

The Impact of HRM Practices on Labor Productivity with the Mediating Role of Social Skills in the Manufacturing Sector of Pakistan

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Human resources plays a crucial role in shaping a competitive edge, which is why companies worldwide adopt the best HRM practices and skill development of their human resource. The current study was designed to investigate the mediating role of social skills on the relationship between HRM practices and labor productivity by selecting six companies from Pakistan's manufacturing sector. The study results revealed that HRM practices and employees' social skills positively and significantly impact labor productivity. The outcomes suggested that companies should invest more in developing social skills to enhance their employees' level of productivity and, ultimately, their competitive edge in the market.

Keywords: *HRM practices, labor productivity, social skills, training, employee motivation.*

Introduction

Pakistan's manufacturing sector has been facing many hurdles on its way to development and gaining a good position in global trade; for instance, problems like lack of sufficient investment in technological developments and negligible or insufficient diversification exist in the sector (Rehman et al., 2023). Moreover, the development of human resources has also been generally neglected in the country, which means that Pakistan has failed to improve vocational and cognitive skills and non-cognitive and social skills in its workforce. This has practically resulted in the loss of adequate output production and the enhancement of the people's living standards. Surprisingly, this human resource and skill development would have benefited the producers more than anyone. Yet, they have failed to contribute to this development in any way, most likely because they are unaware of the benefits they could extract from this kind of development (Tasneem & Khan, 2024).

The literature often argues that an economy's economic growth is determined by one of the key economic indicators: labor productivity, defined as the ratio of a volume measure of output

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to a measure of input use. The measure is generally used to explain the basis of a country's economic and social growth. (Freeman, 2008). Moreover, it is argued that organizations that use a set of practices like incentives, training, and appropriate supervision on tasks for employees usually experience a greater degree of labor productivity than those who do not use such specially organized practices (Hernández-Linares et al., 2023). These practices are usually designed by the HR department of an organization, whose job is to ensure that the organization's human resource is adequately developed and fully utilized to achieve organizational goals. However, some scholars argue that HRM practices and labor productivity do not relate directly but through other mediating variables (Abulkasim et al., 2016; Nadeem et al., 2014; Patel & Cardon, 2010). It is argued that aside from training the employees in an organization, giving them appropriate and market-competitive benefits, and providing them with the opportunities to engage in decision-making to ensure that they possess the necessary cognitive skills, HR should develop their non-cognitive and social skills (Edin et al., 2022).

In a team-based environment, the employees are expected to coordinate by sharing their information so that they are at an equal level with each other about what they are expected to accomplish in a particular goal. They are expected to have an excellent relationship to achieve that goal, as sometimes they can share the burden by "trading" tasks with each other and enhancing teamwork. Since employees in team-based environments must share their expertise and work together towards a common goal, they are expected to have good interactive relationships where they trust and collaborate (Radaelli et al., 2024).

The rationale behind this study was based on the general trend that organizations worldwide, including Pakistan, are looking for ways to improve their labor productivity to enhance their market share, profits, and revenues and reduce their production costs. In that case, it was essential to understand how much these organizations can rely on HRM practices like staffing, on-the-job training, promoting decentralized decision-making, and encouraging employee motivation to enhance their productivity. Moreover, it was equally important to understand the significant role employees' social skills, like collaboration and networking, play in this regard.

Literature Review

A look at the manufacturing sector of Pakistan shows that the growth rate of labor productivity has decreased over the years because of problems like high input costs, lower profits, and higher chances of manufacturing firms going out of business (Rehman et al., 2023). In light of such circumstances, the need to understand the importance of HRM practices and evaluate their effects becomes extremely important. Moreover, the study also highlights the impact of social skills, which mediate the relationship between HRM practices and labor productivity. However, before looking at the mediating role of social skills, it was essential to understand what has been studied about the relationship between HRM practices and labor productivity.

HRM Practices and Labor Productivity

The literature on human resource management has long established the importance of various HRM practices in improving labor productivity. These practices play a significant role in developing firms' human capital and assisting them in achieving their goals (Bloom & Van Reenen, 2010). However, in Pakistani companies, the Human Resource Management system is still developing. Because of these companies' bureaucratic and centralized structure, the HRM system is not independent enough to take the necessary steps or integrate itself fully with the manufacturing companies' structure. Because of a "controlled-oriented" HRM system, there is a lack of trust between the management of the companies and their employees. Productivity has

decreased over time because of little investment in good HRM practices like training and development (Ahmad et al., 2020).

Scholars have focused on the effects of different HRM practices on labor productivity in other contexts. These practices help the employees motivate and show their commitment to the organization, enhancing their productivity (Hassan, 2016; Kim & Ployhart, 2014; Hameed & Waheed, 2011; Malone, 2004; Hodgkinson, 2003). The phenomenon has also been theorized in the form of social exchange theory. According to this theory, HRM practices play a significant role in conveying to all the employees that they are a valued part of the organization, enabling the employees to feel a sense of belonging towards the organization. They consider it an obligation to reciprocate this feeling of trust from the organization through high productivity levels and better achievement of organizational goals (Pinho et al., 2024).

Gamage (2015) investigates the relationship between HRM practices and labor productivity in manufacturing SMEs in the Japanese context. The data collected from 144 companies showed a positive relationship between HRM practices and labor productivity, with HR outcomes mediating the relationship. Moreover, Bloom and Van Reenen (2010) examined the effects of incentive pay and individual and group bonuses on labor productivity. They found that the employees' productivity increased with higher compensation and benefits, decentralization of decision-making authority, and promotion of information technology. (Bloom & Van Reenen, 2010).

Patel and Cardon (2010) also studied the relationship between HRM practices like selection, training, appraising, and employee engagement on labor productivity. However, their research looks at the mediating effect of "group culture" on this relationship and argues that because of group culture, firms can manage the costs that they might face while adopting HRM practices and then successfully increase their labor productivity through those practices. Moreover, Agrawal (2013), who studied Vocational Education and Training in different Asian countries, argued that VETs are indispensable instruments for improving labor mobility, adaptability, and productivity. Thus, they enhance firms' competitiveness and redress labor market imbalances, implying the relationship between training, development, and productivity.

Furthermore, Sendogdu et al. (2013) Argues that HRM practices like employee participation and the introduction of incentive programs enhance productivity and lower employee turnover. Another study by Hodgkinson (2003) divides HRM practices into hard and soft HRM strategies. Soft HRM practices are collectivist and encourage employees' participation and representation in decision-making. Some examples of soft HRM practices are making the employees work in groups, directly allowing the employees to participate in decision-making, and training people to achieve specific skills. Since they are 'people-centered,' they tend to increase employee commitment, improving their productivity. All these studies suggest that HRM practices positively affect labor productivity. Thus, we propose:

Hypothesis 1: HRM practices are positively related to labor productivity.

HRM Practices and Social Skills

Every firm wants to do well and gain a competitive advantage in the market, and that is only possible if its human resources are skilled and motivated enough to work towards achieving its goals. To ensure that, firms focus on attaining employees with the necessary skills and qualifications to succeed, which is where HRM practices come in. HRM practices help firms recruit and retain such employees. Moreover, they also help develop employees' skills or polish them if they already possess them so that employees can help the firms achieve their objectives and thus convert from human assets to shareholder value (Capelleras et al., 2021). For instance, recruitment for firms should not just mean selecting employees for certain positions but also bringing such skills and competencies into the firms, which will be helpful for them. Still, they

lack or do not have the resources to develop their employees (Bal et al., 2013). Sageer et al. (2012) also argue that training helps employees acquire the necessary skills and feel that their work organization trusts them.

Cabello-Medina et al. (2011) suggest that organizations should not just focus on developing technical or functional skills in their employees by adopting better HRM practices like hiring and training but also encourage collaboration and networking in them, which are the two forms of social skills that this study had focussed on. Salleh et al. (2015) studied the importance of HRM practices for developing skills like social competency, which involves social skills such as “leading discussions and conversations, persuading, cooperating, and working in group”. They carried out their research in the Malaysian setting. They highlighted adopting competencies-based HRM practices to improve the quality of services by enhancing employees' various cognitive and social skills.

In Pakistan, there is a severe dearth of investment in skill development due to several reasons: a shortage of properly qualified trainers, a lack of adequately developed curriculum, poor quality learning and teaching materials, and the disintegration of learning done in educational institutes into the industry. (Agrawal, 2013). Hurrell and Scholarios (2014) argue that effective management of a firm's human resources can help solve the problem of social skills gaps in employees. These gaps or deficits in employees' social skills can be linked to the industry's ad hoc approach to staffing, training, and retention and a lack of strategic integration of human resource management with broader organizational practice.

Similarly, another HRM practice, training, can be used to develop specific organizational skills and ensure that these skills make these employees firm-specific, which is beneficial for the firm in the long run (Chen & Hung, 2010). De Grip and Sauermann (2013) argue that training significantly impacts human capital and enhances organizational productivity. Thus, HRM practices like recruiting and staffing, training, and enhancing employee motivation can help develop employees' skills. (Huselid, 1995). Li and Sheldon (2010), also argued in favor of a positive impact of HRM practices on the skill development of the employees.

Green (2000) highlighted three ways training can help enhance social skills. Firstly, the whole training process provides a platform for the employees to share their philosophy and goals of the company in which they are working. Secondly, it can be a valued gift to the employees for their personal development in exchange for their work and loyalty towards the organization. Finally, training can also help in the efficient flow of information within the organization by enhancing employees' communication skills so that they are not only aware of what information to share with others but are also willing to do so (Green, 2000). Such HRM practices, expected to enhance employees' skill development, are often termed high-involvement HRM practices (Moideenkutty et al., 2011). Moreover, the link between HRM practices and employees' skills has also been established by Tiwari and Saxena (2012). They found that training and development enable the front-line staff to have better social and interpersonal skills. All these studies suggest that HRM practices positively relate to employees' social skills. Thus, we hypothesize that:

Hypothesis 2: HRM practices are positively related to employees' social skills.

Productivity and Social Skills

A literature review also shows that employee skills can positively affect productivity. As already discussed before, employees' skills play a significant role in enhancing the strategic development of the firms and meeting the demands of continual changes that the firm's internal and external environments go through. According to the findings shared by the International Labor Conference in 2008, developing specific skills in employees enhances their innovation and productivity and the organization's overall sustainability (ILO, 2010).

In another study, an association between employees' skills and their productivity was studied in the target population of the construction industry in Singapore. The results showed that skills have a positive effect on labor productivity. Moreover, they also suggested that firms should not just rely on skilled workers after their recruitment but also work towards the development of these skills (Ofori, 2015). They should also look at the correct use of skills for the progress of the overall company, as skills help the firm maintain its strategic edge and competition (ILO, 2010).

Social skills remain a significant managerial concern as they grease the wheels of human interaction. Employees tend to avoid open communication because of the lack of social skills in some areas. This poor or utter lack of communication and interaction among the employees would hint towards the unwillingness of the employees to bring about a change. This, in turn, can lead to problems in their overall productivity. Unfortunately, this deficit in social skills often goes unnoticed, and no action is taken to reduce this deficit and enhance social skills in employees. However, a report published by The Hamilton Project argued that there is a greater emphasis on social skills in the labor market as employees with cognitive and non-cognitive skills benefit more in terms of efficiency and productivity (Schanzenbach et al., 2016).

Another study argued that social skills like collaboration help create a sense of community among an organization's employees. They interact with each other as a family and are willing to work harder to carry out their tasks with shared knowledge and better decision-making. This, in turn, enhances their productivity (The Importance of Collaboration in Today's Workplace, 2016). Moreover, another study looked at the effects of skills on labor productivity in the context of hotel management in South Eastern Nigeria. According to this study, skills employees like interpersonal skills and working in cooperation in a team have a positive impact on their productivity (Kabuilu & Igbojekwe, 2015). Turculet (2015) also suggested that people with better coordination and social interaction skills show higher levels of labor productivity, as social skills help increase efficiency and satisfaction and decrease absenteeism. They help to reduce coordination costs as labor with social skills can trade tasks with each other, hence increasing their efficiency with better teamwork (Picker, 2015).

Furthermore, firms even hire those employees who apply through referrals because they think they possess critical networks lacking in others. Hensvik and Skans (2013) looked at the role played by firms when hiring new entrants and observed that firms use the referrals of their productive workers while hiring new workers. For instance, if a productive firm employee refers a new applicant, the firm would prefer him over somebody who has applied for the same job without any reference. This is because the applicant the productive worker has referred is believed to possess a better network than other applicants. Osman et al. (2022) state that firms use social networks to signal worker productivity and that workers benefit from the quality of their social ties or social skills. Thus, we hypothesize:

Hypothesis 3: Employees' social skills are positively related to labor productivity.

HRM practices and Labor Productivity with Social Skills as a Mediator

Although some studies suggest a positive relationship between HRM productivity and labor productivity, others argue that the two do not have a direct relationship (Nadeem et al., 2014). Instead, HRM practices help firms enhance their legitimacy and gain a competitive advantage, attracting more employees and increasing their productivity (Patel & Cardon, 2010). According to the findings shared at the International Labor Conference held in 2008, it was argued that the existence of skills in employees does not necessarily mean that they would be showing higher productivity levels. Instead, firms need an environment where employees are respected and treated fairly, enjoy good relations with their co-workers, and are ensured health and safety (ILO, 2010).

Moreover, providing employees the power to contribute towards the decision-making process of their firms also increases productivity and improves teamwork (Hassan, 2016). However, as already been discussed, HRM practices affect social skills in employees (Abulkasim et al., 2016; Tiwari & Saxena, 2012; Moideenkutty et al., 2011), while social skills of employees affect their productivity (Abulkasim et al., 2016; Ofori, 2015). Another study conducted by Emelo (2010) argued that mentoring employees enhance their interpersonal skills and networks, increasing their productivity—moreover, Abulkasim et al. (2016) argues that HRM practices and labor productivity are not directly related. Thus, social skills mediate between them through collaboration and creating networks. Therefore, by combining the two relationships, the study hypothesizes that:

Hypothesis 4: Social skills mediate the relationship between HRM practices and labor productivity.

Model Development

Background of the Model

The following model taken from the study by Abulkasim et al. 2016 was used in this research, which looked at the effects of HRM practices like staffing, on-job training, decentralized decision-making, and employee motivation on labor productivity, with social skills acting as a mediating variable. The study focussed on the impact that HRM practices may have on labor productivity in the manufacturing sector of Pakistan, while employees' social skills acted as a mediator. Out of the various HRM practices that organizations can adopt to enhance their productivity, the study only focused on four practices: staffing, on-the-job training, decentralized decision, and employee motivation, and looked at their effect on labor productivity (Kim & Ployhart, 2014). Training and staffing can help develop human capital resources and, in turn, enhance labor firm productivity and profits. Similarly, HR practices like decentralized decision-making also help boost productivity (Malone, 2004). Thus, this study aimed to understand these relationships in a population from Pakistan's manufacturing sector.

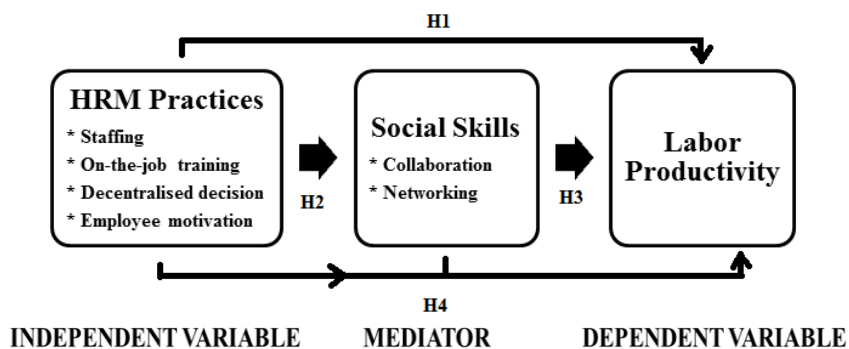


Figure 1: Theoretical Model

Sampling

The research was conducted in the context of Pakistan's manufacturing sector. This sector was selected because, to investigate the mediating effects of social skills on labor productivity, it was essential to select a sector in which teamwork and group culture were paramount. The manufacturing sector deals with teamwork more than any other sector and is entirely organized around teams (Morgeson et al., 2005), therefore, it was selected to collect data for the current

study. The research sample was limited to six manufacturing companies in Pakistan: Nestle Pakistan (Pvt.) Ltd., BATA Pakistan, Dawn Bread, Shezan International Limited, Ferozsons Laboratories Limited, and Treet Corporation Limited. Convenience sampling was used to select the available employees who were requested to participate in the study. The actual sample for the study was 227 manufacturing employees.

Data Analysis and Discussion

Table 4.1 shows the demographic profile of 227 respondents who participated in this research. The demographic information of the respondents who participated in the current research showed that the majority, i.e., 73.6%, were male. In the category of job status, 42%, which made up the majority of the respondents, were from middle management. Also, 51% had an academic qualification equal to MA. Finally, 42.3% of the respondents were earning a monthly salary of more than Rs. 45,000, while the majority of the participants, i.e., 39.6%, had work experience of more than five years.

Table 1
Demographic Profile of Research Participants

Variables		Frequency	Percent
Gender	Male	167	73.6
	Female	60	26.4
Job Status	Top management	10	4.4
	Middle management	95	41.9
	Supervisor	84	37
	Non-managerial	22	9.7
	Other	16	7
	Never been to school	2	0.9
	Under-matric	6	2.6
Qualification	Matric	10	4.4
	Intermediate	18	7.9
	BA	75	33
	MA	116	51.1
Monthly Income	Less than Rs. 15,000	6	2.6
	Rs. 15,000-24,000	43	18.9
	Rs. 25,000-34,000	49	21.6
	Rs. 35,000-44,000	33	14.5
	More than Rs. 45,000	96	42.3
Experience	Less than 1 year	15	6.6
	1 - 3 years	69	30.4
	4 - 5 years	53	23.3
	More than 5 years	90	39.6

According to the study's first hypothesis, there is a positive relationship between HRM practices and labor productivity. The coefficients' model showed that the significance value was less than 0.05 and that the two variables were significant. Moreover, the value of R square was found to be 0.423, which is less than 1. Hence, the Model Summary showed a 42% variation in productivity because of the change in HRM practices. A positive moderate relationship was acquired through this analysis and from hypothesis testing. Finally, the ANOVA model showed that since the significance value is less than 0.05, the model was a good fit. These results were found to be consistent with the results from previous research in the literature. Authors like

Hassan (2016), and Hodgkinson (2003) established in their respective studies that by motivating their employees, firms can enhance their productivity. Moreover, a similar relationship was also found in studies by Bloom and Van Reenen (2010), Patel and Cardon (2010), and Hodgkinson (2003), in which they argued that good HRM practices like training, compensation and benefits, and employee motivation can enhance productivity. In light of the findings of the current research and those of the previous study, it was concluded that H1 was accepted.

The study's second hypothesis stated a positive relationship between HRM practices and employees' social skills. According to the analysis of the collected data, it was found that the two variables are significantly correlated since the value of significance was found to be $0.000 < 0.05$. Moreover, the value of R square was found to be 0.450, which was less than one and between the range of 0.3 to 0.69. This pointed towards the significant moderate relationship between HRM practices and social skills. Finally, the value of F was 184.377, which meant that the model was a good fit. These results were consistent with the findings of previous researchers like Salleh et al. (2015), Hurrell and Scholarios (2014), and Bal et al. (2013), who argued that HRM practices help to develop social competency in employees and reduce the gap that lies between the required skills and present skills of employees. Tiwari and Saxena (2012) also found a positive relationship between HRM practices, such as training and social and interpersonal skills, among employees. Hence, H2 was accepted.

The third hypothesis stated that there is a positive relationship between employees' social skills and labor productivity. This research showed a significant relationship between the two variables as the significance value was less than the significance level, i.e., 0.05. Moreover, it was found that the value of R square was 0.328, which was less than one and was between the range of 0.3 and 0.69. This pointed towards a moderate but positive relationship between employees' social skills and productivity. Finally, the value of F was found to be 109.961, which allowed us to accept the third hypothesis that there is a positive relationship between the employees' social skills and productivity. These results were found to be consistent with the findings of previous research. Studies by Hensvik and Skans (2013) and Ofori (2015) highlighted the significant role played by social skills in employees in enhancing their productivity and how the lack of such skills affects their communication and, hence, overall performance (Dlamini et al., 2022). Therefore, H3 accepted that there is a positive relationship between social skills and productivity.

Finally, the fourth hypothesis of the study stated that there is a positive relationship between HRM practices and productivity with the mediating role played by employees' social skills. Five regression analysis assumptions were tested to carry out the complete model analysis. The multivariate normality was measured using a histogram, and the model was found to be normally distributed. Moreover, to measure the distribution of errors, it was found that the pointed plots were close to the straight line, which showed that the errors in this study were usually distributed. The third assumption was tested using the scatter plot, which showed that the points were scattered randomly and had no pattern, thus showing a normal bivariate distribution. The fourth assumption was measured using Durbin-Watson to find out the auto-correlation. The results showed a value of 1.703, which showed a positive autocorrelation in the present study sample. Finally, the fifth assumption was to test the multi-collinearity, in which it was found that the score for tolerance was 0.550, and the score for VIF was 1.819. These results showed that the model possessed a moderated degree of multi-collinearity. Finally, the mediation analysis also showed that the value of β in step 4 is lesser than that of β_1 , which pointed towards mediation. These results are consistent with the results in previous research like Hassan (2016), Abulkasim et al. (2016), Nadeem et al. (2014), Tiwari and Saxena (2012), Moideenkutty et al. (2011) and Patel and Cardon (2010) in which positive relationship between the three variables in the study was highlighted. Thus, H4 was accepted.

Future Directions

Future research should carry out longitudinal research to see the effects of HRM practices and social skills on labor productivity in the long run. Moreover, the current study chose all the employees as the unit of analysis. Future research could look at the effects of HRM practices on labor productivity from the perspective of managers and employees separately and then compare the results to get exciting findings. Also, the current study found that HRM practices and social skills have significantly positive but moderate effects on labor productivity in the manufacturing sector of Pakistan. Future studies may investigate the moderating role of political skill (Shahzadi et al., 2017) in this mechanism. This means that other factors have a vital role in shaping the productivity of this sector's employees. Future research should conduct an exploratory study to determine what factors affect employees' productivity in Pakistan. Finally, social skills and their effects should be further explored to see their role in shaping organizational employee performance. Previous research (Qadeer et al., 2011, p. 230) found that "the private institutes are not much different from the public ones" regarding HRM practices. Nevertheless, we propose that the consequences of HRM practices should also be studied in other sectors of Pakistan, such as services, educational settings, banking, etc.

Conclusion

As organizations worldwide realize the importance of choosing the best HRM practices for their human resource to gain a competitive edge in the market, the severe need to improve the overall human resource management system and adopt better HRM practices is also growing in Pakistan. It has become increasingly vital for companies to match the standards of human resources in the market if they want to achieve a competitive edge there. This study aimed to study the effects of HRM practices like staffing, training, and decentralized decision-making on labor productivity in Pakistan's manufacturing sector. Moreover, since the employees require not only technical skills to do their jobs efficiently but also good social skills like collaboration with their team members and networking to carry out their tasks effectively, the study also looked at the effects of these skills on their productivity. Social skills were taken as the mediating variable in the current study.

The research was carried out using a quantitative approach, and 227 respondents participated from six companies from the manufacturing sector of Pakistan. The results revealed that the relationship between HRM practices and labor productivity was significantly positive, which showed that a better-developed human resource management system could benefit the organization's labor productivity and, in turn, their profits and the market position. When an organization hires the best fit for the position at hand, provides those employees with the necessary on-the-job training to make them comfortable with their work environment, encourages them to participate in the making of important decisions related to their workplace, and motivates them to do well, the productivity and performance of the employees automatically improves. They feel a sense of belonging and comfort in their workplace and want to play their part in achieving their goals and competitive edge in the market.

Similarly, a positive and significant relationship between social skills and labor productivity was found in the current study, implying that along with HRM practices, companies should also invest in improving the social skills of their employees. Social skills like collaboration and networking help employees, especially those working in teams, to interact better with their colleagues. They learn to understand each other, appreciate their similarities and respect their differences. Thus, they learn to empathize and develop a relationship based on understanding and trust. Moreover, social skills allow employees to work together in a friendly manner and share helpful information for effectively carrying out their jobs. This can improve the overall

performance of each team member and the team working towards achieving organizational goals.

Thus, the current study concludes a significantly positive relationship between HRM practices and labor productivity. Previous research has also confirmed the favorable consequences of HRM practices for job embeddedness, perceived organizational support, trust, and performance (Fatima et al., 2015). This study's mediating variable, employees' social skills, also plays a significantly positive mediating role. Hence, organizations in Pakistan should develop their human resource management system, adopt the best HRM practices, and encourage skills improvement in their employees if they want to gain a competitive edge in the market and compete with global businesses.

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