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# The effect of high performance work system strength on organizational effectiveness

## Opportunities for international joint ventures by foreign firms

Effect of high performance work system

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### Abstract

**Purpose** – This paper aims to examine the implications of high performance work system (HPWS) strength from a managerial perspective and the impact of economic, cultural, political, legal and technological factors on the operationalization of HPWSs in the banking industry in Sri Lanka.

**Design/methodology/approach** – The data for this study were collected from three licensed commercial banks in Sri Lanka. This research used a case study approach for data collection with archival analysis of records and semi-structured interviews with the CEO, head of HR, two board members and three focus groups (top, middle and lower level managers across various functional areas) in each bank which altogether covers 66 key informants.

**Findings** – The findings supported the research proposition that to gain positive outcomes on organizational effectiveness, there should be a strong HPWS, resulting in a positive attitudinal climate among employees. Further, the findings provide evidence of the global applicability of HPWSs, although more research is needed to clearly specify the contextual boundaries of HPWS effectiveness.

**Originality/value** – Contemporary research provides ample evidence to endorse the contribution of high performance work systems toward organizational effectiveness. However, there is a dearth of literature on how high performance work systems are operationalized across the management hierarchy and support the achievement of organizational effectiveness. Few studies have been conducted on high performance work system strength and organizational effectiveness in emerging economies.

**Keywords** Sri Lanka, Banking industry, High performance work systems, Organizational effectiveness, High performance work system strength

**Paper type** Research paper

### Introduction

In recent years, a substantial body of research has focused on the association between human resource (HR) practices and organizational performance. The intermediate linkages and processes through which the human resource management (HRM) system affects organizational performance have become a key concern in management studies over the past two decades (Boxall and Huo, 2019; Bowen and Ostroff, 2004; Delmotte *et al.*, 2012;



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Guest, 2011). Bowen and Ostroff (2004) have criticized the one-sided focus on HRM content and argued that HRM processes should be taken into account. They argued that the contribution of HRM to organizational performance is determined not only by the choice of HR practices but also by features of HRM processes. According to Bowen and Ostroff (2004), these HRM processes should send signals to employees that convince them to form a collective sense of what is expected. If HRM processes succeed in this objective, a strong HRM system is created, which facilitates the relationships between HR practices, employees' attitudes and individual performance and contributes to organizational performance. Following Bowen and Ostroff's (2004) path, Sanders *et al.* (2008) examined whether individual perceptions of an HRM system – distinctiveness, consistency and consensus – and shared perceptions of HRM (climate strength) are positively related to affective commitment in the organization. Their findings showed that the perception of distinctiveness, consistency and climate strength, as expected are positively related to affective commitment. Li *et al.* (2011) examined how employee perceptions of HRM system strength and organizational climate are associated with employees' work satisfaction, vigor and intention to quit. The distinctiveness of an HRM system was found to be related to the three employee work attitudes, and high climate strength increases both the positive relationship between consensus and work satisfaction and the negative relationship between consensus and intention to quit. Delmotte *et al.* (2012) also argued that the characteristics of high performance work systems (HPWSs) might enhance insights into the HRM–organizational performance relationship because it measures perceptions regarding the signals sent by HRM, which are antecedents of actual behavior of employees.

Recent studies suggest that the current theoretical challenge facing HRM scholars and practitioners has moved from establishing a link between HR practices and organizational performance to determining how that link is articulated (Boxall and Huo, 2019; Delmotte *et al.*, 2012; Stanton *et al.*, 2010). In particular, it is important to understand how the HRM system is translated, understood and transmitted within and across the organizational hierarchy (e.g. senior management, middle management, line management and employees) and its contribution to the achievement of business goals and improved organizational performance (Becker and Huselid, 2006; Bowen and Ostroff, 2004; Macky and Boxall, 2007). When the HRM system is weak, individuals can create their own versions of HRM practices which will guide their behavior, resulting in larger variability in the outcomes. Further, due to the uncertainty created, employees will collectively create their own interpretation, which is different to what was intended by the management. Moreover, there is growing evidence that the role of middle and line management is also critical to the success of any HR strategy (Mayrhofer *et al.*, 2004; Purcell and Hutchinson, 2007). The findings of Stanton *et al.* (2010) suggested that the role of the CEO is crucial in providing HR legitimacy, leadership and resources that create a distinctive HR system, and in nurturing within group agreement and consensus among the senior executive team on the role of HR. In turn, senior managers need to translate consistent HR messages throughout the management hierarchy and provide lower level managers with the formal and informal direction, support and empowerment to operationalize HR strategy. However, according to Bowen and Ostroff (2004) and Stanton *et al.* (2010), there is a dearth of literature on the interaction of the various levels of management and how this interaction translates into both the operationalization of HRM and the achievement of organizational goals through clear, consistent and relevant HRM messages.

Sri Lanka possesses a vibrant banking industry where banks of the country are categorized into two main segments, namely, licensed commercial banks and licensed specialized banks. The former segment consists of 26 banks while the latter segment

consists of seven banks (Central Bank of Sri Lanka, 2018). This study endeavors to answer the research question of how HRM is understood, interpreted and operationalized across the management hierarchy and examines the “black box” of HRM–organizational performance relationship in the banking industry in Sri Lanka. Furthermore, this study also investigates the impacts of Sri Lankan economic, cultural, political, legal and technological factors on the operationalization of HPWSs in the banking industry in Sri Lanka. Hence, researching the implications of HPWS strength on organizational effectiveness (OE) from the managerial perspective in the banking industry in Sri Lanka is very important to the practitioners in HRM and to the academicians concerned with understanding the relative effectiveness of HPWS strength in the Sri Lankan context.

HRM has increasingly been recognized as a critical segment of international business operations (As-Saber *et al.*, 1998; Dowling *et al.*, 2017). Effective use of available HR in a volatile business environment is particularly critical for the success of any such operation. The international joint venture is often considered as an entity with a complex set of HR practices (As-Saber *et al.*, 1998). Because of a significant level of interaction among employees from the collaborating firms, international joint venture (IJV) partners need to take utmost care in dealing with HR issues. To achieve success, partners in an IJV need to reach an understanding on the role of HR practices. The study also identifies how a small population emerging economy (SPEE) like Sri Lanka could emerge successfully through expanding international business opportunities with an understanding on the contextual impact on the operationalization of HPWSs in ensuring IJV success.

Accordingly, data for this study were collected from three licensed commercial banks in Sri Lanka. This research used a case study approach for data collection with archival analysis of records and semi-structured interviews with the CEO, Head of HR, two board members and three focus groups (top, middle and lower level managers across various functional areas) in each bank which altogether covers 66 key informants. The rationale behind the selection of licensed commercial bank segment for this study is that it is the most prominent segment of banks in the country that accounts for a steady increase of assets from LKR 1,560,020m in year 2006 to LKR 10,372.4bn by end of year 2018. Moreover, the branch network of licensed commercial banks represents 2,876 branches in contrast to the branch network of licensed specialized banks that accounts for only 696 branches (Central Bank of Sri Lanka, 2015, 2018).

### Literature review

Over the past few years, there has been growing research interest in the competitive advantage associated with HPWSs (Boxall and Huo, 2019; Boxall, 2012; Guthrie *et al.*, 2009). There is sufficient research implying that both individuals and organizations can enjoy positive benefits from HPWSs (Appelbaum *et al.*, 2001; Guthrie *et al.*, 2009; Messersmith and Guthrie, 2010; Werner, 2011; Wickramasinghe and Gamage, 2011). However, the intermediate linkages and processes, through which HPWSs affect organizational performance, have challenged researchers to define and explain the “black box” between HPWSs and organizational performance. More recently, Boxall and Huo (2019) and Guest (2011) argued that more research is needed to understand the underlying processes and mechanisms involved in HPWS effects. Looking inside the “black box” of HRM–organizational performance relationship, Wright and Nishii (2007) developed the HR causal chain to study the set of linkages between HRM and organizational performance. The HR causal chain underlines some important facts about managers improving the HPWS–organizational performance linkage (Boxall and Macky, 2007). Their HR causal chain has five steps, moving from intended HR practices, leading to actual HR practices, leading to

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perceived HR practices, leading to employee reactions, and leading finally to organizational performance.

As stated by [Boxall \*et al.\* \(2011, p. 1508\)](#):

This model underlines the fact that there can be major gaps between management intention and management action that are damaging to employee attitudes and behavior and ultimately to performance, a problem that can exist in any model of HRM, whatever the level of investment in pay, working conditions, and employee development.

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To better understand the “black box”, we need in-depth research studies which identify the psychological and organizational climates that management is trying to create in a particular context. This study unlocks the “black box” of HRM–organizational performance relationship and shows a clear picture of how HRM practices/HPWSs have an impact on organizational performance. In accordance with the research findings, it is clear that HPWSs produce positive outcomes in the Western economies ([Bartram \*et al.\*, 2007](#); [Fabling and Grimes, 2010](#); [Harley \*et al.\*, 2007](#); [Liao \*et al.\*, 2009](#); [Nishii \*et al.\*, 2008](#); [Wood and Menezes, 2011](#)). However, there is still a debate on the HPWS–organizational performance relationship due to some contradictory research findings ([Macky and Boxall, 2008](#); [Osterman, 2006](#); [Wood and Menezes, 2011](#)). As [Guest \(2011, p. 3\)](#) has stated, “there was insufficient evidence to explain why there was an association”. [Boxall and Macky \(2009: p. 11\)](#) have suggested that:

HPWS studies which constitute some kind of argument about context-free “best practice” are fatally flawed. On the other hand, HPWS studies which start from an industry-based analysis are empirically grounded and much more conscious of the need to specify how work reforms are meant to affect employee attitudes and behavior.

Although some Asian countries were studied to link HPWSs to organizational performance ([Caspersz, 2006](#); [Chow \*et al.\*, 2013](#); [Chow, 2005](#); [Chuang and Liao, 2010](#); [Lawler \*et al.\*, 2011](#)), most of those studies used the Western high performance work practices or focused exclusively on foreign subsidiaries heavily influenced by their Western counterparts. Compared to other countries in the Asian region, only a small number of studies have explored the impacts of HPWSs on organizational performance in Sri Lanka ([Caspersz, 2006](#); [Wickramasinghe and Gamage, 2011](#)). Furthermore, information on the operationalization of HPWSs in Sri Lanka is also limited. [Wickramasinghe and Gamage \(2011, p. 517\)](#) have noted that:

The picture is, however, unclear for Asian developing economies. Only a small number of empirical studies have explored employee involvement work practices in Asian countries. Therefore, there is a need to explore employee involvement work practices in different industrial sectors in different parts of the world. Such studies will provide useful information for practitioners and academics alike, and consequently, could be the basis for further research of both a qualitative and quantitative nature.

As [Wickramasinghe and Gamage \(2011\)](#) have suggested, we need more research to explore the impacts of high performance work practices in Sri Lanka to understand the relative effectiveness of HPWSs due to the lack of empirical studies conducted on this concept in the Sri Lankan context. The findings from this study will potentially facilitate future comparison of HPWSs and its impact on organizational performance in Asia as well as in the West. Researchers can contribute to the HPWS literature when they help other researchers and managers to understand the applicability of different work systems in different contexts. Researchers can also add value through the analysis of “black box” relationships between HPWSs and organizational performance ([Boxall and Huo, 2019](#);

Boxall, 2012). This study addresses both lines of analyses and attempts to contribute to the research literature by examining the “black box” relationships between HPWS strength and OE and the relative effectiveness of HPWSs in the Sri Lankan context.

It should be noted that Sri Lanka was one of the first developing countries to emphasize the importance of investing in HRM. As a result, Sri Lanka has relatively well-developed HRM systems and processes within many of its industries and consequently has achieved human development outcomes consistent with higher income countries (Chandrakumara and Budhwar, 2005). Both the Sri Lankan Government and private sector organizations have recognized the importance of the role that HRM plays in the nation’s growth and in achieving a sustainable competitive advantage in the global marketplace (Chandrakumara and Budhwar, 2005). However, the scarcity of research on HRM practices in Sri Lankan organizations limits the ability to see the big picture on the contribution of HR practices on organizational performance in the Sri Lankan context (Akuratiyagamage, 2007; Opatha, 2019; Wickramasinghe and Gamage, 2011). To date, there has been little discussion about how HPWS is understood, interpreted and operationalized in Sri Lankan organizations (Caspersz, 2006; Wickramasinghe and Gamage, 2011). Compared to other leading countries in the Asian region, only a small number of researchers have explored the impact of HPWS practices on organizational performance in Sri Lanka (Wickramasinghe and Gamage, 2011). Relevant and updated information on the operationalization of HPWSs in Sri Lankan organizations is limited because of the lack of research on the relationship between HPWSs and organizational performance in Sri Lanka.

There is a strong relationship between foreign direct investment (FDI) and economic growth of a developing country (Alaraj *et al.*, 2018; Kingkaew and Dahms, 2018). Sri Lanka needs larger inflows of FDI to achieve a sustainable high trajectory of economic growth. To date, the Sri Lankan record of FDI has been far below expected levels and low in comparison with many other Asian countries (Harvard CID, 2018). In recent years, IJVs have attracted considerable attention among both scholars and practitioners. While IJVs have been considered to be one of the most attractive forms of FDI (Kale and Anand, 2006), an examination of IJV failures and the reasons for their establishment indicates that the quality of HRM can be critical (Schuler, 2001). In widening a firm’s strategic focus beyond the confines of its national boundaries, the human element becomes paramount (Dowling *et al.*, 2017). Although there has been much scholarly and popular debate on the transfer of management practices in the context of Europe and America, less attention has been paid to Asian countries (Wickramasinghe, 2007). Similarly, limited attention has been paid to understand differences in HRM practices and the transfer of HRM practices in FDI (Wickramasinghe, 2007). Specifically, no studies have been conducted on the impact of HPWS strength on OE in Sri Lanka where international business operations have been increasing due to globalization. This study provides useful information on contextual impacts on the operationalization of HPWSs in Sri Lanka and to assist foreign investors to gain a better understanding of successful transfer of HRM in IJVs in Sri Lanka.

## Methodology

This research is an empirical, exploratory study. A qualitative inquiry has been adopted through the use of case study method. As reported by Yin (2009), case studies give us rich empirical evidence relating to a particular phenomenon that is based on multiple data sources. As noted by Eisenhardt and Graebner (2007), case study research generates rich qualitative evidence. By adopting an in-depth, comparative case study method, this research investigated the impacts of HPWS strength on OE. In addition, the researchers investigated how Sri Lankan economic, cultural, political, legal and technological factors impact on the



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operationalization of HPWSs. It is important to investigate the impact of the above-mentioned macro-economic factors because Sri Lankan enterprises are highly sensitive to changes in these factors. For instance, the highly unpredictable fiscal policy of the government has affected enterprises and the general public. It is also important to note that labor legislation in Sri Lanka has a clear emphasis on protecting employee rights. Disciplinary action based on employee performance is often challenged in Sri Lankan labor tribunals. On the basis of three case studies, this research also examined the role of the context on the operationalization of HPWSs in ensuring IJV success. International joint ventures are an increasingly important way for organizations to expand internationally. With so many reasons for entering into IJVs, organizations want them to be as successful as possible. Examination of many IJV failures indicates that the quality of HRM can be critical (Dowling *et al.*, 2017; Schuler, 2001). In recent years, American-style HPWSs have become the dominant global HR system. Research findings suggest that high-growth economies may act as incubators for HPWSs, and companies entering high-growth markets are likely to find an environment conducive to HPWS implementation (Lawler *et al.*, 2011). These research findings suggest the researchers to investigate how contextual impact on the operationalization of HPWSs in a SPEE like Sri Lanka could help to succeed in international business opportunities regarding HPWS/HRM strategy.

Case study evidence in this study was collected from direct one-on-one interviews and focus group interviews. However, multiple sources of evidence were used simultaneously (Creswell, 2009; Eisenhardt, 1989). The use of secondary sources such as written documents and records, annual reports and bank websites were taken into consideration. The data for this study was collected from the banking industry and the sample comprised three privately owned licensed commercial banks in Sri Lanka. The banking industry in Sri Lanka is an important part of the overall services industry and has expanded rapidly, both in terms of the volume of activity and the variety of services provided to the public (Central Bank of Sri Lanka, 2015, 2018). The cases were chosen to replicate previous cases and extend emergent theory (Eisenhardt, 1989). HPWS is likely to be effective when industry and firms have a clear interest in changing toward an HR systems approach which increases the empowerment, skills and rewards of both production and service employees (Boxall and Macky, 2007). Therefore, the selection of the banking industry which uses HPWS practices is a relevant context to test this theoretical proposition which has not been tested in the Sri Lankan context. Moreover, the banking industry has proven to be a good choice for HPWS research in previous studies (Bartel, 2004; Liao *et al.*, 2009). Cases were selected from the banking industry to allow the researchers to control environmental variation. According to Eisenhardt (1989), selection of an appropriate population controls extraneous variation and helps to define the limits for generalizing research findings.

Multiple case studies were selected to avoid possible single-case bias and gain better insights of all relevant issues. Further, a case study strategy helped to capture the complexity and dynamism of high performance work practices and processes. This permitted the researchers to identify the reality of HPWS operationalization in the banking industry in Sri Lanka. According to Stanton *et al.* (2010) and Purcell and Hutchinson (2007), research conducted at the organizational level identifies complex connections and relationships between managers and employees that cast light on the reality of HRM operationalization and opens up new dimensions for investigation. Prior theories were used to focus the case study outcomes, and the existing literature helped in the interpretation of the results of these case studies (Eisenhardt, 1989).

Analyzing data is the heart of case study research and also the most difficult part of the process. Unlike a survey, case studies use processes that spread data collection and analysis

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through the study (Eisenhardt and Graebner, 2007; Eisenhardt, 1989). Qualitative research relies on transforming information from reports and recordings into data in the form of written words. Hence, the researchers used thematic analysis, content analysis and narrative description tools to analyze the qualitative data of the research.

## Results

### *Application of HPWS practices in the banking sector in Sri Lanka*

The researchers first sought to identify the implemented high performance work practices that were distinctive to each case study bank, and the following is the summary of the researchers' findings across the case study sites. The researchers did find "common practices (e.g. staffing, involvement and participation, training and development, performance appraisal, compensation, and caring)" in three case study banks in Sri Lanka. This is not a surprise finding because Sri Lankan managers are ardent believers and practitioners of Western management methods in their business activities (Chandrakumara and Budhwar, 2005). The researchers found a gap between the "talk" of the HR manager and the "walk" of the other participants in case study Bank B – especially regarding the strategic alignment of high performance work practices and the corporate strategy of the bank. Bank A and Bank C had aligned almost all their HRM practices with the corporate strategies of other banks. However, Bank B had some problems with regard to the alignment of HR practices with the corporate strategy of their bank. The researchers did not find any banks that had HPWS benchmarking in their bank. As stated by Delmotte *et al.* (2012), HR or HPWS benchmarking is valuable for HR staff because it allows HR professionals to compare internal customers.

The researchers did not find any "distinctive practices" but they did find "common practices" in three case study banks in Sri Lanka. The Head of HR of Bank-C described the high performance work practices of their bank as follows:

Actually, it is a very broad question. We basically are going to be the best bank in the banking industry in Sri Lanka and going to be the best national bank in Sri Lanka. The number one value adding point is the people. So, I think in our bank in HR we have aligned all the key results areas to meet that goal. We use people as the differentiating factor in achieving our goals. We have very cordial relationships with the employees and our union employee representatives are also at the enterprise level. In terms of the HRM practices of the bank, let us go one by one. I start with recruitment. Then we have selection, induction, performance management, training and development, rewards, grievance handling and employee relations. Most of these practices are online. We have all the HRM practices which have been listed in this check list.

When the researchers asked, "Do you see any differences in HRM practices between your bank and other banks in the industry?" He answered:

In the bank industry in Sri Lanka we have almost the same HRM practices. As Heads of HR, we often meet at conferences and workshops and share our ideas with others. I find some differences in the terminologies and the way they practice HRM in their banks.

The researchers noted conformity of perceptions on the implementation of high performance work practices between the Heads of HR and the other participants (CEO, two participants of the Board of Directors, focus groups 1, 2 and 3) in Bank A and Bank C. One of the top level managers of Bank A (BAT-1) stated:

We are practicing all the HRM practices in this check list. However, sometimes there are differences in the terminologies. For example, we use the term "Grievance Handling" in our bank for the term "Caring" you have used in your check list.



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All other participants of Bank-A had similar perceptions about the implemented high performance work practices in the bank.

#### *HPWS strength*

The distinctiveness of the HPWS in case study 1 (Bank A) 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 bank. The consistent HR messages fostered consensus among employees in Bank-A. Case study bank 2 (Bank B) had a HPWS that was less visible and legitimate. This led to managerial inconsistencies in the understanding, interpretation, communication and application of HR processes and procedures. These differences in application sometimes led to disputes which reduced OE. Case study bank 3 (Bank C) had a HPWS that was highly visible and understandable because of the training given to managers and the effective team communication. The HPWS was seen to be legitimate because of the involvement of "HRM professionals" in the strategic planning process. The high levels of HRM training, the amount of support provided by top management, the team concept and the link between desired behavior of the employees and outcomes would appear to suggest that HR practices in Bank C were regarded as valid and instrumental. There was a consensus across the management levels on the role and practices of HPWS in Bank C. Overall consistency and consensus did not appear to be a major problem in Bank C.

According to the findings, a strong HPWS is characterized by high distinctiveness, consistency and consensus. A distinctive HPWS means that employees of the organization perceive visible, understandable and relevant HR practices which are managed by a high status and credible HR function. Further, a HPWS needs to be perceived as consistent. HR policies and practices should be implemented as intended and need to be internally consistent. Top managers, line managers and HR employees in an organization should be involved in the effective implementation of HR and consensus among these HR decision-makers. This is needed to create a strong HPWS. Based on the findings, the researchers argue that the key to creating a strong HPWS or HRM system is to encourage all levels of the managerial hierarchy to "sing the same song" (Stanton *et al.*, 2010). This requires high-level leadership based on within-group agreement that transmits relevant, consistent and valid HRM messages and information across the organization. Managers at all levels of the organization also need to be provided with the relevant training that can enhance their dual responsibility as operational managers as well as people managers.

#### *The impact of HPWS strength for perceived OE*

In general, respondents across all the case study sites strongly believed that HPWS strength did impact on OE. All the managers in the three case study sites reported that HPWS strength can contribute to OE by motivating employees to adopt desired attitudes and behaviors. HRM practices are one of the primary means to encourage employees to display appropriate role behaviors that contribute to organization success (Lepak *et al.*, 2006). When the HPWS creates a strong situation for employees they share a common interpretation of what behaviors are important, expected and rewarded. This strong climate in turn, collectively guides the behaviors of individuals toward OE. The results of this study observed that the level of HR strength will have an effect on organizational climate and will therefore be a positive booster of OE. The findings of

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the current study are consistent with those of [Bowen and Ostroff \(2004\)](#) and also [Delmotte et al. \(2012\)](#).

*The impact of contextual factors on the operationalization of HPWSs in the Sri Lankan banking industry*

The current level of economic development was not conducive for the operationalization of some dimensions (e.g. compensation) of HPWSs in Sri Lanka. However, human capital development had a positive impact on the implementation of HPWSs in Sri Lanka. The researchers found a considerable impact of national culture on the operationalization of HPWSs in Sri Lanka. The cultural environment had mixed influences on HPWS implementation. Cultural values like collectivism positively influenced the implementation of HPWSs in Sri Lanka and individual- oriented work ethics and employee dependency on the organization had a negative influence on the implementation of HPWSs. This result confirms [Scott's \(2008\)](#) argument which highlighted that work practices can be developed and complied with in organizations due to cultural norms. In addition, some employees highly value monetary rewards and this orientation reduces the concept of collectivism among staff members. The research findings of the three case study banks indicate that the operationalization of HPWSs was not influenced by the political environment even though state efficiency is low in Sri Lanka. The legal environment had mixed impacts on the implementation of HPWSs in Sri Lanka because of the flexibility of hiring and the legal restrictions with regard to dismissing employees. The technological environment was very supportive to the implementation of HPWSs in Sri Lanka. In particular, IT is a value-adding initiative to the banking industry and it facilitates the operationalization of HPWSs in the banking industry in Sri Lanka.

## Discussion

The application of high performance work practices in the banking industry in Sri Lanka was identified using the [Chuang and Liao \(2010\)](#) framework along with the pilot study information. “Distinctive practices” did not exist in any case study banks but “common practices” (e.g. staffing, involvement and participation, training and development, performance appraisal, compensation, caring/grievance handling, safety and health and work-life balance) existed in these case study banks in Sri Lanka. This finding is not surprising as research by [Chandrakumara and Budhwar \(2005\)](#) reported that Sri Lankan managers are ardent believers and practitioners of Western (especially American) management methods in their business activities.

RQ2 of the study attempted to identify how high performance work systems are operationalized across the organizational hierarchy in the banking sector in Sri Lanka. The researchers examined the distinctiveness, consistency and consensus of the transmission of HR messages in the three Sri Lankan case study banks. Several interesting observations can be derived when strengths of HPWSs in Bank – A, Bank – B and Bank – C are compared. In the three case study banks, it was evident that the top management’s role, understanding and commitment to HR were crucial to creating a strong HR system. This finding is in line with that of [Stanton et al. \(2010\)](#) who found that the key to creating a strong HR system requires high-level leadership. The CEO bears a distinctive and significant role in HR to build a strong HR system for the organization. It was the CEO who gave HR legitimacy, provided leadership, committed resources and provided the links between organizational strategy and HR strategy. It was also the CEO who influenced intra and inter group agreement throughout the organizational hierarchy ([Bowen and Ostroff, 2004](#); [Stanton et al., 2010](#)).

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Bank B clearly demonstrated that rather limited intra-group agreement at the top level resulted in confused and inconsistent messages across all managerial levels. It is important to empower managers to become involved in HRM decision making at all levels of the organizational hierarchy. The requirement to delegate some authority (e.g. reward power) to middle and lower level managers to link employee behaviors with their performance was a visible problem in Bank B. It was clear that the provision of consistent, high-quality information to employees at the lower levels of the organization was considered to be a challenging task in all the case study banks. Bank C met this challenge by forming HR sub-committees to communicate the relevant information to lower-level employees. The experience of Bank A demonstrates that in smaller organizations, managers and HR worked more closely together which facilitated communication between managers and employees.

Bank C demonstrates the importance of developing the people management practices of managers. In Bank B, all the managers clearly requested participative HR decision-making, more autonomy and more responsibility. However, they were not given adequate support and training from HR. As stated by [Stanton \*et al.\* \(2010\)](#), providing resources and support may also increase trust within the management hierarchy. The findings from this research suggest that employee participation, involvement and communications schemes can only be meaningful and effective if employees operate in a climate that is seen as supportive of open communication and uses principles of legitimacy, consistency and fairness ([Bowen and Ostroff, 2004](#); [Stanton \*et al.\*, 2010](#)). These three case studies confirm an inadequate strategic alignment between the corporate strategy and HR practices. It is essential to consider an alignment of the employees' goals with corporate and HRM strategies ([Boudreau and Ramstad, 2007](#)). This can be achieved through the organization's capacity to obtain employee agreement with regard to organizational practices (e.g. HR practices, beliefs and organizational policies). In this sense, "a key factor is the increased value employees attribute to HR practices and leadership" ([Pereira and Gomes, 2012](#), p. 4316). This increases the probability of developing an organizational climate that can achieve greater organizational performance.

The researchers argue that the key to creating a strong HRM system is to encourage all levels of managerial hierarchy to "sing the same song" ([Stanton \*et al.\*, 2010](#)). As suggested by [Delmotte \*et al.\* \(2012\)](#) and [Stanton \*et al.\* \(2010\)](#), this requires high-level leadership based on within-group agreement that communicates relevant, consistent and valid HRM messages and information across the organization. Managers at all levels of the organization need to be provided with the relevant training that can enhance their responsibility as people managers.

The researchers examined the implications of HPWS strength for perceived OE from the perspectives of top, middle, and lower level managers in the banking sector in Sri Lanka. All the participants in the three case study banks rejected the direct impact of HPWS strength on perceived OE regarding the degree of overall success, labor productivity, innovativeness of the organization and financial performance (profitability, growth rate, and market share) endorsing the findings on HRM and OP relationships ([Guest, 2011](#)). Instead of the traditional view that HRM practices directly affect OE, a more contemporary view has emerged claiming HRM practices 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 OE ([Boxall and Huo, 2019](#); [Bowen and Ostroff, 2004](#); [Guest, 2011](#)).

In Bank A and Bank C, there was less ambiguity with regard to employees' perceptions of the strengths of HPWSs ([Bowen and Ostroff, 2004](#)). Due to this collective perception, employees will perform their activities with suitable behaviors which facilitate the emergence of strong organizational climate in these banks that ultimately lead to higher OE.

The results confirm that HPWS strength has an impact on organizational climate and ultimately on OE in both Bank-A and Bank-C. These results conform to theoretical propositions (Bowen and Ostroff, 2004) and empirical findings (Stanton *et al.*, 2010). In contrast, some ambiguity was visible with regard to the employees' perceptions on the strength of HPWS in Bank-B. Consequently, employees perform their activities with behaviors which do not help to generate strong organizational climate in the bank. It is these employee attitudes and behaviors that lead to poor OE. This finding also affirms that HPWS strength has an impact on organizational climate and ultimately to OE in Bank-B.

In general, respondents across all the case studies strongly believed that HPWS strength did impact perceived OE. All the managers in the three case study sites endorsed the view that HPWS strength can contribute to perceive OE by motivating employees to adopt desired attitudes and behaviors. HRM practices are one of the primary means to encourage employees to display appropriate role behaviors that contribute to organization success (Lepak *et al.*, 2006). Bowen and Ostroff (2004) argued that when the HRM system creates a strong situation for the employees, individuals share a common interpretation of what behaviors are important, expected and rewarded. According to their model, this strong climate in turn, collectively guides the behaviors of individuals toward more effective firm performance. The results of this study observed that the level of HR strength will have an effect on organizational climate and will therefore be a positive booster of organizational performance.

#### *The contextual impact of the operationalization of HPWSs in Sri Lanka*

The researchers also examined the impacts of Sri Lankan economic, cultural, political, legal and technological factors on the operationalization of HPWSs in the banking sector in Sri Lanka. This attempt was backed by the fact that HRM was the area of management most likely to be subject to national differences (De Cieri and Dowling, 2012; Dowling *et al.*, 2017; Rosenzweig and Nohria, 1994).

The level of economic development in Sri Lanka has proved to be not conducive for the operationalization of some dimensions (e.g. compensation) of HPWSs 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". However, human capital development has had a positive impact on the implementation of HPWSs in Sri Lanka. Furthermore, the considerable impact of national culture on the operationalization of HPWSs was obvious in Sri Lanka. The individualistic focus of employees at Bank B acted as an obstacle for driving a culture of teamwork where the CEO of Bank B noted, "It is very difficult to practice the team concept here since employees are more focused on individual growth and development". In contrast, this scenario was totally different in Bank C where the employees preferred teamwork and the bank recognized its team culture as a unique advantage. The HR manager of Bank C noted, "Our employees prefer to work in teams and the team culture is a unique advantage in our bank". According to the research findings of the three case studies, the political environment imposed a minimal effect on the operationalization of HPWSs. The legal environment had a mixed impact on the implementation of HPWSs in Sri Lanka because of the flexibility of hiring in the labor market (banks can recruit employees at any time because of the high youth unemployment rate in the country) and the legal restrictions on dismissal of employees. All the participants in the three case studies agreed that the technological environment was very supportive of the implementation of HPWSs in Sri Lanka. The HR manager at Bank A noted:

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Information technology (IT) is a value adding initiative. IT development is very good in Sri Lanka and therefore it is very helpful with regard to the operationalization of HPWS in our bank.

### *Contextual impacts on the operationalization of HPWSs in ensuring IJVs*

Recent studies have investigated the distance between countries in terms of attributes such as culture, administrative practices, geographic proximity and economic development (Ghemawat, 2001; Makino and Tsang, 2011). In this study, we used interview data from the banking industry to identify how a SPEE like Sri Lanka could expand international business opportunities. Using an understanding of how the Sri Lankan context may impact on the operationalization of HPWSs in IJVs could have a potential positive impact on the Sri Lankan economy by facilitating IJVs with Sri Lankan firms. As noted by Lawler *et al.* (2011), foreign companies entering high-growth developing economies experiencing high growth are likely to find an environment conducive to HPWS implementation. As per the research findings of this study, the level of economic development and its rate of economic growth and the level of per capita income of Sri Lanka to date have had a negative impact on HPWS implementation in Sri Lanka. This research finding suggests that low-growth economies may not act as incubators for HPWSs. However, human capital development showed positive impacts on the implementation of HPWSs in Sri Lanka. This effect appears in both advanced economies where the general level of education is high and in emerging economies that have invested heavily in education and training (Lawler *et al.*, 2011).

According to Chandrakumara and Budhwar (2005), Sri Lanka was one of the first developing countries to understand the significance of investing in HR. As a result, it has well-developed HR base and human development outcomes more consistent with those of higher-income countries. Due to the high competition in the industry, banks had to explore resources that helped in achieving business success. As demonstrated in the previous research, intangible assets such as human capital have the potential rather than other assets to achieve sustainable competitive advantage (Clulow *et al.*, 2003). The Head of HR of Bank C described the quality of the human capital of the bank as follows:

One positive factor is that the quality of our recruits is significantly high. The English language ability of our recruits is very good because of the education system in the country. In the past, we recruited people who just finished advanced level exam in the country. But now we need to recruit graduates. After recruiting, we encourage them to go for MBAs. Actually some employees want to go for even PhDs. In addition, our employees are very experienced and reason is our labor turnover is very low. Our employees do not want to resign the bank once they joined because of the benefits we are offering. Our benefits are high even though we are having limitations as a developing nation. So, human capital development of Sri Lanka has a positive impact on the operationalization of HPWS in our bank.

According to the research findings of the three case study banks, all other participants also had similar perceptions about the human capital in their banks and this well-developed HR offer a liberal and dynamic investment environment for IJVs.

The HRM practices normally used by employing organizations in a particular country are likely to be influenced by culture (Dowling *et al.*, 2017). With regard to cultural environment, Sri Lankans tend to mix both Asian and Western management philosophies and practices in business management. Sri Lankan managers are ardent believers and practitioners of Western, and especially American, management methods in their business activities (Chandrakumara and Budhwar, 2005). The researchers found a considerable impact of national culture on the operationalization of HPWSs in Sri Lanka. Research findings revealed that the Sri Lankan employees had the unique work and value orientations



toward their work and these work-related values have implications for HPWS practices. As per the research findings, security oriented upwards striving and extrinsic value orientation of Sri Lankan employees have a favorable impact on IJV stability in Sri Lanka. While individual growth oriented work norms of Sri Lankan employees may be less welcoming to HPWS implementation.

The political and legal environment appeared to exert at a modest impact on HPWS implementation in the banking industry in Sri Lanka. Employment laws in Sri Lanka often focus on employees and may explain the presence of an effect for restrictive labor laws for local investors but not for IJVs. Political environment was also not much affected to the operationalization of HPWSs in IJVs even though the state efficiency was not so good in Sri Lanka ([The Global Competitiveness Report, 2019](#)). Most importantly, these results indicate that IJVs can expect high success in implementing HPWSs in Sri Lanka.

Technological environment was much supportive to the implementation of HPWSs in Sri Lanka. IT development is very good in Sri Lanka and therefore it is very much helpful to the operationalization of HPWSs in Sri Lanka in IJVs. Therefore, it can be assumed that the role of the context on the operationalization of HPWSs in a SPEE like Sri Lanka may play in promoting foreign investors on selecting the IJVs as an entry strategy to invest in Sri Lanka.

### **Implications of the findings of the study**

This study examined the implications of HPWS strength for OE from the managerial perspective and focused on the impact of the Sri Lankan economic, cultural, political, legal and technological context on the operationalization of HPWSs in the banking industry in Sri Lanka. Findings from this study have several important implications for theory and practice, particularly as they relate to managerial roles.

#### *Contribution to theory*

The main contribution of this research was providing a theoretical foundation to explain how and why the HPWS–organizational performance relationship occurs. Previous HPWS research has been criticized for not providing a precise framework for the specific mechanisms through which HR practices influence organizational performance (the “black box” relationship) ([Boxall and Huo, 2019](#); [Boxall, 2012](#)). The researchers took the process approach to HPWS research to explain why and how HPWS is related to organizational performance and provided a more precise framework linking intended HR practices, actual HR practices and perceived HR practices. This is an important contribution in HPWS research and this research succeeds in doing so by examining how HPWS strength impacts on OE. The findings from this research also provide additional support for the work of [Bowen and Ostroff \(2004\)](#), [Takeuchi et al. \(2009\)](#) and [Nishii et al. \(2008\)](#) by examining HPWSs across various managerial levels to show how HPWSs are operationalized and experienced by managers. Our findings indicate that examining experiences of managers with HPWSs shows that the psychological processes through formal practices have a significant influence on employee attitudes and behaviors. Overall, this research shows that this could be a useful approach to unlocking the “black box” between HPWSs and organizational performance.

This research took a multi-dimensional approach to defining organizational performance by the members’ perceptions of the degree of overall success, labor productivity, innovativeness and financial performance (e.g. profitability, growth rate and market share). By doing so, this research supports “the multiple constituency approach” ([Oghojafor et al., 2012](#); [Roy and Dugal, 2005](#)).



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There is limited research that has explored the applicability and implications of HPWSs in the services sector (Harley *et al.*, 2007). It is commonly argued that occupational segmentation in services is a barrier to HPWSs. However, our analysis of data from the banking industry indicates that HPWS strength has a positive impact on OE and the findings of this study suggest that HPWSs may be widely applicable in the services sector.

It has been suggested that the quality of decisions and understanding about HRM among non-HR leaders may be a significant barrier to HR effectiveness (Boudreau, 2012; Boudreau and Ramstad, 2007). Purcell and Hutchinson (2007) also argued that the role of the line manager has been neglected in previous HPWS research. This study explored how HRM is understood, interpreted and operationalized across the management hierarchy. The findings suggest that the role of the CEO is crucial in providing HR legitimacy, leadership and resources that create a distinctive HR system. The CEO with the senior executive team also nurtures within-group agreement and consensus on the role of HR. In turn, senior managers need to translate consistent HR messages throughout the management hierarchy and provide lower level managers with the formal and informal direction, support and empowerment to operationalize HR strategy. The findings of the study indicate that the economic, cultural, political, legal and technological factors exert a strong influence on the operationalization of HPWSs in a specific context. This study bolsters the findings of Scott (2008) and identifies the importance of contextual impacts on the operationalization of HPWSs in an emerging economy like Sri Lanka.

HRM practices have attracted much scholarly and popular debate in European and American contexts, but less so in transferring and understanding them in an Asian context (Wickramasinghe, 2007). Specifically, there is a need for research on the impact of HPWS strength on OE in a context of a SPEE where international business operations have been increasing with the backdrop of globalization. Therefore, this study provides useful information on the contextual impacts on the operationalization of HPWSs in SPEEs to help foreign investors be successful in transferring HRM to IJVs.

#### *Contribution to practice*

Overall, the findings from this study can assist HR practitioners by acknowledging that the implementation of HPWSs is critical for organizations and can positively impact their performance. Organizations can use the findings and insights of this research to design HPWSs that will be regarded as strong and could guide senior managers (e.g. top level managers and line managers) in the implementation of more effective HR systems.

This research argues that the key to creating a strong HPWS is to encourage all levels of the managerial hierarchy to “sing the same song”. 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 managerial hierarchy to transmit relevant, consistent and valid HRM messages and information across the organization. Managers could enhance distinctiveness by introducing relevant high performance work practices which are visible for all employees. Further, they could enhance consistency of their message by introducing valid HPWS practices which send consistent messages to employees. In addition, they could enhance consensus by introducing fairness in high performance work practices and encouraging agreement among members of the HR community.

Further, the findings of the study show that highly performing HPWSs may be variable and depend on the context in which the organization operates. Therefore, each firm must examine their particular environment and choose the comprehensive high performance work practices that are most appropriate for them. This study confirms the findings of other

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researchers (Boxall and Huo, 2019; Boxall, 2012; Boxall and Macky, 2009). In addition, these findings are useful for foreign investors to better understand the role of context on the operationalization of HPWSs in a SPEE to increase IJV success.

### Limitations of the study

The authors recognize that their reflections on various factors may have influenced the results and conclusions of this study. This research focused on three commercial banks in Sri Lanka, limiting generalizations from the finding. A future study could be expanded into other banks. Almost all the one-on-one and focus group interviews were done on-site during work hours. Participants may have been distracted by work tasks and may not have provided detailed answers. Although the study sample size of 66 participants could be considered too small, the researchers found it practical for conducting in-depth interviews with experienced bank employees. These interviews could only report perceptions and perspectives on the subject being discussed and could be subject to distortion due to personal bias and recall error (Patton, 1990).

To address these weaknesses, several steps were undertaken. Interviewees were consulted on the time and place of their interview, which was generally conducted on business premises during office hours. Some interviewees preferred to be interviewed outside of these hours or via telephone. During the second stage of data collection one of the case study banks undergoing an aggressive expansion process and many senior managers were busy.

Each interviewee was given a list of questions (interview protocols) to read it before the interview. The researchers gave clarification if requested. All interviews were conducted in English. Only five dimensions were used to measure high performance work practices in the banking industry, there is scope for future research incorporating additional dimensions. Future researchers could develop these dimensions based on the research of other scholars.

### Recommendations for future research on HPWS research in emerging economies

Based on the implications of this study and its limitations, the researchers have developed the following recommendations for further research on HPWSs in *emerging economies*. Wright and Nishii's (2007) HR causal model shows that the HPWS-organizational performance relationship can best be understood by examining intended, enacted and experienced HPWSs. This study contributed to this causal model by exploring the stages of this causal model. This research used case study analysis to identify the impact of HPWS strength on organizational effectiveness at the firm level. Due to the small sample size, generalization was not possible. Future research should extend this research by designing a multiple levels analysis (Bluhm *et al.*, 2011). Multi-level research necessitates sampling several organizations, groups within those organizations and individuals within those groups. Multiple sources of data will produce multiple perspectives on the topic and enhanced credibility. Likewise, multiple sites may enhance confidentiality. The analysis of the findings suggests that the introduction of HPWSs in the banking industry in Sri Lanka has led to some positive outcomes. However, there is a need to explore high performance work practices in different industrial sectors in Sri Lanka and also in other emerging economies to understand the relative effectiveness of HPWSs outside the advanced economies.

This analysis has found that cultural values like collectivism positively influenced the operationalization of HPWSs in Sri Lanka. Some employees had more tendencies toward monetary rewards and this orientation hampered the concept of collectivism among the staff members. Therefore, future research should be done to find the impact of collectivism and monetary rewards on the operationalization of HPWSs and ways to inculcate the collective

culture in employees for better implementation of HPWSs. This research indicates the significant catalytic effects of technology on the operationalization of HPWSs and future research should provide further evidence on how technology impacts on the implementation of HPWSs.

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