

HRM PRACTICES AND EMPLOYEE PERFORMANCE IN CO-OPERATIVES : DIRECT AND INDIRECT RELATIONSHIP

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ABSTRACT

This study investigated the relationship between human resource management (HRM) practices, affective organisational commitment and employee performance. Specifically, the direct and indirect relationship between HRM practices and employee performance was examined using the Structural Equation Modelling technique. A questionnaire survey was carried out among clerical employees in service-based co-operatives in West Malaysia and a sample of 516 respondents was analysed.

The study revealed that HRM practices, specifically training and development, performance appraisal, communication and participation and rewards, had a significant direct positive relationship with employee performance. An indirect relationship between HRM practices and employee performance mediated by affective organisational commitment was also observed. However, the direct relationship was stronger than the indirect relationship. The results suggest that HRM practices are more important in enhancing employee performance directly rather than indirectly, through fostering affective organisational commitment.

INTRODUCTION

The acknowledgement that human resources are a vital source of competitive success has motivated considerable research interest in the field of human resource management (HRM). However, much of this research has focused on the relationship between HRM and organisational performance, and there is still a dearth of research investigating the influence of HRM practices on employees (Wright & Boswell, 2002). This paucity is evident despite the fact that HRM practices are basically targeted towards employees and have the most proximal influence on them.

This study therefore attempts to build on the existing literature by investigating the direct and indirect relationship between HRM practices and employee performance at the individual level. The mediating role of affective organisational commitment was examined to also investigate the indirect relationship between HRM practices and employee performance.

REVIEW OF LITERATURE

This section reviews the relevant literature on the relationships between the variables included in this study. Specifically, previous work on the relationships between human resource management practices, organisational commitment and employee performance are reviewed.

Human Resource Management Practices

Mondy and Noe (2005) define human resource management as, "...the utilisation of individuals to achieve organisational objectives". Though there seems to be some variation among scholars with regard to the specific practices that make up human resource management practices, the literature reveals some practices which are commonly used in prior studies, specifically, training and development, performance appraisal, rewards, employee communication and employee participation.

Organisational Commitment

Scholars have defined organisational commitment differently (Yousef, 2000). For example, Porter defined organisational commitment as the relative strength of an individual's identification with and involvement in a particular organisation (Mowday, 1998). According to this definition, organisational commitment was regarded as a unidimensional construct focusing only on affective commitment. O'Reilly and Chatman (1986) defined organisational commitment as a psychological bond that ties the employee to the organisation and can take three forms: compliance, identification and internalisation. Compliance reflects behaviour designed to gain rewards; identification occurs when employees behave to maintain a relationship with the organisation due to its attractive values or goals, even though the values or goals may not be personally adopted and, internalisation reflects behaviour driven by internal values or goals that are consistent with those of the organisation.

In recent years, the most widely cited work on commitment has been done by Meyer & Allen. Meyer and Allen (1997) categorised organisational commitment into three components: affective commitment, continuance commitment and normative commitment. According to them, affective commitment refers to “employees’ emotional attachment to, identification with, and involvement in the organisation”. Employees with strong affective commitment remain with the organisation because they want to. Continuance commitment refers to commitment based on the “employees’ recognition of the costs associated with leaving the organisation” and employees with strong continuance commitment remain because they need to. Normative commitment refers to “commitment based on a sense of obligation to the organisation”, and employees with strong normative commitment remain because they feel they ought to.

It is widely agreed that organisational commitment is a multidimensional construct. However, most of the research on commitment has focused mainly on affective commitment, as affective commitment has been found to have the strongest and most consistent relationship with an individual’s desirable behaviour at work (Meyer & Smith, 1997; Meyer, Stanley, Herscovitch & Topolnytsky, 2002). Based on this reasoning, the present study focused on affective organisational commitment and used Meyer and Allen’s (1997) conceptualisation of affective commitment.

HRM Practices, Organisational Commitment and Employee Performance

Previous research on commitment has mainly focused on how an employee’s commitment to an organisation develops (Meyer and Allen, 1997) and less attention has been focused on the relationship between HRM practices and commitment (Meyer & Smith, 2000). Some studies have showed that HRM practices positively influenced affective organisational commitment (Agarwala, 2003; Koh & Yer, 2000; Paul & Anantharaman, 2004; Vandewalle, Van Dyne & Kostova, 1995; Yahya, 2000). Specifically, Yahya (2000) demonstrated that HRM practices (job security, performance appraisal, physical working conditions, training and development, pay, promotion and benefits) influenced affective organisational commitment in two large organisations in Malaysia. The study by Vandewalle et al. (1995) among residents in housing co-operatives showed that a single HRM practice, psychological ownership, was positively related to affective organisational commitment.

Interestingly too, Rhodes and Steers (1981) and Wetzel and Gallagher (1990) demonstrated that employees in co-operatives who were also members of the co-operative, had a significantly higher level of affective organisational commitment than employees in private business organisations, as a result of their involvement in decision making in their co-operatives. The positive relationship between HRM practices and affective organisational commitment indicates that HRM practices which are perceived positively by employees reflect the organisation’s concern for their well being and, in turn the employees would reciprocate with increased affective commitment to the organisation.

Comparatively, even less research has focused on the relationship between HRM practices and employee performance. Employee performance has been assessed as either job or in-role performance in some prior studies (Becker et al., 1996; Johlke & Duhan, 2000), or includes both, in-role performance and extra-role behaviour in others (Chen, Tsui & Farh, 2002; Vandenberghe, Bentein & Stinglhamber, 2004). Becker and Kernan (2003) defined in-role performance as the performance of formal tasks, duties and responsibilities included in a job description, while extra-role behaviour refers to activities that are discretionary and goes beyond formal job requirements, such as helping others, being courteous and making suggestions to improve the organisation.

Generally, HRM practices are positively associated with employee performance (Koh & Yer, 2000; Tsui, et al., 1997; Zerbe, Dobni & Harel, 1998). Tsui et al. (1997) explored the effect of four employee–organisation relationships (HRM practices) on employee performance and other employee outcomes. The HRM practices in their study referred to investment in training, career development and employment security, employee involvement, and performance-related rewards. Later, Koh and Yer (2000) replicated the framework proposed by Tsui et al. (1997) on temporary employees in Singapore and reported the same findings.

Generally, organisational commitment and in-role performance have been found to have a weak relationship. However, Swailes (2004) commented that stronger links have been obtained when researchers connected commitment to behaviour that is directly within the control of employees rather than using job performance measures such as sales figures which are normally beyond employees' direct control. Moreover, some prior work (Organ & Ryan, 1995; Vandewalle, Van Dyne & Kostova, 1995) reported that organisational commitment has a stronger influence on extra-role behaviour than it has on in-role performance. It is possible that the stronger relationship between organisational commitment and extra-role behaviour may be due to extra-role behaviour being concerned with behaviour that benefits the organisation as a whole, and as such makes the organisation more salient to individuals.

Prior studies on individual performance (measured as in-role performance or extra-role behaviour) in co-operatives are rare except for the study by Vandewalle et al. (1995). Previous studies related to co-operatives have focused on organisational performance (Bartlett, Cable, Estrin, Jones & Smith, 1992; Bayo-Moriones, Galilea-Salvatierra & deCerio, 2002, Woodworth, 1986). In addition to the strong positive relationship found between affective organisational commitment and extra-role behaviour, Vandewalle et al. (1995) found that affective organisational commitment fully mediated the relationship between psychological ownership and extra-role behaviour. However, in their study, the respondents were not employees but were residents of the housing co-operatives. It is possible that the findings may differ if employees of co-operatives were sampled.

PURPOSE OF THE PRESENT STUDY

The review of literature has drawn attention on the need to focus more research attention to investigate the relationship between HRM practices and employee outcomes at the individual level. In investigating this relationship, Wright and Boswell (2002) highlighted the need to consider multiple rather than single HRM practices because HRM practices are highly interrelated (Ichniowski, Shaw & Prennushi, 1997) and would therefore achieve the desired impact on employee commitment and performance, as a system. Also, as employees are the main target of these practices, empirical studies should firmly establish the relationship between HRM practices and employee-related outcomes before studying their impact on organisational performance. This is necessary to ensure employees' effectiveness and ultimately, the effectiveness of their organisation, more so in the context of service organisations where employees constitute the main input. Hence employee performance is a crucial employee outcome influenced by HRM practices that would then contribute towards enhancing effectiveness of the individual and the organisation.

Affective organisational commitment was included as a mediating variable that would influence the relationship between HRM practices and employee performance. Based on the literature, it was posited that HRM practices would have a significant relationship with affective organisational commitment and affective organisational commitment would have a significant relationship with employee performance. Further, HRM practices would have a direct and an indirect relationship with employee performance. The indirect relationship would be mediated by affective organisational commitment. This view was adopted because previous research has shown a stronger relationship between affective organisational commitment and extra-role behaviour. Moreover, affective organisational commitment has also shown significant relationship with in-role performance directly within the employees' control. Finally, commitment studies have mainly focused on affective organisational commitment due to the significant relationship found between affective commitment and desirable employee outcomes.

This study focuses on the relationship between HRM practices and the performance of employees in the context of co-operatives as prior to this no such study has been attempted using co-operatives as the research setting. Co-operatives carry out business activities and participate in the same labour and capital markets, just like any conventional business. However, the fundamental difference between co-operatives and other business organisations is member versus investor orientation. As co-operatives are guided by co-operative principles and focus more on generating benefits to members rather than profits, it is possible that this difference may influence the findings of this study.

The following model was proposed to examine the relationships between human resource management practices, affective organisational commitment and employee performance. The specific objectives were:

- (a) to examine the direct relationship between HRM practices and affective organisational commitment.

- (b) to examine the direct relationship between HRM practices and employee performance.
- (c) to examine the direct relationship between organisational commitment and employee performance and
- (d) to examine the mediating effect of affective organisational commitment on the relationship between HRM practices and employee performance.

The proposed model is shown in **Figure 1**.

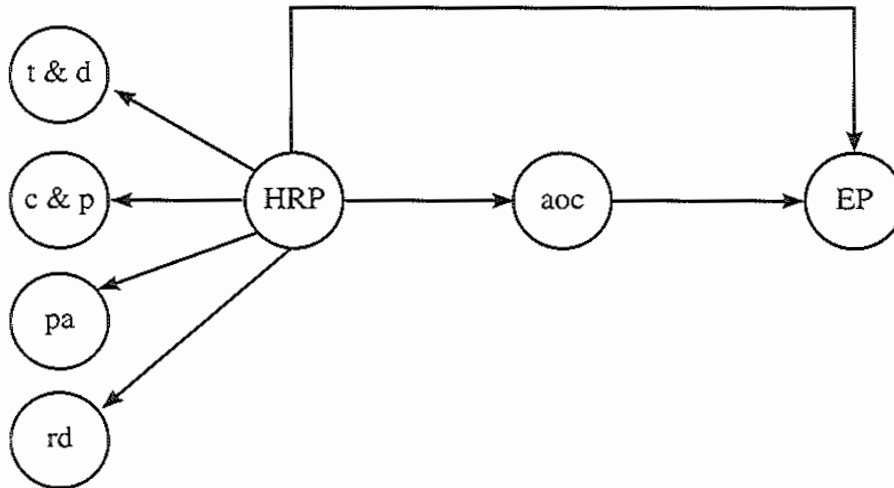


Figure 1: Proposed relationships: HRM practices (HRP), affective organisational commitment (aoc) and employee performance (EP)

METHOD

Sample and Procedure

The sample consisted of clerical employees from 140 service-based co-operatives in West Malaysia, which employed a minimum of five paid employees. A service-based co-operative provides tangible products (such as loans, consumer items, tickets and food) and, the intangible aspect of how the tangible product is delivered to the members (Lovelock, Wirtz & Keh, 2002). Co-operatives involved mainly in agricultural, manufacturing or industrial activities and school co-operatives were excluded. The study was confined to West Malaysia where eighty percent of the service-based co-operatives operate and clerical employees were targeted as they comprise the majority of employees in the co-operatives. Service-based co-operatives with a minimum of five paid employees were identified to ensure the existence of HRM practices. The co-operatives were contacted directly to obtain their cooperation to participate in the survey. The heads of the co-operatives were co-opted as intermediaries to gain access to the respondents and to facilitate data collection. The questionnaires and explanatory letters were mailed directly to these intermediaries to be distributed to the respondents, together with pre-stamped envelopes for every respondent. The co-operatives were requested to

return the questionnaires directly to the researcher in the envelopes provided. Mail survey was used due to cost and time constraints as the co-operatives were scattered in different states in West Malaysia. In total, 1000 questionnaires were mailed to the co-operatives and 540 responses were received. However, only 516 responses were usable for analysis, indicating a response rate of 51.6%. This response rate compares favourably with the 30% considered acceptable for mail surveys (Uma Sekaran, 2000).

Measures

All multi-item scales were measured on a five-point Likert scale ranging from strongly disagree (1) to strongly agree (5).

Human resource management practices

As there is no existing scale to measure the perception of HRM practices among clerical employees in service-based co-operatives, this scale was developed by reviewing the literature and adapting the items from previous studies. Four HRM practices or factors were used in this study. They were training and development (11 items), performance appraisal (9 items), communication & participation (8 items) and rewards (7 items). The internal consistency reliability of this scale was tested by computing Cronbach's coefficient alpha, and the four factors had Cronbach's alpha values higher than 0.6, which is regarded as acceptable in exploratory research (Hair, Black, Babin, Anderson & Tatham, 2006). Specifically, the coefficient alpha values for training and development, performance appraisal, communication and participation and rewards were 0.81, 0.66, 0.80 and 0.66, respectively.

Affective organisational commitment

The study assessed affective commitment to the co-operative organisation and this was measured using four items adapted from the organisational commitment scale developed by Meyer, Allen and Smith (1993), to suit the target and context of this study. Using a shortened scale to measure affective commitment has been attempted by Bentein, Stinglhamber and Vandenberghe (2002). The four items had a coefficient alpha of 0.80.

Employee performance

Employee performance was measured in terms of in-role performance and extra-role behaviour that was relevant to clerical employees in service-based co-operatives, so as to be reflective of overall performance. In-role performance was assessed with twenty one items adapted to suit the research context from prior studies and the coefficient alpha for this scale was 0.88. Extra-role performance was measured with fourteen items adapted to suit the research context from previous work and the internal consistency of this scale was 0.81. The face validity of the survey questionnaire was established after a review by practitioners and a pilot test.

RESULTS**Profile of the Respondents**

The demographic characteristics of the respondents are summarised in **Table 1**.

Table 1: Demographic Characteristics

	Number of Respondents	%
Gender		
Male	166	32.2
Female	350	67.8
Total	516	100
Ethnicity		
Malay	447	86.6
Chinese	22	4.3
Indian	47	9.1
Total	516	100
Age		
30 years and less	233	45.2
31-40 years	132	25.6
41-50 years	123	23.8
Above 50 years	28	5.4
Total	516	100
Qualification		
SPM/MCE	361	70.0
STPM/HSC	61	11.8
Diploma/Degree	62	12.0
Others	32	6.2
Total	516	100
Gross Monthly Salary		
Less than RM1,000	286	55.4
RM1,000-RM1,499	166	32.2
RM1,500 or more	64	12.4
Total	516	100

As shown in **Table 1**, 67.8% of the respondents were female, 86.6% were Malays, and 70.8% were aged 40 years or less, indicating a youthful work force. 70% of the respondents had the Malaysian Certificate of Education (MCE) or the Malay equivalent, Sijil Pelajaran Malaysia (SPM), as their highest academic qualification. Interestingly, 12% of the respondents possessed a diploma or degree but were still employed at the clerical level.

Table 2: Membership Status

	Number of Respondents	%
Membership Status		
Members	178	33.8
Non Members	338	65.0
Total	516	100

Table 2 shows that 65% of the respondents were not members of the co-operatives they were employed in, while only 35% were members. One likely reason for the large number of non members is that many co-operatives still do not have provisions in their by-laws to enable their employees to become members.

Table 3: Employment Tenure

	Number of Respondents	%
Job Tenure		
5 years or less	226	43.8
6-10 years	125	24.2
11-15 years	52	10.1
More than 15 years	113	21.9
Total	516	100
Tenure in Co-operative		
5 years or less	199	38.6
6-10 years	108	20.9
11-15 years	61	11.8
More than 15 years	148	28.7
Total	516	100

Table 3 indicates that 43.8% of the respondents have been employed in their current jobs for five years or less, while another 24.2 percent have worked for between six to ten years. In other words, more than two thirds (68%) of the respondents have worked in the same jobs for a maximum of ten years. Only 32% have served in the current jobs for eleven years or more.

With respect to tenure in the co-operatives, 38.6% of the respondents have served the same co-operatives for a maximum of five years, and 20.9% have worked in the same co-operatives for between six to ten years. Altogether, 59.5% of the respondents have worked in their current co-operatives for a maximum of ten years, while a total of 40.5% have served in their current co-operatives for at least eleven years. In general, a greater proportion of the respondents have served a period of ten years in their current jobs as well as in their current co-operatives.

Structural Equation Modelling

The proposed model in **Figure 1** was analysed using the structural equation modelling (SEM) technique (AMOS 5.0 package). The use of SEM was considered appropriate for this study as SEM enabled the simultaneous calculation of both the direct and indirect effects of HRM practices on employee performance, which were the objectives of this study. The analysis involved testing the interrelationships between the factors which were represented by several measured variables.

The SEM was carried out in two stages: validating the measurement models (factors) using confirmatory factor analyses (CFA) and testing the structural model (Schumacker & Lomax, 2004). In the first stage, a total of seven factors, also called measurement models were validated using the goodness-of-fit indices, specifically the Root Mean Square of Approximation (RMSEA), the Comparative Fit Index (CFI) and the Tucker Lewis Index (TLI). The seven measurement models are training and development, communication and participation, performance appraisal, rewards, affective organisational commitment, in-role or job performance and extra-role behaviour. Overall, the seven

Table 4: Factor Correlations

Factors			Correlations	Factors			Correlations
c & p	<-->	aoc	.591	t & d	<-->	jp	.393
c & p	<-->	jp	.451	t & d	<-->	erb	.419
c & p	<-->	erb	.505	pa	<-->	aoc	.562
rd	<-->	aoc	.692	pa	<-->	jp	.392
rd	<-->	jp	.322	pa	<-->	erb	.476
rd	<-->	erb	.389	aoc	<-->	erb	.466
t&d	<-->	aoc	.630	aoc	<-->	jp	.461

measurement models had acceptable fit for the data as indicated by the CFI and TLI values exceeding 0.90 (Hair et al., 2006). In addition, the RMSEA values were also less than the recommended cut off value of 0.08 for all the measurement models.

Factor Correlations

Table 4 displays the correlations of the seven factors which are, communication and participation (c & p), reward (rd), performance appraisal (pa), training and development (t & d), affective organisational commitment (aoc), in-role or job performance (jp) and extra-role behaviour (erb). To enhance model parsimony, nine items with loadings of less than 0.40 on the seven factors were excluded. **Table 4** shows the correlations of the factors after exclusion of these items.

Overall, the results in **Table 4** show that the factors are positively associated with one another. Specifically, communication and participation (c & p) had positive high correlations with affective organisational commitment (aoc), and extra-role behaviour (erb) but moderate positive correlation with job performance (jp). Reward (rd) correlated positively and highly with affective organisational commitment (aoc) but had moderate positive correlations with job performance (jp) and extra-role behaviour (erb). Training and development (t & d) correlated positively and highly with affective organisational commitment (aoc) but had moderate positive correlations with job performance (jp) and extra-role behaviour (erb). Performance appraisal (pa) displayed positive high correlation with affective organisational commitment (aoc) but positive moderate correlations with job performance (jp) and extra-role behaviour (erb). Lastly, affective organisational commitment (aoc) showed positive moderate correlations with job performance (jp) and extra-role behaviour (erb).

Communication & participation, reward, performance appraisal and training and development were positively and very highly correlated and were thus grouped together to form a more general latent factor called human resource management practices (HRP). Schumacker and Lomax (2004) suggested that factors are highly correlated when they are related to a more general factor. Generally, as HRM practices are interdependent and integrated, they are also highly correlated ((Ichniowski, Shaw & Prensushi, 1997; Meyer & Allen, 1997; Paul & Anantharaman, 2004). Hence, the influence of HRM practices on any variable must be analysed as a system (Wright & Boswell, 2002). As the factors, job performance and extra-role behaviour were also highly interrelated, they were grouped together and called employee performance (EP).

In the second stage, the overall fit of the structural model was tested and the relationships between the latent factors, namely HRM practices (HRP), affective organisational commitment (aoc) and employee performance (EP) were analysed. HRP was identified as the independent factor, aoc as the mediating factor and EP was identified as the dependent factor. After stabilizing for errors, the structural model yielded an acceptable fit to the data, with a CFI of 0.92, TLI of 0.91 and RMSEA of 0.033. The results obtained with regard to the relationships between the factors are shown in **Figure 2**. Only relationships that were significant at ($p < 0.05$) are shown.

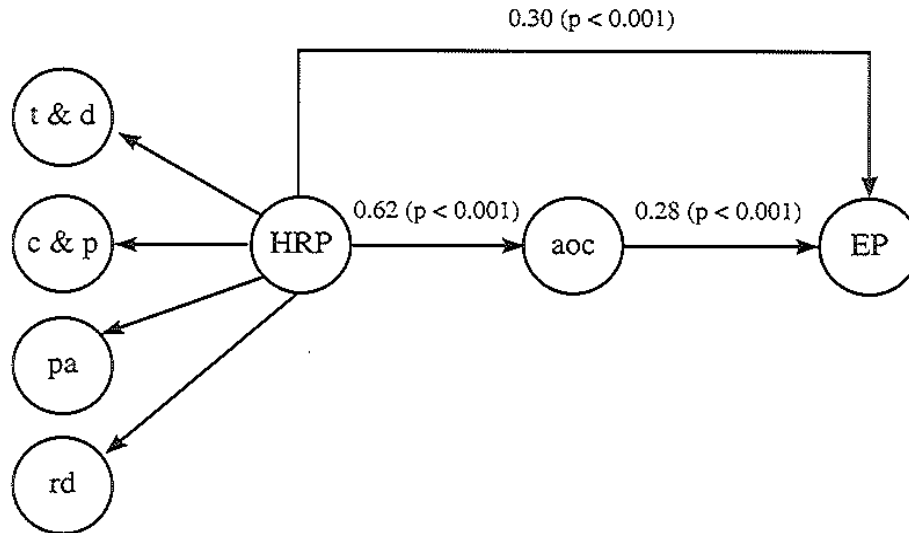


Figure 2: Standardised path coefficients for the proposed relationships

Direct and Indirect Relationships

In testing the proposed direct relationship between HRM practices (HRP) and employee performance (EP), the path (HRP→EP) was significant ($p < 0.001$). The size of the direct effect was 0.30 and the relationship was positive. In testing the proposed direct relationship between HRM practices (HRP) and affective organisational commitment (aoc), the path (HRP→aoc) was also significant ($p < 0.001$). The size of the direct effect was 0.62 and the relationship was positive. Finally, in testing the proposed relationship between affective organisational commitment (aoc) and employee performance (EP), the path (aoc →EP) was significant ($p < 0.001$). The size of the direct effect was 0.28 and the relationship was positive.

The indirect relationship between HRM practices and employee performance was then analysed by testing the mediating influence of affective organisational commitment on this relationship. The results are as displayed in **Table 5**.

Table 5: The Relationship between HRM Practices and Employee Performance

Direct Relationship	Direct Effect
HRP → EP	0.30
Indirect Relationship	Indirect Effect
HRP → aoc → EP	0.17

As observed in **Table 5**, the direct relationship between HRM practices and employee performance was significant ($p < 0.001$) and positive. The size of the indirect effect for the path (HRP \rightarrow aoc \rightarrow EP) was 0.17 and the relationship was positive. According to Hair et al., an indirect effect of less than 0.08 is regarded as trivial relative to the strength of the direct path and as such, the indirect effect is not important. In this case, the indirect effect of 0.17 was greater than 0.08. Hence, affective organisational commitment was found to be an important mediator. In addition, as the direct relationship between HRM practices and employee performance was also significant ($p < 0.001$), affective organisational commitment was a partial mediator. The relationship between HRM practices and employee performance was partially mediated by affective organisational commitment.

Overall, the results suggest that the relationship between the human resource management practices and employee performance was a partially mediated one. HRM practices had both a direct and an indirect positive influence on employee performance. However, based on the size of the standardised coefficient estimates, the direct positive relationship between HRM practices and employee performance was stronger than the indirect positive relationship, suggesting that the direct relationship was more important.

DISCUSSION

The results of this study provide some interesting implications. Firstly, HRM practices have a significant and positive direct relationship with affective organisational commitment. This finding implies that when HRM practices are perceived more positively by employees, they tend to reciprocate with a greater level of affective organisational commitment. Hence, HRM practices are one way by which organisations can demonstrate their support for employees and in return foster employees' commitment to the organisation (Meyer & Smith, 2000).

The significant and positive direct relationship between HRM practices and employee performance obtained in this study suggests that employees' favourable perceptions of HRM practices are a manifestation of the organisation's concern for the well being of its employees and in turn, this may motivate them to perform their jobs well. Furthermore, the finding of a significant positive direct relationship between affective organisational commitment and employee performance indicates that when employees perceive a higher level of affective organisational commitment, they tend to perceive a higher level of performance on their part.

The finding of a positive indirect relationship between HRM practices and employee performance through the mediating effect of affective organisational commitment, in addition to the direct relationship, suggests that HRM practices can also enhance employee performance indirectly through establishing and maintaining affective organisational commitment. However, the stronger direct relationship between HRM practices and employee performance indicates that HRM practices are more important than affective organisational commitment in enhancing employee performance. Hence, in order to

improve employee performance directly, management must systematically design and implement an integrated HRM system consisting of practices related to training and development, communication and participation, performance and rewards. As HRM practices are highly interrelated, an integrated HRM system would achieve the desired impact (Meyer & Allen, 1997).

This study makes a significant contribution to the HRM literature as it highlights the importance of HRM practices as an effective tool for enhancing employee performance in co-operatives, directly as well as indirectly. This is because no such study has been conducted on employees in co-operatives. As this study was carried out among a sample of employees in co-operatives, there is a possibility that some of the findings may be unique to the context of this study.

CONCLUSION

Though the structural equation modelling technique was used to analyse the data, the interrelationships between HRM practices, affective organisational commitment and employee performance were measured at the same time, due to cost and time constraints. A longitudinal design would bring about more relevant results.

This study focused on affective commitment to the organisation. Future studies can be extended to include other foci of relevance such as affective commitment to management, affective commitment to co-workers and affective commitment to customers, to determine which of these foci have the strongest mediating effect on the relationship between HRM practices and employee performance. The study deliberately focused on obtaining responses for all the variables from the employees. For the purpose of this study it was employee perceptions that were relevant, not the perception of management. This is because employees' perceptions of reality have been acknowledged as being more likely to influence their behaviour than formal documented policies on HRM (Meyer & Allen, 1997).

In conclusion, this study attempts to contribute to the literature by investigating the interrelationships between a group of HRM practices, affective organisational commitment and employee performance, in the context of co-operatives in Malaysia as no such study has been previously attempted. The results of this study have contributed to the broader understanding of the direct and indirect relationship between HRM practices and employee performance, through the mediating effect of affective organisational commitment.

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