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## The Relationship of Human Capital, HRM Practices and Organizational Performance: A Study on Telecommunication Companies of Kunming, with Mediating Effect of Knowledge Management

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**Abstract-** The turbulent challenges faced by Telecom companies in Kunming, China are to enhance their performance in the successful completion of projects to a level more satisfactory to clients. The main objective of this study is to investigate the relationship of HRM practices, Human capital and organizational performance with the mediating role of knowledge management on the successful completion of research task. The main aim of this study is to analyze the association among Human capital, HRM practices and organizational performance while taking Knowledge management as mediating variables. The survey of this research was conducted on managerial level employees who are working in Telecom companies in Kunming, China. It is hoped that current study resolve provide a guide and roadmap for employees to carry their services in their companies where fruitful plan of human resource management practices and human capital with the mediating effect of knowledge management capabilities to get the desired outcomes in human resource management. Statistical Package for the Social Sciences (SPSS) to analyze the data, Statistical tests like Cronbach's alpha to check the reliability, correlation, confirmatory factor analysis (CFA) & regression to prove the hypotheses will apply on data.

**Keywords:** human capital, HRM practices, knowledge management, organization performance, telecommunication, kunming.

**GJMBR-A Classification:** JEL Code: O15



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# The Relationship of Human Capital, HRM Practices and Organizational Performance: A Study on Telecommunication Companies of Kunming, with Mediating Effect of Knowledge Management

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**Abstract-** The turbulent challenges faced by Telecom companies in Kunming, China are to enhance their performance in the successful completion of projects to a level more satisfactory to clients. The main objective of this study is to investigate the relationship of HRM practices, Human capital and organizational performance with the mediating role of knowledge management on the successful completion of research task. The main aim of this study is to analyze the association among Human capital, HRM practices and organizational performance while taking Knowledge management as mediating variables. The survey of this research was conducted on managerial level employees who are working in Telecom companies in Kunming, China. It is hoped that current study resolve provide a guide and roadmap for employees to carry their services in their companies where fruitful plan of human resource management practices and human capital with the mediating effect of knowledge management capabilities to get the desired outcomes in human resource management. Statistical Package for the Social Sciences (SPSS) to analyze the data, Statistical tests like Cronbach's alpha to check the reliability, correlation, confirmatory factor analysis (CFA) & regression to prove the hypotheses will apply on data.

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## I. INTRODUCTION

In today's competitive market, organizations need to invest and support their human capital to remain and sustain in this competitive advantage. Now days, organizations are facing aggressive and productive environment. The success of these organizations is heavily depending on their capacity and ability to adapt their structures able to face the competition and maintain positive relations with their surroundings. This is especially for the Telecommunication Companies where worker's cost and productivity are the main elements of gross profit. According to Buller and

McEvoy (2012) human capital has become critical success factor for the development of organizations and entire business system. HRM is related to the managing organization's workers includes training and development, planning, performance measurement career development, staffing, compensation and benefits, leaving the organizations. So HRM in Telecom Companies is a complex and manifold activity that concerns with the application of ideas. Human resource management (HRM) is critical for progress and productivity. However, its significance in the construction environment is still undefined. On the one hand, many literatures and studies have identified HRM as a major factor towards organizational performance (Barczak and Wilemon, 1992; Tampoe and Thurloway, 1993; Thamhain, 2004a). Becker (1993) found that investment in HRM improves the quality of human capital that results the high productivity that in turn high profitability. From a practice point of view, Telecom companies are focusing on the importance of HRM if they want to grow and remain competitive. For this purpose, many organizations are beginning to effectively and efficiently manage their human capital. The purpose of current study is to explore the role of HRM in Telecom companies in the economy of Kunming with the linkage of knowledge management. As stated by Becker (1993), to determine the rise and fall of any economy and income, human capital and HRM are the key elements. The role of human capital on organizational performance is not clear. So, the main aim of this study is to investigate the impact of human capital of organizational performance with the mediating effect of knowledge management.

### a) Research Questions

1. Is there any relationship between HRM practices and organizational performance?
2. Is there any relationship between Human capital and organizational performance?
3. Does mediating variables knowledge management affect the relationship among HRM practices, human capital and organizational performance?

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4. Does positive correlation exist between Knowledge Management, human capital and HRM capabilities?

## II. LITERATURE REVIEW

### a) *HRM practices and organizational performance*

In the competitive and knowledge based economy, HRM practices is supposed to be the most important resource. Now days, it has become more crucial for success of any organization (Schuler, 1990; Moyeen & Huq, 2001; Werther & Davis, 1996). In today's competitive world success of the organizations depends on the techniques management are utilizing the capabilities, competencies and skills of their human resources (Absar & Mahmood, 2011).The impact of HRM practices on firm level has become important element. Many studies have found a significant association between HRM and firm performance such as employee turnover productivity, quality sales, profits, return on investment and market value (Lau and May, 1998; Harel and Tzafir, 1999; Youndt et al., 1996; Becker and Huselid, 1998; Welbourne and Andrews, 1996). Beer et al., (1984) suggested that competence, commitment, congruence and cost effectiveness as intermediary variables. Becker et al. (1997); Becker and Huselid (1998) observed that employee motivation, employee skills, job design and structure in which projects are completed which effect the profits and market value.

### b) *Human Capital attributes and organizational performance*

Researchers from different contexts found the significance of human capital for desired performance and outcomes like development, job creation, innovation, and economic development (Birch, 1987; Auto, 2005; Kirzner, 1997; Frese, 2000). Human capital attributes – such as skills of workers, training, trust, knowledge, education and have long been taken as critical success factors in organizational performance. (e.g., Florin et al., 2003; Pfeffer, 1995).A particular area for analysis, getting growing attention now a days by many practitioners and analysts, is the importance of human capital and its impact on organizational performance. (Moyeen & Huq, 2001; Schuler, 1990).According to Edvinsson and Malone (1997) human capital is the sum of the employee's experience, skills and capabilities).Ishikawa and Ryan (2002) suggested that it is the human capital that can enhance the firm performance. Moreover, academics and researchers observed that attributes of human capital play larger role in the firm performance due to the gradually enhancing knowledge-intensive activities in most work environments (Pennings et al., 1998; Bosma et al., 2004; Sonnentag and Frese, 2002).To date, the interest in human capital continues, and most authors conclude that human capital is related to success (e.g.,

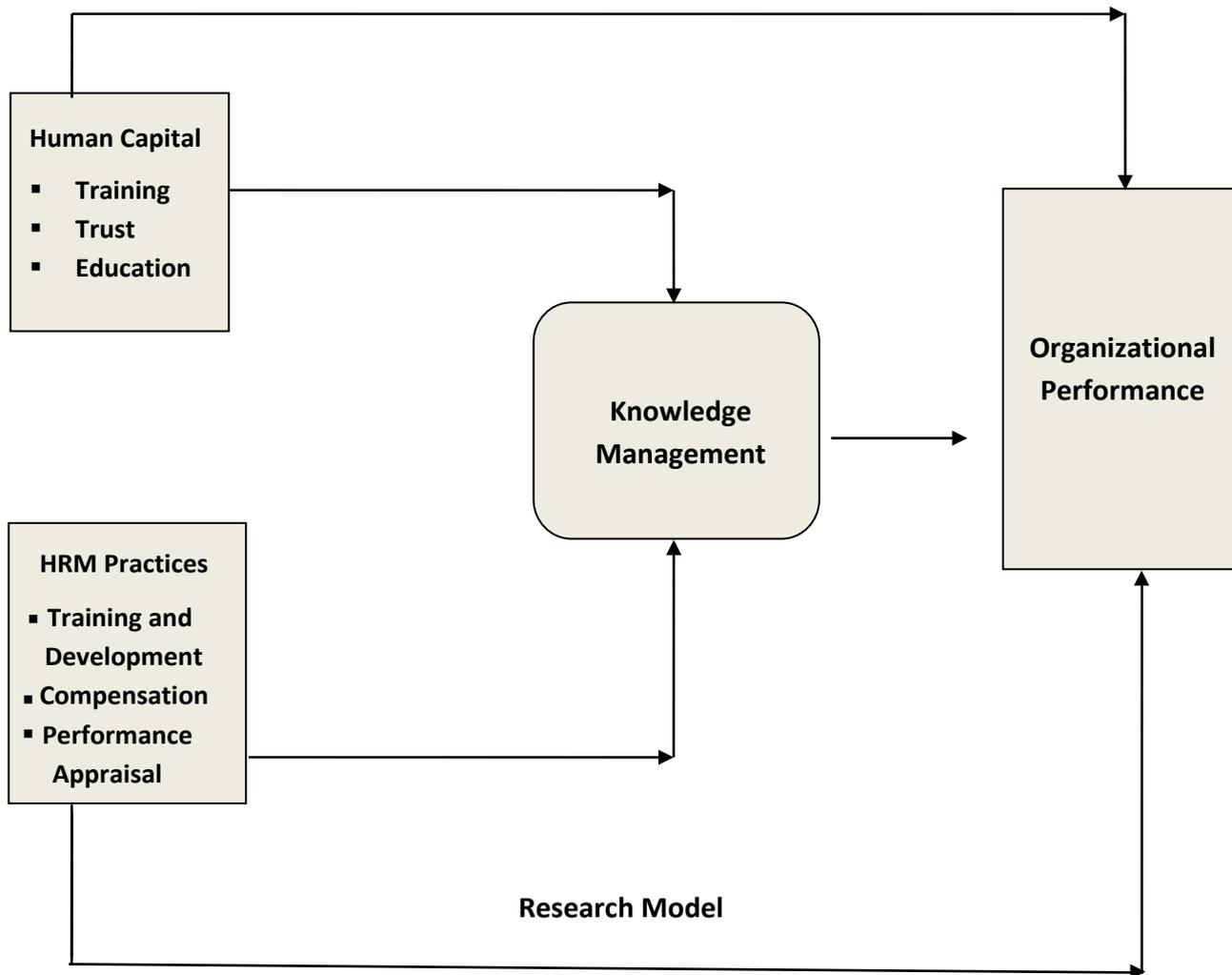
Bosma et al., 2004; Bruederl et al., 1992; Cassar, 2006; Cooper et al., 1994; Van der Sluis et al., 2005). Storey (1994) presented the positive relationship between human capital and performance after examining the examined the result of many empirical studies. Schultz (1993) explains that human capital is very important component of the performance and productivity. It is observed that if an organization can effectively use its human capital, it will lead to profitability.

### c) *Human capital and knowledge management*

According to Grant, 1996; Spender, 1996 knowledge is a precious asset of the firms human capital with knowledge management enables organizations to intensify capabilities, competencies and at the end observed and determine innovation opportunities (Grant, 1996; Wright et al., 2001).Human capital and Human resource management HRM function can significantly impact and modify the employee' s practices, attitudes, competencies, capacities to accomplish firms objectives and goals (Martinsons, 1995; Collins and Clark,2003;) and it is a major element in supporting the fundamental conditions for organizing workers of the organizations towards the improvement and progress of innovative activities (Michie and Sheehan, 1999; Laursen and Foss, 2003; Scarbrough, 2003). Firms that effectively and efficiently conduct manage and organize knowledge placed in individual personalities will have the capacity achieve superior competitive advantage (Scarbrough, 2003).

### d) *Research Framework*

By taking above discussion and literature in mind the following research framework and hypotheses are suggested for this research and they are given below.



*Hypothesis*

- H1. Human capital positively relates to the organizational performance.
- H2. Positive relationship exists between HRM practices and organizational performance.
- H3. Knowledge management mediates the relationship between human capital and organizational performance.

**III. METHODOLOGY AND DATA COLLECTION**

This study intends to explore the relationships between HRM practices, human capital, knowledge management, organizational performance. Survey questionnaire will be utilized for this research. Cluster sampling will be used for collecting the sample data. We are conducting the exploratory Analysis. Instrument: We use the Questionnaire technique on 5 likert scale which consist of the following scale a) Strongly agree b) Agree c) Neutral d) disagree e) Strongly disagree The questionnaire consists of 19 questions that are distributed in four different sections each section represents factors. The questionnaire contained the two sections: the first section was designed to gather the information about the respondent's personal background. In the second section of the questionnaire,

the respondents were asked to Salient features of China mobile and China Unicom Company. The questions asked in this section include those that measured the human capital, human resource management practices, knowledge management and organizational performance. The analyses were run to determine the response of responded about China mobile China Unicom Companies and their franchise. Since this study is exploratory in nature. The four to six items have been tested as a measure of the dependent variables and the three variables are taken as the independent variables. Analysis technique: We use SPSS software for data analysis. In SPSS, we compute frequencies, descriptive analysis, reliability and validity of test, correlation and at the end we run regression; we analyze model summary, ANOVA and coefficient analysis.

a) *Significance and Limitations of the Study*

This study focuses on Telecom companies of Kunming, which provides related products and services for external customers. This study will help firms of Kunming and their managers in understanding the importance of combining organizational HRM practices, Human capital, knowledge management and their resources before investing in projects to get the desired outcomes. Due to competition, globalization and technological breakthroughs these organizations face many difficulties to improve ability to assimilate, and mobilize valuable knowledge related to the development of new process and product according to market demands. Finally, this study will give organizations a road map to enhance their flexibility, business performance to achieve the competitive advantage. Since HRM practices is known as the most important factors of Telecom companies success, the main aim of this work is to explore the role of HRM practices and the significance of human capital in the Telecom companies of Kunming, to determine the type of linkage between HRM practices, human capital, the success organizations with mediating effect of Knowledge management. The special task in this research is the exploration of the human resource management practices (Training, staffing, recruitment, compensation, performance appraisal.) That is present in the Telecom companies in Kunming.

IV. DATA ANALYSIS

a) *Demographic Profile*

There are 200 employees in China Mobile and China Unicom franchises in Kunming. According to the Table 1, there are 167 Male and 33 female. The age of respondents, 3 %was below 19 years old.19.5 % was between the ages of 20-29 years. 34 %was between the

ages of 30-39 years. 28.5%were between the ages of 40-49 years.15% was above 50 years old.24% employees had less than 5 years worked experience.43 % employees in franchises had experience of 5- 10 years.12.5% employees had 11-15 years worked experience.17.5% employees had 16-20 years worked experience. 3% employees had working experience of more than 20 years (Table 1). The23.5% employees were senior managers, 45% were middle managers, 19.5% were junior employees, and 12% were other staff members.

b) *Descriptive Statistics*

We describe this central position using a number of statistics, including the minimum, maximum, and mean. To describe this spread, a number of statistics are available to including the range, variance and consistency and reliability coefficients of all independent variables (organizational citizenship behavior, compensation management, employee development) and dependent variable (Organizational performance). The calculated values of cronbach's Alpha are given in Table 3. The cronbach's alpha values that is near to  $\alpha=1.0$  is considered more significant and value that is less than  $\alpha=0.6$  is insignificant. We measured the organizational performance (telecommunication Kunming, China) through 4 items and the value of cronbach's alpha is  $\alpha=0.892$ . This value is near to  $\alpha=1.0$ . We measured the compensation management through 5 items and the cronbach's alpha value is  $\alpha=0.909$ , employee development was measured through the 6 items and the Cronbach's alpha value is 0.872 which is significant. We also measured the organizational citizenship behaviors with 4 items and value of Cronbach's alpha is  $\alpha=0.845$  that is reliable.

c) *Descriptive Statistics*

Table 1.1: Descriptive Statistics

		Statistics			
		Human Capital	Org. Performance	HRM Practices	Knowledge Management
N	Valid	200	200	200	200
	Missing	0	0	0	0
Mean		6.6750	8.4650	11.7450	7.0550
Median		6.0000	8.0000	12.0000	7.0000
Std. Deviation		2.76361	3.21097	4.16494	2.65655
Range		12.00	13.00	14.00	12.00
Minimum		4.00	5.00	6.00	4.00
Maximum		16.00	18.00	20.00	16.00
Sum		1335.00	1693.00	2394.00	1411.00

Table 1.2: Reliability Analysis

Latent Variable	No. of Items	Cronbach's Alpha (>0.7)
Human Capital	4	0.845
Organizational Performance	6	0.873
HRM Practices	5	0.908
Knowledge Management	4	0.892

Standard deviation, the mean value represent that the respondent's satisfaction regarding the human resource management practices in franchises (Table 2). To check the reliability of the scale and internal consistency of the measure, we use the cronbach's Alpha method. Internal consistency of the measure means that the suggested method gives the same results, when we apply the same test under the same condition again and again. According to the Guilford the Cronbach's alpha value should be more than 7 that identify the reliability of the measure (Table 3).

d) Reliability Value

The scale that we used in our study is reliable for data analysis. The internal consistency of the measure is good and reliable because the cronbach's alpha value is >0.7. We get the results of inter item consistency and reliability coefficients of all independent variables (Human Capital, Organizational Performance

HRM Practices Knowledge Management) and dependent variable (Organizational Performance). The calculated values of cronbach's Alpha are given in (Table 1.2). The cronbach's alpha values that is near to  $\alpha=1.0$  is considered more significant and value that is less than  $\alpha=0.6$  is insignificant. We measured the organizational performance (telecommunication Kunming, china) through 4 items and the value of cronbach's alpha is  $\alpha=0.892$ . This value is near to  $\alpha=1.0$ . We measured the HRM Practices through 5 items and the cronbach's alpha value is  $\alpha=0.908$ , organizational performance was measured through the 6 items and the Cronbach's alpha value is 0.873 which is significant. We also measured the human Capital with 4 items and value of Cronbach's alpha is  $\alpha=0.845$  that is reliable.

Table 1.3: Correlation

		Correlations			
		HUMCAP	ORGPREF	HRMPRAC	KNWMGT
Pearson correlation	HUMCAP	1.000			
	ORGPREF	0.586	1.000		
	HRMPRAC	0.350	0.456	1.000	
	KNWMGT	0.531	0.707	0.558	1.000
Sig. (1-tailed)	HUMCAP	0	0.000	0.000	0.000
	ORGPREF	0.000		0.000	0.000
	HRMPRAC	0.000	0.000		0.000
	KNWMGT	0.000	0.000	0.000	
N	HUMCAP	200	200	200	200
	ORGPREF	200	200	200	200
	HRMPRAC	200	200	200	200
	KNWMGT	200	200	200	200

Correlation is significant at 0.01 (1-tail). Correlation is significant at 0.05 (1-tail).

The first item human capital is highly correlated with organizational performance with value of 0.586 it means that increase in knowledge management of employees increases the performance of organization. So it rejects the null hypothesis that is there is no relationship between knowledge management and performance of organization. The null hypothesis of human resource management practices has no relation with organizational performance is also rejected because it also correlated with performance of organization with value of 350. There is medium correlation, not highly correlated but there is correlation. Knowledge management is also highly correlated with

organizational performance with the value of 0.531 and it will reject the null hypothesis that it has no relationship with performance of organization. This means that it can be interpreted that there is positive relationship between compensation and performance of organization. There is concluded that there is large Pearson correlation or relationship with these above mentioned items with performance of organization with Pearson correlation of above 0.5 for each.

Table 1.4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.610 $\alpha$	0.372	0.362	2.20710	2.283

- a. Predictors: (Constant), HUMCAP, HRMPRACT,KNWMAGT  
 b. Dependent Variable: ORGPER.

Adjusted R square is based upon the sample size and the number of regressors (constant). The value of standard error of the estimates is calculated with the help of Mean square value of ANOVA Table. The standard error of the estimate is a measure of the accuracy of predictions. Model summary table also includes Durbin Watson value it should range from 1 to 4 here value is 2.283 it means there is auto correlation between the independent variables. (Vining, G. G. 2001). If its value is exactly 2 it means there is no auto correlation, but here there is some auto correlation.

standard error of the estimates. R called the Pearson R. Pearson R is equal to the  $R^2$ .  $R^2$  is used to determine the model fitness. Coefficient of determination is also called R square.  $R^2$  is equal to the regression divided by total sum of square which is given in ANOVA Table 5. R square is used to determine the variation in dependent variable that is explained by independent variables. According to Table 6, 37% variation in organizational performance id due to the predictors (Human capital, human resource management practices and Knowledge management). The rest of the 62.8% variation in organizational performance is explained by other factors that are not the part of our study (Table 5).

e) Regression

i. Model Summary

The model summary of regression analysis consists of the values of R, R square, adjusted R square,

Table 1.5: ANOVA

Model	Sum of Square	Df	Mean Square	F	Sig.
Regression	565.104	3	188.368	38.669	0.000b
Residual	954.771	196	4.871		
Total	1519.875	199			

- a. Dependent Variable: Orgper  
 b. Predictor: (Constant), Humcapl, Orgperf, HRMPRACT

f) ANOVA

The results of ANOVA test reveal that the model is statistically significant that analyzed the factors affecting the organizational performance. The above

model demonstrates that the significance level is less than 0.05 that is a sign of approval that there exists a relationship between organizational performance and independent variables of the study.

Table 1.6: Coefficients

Model	Standardized Coefficients		Standardized Coefficient	t	Sig,
	B	Std. Error	Beta		
(Constant)	1.755	0.530		3.311	0.001
HUMCAPT	0.359	0.069	0.417	5.175	0.000
HRMPRACT	0.027	0.046	0.041	0.598	0.550
KNWDMGT	0.222	0.090	0.213	2.467	0.014

g) Coefficients

The coefficient table includes unstandardized coefficient (beta and std. Error) and also include standardized coefficient (beta) t value and significance. Beta value is value of Y it means value of dependent variable that is organizational performance when there is one unit change in independent variables (human capital, human resource practices, and knowledge management) it would change in dependent variable. t Value is significant at 95 % confidence level that we are

confident organizational performance is affected by these independent variables. Knowledge management, compensation is positively significant at 95% with t value 5.175 and 2.467, respectively. A human resource practice is positively insignificant with t value of 0.598.

V. AREA NEEDING MORE EFFORTS

- Range of this study covers only employees of telecommunication in future this study can be conducted on consumer.

- The comparative research can be conducted between public and private telecommunication companies.
- This study only conducted in Kunming city of china next time conducted in big cities of china like Beijing and shanghai.
- Next time this kind of study will conduct on transportation companies, manufacturing companies with extend to different variables.
- Next research will be conducted on mediating role of change management.

## VI. CONCLUSION

HRM practices and Human capital are the key elements of firm performance. Previous researchers found that HRM and Human Capital have influence on organizational performance. But previous literatures lack of the combine effect of human capital and HRM practices on performance with the mediating effect of knowledge management. This study will be carried out to find the influence of mediating variables knowledge management among Human capital, human resource management and to organizational performance. The study will have its practical implications for Telecom companies of Kunming. It is hoped that current study will provide a guide and roadmap for successful interest and investments in human resource management practices and human capital with the mediating effect of knowledge management capabilities and innovation to get the desired outcomes.

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