collection procedure	82
3.13	Data analysis	83
3.14	Interrater agreement	85
3.15	Evaluation of Variance Assumption	86
3.16	Structural Equation Modeling (SEM)	88
3.16.1	Confirmatory factor analysis or measurement model	90
3.16.2	CFA of the Constructs Variables	94

3.16.3	Maximum likelihood estimation	115
3.16.4	Evaluation of the mediation model vs. the indirect model	115
3.16.5	Bootstrapping method	119
3.17	Assessment of normality and ML estimation	119
3.17.1	Checking of outliers	122
4	RESULTS AND DISCUSSION	125
4.1	Profile of Bank Studied	125
4.2	Decomposition of Evaluates of Path Diagram related	127
4.3	SEM Steps	137
4.4	Total model	138
4.4.1	Evaluation of the measurement model	138
4.4.2	Structural model with latent variables	141
4.4.3	Evaluation of the mediation model vs. the indirect model	144
4.4.4	Examining the path coefficient	146
4.4.4.1	Mediation role	147
4.4.4.2	Partial mediation	150
4.4.4.3	Full mediation or indirect relationship	151
4.4.5	Total effect	153
4.5	Between groups comparisons	155
4.6	Summary	157
5	CONCLUSIONS, IMPLICATIONS AND RECOMMENDATIONS	162
5.1	Conclusions	162
5.2	Implications	168
5.2.1	Theoretical implications	169
5.2.2	Managerial implications	171
5.3	Limitations, and Recommendations	175
	REFERENCES	177
	APPENDICES	190
	BIODATA OF STUDENT	215