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Exploring the Impact of Recruitment and Selection, and Compensation on the Performance of Employees

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ABSTRACT

The main objective of this study is to evaluate the impact of recruitment and selection, and compensation on performance of employees. Two hypotheses are developing to see the impact of the independent variable on the performance of employees. Results of the study showed that there are high positive correlations between the variables based on responses 152 respondents from Perak state based private firms in Malaysia. The result of regression analysis showed that recruitment and selection, and compensation have significant positive impact on performance of employees. This can be concluded the hypotheses show that all these have significant effect on performance of employees. Hence, the successful organisation must understand the importance of recruitment and selection method as well as the organisation compensation system as a critical factor to produce positive results.

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1. Introduction

In this modern management era, Munteanu (2013) has brought up awareness that human resource function in an organisation had been changing rapidly from traditionally cost-based to recently strategic-based. The on-going transformation in the marketplace especially with e-commerce and automation development nowadays urged managers to best manage their people to enhance operation efficiency and effectiveness. As such, Tan and Narsudin (2011) highlighted human resource management (HRM) is now becoming an essential instrumental in bringing competitive advantage to the business innovation through employees' high contribution. Recognising this trend of improvement toward an organization's key of success, companies in Malaysia have also started to pay attention on HRM as mentioned by Zaini et. al (2009). Their studies revealed that HRM practices such as human resource planning, performance appraisal, teamwork and training except compensation and employee security supported the business performance advancement which includes employee's productivity. Nevertheless, study conducted in Malaysia Skills Institute by Hamzah (2014) has shown that compensation has positive effect on employee's performance. Similarly, acknowledging the right candidates recruited shall bring valuable workforce performance to the business. This is validated by George and Slabbert (2014) that recruitment is crucial to be executed properly otherwise would give a negative impact on employees' job performance. Yet, Michael and Kimberly (1988) pointed out that recruitment source does not have significant effect when performance is the criteria to be undertaken. To comprehend these ambiguous findings in depth, this study hence focuses on exploring the impact of both recruitment and selection, and compensation on performance of employees with a different sampling in Malaysia context.

2. Background Literature

2.1 Definition of Recruitment and Selection

Custom definition of recruitment and selection often refers to the process of getting people into an organisation. Mentioned in Gary and Ray (2010), the terms can be differentiated as said in Bratton and Gold (2007), that 'Recruitment is the process of generating a pool of capable people to apply for employment to an organisation'; and 'Selection is the process by which managers use specific instruments to choose from a pool of applicants a person or more likely to succeed in the job(s), given management goals and legal requirements. Progressively, it becomes the art of discovering potential or talented applicants; attracting and hiring them into the organisation. Josephat (2011) viewed recruitment and selection as a series of analysis process, starting with exploring the organisation, job vacancy and individual required, in order to identify and discover the best fit candidate for an employment offered. It is believed that an appropriate employee recruited can perform effectively in the designated role.

2.2 Definition of Compensation

In the workplace, compensation usually referring to either monetary or non-monetary items awarded to the employees by the employer; which is also known as the cost of labour. Agreeing with Harriet and Elizabeth (1996), compensation can be viewed as an joint agreement between these two parties as to the value of labour service. Douglas (2014) definition on compensation is equivalent to the sum of wages and salaries (either in cash or benefits in kind), and of supplements to wages and salaries (for example employer contribution for employee pension made on behalf). From time to time, the benefit components of the compensation packages keeps evolving.

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Moehrie (2001) analysed that these changes are caused by major economic, political, and demographic influences; meanwhile Trevor (2008) found that organisations did experience difficulties in their attempts to form compensation packages strategically.

2.3 Definition and Review of Performance of Employee

From Sabine and Michael (2002), performance is defined as the evaluative process linked to the actions undertaken. The relevant behaviours of employees contributing to the organisation's goal would be measured and appraised; thus aligned with quoted definition (Campbell et al., 1993) "Performance is what the organisation hires one to do, and do well". Employee performance is crucial to both the organisation in achieving competitive advantages as well as individual in achieving self-esteem and satisfaction. Many recent studies have demonstrated a positive relationship between various HRM factors with employee performance. Jonathan et. al (2012) and Osman et. al (2014) concludes that better recruitment and selection gave higher performance, where effective staffing attracted the right quality and quantity of people working together towards excellence. Meanwhile, Abdul et. al (2014), Ibojo & Asabi (2014) and Emmanuel (2013) have determined that a well designed compensation package has a significant impact on employee performance and productivity.

3. Research Model and Hypotheses

After reviewing the literatures, it has been observed that recruitment and selection, and compensation has an impact on performance of employees. This means that recruitment and selection, and compensation as key indicators to improve performance of employees in an organisation. The following conceptual framework has been designed to depict the relationship between recruitment and selection, and compensation on the performance of employees, in the presence of intervening variables.

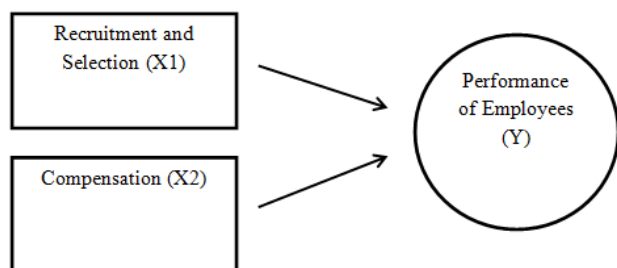


Figure 1. The Conceptual Framework

Hence, this research posits the following hypotheses:

Hypothesis 1: The impact of recruitment and selection on the performance of employees.

$$Y = \beta_0 + \beta_1 X_1$$

Performance of Employees = $\beta_0 + \beta_1$ Recruitment and Selection

H_0 = There is no impact of recruitment and selection on performance of employees.

H_1 = There is a positive impact of recruitment and selection on performance of employees.

Hypothesis 2: The impact of compensation on the performance of employees.

$$Y = \beta_0 + \beta_1 X_2$$

Performance of Employees = $\beta_0 + \beta_1$ Compensation

H_0 = There is no impact of compensation on performance of employees.

H_1 = There is a positive impact of compensation on performance of employees.

4. Research Methods

4.1 Pilot Study

According to Robert and Paul (1996), the total sample of respondents used in the pilot study is not less than 20. In this study, a pilot study was conducted using 20 respondents from private firms. Those 20 respondents have voluntarily participated in the pilot study, thus producing a participation rate of 100 per cent. The Cronbach's alpha reliability coefficient value (α) was high at 0.828.

4.2 Sample and Data Collection

According to Malhotra (2007), non-probability sampling is less time consuming, less expensive, and only requires lesser sampling skills. In the context of this study, a convenient sample of 160 private companies in Ipoh, Perak state was chosen for this research. Out of the 160 respondents who agreed to complete the survey, 8 were discarded due to uncompleted responses. Hence, the final sample was 152 copies of questionnaires were usable for the analysis. Thus, the response rate is 95%. According to Mugenda & Mugenda (2003), a response rate of 50% is adequate for analysis and reporting, a rate of 60% is generally good while a response rate above 70% is excellent.

4.3 Measurement Development

The research instrument that is applied by our group is questionnaire that includes questions about the basic characteristics of the respondents (gender, age, marital status, education level) items designed to assess (a) recruitment and selection, (b) compensation and (c) performance of employees. The questionnaire for this study was adapted based on the studies of Saifalislam et al. (2014), Hamzah et al. (2014), and Ombui et al. (2014) for the topic of this study. The items were scored on a five point Likert scale (1) strongly disagree to (5) strongly agree.

4.4 Tool

The data were analysed through statistical package for social sciences (SPSS). The main tests conducted for the data analysis are reliability, correlation and multiple regression tests is applied to test on the significance of the results whenever it is considered to be necessary.

5. Research Findings

5.1 Demographic characteristics of respondents

This study has used descriptive statistics to summarise the demographic characteristics of the respondents; there was almost a fair balance of male (53.9%) and female (46.1%) respondents who participated in this survey. In additional, about 82% of the respondents were between 21 and 39 years of age and slightly more than half of them (53%) were married. The respondents were all full-time employees and most of them (63%) with at least a first degree.

5.2 Reliability analysis

Recruitment and selection had a total of five items and compensation had a total of six items and according to DeVellis (1991) all of them were confirmed valid and had acceptable reliability coefficient of above 0.6 as shown in Table 1.

Table 1. Reliability analysis

Variable	Number of items	Cronbach's Alpha
Recruitment and Selection	5	0.828
Compensation	6	0.771

5.3 Correlation analysis

Table 2 summarises the correlations of the three variables of recruitment and selection, compensation and performance of employees.

From the Pearson correlation analysis, it was showed that recruitment and selection had the highest correlation coefficient with the dependent variable at 0.917 at $p < 0.01$ (2-tailed). Whereas, compensation had a correlation coefficient at 0.890 at $p < 0.001$ (2-tailed). According to Jonathan et al. (2013), all these associations have positive values which indicate that an increase in one variable means an increase in the other variable and vice versa. The table further indicates that recruitment and selection, and compensation have significant correlation with performance of employees at 0.01 levels.

Table 2. Correlation analysis

Variables	Performance of employees	Recruitment and selection	Compensation
Performance of employees	1	0.917	0.890
Recruitment and selection	0.917**	1	0.766
Compensation	0.890**	0.766	1

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

5.4 Regression analysis

Table 3 shows that the two independent variables are significant predictors of performance of employees. Two selected variables are significant at $p < 0.01$. In terms of beta values, recruitment and selection had the highest beta coefficient (Beta = 0.378). This result indicated that recruitment and selection variable are the strongest contribution to explain on the dependent variable (performance of employees). This led to the rejection of the null hypothesis that recruitment and selection has no significant impact on performance of employees. This study is therefore established that recruitment and selection has a significant positive impact on performance of employees.

Moreover, compensation had the lowest beta value (Beta = 0.252). This result also led to the rejection of the null hypothesis that compensation has no significant impact on performance of employees. Hence, this study is established that compensation has a significant positive impact on performance of employees. The R-square of 0.463 showed that the model is a fit one and that 46% of the deviations observed were caused by the independent variable in the model. Durbin Watson is 1.809 and according to Hair et al. (2010), the acceptable value for Durbin Watson is more than 1 and less than 3. All the results seem to be consistent with Bamberger & Meshoulam (2000), MacDuffie (1995), Stewart (2007) and Rynes et al. (2000) who concurred that recruitment and selection, and compensation had positive impact on performance of employees.

Table 3. Regression Analysis

Variables	Beta	Sig.
Recruitment and selection	0.378	0.000
Compensation	0.252	0.000
R-square= 0.463		
Durbin Watson= 1.809		
Sig. F= 0.000		

6. Conclusion

Human resource is the main and important asset of an organisation. It refers to the knowledge, skills and ability of workers in delivering services effectively and efficiently. Effective recruitment and selection process and compensation system is able to attract the right quality and quantity of people, develops the skills, knowledge and abilities of employees, and retains employees in the organisation (Saifalislam et al., 2014). Based on the result of the study, there are significant positive correlation and impact between

independent variables and the dependent variable. In conclusion, we can say that both independent variables help to improve the employee's productivity and so lead to an increase in employees and organisation's performance. From this study, it can be concluded that this study has achieved its main objective, which is to study on the impact of recruitment and selection, and compensation towards performance of employees in the context of private firms in Malaysia.

7. Limitation and recommendation

The study is limited in several ways. First, the small number of participants restricts the generalizability of the findings. Thus, the addition of the respondent is necessary so that research findings able to achieve a higher level of reliability. Second, short time frame of survey. Time constraint is one of the problems that faced by the researchers. To complete the research, the researchers have to gather information, collect supporting document, conduct survey and run the entire test to show the reliability of the results within limited time. Additional HRM practices variables such as team work, training and development and performance appraisal can be applied in the model investigated in future studies. Hence, limitations and proposals discussed should be utilized in testing the impact of HRM practices on performance of employee in the future.

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