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**Human Resource Management, Strategic Human Resource Management,  
Business Ethics and Organizational Performance: Evidence from Fast  
Food Industry in Pakistan**

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**Abstract**

*The impact of Human resources (HR) business ethics on organizational performance are increasing day by day in all over the world. In current study, we inspect strategic human resource management (SHRM). Human Resource practices (HR Practices) and Ethical leadership (EL) in Pakistan to evaluate the impact of these practices on Organizational Performance. Empirical results of 260 sample from Pakistans 4 multinational and 1 local fast food chains i.e. (Pizza Hut, KFC, Subway, Almida and AFC) demonstrate that SHRM, HR Practices and Ethical Leadership have direct and positive effects on Organizational Performance. Moreover Trust in Organization partially mediates the causal relationship between the strategic human resource management SHRM, HR Practices, Ethical Leadership and organizational performance. Therefore it is recommended to the stake holders of fast food chains in Pakistan to adopt this model for their improvement and progress. Finally, this study also has some theoretical implication, managerial implication, limitations and suggestions for future research.*

**Key Words:** Strategic Human Resource Management (SHRM), Human Resources Practices (HR Practices), Ethical Leadership (EL), Organizational Performance, Pakistan

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## **Introduction**

In present days market environment is very vibrant and dynamic and today stability of market may become unstable tomorrow. This instability of market creates environment of competition instant. Firms are trying to overlap each other to reap the advantages from the market. Managers should feel the pulse and prepared themselves to tackle the sudden change if occurred and should have assets to fight market competition.

Fast food, quickly prepared and served, is rapidly growing and multi-billion dollar industry in the world. In Pakistan, fast food industry is rapidly growing and many international and local chains such as KFC, Subway, Pizza Hut, McDonalds & local AFC have deep roots in it and give variety of food to local Pakistani taste (Sameda, 2006).

Pakistan, in term of population, stands at 6<sup>th</sup> position with 1.9 % a growth rate in the world. (Pakistan Economic Survey 2005) and with 153.4 million people set into top three position in term of already registered in 2005 (World Population Data Sheet, Population Reference Bureau, Washington; 2005) and major productive age group, 15 to 64 years, contributed as 67% of total population will cause the increase in per capita income which is US\$ 736 by 2020. It is also assumed that greater income is expected in fast food industry as the food consumption rate will increase (Population Projections 1998-2023, Planning Commission; NIPS). Over the past several decades, Pakistani economy is service oriented and food industries have been offering the highest levels of expediency (Sameda, 2006).

“Ethic provides rut and rudder for enterprise planning and strategic thinking” is seriously taken by only a few organizations. (Koh and Boo 2001;

Keith, Peltijohn and Burntl, 2003; Cruz, 2004). HRM practices and SHRM business ethics (Ethical leadership) helps to increase the Organizational Performance and trust in organization play the mediatory role between them.

### **Literature Review**

It is believed that human resources play an effective and efficient role to achieve success. Only a few numbers of firms have ability to bring out the concealed power of human resources and utilize this power to become leaders in the markets (Sang 2005). In 1920s, the first human resource department was started (Buckley, Ferris, Cook, Frink and Hochwater, 1999). Usually, managers consider that HRM is deal with record keeping, file maintaining and staffs function for organizations. But it is also used in sharing ideas, finance, accounting, marketing departments (Barney and Wright 1998, Ulrich 1987, Schuler and MacMillan 1984, Dulebohn, Ferris & Stodd 1995).

In early 1990s, the researcher finds out that there is clear definition of SHRM but they are alert to use the SHRM to increase the organizational performance to achieve the goals (McMahan & Wright 1992). Generally, the theoretical explanation of HRM-organizational performance linkage is made by the researchers and theorists on the following approaches

- (a) Best-practices or Universalistic
- (b) Contingency or Fit
- (c) Resource-based view

The “Universalistic or best practices” and “Fit or contingency approaches place much emphasis on the importance and sustainable advantage of HRM in a firm. Whereas “resource-based view” (RBV) approach endowed the conceptual and theoretical rationale for SHRM. In early

researches, the best-practice theory give emphasis to stability in HRM practice within the organization dominates on SHRM-organizational performance linkage. According to this approach some of the HRM activities were found better than the others, should be adopted by the organization (Pfeffer 1998; Osterman & Kochan 1994). According to Colbert 2004, the performance of an organization will be increased If it adopts these best-practices i.e. (employment security participation, internal career opportunities, result-oriented appraisals, formal training systems).

The HRM practices are used in bundles rather than isolated practices that have effective impact on the performance of organization known as the high-performance work system. The contingency approach recognizes that when HRM practices are constant and reliable with each other and with the goals of firm strategy they enhance the performance of organization. The reliability and consistency between firms larger strategic fit represent the vertical fit while HRM practices stands for vertically fit (Wright and McMahan 1992; Huselid 1995; Baird and Meshoulam 1988).

Usefulness of HR practices depends on the how it is horizontally and vertically fit and integrated (Colbert 2004). A number of studies favor the contingency approach and points out the relationship between organizational effectiveness and internally consistent HR practices (Becker and Huselid 1998; Bowen and Ostroff 2004). Resource-based view is an approach that provides theoretical foundation to the idea of SHRM which emphasize on competencies of the organization and HRM roles in the development of these competencies. (Barney 2001; Wright et al. 2001) According to Resource-based view approach valuable, rare, non-substitutable and inimitable resources

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can grant sustainable competitive advantages for the organization. (Barney 1991) The HRM Policies or the practices which fulfill all the above requirements can provide enhance performance and sustainable competitive advantage (McMahan and McWilliams 1994). For example when the organization recruit a well qualified staff and trains the in such a way different from its competitor, this ensures that its HRM is inimitable. Such type of activities can ensure the uniqueness of firms HR. However, these sources must be important, valuable, and unique and support such competencies which provide sustainable competitive advantage to the organization. (Wright et al. 2001; Collins and Clark 2003) It can be said when the individual practices are aligned to develop critical competencies or resources for a firm then HR practices can create value. (Wright et al. 2001) It is very important to keep in mind that HR policies will support the sustainability of the competitive advantage because these policies are specific to a specific organization and socially complex and therefore difficult for other organizations to imitate and to get benefits (Lado & Wilson 1994; Wright et al. 2001).

A number of studies and researchers have found the notion of Ethical Leadership within the management organizational behavior (Cullen et al., 2003; Neubert et al., 2009; Trevino et al., 2003; Brown et al., 2005). They study of Brown and Trevino (2006) depict that personal qualities of an individual such as moral reasoning, care and the variables in different situation and role plying within ethical context were recognized as the forerunner of Ethical Leadership. In organizational science, Leadership is considered one of the most devoted pursuits of human beings. Leadership is the most essential

sagacity involved in the process of influence (Yukl, 2010). Attractiveness, in Ethical Leadership, can be considered as the function of the status of the leaders and it engages the dimensions of the care, concern, reasonable and fair behavior of supporters and followers. Similar to the idea of attractiveness, leader trustworthiness is one of the most important dimensions of the ethical leadership. The reliability of the credibility of the leaders in the role modeling process is also discussed in the trustworthiness (Brown and Treviño, 2006).

Studies, conducted on ethical leadership generally flourish the notion that senior management is linked to constructive outcomes. Senior management and ethical leadership, manipulate the performance of the employees by implementing a cascading effect on middle-level employees and managers (Mayer et al. 2009) and this is why, the ethical aspect of top management leadership is believed as an important factor that affects organizational effectiveness (Treviño et al. 2003). Therefore, the concept of ethical leadership will remain incomplete without understanding the responsibility of senior management ethical. Further, ethical leadership is incomplete in the organizations without studying that how senior management ethical leadership relates to the outcomes of the organization.

Trust is conceptualize differently in various disciplines in management is similar to choosing judging, or preferring, in ethics as synonymous with trustworthiness within the context of personal characteristics that inspire positive expectations on the part of other individuals, in psychology as a facet of personality that develops early in life and remains relatively stable through adulthood in economics as a synonym for cooperation or risk taking (e.g. Colquitt et al., 2007) Thus the interpersonal

trust can be explained as a psychological state intends to acknowledge the vulnerability in the actions of other human beings (a trustee) which based on the anticipations, performed in a particular actions by the other that is very important to the trustor (e.g. Lewis, & Weigert, 1985). This notion of interpersonal trust describe that trust will be ready to be vulnerable to the other party based on both the propensity of the trust or to trust on other people in general and specially on the trustors perception that the trustee is trustworthy (Mayer, Davis, & Schoorman, 1995). Lewis and Weigert (1985) proposed that trust depends on “good reason” which constitutes the evidence of trustworthiness. ”. Mayer et al. (1995) explained that that trustworthiness includes on three factors; ability, benevolence and integrity.

Ability is the collection of such ability and competencies that permits the party to play an affective role in some domain. Compassion is capacity in which the trustee is alleged to do good to the trustor putting aside the profit motives.

Integrity is described as the trustors point of view that the trustee holds a set of principles acceptable to the trustor. These dimensions trustworthiness reflect both cognition-based and affect-based sources of trust (McAllister, 1995): a cognitive skills calculation, abilities and values of the trustee (which is in the shape of integrity and ability) may be added on by a great emotional recognition of the joint worry intrinsic in the relationship.

Study of Ellonen et al. (2008). portray that organizational trust is the positive prospect that an individuals have related to the reliability, competencies and benevolence of members of the organization, moreover, the

institutional trust in the organization (Mayer et al., 1995). Therefore, trust is multidimensional variable in an organization i.e. a worker may trust his co-worker but may disbelieve in his manager or top management. Moreover the current studies lays much emphasize on creating Trust in Organizations because it creates strong relationship among the business ethics and individual affective commitment and job satisfaction which increase the organizational performance. It is generally observed that organizational outcome is not directly the outcomes of business ethics; it is also taken from various means and ways. To get the required organizational outcomes the trust is main and significant factor. **Performance Theory**

There is no specific theory about the performance, there are some models and approaches are used in different discipline i.e. (economics, psychology or production management). Measurement of performance is usually explained as criterion problem in organizational behavior and is extend to HRM study and sense of performance is measured by highlighting a number of specific features and distinctions

Firstly, we should focus on the problems regarding the content of performance. Secondly, we should judge the kinds of data. Third, we should consider linkages within a broad view of performance and then we should begin to look at fundamental links between HRM and performance.

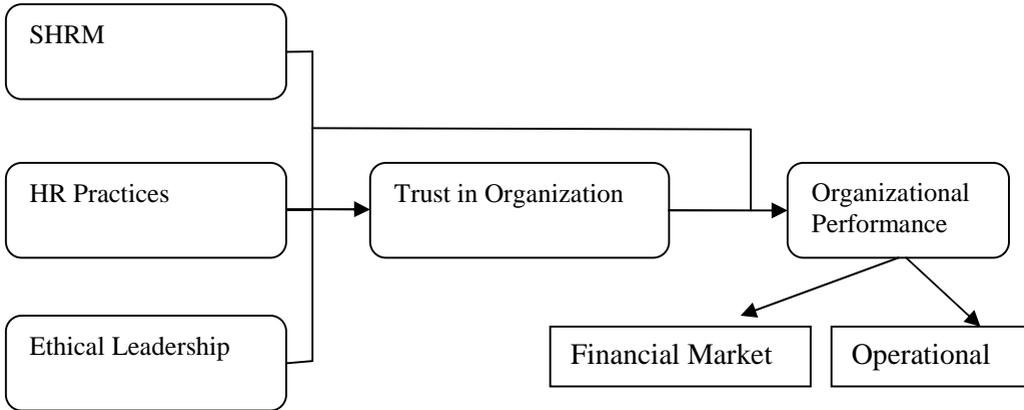
### **Study Objectives**

The main objective of this study is to examine that how Human Resource Management (HR Practices, SHRM) and business ethics (Ethical leadership) will have direct and through organizational trust have indirect

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impact on organizational Performance in the fast food industry i.e. (Pizza Hut, KFC, , Subway, Almida and AFC) of Pakistan.

**Research Model**



**Hypotheses**

H1a	Ethical Leadership (EL) of executives will have positive and significant effect on Trust in Organization (TIO).
H1b	Ethical Leadership (EL) of Executives will have positive and significant effect on Organizational Performance (OP).
H2a	HR Practices (HRP) will have positive and significant effect on Trust in Organization (TIO).
H2b	HR Practices (HRP) will have positive and significant effect on Organizational Performance (OP).
H3a	Strategic Human Resource Management (SHRM) will have positive and significant effect on Trust in Organization (TIO).
H3b	Strategic Human Resource Management (SHRM) will have positive and significant effect on Organizational Performance (OP).
H4a	Relationship between the Ethical Leadership (EL) and Organizational Performance (OP) is positively mediated by the Trust in the organization.

H4b	Relationship between the HR practices (HRP) and Organizational Performance (OP) is positively mediated by the Trust in the organization.
H4c	Trust in Organization (TIO) positively mediates the relationship between Strategic Human Resource Management (SHRM) and Organizational Performance (OP).

## **Research Methodology**

### **Data Collection**

3 big cities of Pakistan i.e. (Faisalabad, Multan and Lahore) was used for data collection. Total 350 questionnaires were distributed among 5 fast food chains i.e ( Pizaa Hut, KFC, AFC, Subway, Almida). 260 were returned back. SPSS ( version 17) was used for reliability , regression, correlation and factor analysis of SHRM, HR Practices, Ethical Leadership, Trust in Organization and Organizational Performance. A likert scale ranging from i.e. (1 strongly disagree to 5 strongly agree) was used.

### **Instruments of Study**

#### **SHRM**

A scale developed by Huselid and Becker (1997) and Devanna, Fombrum, Tichy and Warren (1982) was used to measured the SHRM. It has 9 items.

#### **HR practices**

A scale developed by Wright et al. (2005) and Huselid (1998) was used .it has 10 items.

#### **Ethical Leadership**

A scale (ELS) is developed by Brown et al, (2005). It has 10 items.

#### **Trust in Organization**

Trust in Organization questionnaire has adopted first three items from R. C. Mayer and J. H. Davis (1999) and last 2 items from N. Gillespie (2003). It has 5 items.

### **Organizational Performance**

A scale developed by (Kaplan and Norton 1992; Huselid 1995) was used and it has 10 items and two indicators i.e. (operational performance, financial and market performance).

### **Data Analysis Technique**

In this study, the collected data was analyzed through SPSS software. Firstly, before using survey data for correlation and regression analysis, survey items were processed for reliability and validity analysis. Reliability of the measurement scales were assessed through Cronbachs alpha value used for measuring internal consistency of the items (Hair et al., 1989). Although, theoretical value of alpha ranges from 0 to 1. However, a Cronbach alpha of .70 or greater is acceptable for affective measures Litwin (1995) and Gable (1986). Moreover, Validity of the survey items were ensured through factor analysis and these calculated factors are termed as principal components assessing the degree to which the questionnaire measures what is claimed to be measured. Moreover the item (correlation coefficients) might be omitted if the cutoff value is  $<.052$  (Stevens (1996)

### **Result and Discussion**

#### **Preliminary Data Analysis:**

A summary of the demographic statistics for the respondents from the Fast Food industry of Pakistan including gender, Job, department and Organization, are given in table A

**Table A: Demographic Characteristics of the Respondents**

<b>Variable</b>	<b>Frequency</b>	<b>Percent</b>
<b>Gender</b>		
Male	171	65.8
Female	89	34.2
<b>Job</b>		
Upper Management	18	6.9
Middle Management	67	25.8
Lower Management	88	33.8
Worker	87	33.5
<b>Department</b>		
Operation	88	33.8
Marketing	41	15.8
Accounting/Finance	08	03.1
HRM	32	12.3
Sales	64	24.6
Others	27	10.4
<b>Organization</b>		
Pizaa Hut	84	32.3
AFC	58	22.3
Almida	41	15.8
Subway	46	17.7
KFC	31	11.9

**Factor Analysis**

Validity of the items is ensured by Factor Analysis (FA). Factors are produced by FA, while components are produced by Principal Component Analysis (PCA). Both FA and PCA essentially are data reduction techniques. All items of SHRM, HR Practices, Trust in organization was included i.e. high

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factor loading  $>.5$  similarly 2 items of organizational performance and 1 item from ethical leadership was deleted due to low factor loading  $<.5$ .

### Reliability Analysis Test

The reliability of the questionnaire was calculated Cronbach Alpha Coefficient. Table-1 shows each variables reliability in the following

**Table-1 Reliability Analysis Test for all respective variables**

<b>Factor</b>	<b>Number of Items</b>	<b>Cronbachs Alpha</b>
Ethical Leadership (EL)	9	.776
HR Practices (HRP)	12	.788
Strategic Human Resource Management (SHRM)	11	.911
Trust In Organization (TIO)	5	.822
Organizational Performance (OP)	8	.893

### Correlation Analysis for all Variables

Correlation analysis is a measure of relationship between two variables. It is widely used in application of business and statistics. In this study, we have founded the Pearsons Correlation Coefficient  $r$  of all the independent and dependent variables by using the Bivariate Correlation Analysis which shows that the Pearsons Correlation Coefficient  $r$  reflect the correlation between all variables.

The results are shown in Table-2 The results show that independent variables (Ethical Leadership, HR Practices and Strategic Human Resource Management). mediating variable (Trust in Organization) and dependent variables Organizational Performance) are significantly and positively correlated with each other.

**Table-2 Correlation**

		Correlations				
		EL	HRP	SHRM	TIO	OP
EL	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	260				
HRP	Pearson Correlation	.619**	1			
	Sig. (2-tailed)	.000				
	N	260	260			
SHRM	Pearson Correlation	.643**	.678**	1		
	Sig. (2-tailed)	.000	.000			
	N	260	260	260		
TIO	Pearson Correlation	.524**	.675**	.821**	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	260	260	260	260	
OP	Pearson Correlation	.745**	.801**	.676**	.704**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	260	260	260	260	260

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

**Regression Analysis**

To find out the relationship between one dependent variable and several dependent variables, the researcher are used normally regression analysis.

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In current study, regression analysis was run in SPSS software (version 17.0) to find out the impact of Ethical Leadership (EL). HR Practices (HRP) and Strategic Human Resource Management (SHRM) (IVs) Organizational Performance (DVs) one by one and detail is given in tables below Table 3:

**Mediation Analysis**

Find out the mediation following step of Baron and Kenny (1986) are used.

- (a) For fully mediation, independent variable should be insignificant ( $P > .05$ )
- (b) For partially mediation, independent variable should be significant should be significant.
- (c) For no mediation, mediating variable should be not significant.

**Regression Analysis Discussion**

**Table 3: Regression Analysis**

	Hypotheses	P	Adj. R <sup>2</sup>	T	Result	
H1a	Ethical Leadership (EL) of executives will have positive and significant effect on Trust in Organization (TIO).	.000	.272	.524	9.891	Supported
H1b	Ethical Leadership (EL) of Executives will have positive and significant effect on Organizational Performance (OP).	.000	.744	.369	8.506	Supported
H2a	HR Practices (HRP) will have positive and significant effect on Trust in Organization (TIO).	.000	.453	.675	14.680	Supported
H2b	HR Practices (HRP) will have positive and significant	.000	.744	.509	11.255	Supported

	effect on Organizational Performance (OP). Strategic Human Resource Management (SHRM) will					
H3a	have positive and significant effect on Trust in Organization (TIO). Strategic Human Resource Management (SHRM) will	.000	.673	.821	23.094	Supported
H3b	have positive and significant effect on Organizational Performance (OP). Trust in Organization (TIO)	.044	.744	.094	2.021	Supported
H4a	positively mediates the relationship between Ethical Leadership (EL) and Organizational Performance (OP). Trust in Organization (TIO)	.000	.744	.369	8.506	Partially
		.000	.771	.395	9.549	Mediation
H4b	positively mediates the relationship between HR Practices (HRP) and Organizational Performance (OP). Trust in Organization	.000	.744	.509	11.255	Partially
		.000	.771	.434	9.672	Mediation
H4c	(TIO) positively mediates the relationship between Strategic Human Resource Management (SHRM) and Organizational Performance (OP).	.044	.744	.094	2.021	Partially
		.039	.771	-.121	-2.077	Mediation

### Conclusion

The empirical results show that ethical leadership , HR Practices and SHRM have direct and through trust in organization have indirect relationships with organizational performance (financial/market performance and operational performance). Therefore, this study proposed and tested that

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trust in organization partially mediates the relationship between business ethics component and HR components i.e. ethical leadership and Hr Practices and SHRM, each has significant and direct relationship with organizational performance (financial/market performance and operational performance). Thus findings of mediation analysis confirmed the social exchange perspective that component of business ethics i.e. ethical leadership and HR Components HR Practices and SHRM stimulates a social exchange relationship and have significant, unique relationships with organizational performance (financial/market performance and operational performance) in addition to trust levels on organization

### **Recommendations**

These values if adopted by an organization can be for good and can contribute to the organizations ability to achieve its objectives. In order to increase organizational performance (financial/market performance and operational performance). the managers should develop ethical environment in terms of ethical leadership .By providing ethical leadership top management can create strong exchange relationships with employees that reciprocate in shape of denoting high performance to their organization. Trust in organization is another avenue to be given strategic importance by the decision makers of the fast food chains of Pakistan. Employees wishes to be vulnerable to the actions of the organization, if top management treated them trustworthy. This trustworthiness on the part of organization can transmit the positive effects of ethical leadership, HR Practices and SHRM on

organizational performance (financial/market performance and operational performance) dynamically.

### **Theoretical Implications**

This study provides first empirical evidence from fast food industry of Pakistan that provide the supportive and significant relationships between SHRM, HR Practices ,Ethical Leadership and organizational performance directly and indirectly through trust in organization. The results of partially mediating model of employees of fast food industry of Pakistan suggest that SHRM, HR Practices and Ethical Leadership may be important even aside from their trust-fostering role, in two respects. First, SHRM, HR Practices and Ethical Leadership had significant, unique relationships with organizational performance outcomes even when trust in organization was considered simultaneously. For example in partially mediating model, SHRM, HR Practices and Ethical Leadership had incremental effects on Organizational Performance (financial/market performance and operational performance)

### **Managerial Implications**

HR and Ethical management deals with technical, financial and legal aspect of a business and it also recognizes and manages the values that operate at the heart of any enterprises or organization. In fact, these values adopted by an organization can be for good or for ill and they can contribute to the organizations ability to achieve its objectives which increase the organizational performance .Specifically, these values can affect employees who play a pivotal role in sustaining a competitive edge in todays dynamic environment. The results of this study suggest that in order to increase

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organizational performance, the managers should develop ethical environment in terms of ethical leadership. By providing SHRM, HR Practices coupled with strong ethical leadership, top management can create strong exchange relationships with employees that reciprocate in shape of denoting high organizational performance. Finally, the results suggest that trust in organization is another avenue to be given strategic importance by the decision makers of the fast food industry of Pakistan. Employees wishes to be vulnerable to the actions of the organization, if top management treated them trustworthy. This trustworthiness on the part of organization can transmit the positive effects of SHRM, HR Practices and ethical leadership on organizational performance dynamically.

### **Research Limitations and Future Research**

The limitations of this study would become the focus of future studies. Our target population was based on the employees working in Fast food industry of Pakistan. However, using convenient sampling technique, sample was drawn from the employees of fast food industry working in 3 big Cities of Pakistan as well as only 5 food chains and rests of the cities and fast food chain were totally ignored. Therefore, sample cannot be regarded as a representative sample of whole population. So the future study may target the bigger sample of fast food industry in all over the Pakistan. Moreover, another possible limitation is that the nature of data is cross sectional and since the perceptions of the employees on business ethics for a fast food industry may change over time, therefore, in future longitudinal studies incorporating diary perspective instead of snapshot may be undertaken to generalize the

research findings more vigorously. Finally, there is a need to analyze the role of human resource management in other service and manufacturing sectors like textile, pharmaceuticals, banks, information and communication companies, cellular operator and hospitals etc.

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