

The Impact of Human Resource Management on the Financial Performance of Listed Firms in Vietnam

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This research is conducted to investigate the impact level of human resource management on financial performance of firms in Vietnam. Secondary data was collected from audited annual reports of large listed firms and primary data was gathered from sending questionnaires to big listed firms on the Ho Chi Minh Stock Exchange (HOSE). We ran a regression model for independent variables of human resource management and dependent variable of financial performance. Return on assets and profit before tax are proxied for financial performance. The results show that the sharing of information and authorisation in the governance system is an important determinant influencing the creativity of individuals and organisations. Therefore, large listed firms should proactively develop and implement policies on training and developing personnel skills; develop recruitment activities to ensure the most suitable input resources for firms; design a system to encourage personnel; and appropriate organisational structure to increase creative space for employees.

Key words: *Human resource management, Financial performance, Listed firms, Vietnam.*

JEL Classification Codes: O15, G30

Introduction

Human resource is one of the input resources that determines the results as well as the long-term development process of firms (Huselid, 1995; Kaufman, 1992). In order to create competitiveness, resource theory has shown that firms need to create and use valuable, rare and

inimitable resources (Barney, 1991). Unlike other competitiveness, human resource is considered to be a sustainable competitive advantage of firms when their competitors are difficult to imitate and copy (Flanagan, 1996).

Many scholars have identified human resource and effective human resource management method as a key and decisive determinant to the organisational performance (Lado and Wilson, 1994; Buller and McEvoy, 2012). Several studies have shown that effective human resource management has a positive impact on production results and financial performance (Huselid, 1995; Delery and Doty, 1996; Delaney and Huselid, 1996). Other studies conducted in the East also focused on developed countries such as Korea (Bae & Lawler, 2000), Hong Kong (Ngo et al., 1998). In developing countries or economies in transition such as Vietnam, research on the impact of human resource management on financial performance is still limited.

Human resource management is an organisational function designed to maximise the performance of employees contributing to the achievement of the organisational strategic goals. Jackson and Schuler (1995) argued that human resource management is the design of management systems to ensure that talents are employed effectively and efficiently for achieving organisational goals. From a more specific perspective, human resource management involves managing the persons within the organisation and focuses on policies and systems. Thus, human resource management can be considered as a system of practices and policies related to the effective management and use of human resource to achieve the organisational goals.

Within the scope of this research, we focus on the impact level of human resource management as practices to effectively manage human resource for achieving the financial goals. We assess the impact of human resource management practices on financial performance and competitiveness of firms in the context of emerging countries and we use Vietnam as a case study. Since then, we propose the development and application of appropriate practices to improve the financial performance and competitiveness of listed firms in Vietnam. The questions posed is “What does a system of human resource management practices in Vietnam include, and do these practices really help improve the financial performance of firms?”.

This research is structured as follows. Section 2 synthesises theoretical framework and designs hypotheses. Section 3 describes the data sample collection and methodology employed in the conduct of the research. Section 4 sets out key results, while Section 5 shows some discussions. Section 6 shows some key conclusion, suggestions and potential further research.

Theoretical Framework and Hypotheses

Wright and McMahan (1992) think that human resource management is a model of deploying

human resources and planned activities in order to ensure the organisation achieves its goals. Human resource management is a function of the organisation dealing with human-related issues such as labour remuneration, recruitment, achievement management, organisational development, safety, benefits, and motivation, work, media, administration and training. It is an organisation function that focuses on recruitment, management, and orientation issues for individuals working in the organisation.

Noe et al. (2003) suggest that human resource management is the policies, activities and systems that affect workers' attitudes, behaviours and achievements. The view of Noe et al. (2003) when thinking that human resource management is a system of activities and policies to successfully manage the organisation's personnel at all levels to achieve organisational goals. Human resource management is the design of formal systems within an organisation to ensure the effective and efficient use of human talent to realise the organisation's goals.

A number of scientists investigate each individual human resource management activity to financial performance of an organisation such as Barney (1991) studying the relationship between training and labour productivity; Terpstra and Rozell (1993) studied the impact of recruitment on revenue and profit indicators, and the relationship between labour remuneration and financial performance of firms. Many other scholars investigate the application of a system of human resource management activities to organisational performance such as Huselid (1995), Lin (2008). They believe that having a suitable system of human resource management activities would bring high operational results for firms. As analysed above, human resources are considered to be resources serving the objectives of the organisation and the individual employees in the organisation, so human resources management activities are applicable to all different firms. In this regard, Delery and Doty (1996) distinguish three perspectives on human resource management activities including universal views, adaptive views (contingents) and optional views (configurational).

The first is the universal view. It is a simple view of human resource management. Accordingly, researchers believe that there are a number of human resource management activities that, if applied, would yield high performance for the organisation. These activities can be applied to all types of organisations in different contexts. This view also measures an organisation's performance based on financial or market indicators such as market share or revenue. Some scholars support the universal view as Pfeffer (1998) or Huselid (1995). Pfeffer (1998) argues that applying 16 activities, such as participation and empowerment, incentive pay, job security, promotion from internal sources, and training and skill development, lead to higher results and profits across all types of organisations.

The second is the adaptive view. It is that the performance of an organisation depends on the effective combination of its human resource management activities and its characteristics.

Some researchers think that the adaptive view is a more appropriate approach to human resource management (Schuler & Jackson, 1987; Butler et al., 1991). Many studies supporting this view focus on examining the relationship between human resource management activities and corporate strategy. Schuler and Jackson (1987), for example, argue that if human resource management activities are not consistent and consistent with the strategy, it will hinder and influence the performance of both individuals and organisations. A term frequently used to refer to human resource management activities consistent with this view is strategic human resource management practice.

The third is an optional perspective. It is a complex one and focuses on how to implement human resources and planned activities in order to ensure the organisation achieves its goals. From an optional perspective, in order to be effective, an organisation has to design its personnel management system to achieve horizontal and vertical compliance. Horizontal relevance refers to the internal unity between organisational human resource management activities, and vertical alignment refers to the consensus between the system and other organisational characteristics, such as strategy of firms (Delery & Doty, 1996). In this study, we support the adaptive view which emphasises the applied human resource management activities in line with the organisation's strategy.

The universal view has certain limitations. First, after all firms apply and imitate human resource management activities, it will be difficult for firms to create value and advantages sustainable competition. Second, the application of human resource management activities from a universal perspective would limit the creativity of the organisation in applying appropriate new human resource management activities. Third, this view does not indicate the relationship between human resource management activities and other organisational characteristics variables.

We support the adaptive view because from the firm resources point of view, rare, valuable, hard-to-replace and irreplaceable resources can create a sustainable competitive advantage for firms. Human resource management activities and policies that help meet the above requirements can help firms create a competitive advantage. Human resource management activities, if consistent with the firm's strategy and similar to its own characteristics, will be difficult to imitate and create sustainable competitive advantage.

Human resource management is carried out through specific human resource management activities. Human resource management activities can be considered as the specific use or application of human resource management methods or plans or the realization of human resource management activities and policies. These human resource management activities have a positive impact on the operational results. They can be combined into a series (or a system) of governance activities to bring high business results for firms. Thus, human resource

management activities are applied activities and bring high results to the organisations that apply them. Firms that are subject to research in emerging economies may not apply these activities at all, partially or fully apply them fully. The human resource management activities used in this study are not the various activities that firms are applying in Vietnam.

From the above analysis, we proposed a research framework to focus on assessing the impact of human resource management practices on financial performance. Specifically, we assessed the impact of seven human resource management practices on financial performance of firms. In which:

Independent variables are human resource management practices, including: (i) Screening recruitment (SL); (ii) Skills development training (SD); (iii) Performance management (PM); (iv) Pay-for-performance (PP); (v) Career development support (CD); (vi) Information sharing (IS); (vii) Authorisation, empowerment (AE). *Dependent variables are financial performance proxied by return on assets (ROA) and profit before tax.*

Studies have shown a positive relationship between human resource management practices and organisational performance (Huselid, 1995). Most of these studies were based on an organisational resource based view, arguing that administrators are aware that human resource is one of the most important resources that can bring success to the organisation and is viewed a sustainable competitive advantage of a business (Pfeffer, 1998). Therefore, firms can invest in human resource to develop a valuable and inimitable human capital. Human resource management policies and practices aimed at creating a sustainable resource for firms are often based on the ability-motivation-opportunity (AMO) framework. The AMO framework suggests that good human resource management practices can help improve employees' knowledge, skills and abilities (A), motivations (M), and opportunities (O) to show their talents (Huselid, 1995). Based on this Ability - Motivation - Opportunity framework, Armstrong et al. (2010) argued that an organisation's performance depends on ability, motivation, and opportunity of its workforce.

Based on a mutual benefit perspective, scholars have found a positive link between human resource management practices and employees' attitudes such as job satisfaction and behaviours to support the organisation and trust of employees in leadership and management levels. Advanced human resource management practices to create opportunities for employees are viewed as valuable assets for the organisation. Employees are actively involved in workplace activities and encouraged to use their work-related knowledge, skills and abilities in conduct their job duties (Singh et al., 2012).

Therefore, it can be assumed that the application of good human resource management practices will have a positive impact on financial performance of firms. From there, we

design hypotheses as below:

H1.1: Screening recruitment has a positive impact on financial performance.

H1.2: Skills development training has a positive impact on financial performance.

H1.3: Performance management has a positive association with financial performance.

H1.4: Pay for performance has a positive impact on financial performance.

H1.5: Career development support has a positive relationship with financial performance.

H1.6: Information sharing within the organisation has a positive impact on financial performance.

H1.7: Authorisation, empowerment has a positive impact on financial performance.

Research Methodology

In order to get data of dependent variable, we collected audited financial statements of large listed firms on the Ho Chi Minh Stock Exchange (HOSE). For getting independent variables, we sent 200 questionnaires to large listed firms and received 127 feedback (with the rate of 84%). The collected sample of 127 large listed firms represents 64.2% of the whole market capitalization.

In this study, the in-depth interview method will be used to carry out the following tasks of: (i) Evaluating, consulting and completing the questionnaire for survey questionnaires through trial survey techniques; (ii) Analysis and evaluation in a number of typical studies.

We work directly (direct exchange, online exchange, telephone exchange) or indirectly (email, send questionnaires) with experts to collect the necessary information relating to the research topic. Experts consulted include experts in administration, corporate governance and human resource management; business managers, human resource managers at the survey units.

Based on both primary and secondary data gathered, we run the regression model to test the relationship between independent variables of human resource management and dependent variables of financial performance proxied by return on assets and profit before tax in Vietnamese currency (i.e. Vietnamese dong) with the technical software of SPSS 22.0.

Results and Discussion

Dependent Variable of Return on Assets (ROA)

The financial performance of firms listed on the Ho Chi Minh City Stock Exchange (HOSE) is measured through the return on assets (ROA). Figures on ROE are issued on stock websites and on annual financial statements of firms. Public figures are audited. Currently, the return on

invested capital indicators have not been applied by firms listed on the HOSE. We collected figures on ROA for three consecutive years 2016, 2017 and 2018. To assess the ROA for 3 years, we used the weighted average method, in which 2016 was 17%, 2017 was 33%, and 2018 was 50% to ensure that the operational results for the most recent year have the highest weight. The multiple regression model was employed to assess the impact of seven human resource management practices on financial performance where each human resource management practice was used as an independent variable. The results of multiple regression analysis are shown in Table 1 below.

Table 1: Regression model assessing the impact of return on assets
Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics
	B	Std. Error	Beta			Tolerance
(Constant)	-1.164	4.355		-.267	.790	
SL	2.550	.624	.440	4.085	.000	.407
SD	1.253	.617	.221	2.031	.045	.400
PP	4.664	2.084	.428	2.238	.027	.129
PM	-3.910	2.058	-.318	-1.899	.060	.169
CD	-.877	1.038	-.089	-.845	.400	.426
IS	-1.300	1.110	-.122	-1.171	.244	.437
AE	.616	.804	.068	.766	.445	.598

The regression model with 7 independent variables affecting the ROA variable explained over 40% of the variation in the dependent variables (adjusted $R^2 = .405$); in addition to the statistically significant F index ($F=13.254$, $p<.05$) showed the relevance of the regression model. In addition, all VIF indicators smaller than the limit ($VIF<3$) indicated no collinearity between explanatory variables. The results of the model showed that out of seven human resource management practices, three practices had positive and significant impacts on financial performance expressed by ROA. Specifically, screening recruitment was the practice with the strongest impact ($\beta=.440$, $p<.001$) on ROA. This is followed by skills development training and pay for performance. All of these impacts were in the direction expected. The impact of the remaining four human resource management activities on ROA was not statistically significant.

It can be seen that these three practices directly created a staff meeting recruitment standard and were associated with the material interests of each individual employee, so it will directly affect the ROA. Other practices focused on improving the long-term capacity of employees or improving the efficiency of corporate governance, so they may have indirect or non-impact on financial performance as ROA.

Dependent Variable of Profit before Tax

In order to assess the impact of human resource management practices on financial performance, we used the profit before tax indicator to measure corporate financial performance. Profit before tax is collected on stock websites and on audited annual financial statements of firms. Similar to ROA, we also employed weighted average method to calculate the value of the pre-tax profit. The weights allocated for 2016, 2017 and 2018 were 17%, 33% and 50%, respectively. The regression model used seven human resource management practices as seven explanatory variables and the average pre-tax profit as dependent variable. The results of the regression model showed the relevance of the model when the independent variables explained 21.5% of the variation of the profit ($R^2=.215$) and other items ($F=5.945$, $P<.001$). The low VIF index ($VIF <10$) showed the relevance of the model and no serious collinearity between explanatory variables.

Table 2: Regression model assessing the impact of human resource management practices on profit before tax
Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics
	B	Std. Error	Beta			Tolerance
(Constant)	-2,434,966.450	1,145,003.536		-2.127	.036	
SL	334,503.581	164,083.413	.252	2.039	.044	.407
SD	327,832.806	162,161.182	.252	2.022	.045	.400
PP	-1,079,232.383	547,985.649	-.432	-1.969	.051	.129
PM	1,037,204.355	541,191.608	.368	1.917	.058	.169
CD	714,894.726	272,821.759	.317	2.620	.010	.426
IS	-392,570.292	291,830.219	-.161	-1.345	.181	.437
AE	-16,955.550	211,382.792	-.008	-.080	.936	.598

The results of the regression model indicated the impact of screening recruitment, training and career development support on the profit before tax. The determinant that had the strongest impact on profit before tax was career development support practice ($\beta=.317$, $p<.05$). The direct link between career development support and profit may not be really clear. However, it can be explained that career development support practices such as improving management capacity, exploring career aspirations will help the firm improve the professional qualifications of its employees; in the medium and long term, these employees will have the opportunity to be appointed to managerial positions. Financial performance such as profitability will come from appropriately appointed and competent managerial positions. Thus, it can be said that the impact of career development support was realised through the profit with a delay of several

years. The impact of the two practices as screening recruitment and training on profitability was relatively clear. Recruiting appropriate and competent personnel combined with appropriate training policies will enhance the capacity of the team and thereby increase labour productivity and efficiency leading to increased profits.

Assessment and pay for performance are conducted periodically according to the plan of firms and often calculated as a form of production and business costs that have been planned according to the turnover rate, so these two practices had no specific impact on the profitability of the business. Information sharing and authorisation aim to improve the efficiency of corporate governance, so it may not have a significant/direct impact on profitability.

Bases on the results above, the impact of human resource management practices on the performance measurement of firms has been tested and confirmed in this study. Although not all human resource management practices had a significant impact on all financial performance, the impact of these practices was remarkable. Skills development training was a human resource management practice that had an impact on 4 out of 5 performance indicators including ROA and profit before tax. Screening recruitment was a human resource management practice that played an important role in financial indicators including ROA and profit before tax. Pay for performance affected the ROA of the business.

Through the survey of primary figures in firms in Vietnam, and use of these figures for analysing the proposed research model, this study has produced analytical results for the survey sample of Vietnam. This has provided an additional evidence to support the theoretical background in the world of the impact of human resource management practices on financial performance. The impact or non-impact, and the level of impact are dependent on each specific case study. It is important that the proposed research model has demonstrated its comprehensiveness in analysing these relationships.

Conclusions and suggestions

Based on the analytical results and discussions on the impact of human resource management practices on financial performance of listed firms in Vietnam, some suggestions are given in hoping to improve financial performance as below:

First, listed firms should proactively develop and implement human resource development and training policies. Since then these firms can have a quality team of employees, solve business problems of the company because after all the quality of human resources of any company will determine the success in both strategic and financial terms, innovation of such company. The reality shows that training will equip the skills to meet current and future jobs, combining in-and-out-of-work training forms helps employees apply their knowledge to work, improve employee creativity and performance across the company.

Second, listed firms should also focus on building and developing screening recruitment activities to ensure that input resources are always best suited for their firms. In order to perform well screening recruitment activities, firms need to put in place processes, combine with departments and especially integrate closely with the overall strategy of the company because any human resource practice is related to the allocated resources which will come from the overall strategy of the company.

Third, listed firms also need to develop a human resource incentive system, especially salaries and bonuses. An appropriate salary system will make employees satisfied and attached to the company, from which they will satisfy their customers, bringing better financial performance for firms. A salary system is closely linked to personnel evaluation. A salary system should be integrated with all its elements such as evaluation method, salary and bonus payment method, constituents of employees' income, etc.

In addition to the above basic human resource management practices, firms should also support the career development for employees. This will lead to their peace of mind about their future development path, while creating excitement and enthusiasm in their current job. The reality shows that, in addition to salaries and bonuses, the prospect of future career development is what keeps them engaged with the business in the long run.

Finally, firms should build an appropriate organisational structure to increase creative space for employees. Analytical results showed that information sharing and authorisation in the governance system are important factors that affect the creativity of individuals and organisations. Listed firms should build information sharing channels; apply knowledge management tools with supporting information technology tools. Moreover, building a corporate culture with its own identity will be a favourable environment for information sharing to strengthen the capacity of all employees in the organisation, helping them develop themselves and ultimately bring benefits to the business.

Future research should expand the sample size to generalise the research results more broadly, and to have enough samples for further analysis for each business sector when splitting the overall sample. Future research should apply the structural equation modelling (SEM) analysis method to the model as a whole to gain many advantages of this analysis method. At the same time, the model needs to be further developed to detect new variables, or new relationships, for example, whether there are any variables that mediate or adjust between the relationship between human resource management practices and performance of the business. Explanations of the mechanism of action/influence between variables should be investigated.



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