

CHAPTER II: REVIEW OF THE LITERATURE

2.0 Introduction

This chapter reviews previous studies and key concepts regarding HRM practices and labour productivity. It reviews their indicators, the role of labour productivity in achievement of organisational objectives, and the role social skills play in labour productivity. The chapter further introduces the underpinning theories such as human capital theory in order to explore the role of HRM practices for labour productivity enhancement. The second part in this chapter investigates labour productivity in the Libyan economy.

This study views that commitment provides a much needed window of freedom for implementing effective HRM practices and increases social exchange relationships. It is important for the managers and other decision makers to examine the key HRM practices identified towards influencing organisational outcomes. Furthermore, employees and managers must have good cooperative understanding and work in the field as a team in order to overcome the problems and increase productivity. Towards this end, a proposed conceptual framework,

- takes into consideration the existing theoretical concepts and philosophy;
- attempts to draw some focus on the relationship between the constructs under consideration; and
- has the intention to contribute towards the better understanding on the mechanisms of HRM practices influencing labor productivity.

Finally, the proposed HRM model in this study presents a clear picture of some important constructs that can influence managers to think about best HR practices. The relationship between HRM practices and social skills play a unique role in their own in realizing that the main focus is on managing people.

2.1 Labour Productivity

Productivity of the organization in Libya is highly affected due to complex and problematic nature of management of HR. As a result, Libyan organizations face some problems such as the lack of skilled managers, which affects negatively on productivity of these organizations (UNDP Report, 20003). However, the individual employees hardly embrace the objectives of the organization and the employees have a very important role to play in achieving the goals of an organisation, especially in developing countries such as Libya (Tregaskis et al. (2001). This is because the spirits of employees are based on their willingness, confidence, discipline and cheerfulness to perform the tasks that can be reduced by solving issues like increased conflicts. In Libyan organizations context, there are various issues affecting employee's productivity such as poor site conditions, absenteeism, and multiple changes in contracts and imbalance in rhythm of employees.

Therefore, inefficiency from lower productivity, increasingly over specified activities, and poor purchasing practices are major causes of upward spiralling costs (Clotfelter, 2014)

Labour productivity is defined as the new ideas that are appreciated by the organisation for producing the amount of goods and services. Specifically, the amount of quality and quantity product produced by the labour is defined as labour productivity (Alaghi, 2012). This can be computed by the ratio of outputs to inputs. This may be applied to measure the productivity of firms, industries and even the economy as a whole. Based on the situation and the choice of input and output measures, different meanings from the productivity calculation can be implied. A progress in the level of productivity may suggest scrimping on the use of inputs. For example, by embracing a more efficient manufacturing process may yield lesser waste. Similarly, increasing productivity may also mean a rise in the output. For instance, by investing more resources such as utilising more sophisticated technological devices for an activity may generate more output.

The general idea of productivity refers to the technical production relationships between inputs and outputs. However, the underlying idea of this term may also be about the production of desired, valued, as well as demanded goods and services. Productivity can be expressed as a physical measure, a monetary measure, or an index. Within this specified measure, inputs can be broadly defined. However, inputs are commonly defined in terms of labour and capital. There are two major types of productivity:

1. *Labour productivity (LP)*
2. *Multifactor productivity (MFP)*

Among all other types of productivity measures, labour productivity is exceptionally important in the economic and econometric analysis of a country because it indicates the dynamic measure of economic growth, competitiveness, and living standards within an economy (McGuckin and Van Ark, 2003). Hence, it is the measure of labour productivity (and all that this measure takes into account) which crucially forms the understanding of the principal economic groundwork that is necessary for both economic growth and social development.

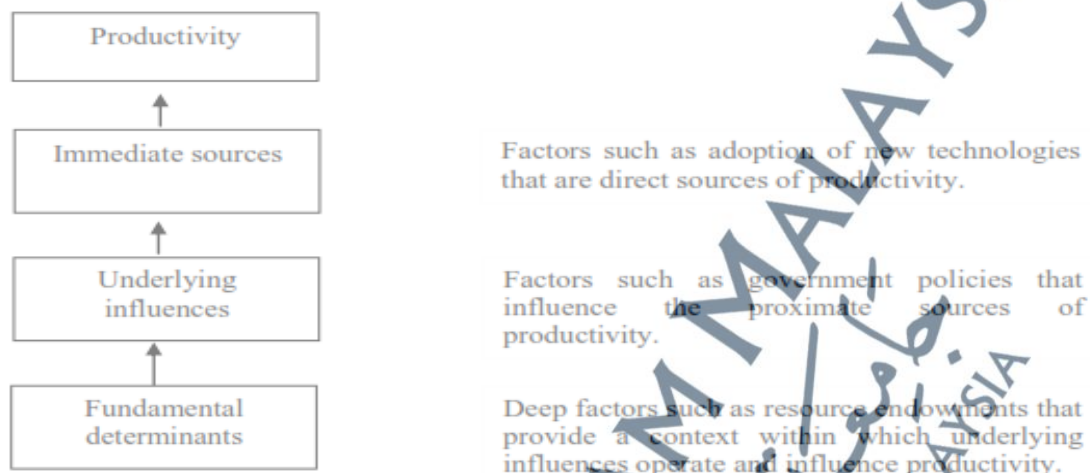
Internal performance is operationalized in terms of labor productivity (hereafter, simply productivity), and external performance is operationalized in terms of profit. Productivity is the efficiency of a firm's workforce to produce output. Productivity is a particularly important internal determinant of profit, but profit is also affected by environmental factors (Crook et al., 2011). For example, a firm may be highly productive but fail to generate profitability given intense market competition, a decrease in consumer demand, or powerful stakeholders that extract positive effects of resources (Crook, Ketchen,; Peteraf & Barney, 2003). However, greater productivity means human capital resources are efficiently deployed and hence generating above-normal returns. Enhancing productivity is therefore an important way to build slack resources. As production increases without corresponding increases in human capital inputs (e.g., hiring more staff), costs are reduced while profits are raised, thereby increasing financial slack resources. Slack resources can then be used to expand operations, pursue new product innovations, and reach new customers (Latham & Braun, 2008). Most HR managers emphasize productivity because it is closely tied to HR activities and human capital while being less influenced by factors external to the firm.

2.1.1 The Importance of Labour Productivity

The measurement of labour productivity is essential especially in the Human Resource Management (Fletcher, 2001). Historically, organisations have always come out with methods to measured performances. However, traditional performance measures, which are based on cost accounting information, only serve organisations in little way to determine organisation's quality journey. This is mainly because they do not map process performance and improvements according to the need of the customers. Each source of productivity is correlated and differ based on different settings. A useful way to discuss the determinants involved is to group them into a set of hierarchy

Figure 2.1

Hierarchy of productivity determinants

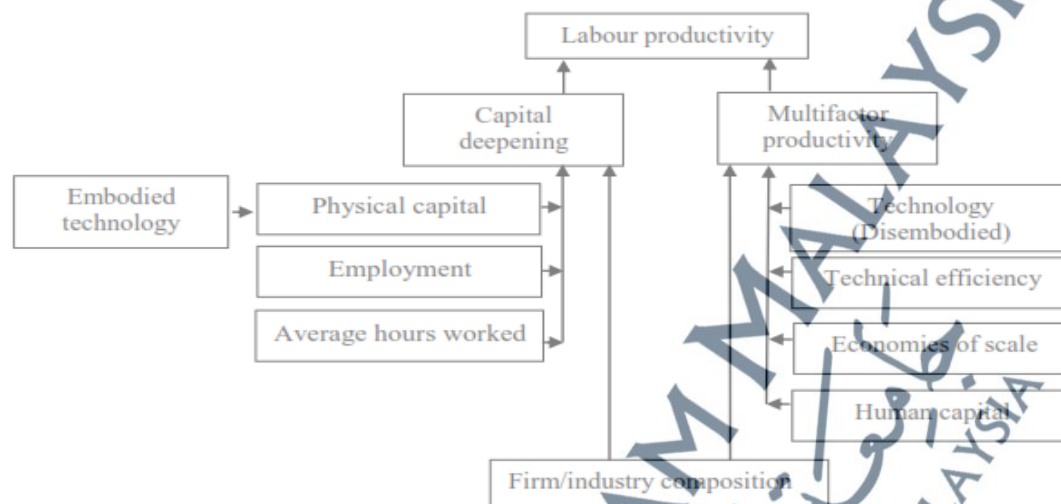


Source: Adopted from: Parham (2012) Definition, importance and determinants of productivity.

Based on the above figure, the first group shows the immediate sources for productivity rate. A decent sample would be an acceptance of another innovation to help the production of the firms. Progress in the development of work efficiency results with increase in labour productivity and capital to labour ratio along with enhancement in firm performance. Further examination of these two variables uncover that innovation, economies of scale, gathering of physical, and human capital, along with changes in labour inputs every convey effect on the rate of capital developing or MFP development.

Before digging further in this layer of impacts, a shift in firm's productivity can be resolved by short term or long-term objectives. The attributes, significance, and effects of basic sources must be considered. Subsequently, there is need to investigate the major determinants before we have the capacity to suitably understand the fundamental impacts.

Figure 2.2: Proximate sources of productivity growth



Source: Adopted from Parham, D. (2012) : Definition, importance and determinants of productivity

The following determinant, which shapes the optional layer in the general progressive structure in the development of productivity, is the direct or long-term consequences on productivity and the government policies that have a hidden impact on such developments.

In this sense, each theory makes a significant contribution to our understanding of productivity growth. The sophisticated methodological tools developed by theorists enable us to measure the rate of technical change, while the sophisticated models of the new growth theorists provide an internal explanation for the sources of technical change. Broadly defined investment—which includes expenditures on tangible assets, education, training, and other human capital accumulation, as well as research and development—plays a pivotal role in both frameworks, although investments precise impact on productivity growth differs. Benefits from investment may accrue only internally to the

economic agent that actually makes the investment, or the benefits may spill over more broadly to others in the economy. As a preview of the discussion, the idea that broadly defined capital generates primarily internal and diminishing returns is the hallmark of the neoclassical view, differentiating it from the new growth theory's focus on external and constant (or increasing) returns.

Table 2.1

Measurement indicators of labour productivity

Indicator	Unit	Formula	What It Measures	Significance of Lower Indicator	Significance of a Higher Indicator
Productivity					
1 Labour productivity	\$	Value added/Number of employees	Efficiency and capabilities of employees in the generation of value added	Poor management of labour and/or other factors which affect the efficiency and capabilities of labour	Efficient and effective utilisation and management of labour and other factors to generate value added

Source: Kurre and Andrews (2013)

Productivity indicators measure the effectiveness and efficiency of a given input in the generation of output. Labour productivity and capital productivity are examples of productivity indicators.

Productivity is critical for the long-term competitiveness and profitability of organisations. It can be effectively raised if it is managed holistically and systematically. The Integrated Management of Productivity Activities (IMPACT) framework provides a guide to how this can be done.

2.1.2 Human Resource Management (HRM) Practices and Labour Productivity

According to Bowen and Ostroff (2004), human resource management should consider how it can alter the organisational environment to promote certain traits in employees because it contributes to the organisational performance such as labour productivity organisational outcome.

Labour productivity through the HR structure may contribute to the organisational capabilities. The employees in an organisation play a vital role to determine the organisational objectives. The employees help to achieve a desired goal not the organisation by itself which signify the role of employees (Kozlowski and Klein, 2000). This shows a link between HR practices and organisational goal through labour productivity.

Labour productivity is measured from the skills as well from the HR practices perspective. From the HR perspective, employment selection process and decentralisations plays an important role. Employee's skills and motivation for working are other import factor to inline labour productivity. These are based on the idea that an employee's performance results from his aptitude and effort/motivation (De Grip & Sauermann, 2013).

The labour or employee productivity is defined by the actions which are relevant to the organisations desired outcomes and which are controllable by the individual employees (Campbell, McCloy, Oppler, & Sager, 1993). Competence and motivation are the main factors of job performance.

Motivation demonstrates the user's decisions to utilise exertion and decisions of to what extent to apply the effort. According to Lepak, Liao, Chung, and Harden (2006), an individual's learning, expertise, and inspiration consolidate interacting with one another to focus work execution. Researchers who concentrate on vital HRM expressly join the thought that both capacity and efforts are important elements of individual performance, yet concentrate on these measurements at a higher aggregate level of investigation. While the capacity of workers or the level of human capital decides the potential commitment, a workforce could make to an association's execution; employees should likewise have suitable motivation and attitude with a specific end goal to understand that potential.

A theoretical association between HR practices and organisational performance has been investigated in detail by (Appelbaum et al. 2000). According to Appelbaum et al. (2000), employees management practices, based on harmony and cooperation (collaboration and networking) between upper staff and workforces, sharing of knowledge, augment employees responsibility and contribution in decision making process, supply more chances for worker's inspiration and creativity. Innovative performance of workers provides support for development of work procedures and thus improves an organisation's chance to implement innovative processes or products and to reach higher level of organisation performance (Sun, Aryee, & Law, 2007).

Employee competence, motivation, and progressive HR practice such as decentralised decision making improve organisational productivity (De Grip & Sauermann, 2013; Fallahi, Sakineh, & Mehin Aslaninia, 2010b; Sun et al., 2007). HRM practices has gained in the Libyan organisation. However, acceptance by oil and gas industry is limited of percentages when compared with statistics from organisations in

Europe, Asia, USA, and Oceania. The application of HRM practices in construction has its advocates and opponents. Supporters believe that HRM can be applied successfully in construction and can generate substantial benefits.

There are numerous studies on effective HRM practices in oil producing companies. Level of output depends on HRM capabilities and other assets. Early researchers discovered that a limited number of factors had the most impact on the productivity of workers.

2.1.3 Social Skills and Labour Productivity

Every employee you hire already displays strong social and interpersonal skills in the organisation. It is very important for the employees to be good listener and solve the issues pertaining to their productivity. If the employees interact with their superiors or external individuals regularly, it is very important for such employees to improve their social skills. Employees are considered to be the natural resource for the organisation that increases productivity, creates wealth and improve performance. There is a direct linkage between skills, productivity and performance. Unless the organisation can build on reforms to the departments to target the improvement of skills based on the employee's strength, the business will face difficulty to compete (Leitch, 2006).

According to McKinsey Global Institute in the business and economic research, productivity and growth have immense importance for the organisation along with the evolution of global markets, the economic impacts of technology and innovation,

urbanization and so on. Companies are now enlisting social skills as a tool for managing various organisational activities and allowing instant communication between two different parties. Social skills promise to extend the capabilities of such high skilled workers who can increasingly improve short supply by streaming communication and collaboration and lowering barriers.

Only under certain conditions it can be expected that cooperative efforts to increase employee's efforts to achieve and improve the quality of their relationships with their superiors and colleagues and their psychological health. These conditions are positive interdependence, face to face interaction, individual accountability, social skills, and group processing (Johnson & Johnson, 2002). Each of these elements mediates the relationship between cooperation and its outcomes. And they are all interrelated. Using social skills, for example, makes sense only when there is positive interdependence. In competitive and individualistic situations, trust and empathy are inappropriate.

According to Morgeson, Reider, & Campion (2005) in terms of embeddedness, employees always work within the context and goals of the larger organisational system. The bonus system epitomized these collective goals. Every employee that get compensation is based on productivity. Furthermore, mentioned that the organisational policy of the role of skills that are measured by their knowledge and capabilities as being as social good, help individuals to become more employable and attain higher earnings levels to improve productivity and performance. Thus from the above discussion it is assumed that social skills of the employees will have mediating effect between HRM practices and their productivity level.

2.2 Human Resource Management (HRM)

Human resource management offers a people-management framework that improve performance, innovation and competitiveness. However few studies has considered how such practices are implemented within construction industries, and whether they accompany business strategies and competitive advantage. The Human Resource Management (HRM) paradigm is an adequate approach for managing people during the last decade. HRM has been widely accepted for tactics to personal recruitment that increases performance and employee retention (Armstrong and Baron, 2002; Bowen & Ostroff, 2004; Snape & Redman, 2010; Tzafirir, 2005; Vanhala & Ahteela, 2011).

Bowen and Ostroff (2004) specified that, “Human resource has attracted in an enormous consideration furthermore has developed important arguments among different stockholders, along with academicians and practitioners”. Moreover as indicated by Ruël and Bondarouk (2014), “HRM is a popular word that has no single generally acknowledged meaning of the concept” (p.203). In the field of administration, human resource remains for “an arranged and rational plan for the administration of functioning in an association that alone and together work for the achievement of business objectives” (Scott & Davis, 2015).

HRM is characterised as, “A methodological way to deal with a formal structure in an association to ensure legitimate enrolment and staffing, pay for performance, dynamic working environment, performance appraisals, career ladders, and employee motivation for achieving strategic and operational objectives” (Masood, 2010). Analysts have

generally focused on the relation between HRM practices, financial performance, and productivity (Chiu et al. 2002). Success is often driven by firm and economy size, while higher levels of productivity are associated with positive attitudes, knowledge, and skills of staff to effectively meet an organisation's needs. When these points are areas of focus, HR practices can effectively enhance firm performance.

Although in the vast majority of the developing nations, the fundamental obstacle to organisational development and productivity is either no or insignificant utilisation of expert HRM practices, however, the battle is keeping on discovering the most ideal approach to utilise these practices optimally. Developing countries like Libya have been concentrating on industrial development throughout the past decades. Accordingly, organisations are performing a pivotal part in the financial advancement of the nation. Regardless of their financial significance, different organisations experience the effects of structural and institutional shortcomings, which have obliged their capacity to exploit global opportunities and advancing HRM practices.

Despite the vital importance of staffing, on job training, motivation and decentralized decision making, a focus is placed on the efficient use of human resources. HRM practices comprises of a set of practices deigned to maximize organisational integration, employee commitment, flexibility and quality of work. These practices are explained in the below sub sections.

2.2.1 Staffing

The staffing process plays an essential role in the workforce. However, it is one of the more difficult tasks to perform, since it has a major influence on organizational performance. Organizational performance depends on there being the right number of workers with the required skills and motivated workers with positive behavior in order to improve the organization's performance (Größler & Zock, 2010).

Furnham (2005) mentioned that, "Staff is an important process in an organisation which determines the portfolio of workers as per required job specifications". In simple words, staff selection is the process of making decisions about employment opportunity for a candidate. This process (staff selection) is based on the match and mismatch between job requirements and a candidate's skills, qualifications and his/her willingness about the persuasion of that position. A careful enrolment process may bring a balance between a firm's needed and its available resources (candidate abilities) (Martín-Alcázar, Romero-Fernández, & Sánchez-Gardey, 2008).

Staff selectivity is an important HR practice which directly as well as indirectly affects organisational outcomes (Huselid, Becker, & Beatty, 2005). Organisations can apply various HR practices to enhance employee competence and hence labour productivity. The skills of new employees could be developed or those of existing employees, or both. The recruitment process should be designed to develop the best potentials of employees to best meet organisational goals. Selective staffing directly effects labour productivity and hence organisational performance (Huselid et al., 2005).

In addition, Katou and Budhwar (2007) found that staff selection and organisational objectives such as increasing overall productivity through labour productivity and profit margin of firms, were robustly related with each other. Researching organisational performance in the context of Greece, Katou (2008) found that the enrolment and organisational performance is partially mediated through employee skills.

According to Wilk and Cappeli (2003), not all staffing processes are suitable because some of the selection methods are costly and some are suitable only for certain organizations, such as those that focus on a person's previous work experience. Proper choices or selection methods in the staffing selection process are very important in order to collect accurate information about candidates for correct positions within organizations. According to Hagan *et al.* (2006), staff selectivity depends on the understanding of the job, ensuring sufficient performance and outcomes and the existence of motivated individuals. In addition, the selection of candidates should be based on the compatibility between workgroups in terms of values, goals, personality, behavior and skills (Levesque, 2005). For example, the managers' selections should be based on the candidates' experiences, ability and credibility, so that they can serve the organization's goals (Koulikoff-Souviron & Harrison, 2010)

In Hong Kong, Chow (2005) notes that written tests have been introduced in staffing selectivity. The use of written tests in the selection process is aimed at achieving a high performance workforce. In much the same way, in Germany and the UK, Tungli and Peiperl (2009) observe that structured interviews adopting references and self-nominations are mainly used to select the suitable candidates to work in the firms. The

behavioral assessment approach is also very useful to evaluate the candidates' suitability and adaptability in Western Europe. Some organizations prefer to use cognitive tests, a record of accomplishments and information from the candidates (Wilk & Cappeli, 2003).

Staffing is the key human resource management practices used to achieve firm performance through acquiring and developing human capital resources. It is expected that selective staffing directly and interactively influence firm profit growth through the effect on firm labor productivity, implying that staffing contribute to the generation of slack resources that help buffer and then recover from the effects of the Libyan revolution.

2.2.2 On-the-Job Training

Training can be characterised as the planned intercession that is intended to upgrade the determinant so of individual performance (De Grip & Sauermann, 2013). Keeping in mind the end goal to enhance the organisational productivity, training improves the productive and henceforth helps the employees accomplish their organisational objectives. It additionally helps the employees to diminish their unease during work (Sahinidis & Bouris, 2008). The larger gap between the abilities obliged and those controlled by the employees, the more noteworthy the absence of employment fulfilment of the representatives and the lesser the productivity. Organisations can enhance the quality of current employees by giving exhaustive training and improvement exercises (Bartel, 2004).

Training is frequently utilised as an instrument to enhance the employee's information, competence, and capacities in an organisation. Empirical investigations demonstrate that training interventions enhance the work execution and labour productivity (Goldsmith, Veum, & Darity, 2001). For instance, (Dearden, Reed, & Van Reenen, 2006) found that joining on-the-job training enhanced labour productivity. Moreover, Thang, Buyens, and Leuven (2008) reasoned that that training lead to enhanced information, abilities, capacities, attitudes, and behaviour of employees enhanced the financial and non-financial performance of the organisations.

Training, abilities, and training of an employee lead to more efficiency. If the workers are mismatched in terms of competence and education requirements, it will reduce productivity (Lööf, Peters, & Janz, 2004; Thang, Quang, & Buyens, 2010). Various studies have clarified that training enhances work productivity thereby enhancing organisational results (De Grip & Sauermann, 2013). Job related training expands an employee's ability to perform job-related tasks.

Tharenou et al. (2007) examined the relationship between training and organisational level by examining the consequences of past studies that have researched the relationship between training and human capital, performance, and financial results. They found that 67 studies found training positively relates with human outcome results and organisational execution but only partially related to monetary results. The relationship between training and firm performance may be mediated by employee attitude and competence. Besides, training gives the impression of being all the more

identified with organisational results when coordinated with key contextual variables such as capital and business structure.

Previous empirical research shows that organizations with successful training programs do experience lower turnover (Fey *et al.*, 2000), conversely, some studies have suggested that comprehensive T&D programs can influence staff retention, productivity and organizational effectiveness positively (Oregon-Sanchez, Barba-Arago & Sanz-Valle, 2003). Some studies have also arrived at similar conclusions regarding the presumed positive relationship between T&D and the performance of organizations (Niazi, 2011).

Formal or informal training increases learning outcomes significantly and changes an organization's performance. The aim of training is to generate explicit and tacit knowledge to be transmitted within the organization (Clarke, 2004). Training is part of an organization's investment because there are higher returns to the organizations in terms of knowledge, skills (Finegold *et al.*, 2005) and the quality of people working (Größler & Zock, 2010). Formal training is anchored on self-reflectivity, theories and concepts in action. Informal training on the other hand, is focused on work-based learning and workplace development by contrast, such as mentoring, coaching, job rotation, job shadowing, projects and assignments (Clarke, 2004). According to Vaidya (2009), the knowledge approach serves as a key factor that determines performance. According to Narteh (2008), knowledge is mostly protected and sheltered through intellectual property rights and as such, it is not easily copied by competitors. In a way, firms and organizations that possess intangible resources, such as an

employee's knowledge, can achieve enduring competitive advantages.

Employee training is actually an investment for an organization with the aim of reducing employee turnover. The training significantly increases competitive advantage and ultimately encourages social networks between members (Wimbush, 2005). Furthermore, Castro Giovanni & Kidwell (2010) state that with T&D organizations can enhance workforce capabilities and improve their current skills in the long-term.

Similarly, Tennant, Boonkron and Roberts (2002) point out that training has a positive impact on job performance. They also state that training requires a strategic approach, which links it to the organization's overall objectives. These results were similar to the findings of (Singh, 2004; Katou, 2008; Tseng, et al. 2009). Their findings supported the argument that training was an expensive activity but it could give different advantages i.e. improved employees performance, increased productivity and employee development.

In much the same way, Jorge, Leonardo, Sandra, Maria and Martins (2010) argue that evaluation is a tool for demonstrating a reliable alignment or fit between training effectiveness and strategic organizational goals. Tackling a similar issue, Darby (2007) views training evaluations as emanating from the corporate world, where training is treated as an issue of great strategic value. Not surprisingly, Jorge *et al.* (2010) emphasize on the need for training evaluation to monitor the impact of training programs.

Extensive training and development of employees are key as a source of competitive advantage (Laursen and Foss, 2012). Training helps employee to develop and gain knowledge, skills and abilities enhancing current job performance (Merchant Jr, 2010). Organisations expect employees to come with the prerequisite skills that can enhance and achieve organisational goals. Training as HRM practice is nevertheless still important for employees to fit into the organisation and become valuable assets for the team. Work related education and training is important for employee development including interaction with supervisors and co-workers. However, employees with high levels of education are most likely to receive training opportunities to improve their skills.

2.2.3 Decentralised Decision Making

Decentralisation is a kind of structure in the firm in which day by day operations and obligations for decision makings are assigned by top administration to middle and lower-level executives. This concept allows top administration to concentrate all the more on important choices (Zabojnik, 2002). However, Bloom et al. (2011) examined the importance of decentralisation over the countries with the assistance of 4000 unique firms situated in United States, Europe and Asia and found that decentralisation can enhance total efficiency of the organisations. They further contended that there are numerous reasons which permit decentralisation to enhance authoritative result.

Decentralisation is fundamental for the arrangement of extensive firms on the grounds that for a CEO is impractical to experience every single little matter of the organisation. It can be inferred that decentralisation is identified with firm efficiency in light of the fact that the CEO of a more incorporated firm does not settle on all choices

due to lack of time. Decision-making becomes more decentralized, middle managers gain authority and self-managed teams proliferate as the firm adds more and more projects and customers (Flamholtz & Randle, 2000).

Secondly, teamwork and decentralization of decision making promotes employee commitment participation and create a sense of attachment, thus indirectly affecting firm performance (Tata & Prasad, 2004). Several studies identified self-managed teams and decentralization as important high-performance HRM practices (Singer and Duvall, 2000). Nahm, Vonderembse & Koufteros (2003) found that decentralized teams have a positive effect on two dimensions of the performance, time and flexibility. Collins and Clark (2003) examined the role of human resource practices in creating organizational competitive advantage and found that top management team social networks (practices such as mentoring, incentives, etc.) mediated the relationship between HR practices and firm performance.

Nonetheless, Richardson, Vandenberg, Blum, and Roman (2002) stated that, “there had been expanded enthusiasm for the organisation that can be accomplished by decentralising choice making power to lower level workers. The studies inspecting the relationship of decentralisation to organisational performance is both rare and obscure” (p.217). Richardson et al. (2002) and noticed that decentralisation had association with work profitability and general task execution.

Case in point, Zabochnik (2002) found that decisions can improve the nature of work performance, however it must mirror a faith in the worth and beliefs of specialised employees. Without trust in the organisation and its subordinates, this concept of decentralised decisions will be vague. Good performance obliges responsibility to

performance objectives that remunerate the employees and the organisation.

Decentralized companies spread responsibility to different levels of management rather than focusing decision-making power at the top. Because responsibility is spread so widely in a decentralized organization, it can be difficult to figure out who is responsible for which aspect of a project and to evaluate individual performance and contribution. Successful approaches to performance measurement within a decentralized organization incorporate measurement tools for gauging results and for tracking these results to the individuals and teams responsible for specific outcomes.

Frequent delivery of corporate performance results is necessary for all organization, for it shows the current and future health of the organization. For the decentralized organization it is difficult to harmonize all measurement results from the divisions in time and in a secure manner. Sales information not received on a short term could lead to delayed reactions to market changes and problems could be detected too late (Kalfsvel, 2012). Employee satisfaction is key to business success, and measuring it in reference to specific projects and responsibility centers yields valuable information for evaluating performance in a decentralized organization. Employee-retention provides insights into satisfaction because satisfied employees are more likely to return for repeat work increasing productivity. To evaluate employee satisfaction in a decentralized organization, track employee behavior relative to specific projects, products and services.

2.2.4 Employee Motivation

Motivation is employee attitude and behaviour with the compelling remuneration and the process of reward for the employee's performance (Abozed, Melaine, & Saci, 2009;

Kanfer, Chen, & Pritchard, 2012). This motivation increases labour productivity. Remunerations and returns shape workers' output and performance. Representative abilities enhance performance of the organisation and improve adequacy and efficiency with all types of financial returns and stability. Mathis and Jackson (2004) recommended that an adjusted, straightforward, and focused prize and pay framework affect the employee's talent. Similarly, according to Dreher & Dougherty (2005), a reward based methodology works as the driver of group and individual performance in the organisation while Chiu et al. (2002) contended that, "compensates and pay extensively influence the output and task results. From the above discussions, it is clear that rewards and remunerations upgrade productivity of employees with the best rewards for work proficiency inside of the firm. Furthermore, Chiu, Wai-Mei Luk, & Tang (2002) concluded that HR practices improve the productivity of the employees within the organisation.

Appelbaum (2000) noticed that HRM practices is crucial in the organisation that possess dynamic environment. However, Japanese experts recommended that inspiration is required for the employees when the firm need high production and meet customer's demand. For example, Iwamuro (2004) noticed the significance of exceptionally energetic administrators to cell creation. This is on the grounds that the work pace in cell creation is dictated by an administrator's abilities, and their inspiration or responsibility is specifically connected to work execution, while the work pace in mechanized large scale manufacturing lines is normally controlled by automated production, regardless of the fact that administrators can perform the tasks quicker than the rate set by.

Greer (2001) examined financial performance of the companies and HRM practices, exploring the significant relationships between the variables. Huselid (1995) studied 968 US organizations to explore the use of high performance work practices and found that productivity was influenced by employee motivation; financial performance was influenced by employee skills, motivation and organizational structures. Although not much work has been done on this issue, but some researchers have shown significant association between rewards and incentives tied to organizational performance. A study by Bau & Dowling (2007) found that there was an association within the organizational life cycle especially in the reward and incentive systems. They further suggested that organizations having a large number of skilled and educated employees had better reward practices, both in financial and non- financial terms, while the smaller organizations with less staff could manage to have structured extrinsic rewards practices.

Lawler (2005) reported that organizational performance & effectiveness, organizational design and change management is the outcome of an outstanding HRM system. Commenting on the same, Wald (2008) concluded that for the improvement of the various HRM tasks, HRM indicators were required to be empirically measured and reported by HRM systems. Resultantly, the approach would shift the HR systems and functions from traditional personnel administration towards Strategic HRM, having wide growth opportunities for an organization. It is therefore obvious that reward and performance are closely linked with each other to increase organizational effectiveness.

2.3 Social Skills

The context of social skill is rapidly changing as organisations embrace globalisation. However, the fundamental element remains the same and are confined to complexities in human experience. For this reason, concern over what factors has motivated social research scientist work. The purpose of improving HRM practices in Libyan companies is to identify factors impeding performance and curtailing production. Collaboration and networking have come in the form of improvement strategies in a number of industries (Muijs et al., 2011). Thus this study considered collaboration and networking as dimensions of social skills for improving labor productivity.

2.3.1 Collaboration

Collaboration as an important factor of social skills entails working together do a task and achieve shared objectives (Roth & Lee, 2006). It depicts cursive steps that enables two or more organisations to actively work together to achieve a common purpose or shared target (Daugherty et al., 2006). This provides a platform for cooperative and collective determination to realise a common aim that is creative in nature and supports sharing of knowledge as well as learning and developing consensus. Usually, collaboration requires social leadership within a decentralised group (Rytivaara and Kershner, 2012). Teams that collaboratively work together obtains higher resources, more recognition as well as reward and are more efficient (Daugherty et al., 2006).

Collaboration encourages self-analysis of behaviour and communication and this skill

increases the success of teamwork as they collaboratively engage in solving problems. Collaboration makes it easier to analyse problems using charts and graphs and to objectively document goal of improving performance in current and future undertakings (Rytivaara & Kershner, 2012). This skill is a necessity in oil companies since it enhances productivity and enables employees to share a common knowledge and relates their experiences in problem solving. Collaboration among employees and managers helps to develop a robust network and improve their relationships and experiences.

2.3.2 Networking

Networking as an important social skill depicts a socioeconomic business activity that enables groups of employee to recognize themselves as a team to create and act on opportunities. Business networking is a type of social networking that focuses on enhancing business networking activity. There are prominent networking organisations that creates model with the intention to improve business networking and allows people to develop commercial relationships for a conducive business environment (Hubert et al., 2001).

The importance of networking in HRM has prompted most organisations to adopt modern infrastructures to facilitate the implementation of professional service using IT tools to support networking activities. Most businesses use business networking because it is cost-effective method to generate new business and advertise their product as well as to develop relationships (Papachristos, 2009). This is a way of promoting products and services that was impossible using traditional means of communication. Networking favourably promotes business process that reduces huge spending by companies. Guanxi

in China, Blat in Russia, Good ol' boy network in America, and Old boy network in the UK are typical examples of networking groups (Hubert et al., 2001). In formal business networks, members meet either weekly or monthly to exchange business with other fellow members. This form of social skills complement business activity and build one-to-one business relationship with other members (Hubert et al., 2001).

Networking can be administered in local business communities as well as nationally and globally (Papachristos, 2009). It becomes obvious that the emergence of networking with the help of the timely information delivery, providing professional tips and guidance to the employees, getting confidential advices would lead to gain enormous opportunities for globalisation and robust support to businesses and organisations.

2.4 Social Skills Mediating

According to Hochwarter et al (2006) social skills refer to “the ability of individual interacting successfully along with social interpretation with others”. Employees with higher social skills are assumed to be more productive and dedicated (Hochwarter, et al. 2004). Social skills also defined as to comprehend the views, feelings, and the actions of people with other people. The importance of social skills is as mandatory as technical skills. It is important for the maintaining the overall work environment and reducing the tension and stress of the workers. If workers are skilled (both social and technical), they pursue their organisational objectives in an easy-going way. There are numerous studies that affirm the relationship between social skills and personals outcomes in organisational contexts (Jin and Park, 2013; Ledbetter, 2009). Social skills also play an important role as

a mediating variable. It has an assisting effect, which contributes towards a positive behave or effect on labour productivity and hence the aggregate performance of the organisation in the form of increased output and labour productivity (Thongsennheuang, 2012). The mediating effect of social skills is important because lacking social skills not only adversely affects the individual's personality, but their aggregate performance as well. There is a wide support for the mediating role of social skills (Jordan, Ashkanasy, & Härtel, 2003). Social skills play an explicit role for optimal performance and increased organisational objectives such as increase in productivity, output, revenue etc. Tharenou et al. (2007) discussed in detail the relationship between HR practices and organisational-level outcomes. Tharenou et al. (2007) concluded that the relationship between training and firm performance was not direct and it might be mediated by employee attitudes and skills.

According to Dougherty and Larson (2005), collaboration and networking are the main dimensions of social skills. According to Morris (2008), "Collaboration is the ability to jointly complete tasks with others". According to Arends (2004), the members of an organisation who are working together must understand and have to pay respect for the sake of efficiency of organisation and achieving its objectives. According to Dougherty and Larson (2005) collaboration does not necessarily mean a mutual beneficial relationship between two organisations but within the organisation and its different units as well. The most common and understandable definition of collaboration is provided by (Huxham, Vangen, Huxham, & Eden, 2000). According to them, "collaboration is the working relationship between individuals." Networking is

another important dimension of social skills. According to Samson and Daft (2009), it is the ability of the entrepreneur to work effectively with and through other group members. According to Leenders, Van Engelen, & Kratzer (2003), the foremost important aspect of networking is to develop interpersonal relationship with all those who are working within the same work environment. Networking is an important social skill. It helps in developing a team and interaction among the working members in an organisation (Baron & Shane, 2007; Eddleston, Baldrige, & Veiga, 2004).

2.5 Literature Gap

Recently, there have been more concern among researchers and academicians on investigating role of HRM practices on performance, but there is little understanding of the mechanisms that HRM practices influence efficiency and effectiveness. Interestingly, this fails to recognize the aspect of the HRM practices-performance link. Organizational performance has been well studied in the past. Declining performance is the visible gap in the organization due to lack of HRM practices (Khalid, Rehman & Ilyas, 2014). However, argued that there is no agreement amongst researchers concerning what HRM practices should be or on the number of practices that can enhance performance. Although each study in the HRM performance link as utilized different combination of HR practices, there is no standard or semi-standard list of HR practices to be considered Guest (2011). This study focuses on enhancing performance of the oil and gas industry through improving productivity. Productivity has been determined as an important tool for measuring performance of the organization.

Firm performance have been determined through profitability, turnover, and productivity and so on Estrin (1999). However, Hom & Griffeth (1995) posited that when employees are not dedicated to the firm they work for, it could lead to decline in productivity, poor service quality provision, lost business chances, and no doubt increased administrative burden to the companies. Furthermore, Barringer et al, (2005) compared rapid-growth and slow-growth organizations and found that rapid-growth companies rely largely on the abilities and efforts of their employees to maintain their growth-oriented strategies. The rapid-growth firms relied on training programs to realize their objectives and placed emphasis on employee development to a reasonably great limit than their slow-growth counterparts. Thus ability of employees and their development is very crucial for the performance of organization.

Researchers, like Boselie et al, (2001), also highlight employee motivation, satisfaction, presence, retention, social climate, participation and involvement as being mediating outcomes between HRM practice- organizational performance relationships. Similarly, Bowen & Ostroff (2004) claim that organizational culture or climate constitutes a key intervening variable in the HRM practices-organizational performance link. Katou & Budhwar (2006) also provide proof that the link between HRM practices of resource-development and reward-relations and organizational performance is enabled by HR outcomes, such as employee skills and attitudes. Similarly, employees must be satisfied (Guest, 2001; Boselie et al., 2001); committed (Katou, 2008), and in much the same way, the HR in an organization must be cooperative (Park et al., 2003; Guest, 1997), retained

within the organization (Fey et al., 2000; Boselie et al., 2001) and present, as opposed to being absent (Boselie et al., 2001). Previous studies have includes various organizational components including culture and attitude and behaviors of the employees. However, this study distinguishes from previous studies by including social skills as an antecedent factor improving the HRM performance relationship.

According to the findings provide by Moncarz, Zhao and Kay (2009) employee- retention requirements for any organization to be successful and suggested that more research in employee-retention practices generalize ability of research findings. Training and development result in tangible outcome (such as improved productivity, quality of products and services, and resource optimum use), and imperceptible results in terms of improved self-confidence, high morale, and employees" satisfaction arising from the acquisition of additional knowledge, skills, and abilities (Khan, 2010). This major finding lends support to Delery and Doty (1996) who argue that HRM practices influence organizational performance by developing employees who are skilled and have the right behavior and attitude. Social skills have been narrowly reported in economic sociology with focus on behavioural interactions (Ogden & Goldberg, 2002). However, few studies has been conducted on social skills in Libyan oil companies. According to the sociologist Mark Granovetter, social structure, pay for performance, asymmetric information quality, and employee trust are the core principles of social skills (Boxall & Purcell, 2011). Collaboration is a necessity and requires that individuals contribute in solving problems as well as to identify skills that other respondents can contribute. In addition to establishing a pooled knowledge of skills within the group, potential differences poses

great tendency for conflict that can weaken the network tiers (Järvelä & Järvenoja, 2011). This study also confirms that social skills improves trust of employees additionally solving issues within the organization.

Boxall and Purcell (2011) mentioned that, from the last thirty years, SHRM had played an important role along with immensely contributing towards organisational success. However, integrating HRM into organisation's strategy and applying specific sets of human resource (HR) policies and practices introduces complexities in managing employees effectively; therefore performance of individual and organisational could be hampered (Farnham, 2010; Holbeche, 2009). In this study, employee motivation is explored to support productivity in Libyan oil companies. This tends to circumvent constraints associated with previous policies applied in organisation with the intention to curtail HR. This affects the level of productive especially in situations where no central HRM strategy is in place. The integration of HRM in the present study provides the opportunity to explore the potential capabilities to enhance labour productivity in Libyan oil companies.

In addition, Valchos (2009) mentioned that Rewards close the gap between organizational objectives and individual expectations and aspirations. Efficient organizational reward systems should fulfill four criteria: a sufficient level of rewards to meet basic needs, equity with the external labor market, equity within the organization, and treatment of each member of the organization based on individual needs. A company that trains and develops its employees makes it known to them that their market value increases more to their benefit than in other firms. This helps to raise employees' productivity and

commitment, and reduces turnover. Companies may also help their employees in career planning. Thus, in order to effectively examine whether human resource is capable of contributing to competitive advantage, it is imperative to examine HRM practices. The management of human capital in organizations has come to be seen as a critical factor in maintaining and improving organizational performance (Bowen, 2004; Ostroff, 2000). Efficient and effective human resource management will produce quality, productive individuals who will eventually make the best out of the problems that confront organizations in their efficient human resource utilization, and by this means organizational performance can be enhanced, as well as impacting on employees in all spheres of their work life.

However, HRM concepts need to be introduced in a constructive way to ensure the relationship between employees and HRM is aligned to support HR practices. A clear understanding of employee motivation can offer solutions in such situations. In this way, the present study is relevant because it provides solutions regarding employee welfare at the work place and outlines the factors that explain why groups are more productive.

The study focuses on the general outcome of labor productivity as the main measurement for overall performance of the organization. In their study, Katou and Budhwar (2006) observed that while numerous studies have been conducted in developed countries like Britain and the US that examine the effect of HRM practices on overall organizational performance, very few studies have addressed the importance of labor productivity as the antecedent outcome for performance in a developing country like Libya. A review of the previous literature suggests that HRM practices significantly affect social skills (Tabassi & Bakar, 2009). In turn, social skills have been found to significantly affect labor

productivity (Lepak et al., 2006), which supports the assumption that a possible mediating condition could be found between HRM and productivity of labor (Jordan, Ashkanasy, & Härtel, 2003). Previous studies, however, have not examined the mediating effects of social skills on HRM practices. Hence, this study contributes to the body of knowledge through an investigation of the relationship between HRM practices and productivity, using the mediating effect of social skills, as a new contribution.

The main contribution of this study is to show indirect effects that might be found between HRM and productivity. Such relationship could be indirect within social skills. Consequently, this will assess in understanding the path from HRM and labor productivity, which has been widely neglected in previous literature (Thongsennhuang, 2012; Lepak et al., 2006). In sum, this study attempts to fill the gap and comprehensively contribute to the issue of productivity in the Libyan oil and gas industry.

2.6 The Underpinning Theories

While past literature in business strategy has consigned the HR function to the implementation stage of strategy, current theoretical approaches argue that human resources and the organizational systems that develop them can generate a productivity. The universalistic perspective purports that all HR practices and associated outcomes are universal across organisations. In the HRM field this is the simplest and most straightforward theoretical relationship. What works in one organisation is assumed to work in another organisation. As in the best practice approach, universalists look for an HR practice or set of practices that will work in most if not all firms. In addition to the

empirical studies aforementioned, several authors have proposed conceptual and theoretical frameworks for further exploring this important topic. The current status of theory on valuating the HRM practices may be such a complicate concept and influence by intervening variables that it does not get fully developed. However several studies have posited that there is a positive link between HRM practices and firm performance.

The best practices approach attempts to identify efficient and effective HR practices through benchmarking among firms. For example, a company may compare selection processes, benefit packages, training, compensation, and employee relations practices, and package those exhibiting appropriate internal fit. Thus in order to solidify the conceptual and practical realm of HRM, the current theory needs to be built on and tested along with accumulative body of knowledge. Below are the theories that are critically examined in the context of HRM practice and firm outcomes in terms of labor productivity.

2.6.1 Human Capital Theory

This study defines Human Capital theory as conditional investment on people's skills, knowledge and capability with the aim of recouping favorable returns in the near future (Al-Ghazawi, 2006). The process of obtaining skills is similar to making a decision to make an investment. The notion of investing in something surely includes the act of using expenditure of the resources and in return there is some form of profit in the future (benefits). The investor upon rationalising that the action of investment somewhat brings a particular benefit of interest is motivated to undertake such risk (Richardson, 2013). The

differences in organisational outcomes may be resulted from the different range in productivity which takes its root in the various levels of human capital (skills and education of humans).

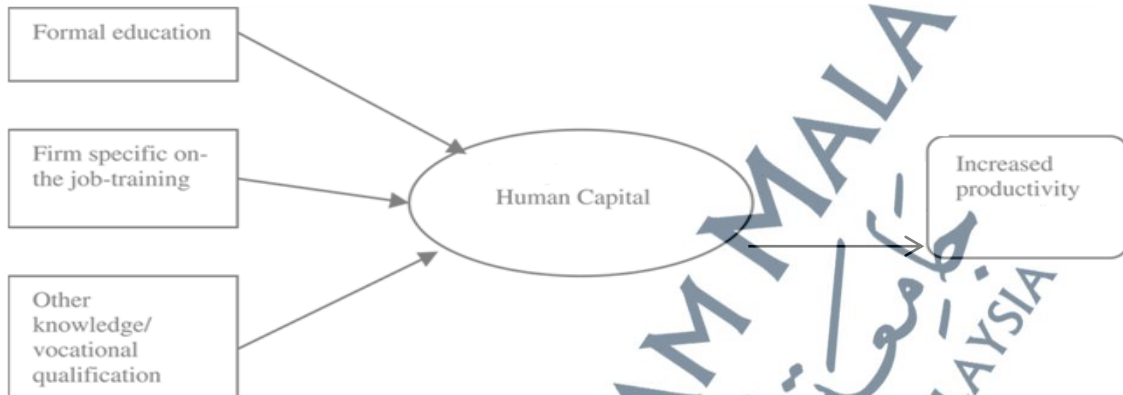
There are several types of costs that are commonly required from the individuals who are making investment. These are psychological, monetary and social costs (e.g. learning effort, expenditure to higher educational institution, decision to invest when unemployed, etc.) While in the process of planning an investment, the individual making the investment probably includes rewards as the outcome, i.e. financial rewards. Hence, we can produce a situation where an individual invested himself with education and skills to improve their productivity and finally earn them a better position and of course higher salary in a firm. This is in line with the human capital theory which state that an individual, in the act of making an investment, analyses the cost-benefit or the net costs (Kavanagh & Doyle, 2006). It should be noted that there are many other factors which may direct an individual's decision to invest. Those include the age of the investors whereby the younger an individual, the more likely for them to invest (Kavanagh & Doyle, 2006).

The same is true in the case of organisations whereby the expenses made on individuals in the form of trainings, offering various kinds of incentives, the amount (budget) specified for these activities collectively increase the aggregate skills, resulting in higher labour productivity and thus increasing the benefits of organisations (Kavanagh & Doyle, 2006). Thus, organisational benefits (increasing productivity) are based on the organisational cost (training, incentive offered etc.). A distinctive option for organisation is that they also have the authority to choose individuals (the employees) to realise their

organisational goal of increasing in productivity. A careful selection of employee (based on the matching criteria of individual capability and job requirements) may minimise the gap between benefits (organisational outcome) and costs (organisational expenses) and thus the gap is resulted in higher marginal benefits (Kavanagh & Doyle, 2006). A variation in labour productivity to find the cause of low oil production with respect to human capital theory in a selected oil company may reveal the reasons to be considered for optimal policy agenda. The simplest model of human capital has been presented in Figure 2.6. It represents that knowledge and skills of individuals determine the quality of human capital which in turn determines the productivity of individuals. In the organisational context, the skill and knowledge of workers determine the level and quality of human capital in the organisation which is positively related with organisational outcome such as labour productivity.

Figure 2.3:

Model of Human Capital Theory



Source: Adopted from (Law, 2010)

However, the main proposition is that people are considered a form of human capital. The motive behind human capital investment is to improve productivity and profitability within the organization. The Human Capital theory posits that productivity will emerge if there is an investment in people (Holton & Naquin, 2002). Despite all objections on the Human Capital theory, Marshall's principles of economics include a methodology for calculating the private returns on investment in education that would later become the core of the theory (Baptiste, 2001). Additionally, Baptiste (2001) explains further that the Human Capital theory comprises knowledge, skills development and attitude to improve productivity.

Based on the above discussion, this study employs the use of the Human Capital theory to explain HRM practices, such as, staff selection, on job training, Decentralised Decision Making, Employee Motivation, with social skills (collaboration, networking)

as mediating as a mediating variable to achieve labor productivity in the research model.

2.6.2 Goal setting theory

A central tenet of goal setting theory (Locke & Latham, 1990), which has been called one of the most dominant theories in organisational behavior Mitchell and Ambrose (2007), is the notion that goals are precursors to actions (Latham, 2012). The theory states that goals affect an individual's direction of behaviors by focusing attention only on goal-relevant behavior and influencing the intensity and persistence of effort used to attain the goal. There are more than 1,000 studies on the effects of goal setting (Mitchell & Ambrose, 2007). In many of these studies, attention has been given to the role of specific, challenging goals as opposed to vague, easy goals. The vast majority of these studies has examined outcomes, such as performance and job satisfaction, and has found that specific, difficult goals can have a positive influence on these types of positive behaviors and attitudes (Locke & Latham, 1990; Reeve, 2014).

Organisational researchers view employee motivation as an essential building block in the advancement of valuable theories for effective management practice (Steers, Mowday, & Shapiro, 2004). Therefore, numerous theories have been advanced in order to better understand the fundamental construct of motivation. The traditional theories of work motivation often explain motivation with a cognitive focus or cognitive explanations for action (Ilies & Judge, 2005). Examples of this type of theory relevant to the current study are control theory (Klein, 1989) and goal-setting theory (Locke & Latham, 1990). These

two theories help to better understand and explain the role feedback plays in influencing people's work motivation.

People are motivated by this incongruity to make plans towards reducing it such as changing the plans, changing the behaviour (e.g., by increasing effort), or giving up on the plans completely (Reeve, 2014). Yet, it is one thing to create a plan but it is another thing to be motivated towards actually carrying out this plan. Similar to making plans, goals often motivate people by concentrating their attention on the discrepancy between one's current level of performance and one's ideal level of performance. However, where control theory is mainly concerned with this discrepancy reduction (Ilies & Judge, 2005), goal theory posits that discrepancy creation is also imperative to the motivational process. Discrepancy creation occurs when a goal has been reached and a new or more challenging goal is subsequently then set. Goal-setting theory helps to understand how these new goals are set.

Also, Locke and Latham (2006) suggest that goal setting can have negative consequences if the goals, or possibility of not attaining the goal, threaten the individual's self-esteem. Thus, threats to self-esteem may be a mediator of the relationship between goals and abusive supervision. Furthermore, Barsky (2008) work on the link between attributes and goals and goal-setting practices and unethical behavior sheds light on possible mediators of moral disengagement and ethical recognition. Much research on goal setting suggests that difficult goals can lead to positive outcomes, such as higher performance and job satisfaction. The current study does not dispute these findings, but it does provide evidence that difficult goals can also lead to negative outcomes.

Organisations using goal setting need to be cognizant of the potential “pitfalls” of giving organisational members difficult goals (Locke & Latham, 2006). It may be that these difficult goals contribute to positive outcomes, such as increases in performance and productivity, but the current study suggests these goals may also contribute to negative behaviors in organisations in the form of abusive supervision.

2.6.3 Expectancy theory of motivation

According to Vroom’s expectancy theory Van Eerde and Thierry (1996), when pay is tied to some measure of individual or group performance, employees are more likely to work harder to increase the individual's, the group's or the organisation's performance and an increase in performance in any of these areas will lead to an overall improvement in firm performance. Based on expectancy theory (Vroom, 1964), it can be expected that, if the company provides rewards desired by the employee in question, this employee is more likely to perform in a way that will bring him/her the reward. In the words of Garibaldi, “Choosing an appropriate compensation mechanism is probably the core problem of human resource managers, and represents the heart of personnel economics” (Garibaldi, 2006).

According to Herzberg’s theory, there are two dimensions of job satisfaction, intrinsic and extrinsic factors. Intrinsic factors are known as satisfiers or motivators, and extrinsic factors are known as hygiene’s or dissatisfies. Motivators are related to the job itself (job content) and involve achievement, responsibility, work itself and recognition.

The hygiene's are related to work environment (job content) and include salary, supervision, company policy and administration, interpersonal relations and working conditions. The absences of motivators do not lead to dissatisfaction, but they are related to job satisfaction when present. Hygiens are related to job satisfaction when absent, but not with satisfaction when present (Herzberg, 1966).

Most successful HRM practices depend heavily on changes in employees' attitudes and activities. HRM does not focus only on the performance of the project, but also on the quality of employees. The employees who are affected most directly are those who are the agents of change in performance for continuous improvement. In theory, HRM practices produce positive effects on employees by improving their satisfaction and commitment and by enhancing their organisational effectiveness. Indeed, many organisations that have adopted quality-management practices have experienced an improvement in attitude, commitment, and effectiveness among employees (Karia & Asaari, 2006).

2.6.4 Contingency Theory

This research is based on the role of HRM practices towards project performance. Contingency theory has become one of the dominant paradigms for research in management control. As previously mentioned, the contingency approach towards management is based on the premise that there is no universally appropriate HRM system that is applicable to all organisations, regardless of circumstances (Bowen & Ostroff,

2004). The effectiveness of the design of a HRM system depends on its ability to adapt to differences in external and internal factors. Management techniques constitute part of the overall control system of a company, which refers to the general control mechanisms such as organisational structure or organisational culture and to formal control systems such as budgeting and, non-financial measures.

It is argued that contingency theory is useful to explain the development of the HRM system. The major features and the intention of contingency theory are to guide HRM systems. The major goal of the contingency theory is to include HRM practices and other control systems to develop the contingency model. Very few researchers have included this idea to include HRM practices in the contingency model. Hoque (2000), is one researcher who carried out a study on the relationship between production automation and system, and the relevant information for making managerial decision in the manufacturing organisations.

In addition, Kee and Schmidt (2000), showed the relation between HRM and contingency theory for evaluating economic and production-related decision making. Contingency theory suggests that organisations choose structures, including accounting systems that are appropriate for their specific needs. Contingency theory also suggests that all components of an organisation must fit well with each other if an organisation is to perform optimally.

A contingency theory approach has often been employed to explain the emergence and characteristics of management control systems. Contingency theory proposes that

efficient organisational structures, processes and competent management accounting systems are contingent on a number of organisational and technical characteristics. A range of contingency factors have influenced the need for more sophisticated HRM systems in the last two decades. These contingency factors include: deregulation, increased global competition and a fall in Information Technology (IT) costs, increased privatization, increased customer demand, greater product diversity, higher quality and the evolution of integrated information systems. More specifically, organisations are required to respond to these forces in order to survive. In this regard, organisations are often required to invest in more accurate systems (Sartorius, Eitzen, & Kamala, 2007).

However, Baird, Harrison et al. (2004) attempted to explain the contingency relationship between the need to invest in more sophisticated systems and organisational variables influenced by the new environment. They hypothesized that an increase in fixed costs due to an investment in capital-intensive technologies influences the need for a more sophisticated overhead allocation technique. This is especially important where product diversity is high and different products use differential amounts of resources. Similarly, an increase in competition means the cost of mistakes is more readily exploited by competitors, precipitating the need for more accurate systems to minimize the level of errors.

2.6.5 HRM practices and labour productivity (theoretical perceptive)

Researchers and practitioners have a perception that employee performance exerts influence on the firm-level growth and achievements. However, not until recently, greater focus has been placed into this belief as researcher begin to claim that, as a whole, employees can provide an unique competitive edge for a firm that is hard to be duplicate from other opponents. Based on Barney's (1991) resourced-based theory of firm, Gottschalk and Solli-Sæther (2005) argued that, "an increase in labour productivity may deliver a persistent competitive benefit if four basic conditions are fulfilled". "Firstly, there is a need to add value for the production process in the oil and gas industry by the workability of individuals. Secondly, there is a need of rare skills of the individuals. Thirdly, combination of investment in human capital with employees must be imitated. Although human resources are not subject to the same degree of imitability as equipment or facilities, investments in firm-specific human capital can further decrease the probability of such imitation by qualitatively differentiating a firm's employees from those of its competitors. Finally, a firm's human resources must not be subject to replacement by technological advances or other substitutes if they are to provide a source of sustainable competitive advantage".

Nevertheless, as observed by Armstrong and Taylor (2014); Rao (2014), the human resources are often "underutilised" as they function without realising their fullest potential. He also claims that HRM practices are beneficial as it can improve employee efficiency in work and their motivation. As this spreads to the whole organisational structure, an improvement in the labour productivity is made possible as well as the

outcome of the firm. The contribution of HRM practices is mainly concerned with the development of excellent human capital. Such practices include decisions to hire qualified employees as well as adopting a reliable selection chart and after that to provide intensive training on matters involving basic skills, and technical aspects of the job that greatly intensify the productivity of employees and convert this to the success of the organisation.

Figure 2.4:

An Integrated Model Linking HRM Structure and Organisational outcome



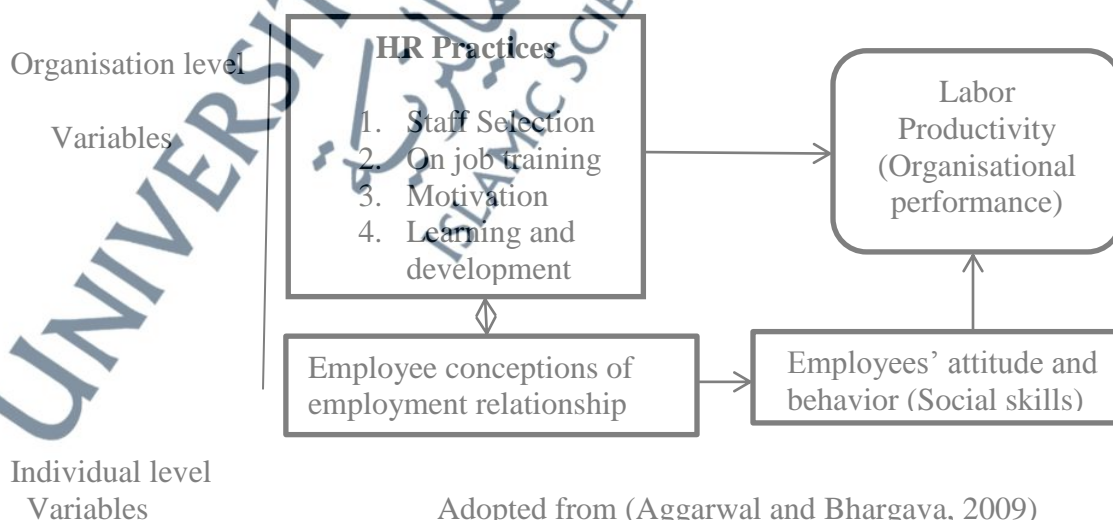
Source: Adopted from Lepak, Liao, Chung, and Harden (2006)

Scholars also suggest a need for a third aspect of workforce performance. If workers have the capability and are motivated to work for the achievement of organisational objectives, organisations have to facilitate them with appropriate opportunities to use their skills. Although, there is no clear explanation as what these opportunities are, scholars have inclined to highlight the structure of work and the level of employee participation, and empowerment. (Eriksson & Ortega, 2006; Osterman, 1994) examined the use of teams, job rotation, quality circles, and TQM in HRM. Batt (2002)

recommended the use of motivation structures. However, (Collins and Clark, 2003) recommended that HR practices, such as staffing, training and development, performance measurement and feedback, and recognition and monetary rewards are used to accomplish four major HR tasks: managing behaviours, managing motivation, managing competencies, and managing opportunities.

Further, it is to be noted that a robust HR structure results in shared perceptions and contract expectations as a result of clear and direct signals to employees about norms, expectations and what organisations is like. A weak HR structure on the other hand results in idiosyncratic perceptions of climate and contracts within an organisation, which produce wide variability in perceptions of climate and contracts within the organisations (Ostroff & Bowen, 2000). This will subsequently result in wide variability in attitudes and human capital development within an organisation, diminishing the relationship to organisational performance.

Figure 2.5: HR Practices, Social Skills and Labour Productivity



HR practices can influence employee conception of employment relationship which in turn influences organisational performance, firms need to judiciously craft their HR toolkits based on their employment relationship strategies and business strategies. The review also suggests that involvement of employees in performance appraisal, training need identification and compensation strategy can go a long way in fostering robust employment relationship.

2.6.6 HRM practices and Social skills

Social skills is the ability to interact effectively with other individuals to increase partnerships and relationship with them (Witt and Ferris, 2003). HRM practices help reduce issues of social skills and fill the gap between managers and customers (Hurrell, Richards, & Scholarios, 2013). Among employees, social skills include interpersonal interaction, self-management, and service orientation Cavallo and Brienza (2006), relative to technical ability and cognitive capacity (Roets, Van Hiel, Cornelis, & Soetens, 2008).

Effective communication skills for the employees and managers are especially important during the initial stage of venture creation due (Zott and Huy, 2007). According to Markman & Baron (2003), social skills play an important role toward financial success.

Numerous findings and proposals in the literature on HRM show that employees with social skills can affect employee performance and success. Moreover, the previous

studies focused on relevance of each social skill to consequence in business and relevance to work performed by employees.

The perception that social skills act as a mediating is consistent with previous theoretical arguments that emotional intelligence mediates the impact of the environment on work behaviour (Wang & Huang, 2009).

Furthermore, according to Tabassi and Bakar (2009), lack in social skills may result from inadequate staffing and training in addition to poor integration of HRM with organisational practices. On this basis, social skills deficit is related to poor HRM practices. Thus, it is expected to have a positive relationship between HRM practices and social skills.

2.7 Theoretical Framework

The theoretical framework of the study addresses the proposed questions within this framework and investigates the scenario to address these questions. Before discussing the framework design, the study defines the underlying concepts, variables and their mutual relationship.

Organisational objectives are dependent on many factors such as the stock of human and financial capital, the portfolio of human capital, the production technique, scale of production, status of technology, macroeconomic factors and political and economic stability of the country (Bassanini, Garnero, Marianna, & Martin, 2010; Fallahi et al., 2010b; Hank, 2011). However, this study focuses on the HR practices, to gauge the cause

of low labour productivity in the selected Libyan oil and gas companies, while the rest of the factors such as technological, political, and macroeconomic environment fall outside the scope of this study.

Previous studies on HRM practices and labour productivity suggests that productivity contributes to profit growth over time due to greater returns from human capital and the generation of resources. Numerous studies on HRM practices literature identify the fundamental role that the staffing, training and employee participation has in shaping the organizational utility. Thus enhancing skill flexibility contributes to firm productivity and performance in turbulence environments.

Table.2.2

Previous studies on HRM practices and performance

Author/s, Year	HRM Practice Variables	Key Findings
(Al-Refaie, 2015)	Recruitment and selection, manpower planning, job design, training and development	Regardless of the source of motivation, it is important for productivity that motivation should always be an intentional element in an organisation.
(Al Damoe, 2014)	Selection and recruitment, training and development, compensation and rewards, performance appraisal, and HR planning	Selection, staffing, training and development, recompense and rewards, performance appraisal and HR planning are substantially important determinants that define HR results in an organisation.

Table.2.3 (Continued)

Author/s, Year	HRM Practice Variables	Key Findings
<u>(Dar, Bashir, Ghazanfar, & Abrar, 2014)</u>	Training and development, career development, rewards, employee motivation	Conducting needs-based training, being merit oriented, monitoring and evaluating performance, providing comprehensive career paths and succession planning and performance-based rewards are means for management to foster productivity and employee performance.
<u>(Mtimkulu & Naranjee, 2014)</u>	Correct recruitment and promotion protocols, rewards for employees, leadership skills training for management and staff.	Financial rewards have positive effects on employee performance.
<u>(De Grip & Sauermann, 2013)</u>	Training skills, transfer of skills, employee performance, informal learning, and human capital.	HRM practices that include the five functions positively influence organisational performance.
<u>(Huang, 2012)</u>	Training, selective hiring, performance appraisal, and information sharing.	Training significantly affected productivity. Qualities of employees in service industries should be considered when hiring, because they influence customer satisfaction. SMEs cannot compete with large organisations for skilled labour; they should carry out their own training programs to create their own skilled human capital base. Training, motivation can achieve organisational goals and increase organisational productivity.

Table.2.3 (Continued)

Author/s, Year	HRM Practice Variables	Key Findings
<u>Hafizi & Giran, 2012)</u>	Training, motivation.	HRM intensity has a strong positive effect on productivity.
<u>(Ali, 2011)</u>	HR planning, staffing processes, training and development, rewards and compensation systems, labour relations	HRM practices were clustered across firms, and associated with improved firm performance.
<u>(Quresh, Akbar, Khan, Sheikh, & Hijazi, 2010)</u>	Selection system, training, job description, performance appraisal system, compensation system, career planning system, employees participation, planning, development, rewards	All tested variables have a positive link and impact on financial performance of banks, but the major contributory practices are selection, training, compensation and employee participation.
<u>(Kalburgi, 2010)</u>	Motivation, Training productivity, performance & organization	All the five variables of HRM practices are found to influence performance.
<u>(Ibraheim Mejeriss, 2009)</u>	Recruitment and selection process, Extensive training and development programs and compensation.	There is a significant association between HRM practices and labour productivity. The study also shows that a sound recruitment and selection process, need based training and development initiatives, and compensation systems fosters increased labour productivity.

Table.2.3 (Continued)

Author/s, Year	HRM Practice Variables	Key Findings
<u>(Ketkar & Sett, 2009)</u>	Motivation, productivity, organisational performance, such as productivity	Economic research could benefit by a better understanding of the ways in which various kinds of training and training methodologies can improve workers' productivity
<u>(Theriou & Chatzoglou, 2008)</u>	High levels of teamwork, performance-related pay, decentralised decision making, comprehensive employee recruitment and selection procedures, extensive training, internal career opportunities	Best HRM practices will be preferred, referring to all those HRM practices and policies that have been identified as effective in improving performance.
<u>(Martín-Alcázar, Romero-Fernández, & Sánchez-Gardey, 2008)</u>	Staffing selection, training, compensation, socialisation, motivation.	HRM dimensions, such as staffing, recruitment and selection, compensation, performance assessment, and socialisation policies are associated with labour performance. SHRM is the only topic with means of over three in the theory building/description phase, confirming that HR strategy is a key construct in models.
<u>(Andersson, Brown, Campbell, Chiang, & Park, 2008)</u>	Training, screening and hiring	In firms with high levels of R&D, HRM practices significantly increase labour productivity.

Table.2.3 (Continued)

Author/s, Year	HRM Practice Variables	Key Findings
<u>(Sahinidis & Bouris, 2008)</u>	Training, motivation, job satisfaction and commitment.	Training perceived by employees to be effective, is likely to have a positive impact on job satisfaction, commitment and motivation. Also, training directly or indirectly, has a positive effect on productivity.
<u>(Sels et al., 2006)</u>	Training selection, compensation careers, participation.	Management needs to undergo training and take ownership of the performance management process, for improved employee guidance, recognition and rewards system
<u>(Boselie, Dietz, & Boon, 2005)</u>	Selective hiring ,training, motivation	Found a link between HRM practices and organizational performance.
(Singh, 2004)	Selection, job definition, training, performance appraisal, compensation, career planning, employee participation	This study argues that training and compensation are significantly linked to labour performance. A firm investing in training and paying high compensation is likely to show better performance.

Table.2.3 (Continued)

Author/s, Year	HRM Practice Variables	Key Findings
<u>(Ahmad & Schroeder, 2003)</u>	(Selective hiring, extensive training, employment insecurity, use of teams and decentralisation, compensation.	HR practices vary widely among countries and to some extent, between industries, consistent with institutional theory when the institutions are taken to be a country or industry. National characteristics, competition and other factors may account for the differences among the HR practices adopted in different countries and industries.
<u>(Elizondo, 2003)</u>	Training, motivation.	Further studies are needed on the differences in motivation levels among groups to gain a better understanding of trainees' perceptions of training. Such information could also assist in the evaluation of training programs.
<u>(Cristini, Gaj, Labory, & Leoni, 2002)</u>	Information sharing, selective hiring, training.	Human resources managers should strengthen HRM practices mainly in recruitment and employee selection, manpower planning, job design, and training and development.

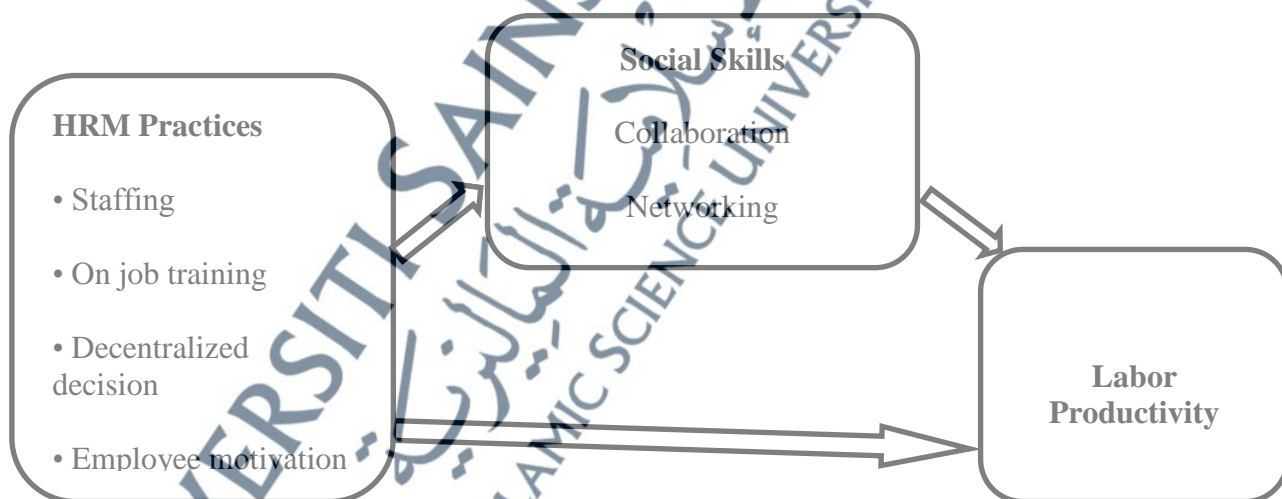
Table.2.3 (Continued)

Author/s, Year	HRM Practice Variables	Key Findings
<u>(Chiu, Wai-Mei Luk, & Li-Ping Tang, 2002)</u>	Extensive recruitment and selection, T&D, and compensation.	HRM practices have a significant effect on employee productivity.
<u>(Pao-Long & Wei-Ling, 2002)</u>	T&D, teamwork, benefits, HRP and performance appraisal	HRM practices such as T&D, teamwork, benefits, HRP and performance appraisal have significant effect on employee productivity.
<u>(Boselie, Paauwe, & Jansen, 2001)</u>	Recruitment/selection, HR planning, rewards, participation, internally consistent policies, decentralisation of training, opportunity for internal promotion, more autonomy, formal procedures, coaching	The use of strategic human resource management principles, productivity, and financial performance are positively associated with HRM practice.
<u>(Fey & Björkman, 2001)</u>	Technical training, career planning, job security, information sharing programs, complaint resolution system, attitude surveys, performance appraisals, company performance in pay, teamwork, decentralised decision making, inter-departmental communication.	A strong association exists between organisations' performance and human resource practices in the context of foreign organisations operating in Russia.
<u>(T.-C. Huang, 2000)</u>	HR planning, compensation, appraisal, performance, staffing, T&D	HRM practices have a positive association with a firm's performance.

In addition, Aggarwal and Bhargava (2009); Thongsennheuang (2012) suggest that organisational outcomes are a direct function of HR practices such as training and managerial skills which are influenced by the social skills of employees. Social skills play an important role as a mediating variable. It has an assisting effect, which contributes towards a positive behaviour effect on labour productivity (Bhattacharya, Gibson, and Doty, 2005). After going through the various factors such as HR practices, its influence on the labour productivity, and its link with labour productivity, the study propose the following theoretical framework (Figure 2.9)

Figure 2.6.

Depiction of the research's theoretical framework



There is one box on the left hand side representing set of independent variables. HR practices related variables are four (staff selection, on-the-job training, decentralised

decision, motivation) used in the first box. Collaboration and networking variables refer to the social skills of employees and have been then linked through an arrow with the dependent variable labour productivity. The relationship between dependent and independent variables is mediated by social skills.

2.8 Chapter Summary

This chapter introduced key concepts as derived from the literature. Labour productivity is the central theme of all productive units. Labour productivity can either be measured in direct units of out per worker or in terms of sale volume per worker. Labour productivity is a direct proxy of organisational output such as production and revenue generation. Increasing labour productivity means improvement in organisational objectives. Labour productivity is majorly influenced by progressive HR practices. HRM practices for this study have been derived through the study performed by Masood (2010) who mentioned that HRM practices like staffing, training and employee motivation are crucial for the organization. Human capital supports this relationship and provides a theoretical basis.