

The Effect of High Performance Work Systems on Organizational Performance: A Case Study of Two Commercial Banks in Sri Lanka

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Introduction

There is rising interest in using HPWS practices, because evidence showed that organizations that implemented such systems recorded remarkable success, especially in organizations in the Western context (Chow, 2005; Wickramasinghe & Gamage, 2011). Recent theoretical advances in the HPWS field suggest that the debate should be taken further to improve our understanding of the processes through which HPWS influence OP (Chuang & Liao, 2010). Although extensive research has generally documented a positive relationship between HPWS and OP, there is a dearth of literature on how HPWS are operationlized across the management hierarchy and achievement of OP through clear, consistent and relevant HRM messages (Bowen & Ostroff, 2004; Stanton, Young, Bartram, & Leggat, 2010).

Research Problem

The problem focused in this research is how HPWS strength impacts OP from the perspectives of organizational participants including senior, middle, and supervisory level managers in two Sri Lankan banks.

Objectives

The objectives of this study are to investigate the implications of HPWS strength on OP from the managerial perspective and to identify the impacts of Sri Lankan economic, cultural, political, legal and technological factors on the operationalization of HPWS in the banking industry in Sri Lanka.

Theoretical Considerations and Empirical Evidence

Most researchers now agree on the rejection of the main assumption that HPWS directly lead to OP. Rather they influence firm resources, such as

the human capital of the firm, or employee attitudes and behaviors. It is these employee attributes that ultimately lead to OP (Guest, 2011). The intermediate linkages and processes, through which HPWS affect OP, have challenged researchers to define and examine their rationale that opens “the black box” between HPWS and OP. Bowen and Ostroff (2004) introduce the construct “strength of the HPWS (strength of the HRM system in their research)” and describe the main features of an HPWS that result in a strong organizational climate in which individuals share a common interpretation of what behaviors are expected and rewarded. This, in turn, leads to OP at the collective level. According to their argument, the contribution of HPWS (HRM system in their research) to OP is determined not only by the choice of HPWS, but also by features of HPWS. Therefore, the HR department needs to create an HPWS that is perceived as distinct, consistent, and unambiguous by employees. If an HPWS possesses these features, it creates a strong HPWS which facilitates the strong relationships between HPWS practices, employees’ attitudes, and individual performance and contributes to OP (Delmotte, De Winne, & Sels, 2012). The strength of the HPWS can help explain how individual employee attributes accumulate to affect OP (Bowen & Ostroff, 2004).

Compared to other leading countries in the Asian region, only a small number of researches have explored the impacts of HPWS practices on OP in Sri Lanka (e.g., Caspersz, 2006; Wickramasinghe & Gamage, 2011). The picture of the operationalization of HPWS in Sri Lanka is ambiguous since the lack of research done. As Wickramasinghe and Gamage (2011) suggest we need more research to explore the impacts of HPWS practices in Sri Lanka to understand the relative effectiveness of HPWS in the Sri Lankan context. According to Boxall (2012), the researchers can contribute to the HPWS literature when they help us understand the applicability of different work systems in different contexts and why. Moreover, they can add value through analysis of the chain of links that exists inside the ‘black box’ of HRM. This study attempts to add value to the both lines of analysis by explaining the black box relationships between HPWS and OP examining the relative effectiveness of HPWS in the Sri Lankan context.

Methodology

The data for this study were collected from the banking sector and the sample comprises two licensed commercial banks (LCBs) in Sri Lanka. The researcher used the case study research approach for data collection with

archival analysis of records and semi-structured interviews with the CEO, Head of HR, board members and three focus groups. The researcher used Chuang and Liao's (2010) framework to measure HPWS practices. In this study, the researcher utilized the Bowen & Ostroff (2004) framework to analyze HPWS strength in each of the case study organizations. As per Ricardo and Wade (2001), the term OP includes effectiveness, efficiency, economy, quality, consistency, behavior and normative measures. This research focused on organizational effectiveness (OE) and measured perceived OE in a broad way: organizational members' perceptions of the degree of overall success, labor productivity, innovativeness of the organization and financial performance. The dimensions of the Sri Lankan environment which the researcher examined include: the economic environment, cultural environment, political environment, legal environment and technological environment.

The Key Findings and Conclusions

Application of HPWS Practices in the Banking Sector in Sri Lanka

The researcher first sought to identify perceived HPWS practices versus implemented HPWS practices that were distinctive to each case and the following is the summary of the researcher's findings across sites. The researcher didn't find any "distinctive practices" but did find "common practices (e.g., staffing, involvement/participation, training & development, performance appraisal, compensation/reward, and caring)" in two case study banks in Sri Lanka.

The HPWS Strength

The distinctiveness of the HPWS in case study 1 (CS1) was strong. In terms of consistency, instrumentality was good as the HPWS ensured adequate incentives for desired behaviors of employees. There were consistent HR messages because there was an organizational and HRM strategy which led to clear communication across the organization. The consistent HR messages fostered consensus among employees in CS1. Case study 2 (CS2) had an HPWS that was highly visible and understandable because of the amount of training given to managers and the team communication. The HPWS was seen to be legitimate because of the HRM professionals' involvement in the strategic planning process. The high levels of HRM

training, the amount of support provided by the top leadership, the team concept and the link between desired behavior of the employees and outcomes would appear to suggest that HR practices in CS2 were seen as valid and instrumental. There appeared to be consensus across the management levels on the role and practices of HPWS in CS2. Overall consistency and consensus did not appear to be a major problem in this organization.

The Implication of HPWS Strength for Perceived OE

In general, respondents across all the case study sites strongly believed that HPWS strength did impact OE. All the managers in the two case study sites reported, “HPWS strength can contribute to OE by motivating employees to adopt desired attitudes and behaviors.”

The Impact of Contextual Factors on the Operationalization of HPWS in the Sri Lankan Banking Industry

The Economic Environment

The level of economic development was not conducive for the operationalization of some dimensions (e.g., compensation) of HPWS in Sri Lanka. As HR managers noted, “Actually we want to offer higher salaries and benefits for our employees but as organizations in a developing nation we have limitations”. But human capital development had positive impact on the implementation of HPWS in Sri Lanka.

The Cultural Environment

The researcher found a considerable impact of national culture on the operationalization of HPWS in Sri Lanka. The Chairman of the CS1 noted, “It is very difficult to practice the team concept here since employees are more focus on the individual growth and development”. However, the researcher found totally different scenario in the CS2. As the HR manager noted, “Our employees prefer to work in teams and the team culture is a unique advantage in our bank”.

Political and Legal Environment

According to the research findings of the two case studies, the political environment is not much affected on the operationalization of HPWS even though state efficiency was low in Sri Lanka (Global Competitiveness Report, 2013). The legal environment had mixed impacts on the implementation of HPWS in Sri Lanka because of the flexibility of hiring and the restrictiveness of firing.

Technological Environment

Technological environment was very supportive to the implementation of HPWS in Sri Lanka. As the HR manager at the CS1 noted, “Especially IT is a value adding initiative. IT development is very good in Sri Lanka and therefore it is very much helpful to the operationalization of HPWS in our bank”. All the participants in the two case studies agreed on the point.

Implications of the Findings of the Study

Findings from this study have several important implications for theory and practice, particularly as they relate to managerial roles. There were consistent findings across the case studies concerning the importance of a strong commitment by senior leadership including functional heads. Further, it is important for all the managers in the managerial hierarchy to transmit relevant, consistent and valid HRM messages and information across the organization. The findings provide evidence of the global applicability of HPWS, although more research is needed to clearly specify the contextual boundaries of HPWS effectiveness.

Keywords: Banks; Banking Industry; Commercial Banks; High Performance; Sri Lanka

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