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The Impact of High Performance Work Systems on Organizational Performance: A Study of the Fast Moving Consumer Goods Sector in Sri Lanka

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Abstract

Area of the Study

This study seeks to explore the relationship between high performance work systems (HPWS) and organizational performance (OP) in the Fast Moving Consumer Goods (FMCG) Sector in Sri Lanka.

Problem of the Study

Empirical and theoretical knowledge gap of the impact of HPWS practices on OP (employee commitment) in the FMCG Sector in Sri Lanka.

Method of the Study

The data for the present study was collected from 50 respondents (25 respondents (50%) are managerial consisting of both managers and executives and the remaining respondents are non-managerial) in the FMCG sector by administering a structured questionnaire, which consisted of 41 questions/statements with a 5 point scale. The data analysis included the univariate, bivariate, and multivariate analysis method conducted using SPSS (version 16.0).

Findings of the Study

The finding of the study was that HPWS of the organization is positively and strongly correlated with employee commitment in the FMCG sector in Sri Lanka. As per the multiple regression analysis, 63.7% of the variance in the employee commitment has been accounted or influenced by the HPWS.

Conclusion of the Study

It is clearly concluded in this study that HPWS should be considered by the organizations to enhance the employee commitment in the FMCG sector in Sri Lanka since 63.7% of the variance in the employee commitment has been accounted by the HPWS.

Keywords: *High performance work system , Organizational performance, Employee commitment, Fast Moving Consumer Goods Sector*

Introduction

There is growing empirical evidence that High Performance Work System (HPWS) can have a significant impact on organizational performance (OP). HPWS have been found to favorably affect turnover (Guthrie, 2001; Huselid, 1995), labor productivity (Huselid, 1995), firm productivity (Guthrie, 2001), and firm financial performance (Guthrie, 2001; Huselid, 1995). Given these findings, HPWS are now seen as a potential source of competitive advantage (Becker & Huselid, 1998). However, several researchers have noted a need to develop a better theoretical understanding of the causal mechanisms explaining this relationship (Bowen & Ostroff, 2004; Delery & Shaw, 2001 as cited in Evans and Davis, 2005).

Firstly, the attention is drawn to explore the origin of the term “HPWS”. The notion originated in the United States (Boxall, 2012). In the 1970s and 1980s, with the rise of Japanese high-quality production system, U.S firms found that their HRM systems did not fit with their competitive context (Boxall & Macky, 2007). Faced with global competition, U.S. companies needed to better utilize their HR as they strove to improve quality and productivity to compete with firms like Toyota. They gave a new life to their HRM systems by introducing HPWS which increased the involvement of employees and raised their skills and incentives (Macduffie, 1995 as cited in Dayarathna, 2012).

Most interestingly now the concept of HPWS is not limited to the field of HRM or strategic HRM but can be seen in the field of labour economics, industrial or employment relations, organizational behavior, and operations management. Furthermore, the notion of HPWS has gained a widespread popularity and it is used not only by academics but also by government ministers, think-tanks, HR professional associations, trade unions, and management consultancies (Boxall, 2012). Many researchers have found that HPWS significantly contribute positively to several areas in the business context such as competitive advantage, employee performance and firm performance (e.g., Appelbaum, Bailey, Berg, & Kalleberg, 2000; Godard & Delaney, 2000; Wood, 1996).

While HPWS have received increasing interest in the Western countries, there is a marked absence of research on utilization of HPWS in developing countries (Dayarathna, 2012). So far no study has been carried out under the topic of HPWS – OP relationship in FMCG sector in Sri Lanka. This research, therefore, is important to the practitioners and to the academics concerning the relative effectiveness of HPWS in Sri Lanka.

One of the important questions in business studies is why some organizations succeeded while others failed. Organization performance has been the most important issue for every organization, be it profit or non-profit. It has been very important for managers to know which factors influence an organization’s performance in order for them to take appropriate steps to initiate them. However, defining, conceptualizing, and measuring performance have not been an easy task. Researchers among themselves, have different opinions and definitions of performance, which leftovers to be a contentious issue among organizational researchers (Venkatraman & Ramanujam, 1986).

In general, the concept of OP is based on the idea that an organization is the voluntary association of productive assets, including human, physical, and capital resources, for the purpose of achieving a shared purpose (Alchian & Demsetz, 1972; Barney, 2001; Jensen & Meckling, 1976; Simon, 1976). Those providing the assets will only commit them to the organization so long as they are satisfied with the value they receive in exchange, relative to alternative uses of the assets. As a consequence, the essence of performance is the creation of value. So long as the value created by the use of the contributed assets is equal to or greater than the value expected by those contributing the assets, the assets will continue to be made available to the organization and the organization will continue to exist.

Organizational performance is generally indicated by effectiveness (whether an organization can achieve its objectives), efficiency (whether an organization uses resources properly), satisfaction of employees and customers, innovation, quality of products or services, and ability to maintain a unique human pool (Katou & Budhwar, 2007; Guest, 2001; Delaney & Huselid, 1996; Dyer & Reeves, 1995). To date, many researchers have certainly demonstrated that the use of HPWS leads to superior performance of the entire organization in any industry (e.g., Boxall & Macky, 2007; Drummond & Stone, 2007).

Problem Background and Problem of the Study

The notion of HPWS was originally developed by David Wadler to capture an organization's "architecture" that integrates technical and social aspects of work (Snell & Bohland, 2007). There is a rising interest in using HPWS practices because evidence showed that organizations that implemented such systems recorded remarkable success (Dayarathna, 2012). Most analysts argue that HPWS enhance business performance through a two-stage process (Harley, 2002). First, the use of HPWS improves employee orientations to work, which in turn, typically has a number of effects, including a reduction in staff turnover and greater flexibility, in work practices. Eliciting superior employee performance, which in turn increases organizational performance, comes from HPWS in the form of developing individuals to their 'full' potential and motivating these individuals to apply their skills and abilities to their work-related activities (Way, 2002).

As per the extant literature, the term OP can be defined in many ways (Daft, 2000; Jarad, Yousof & Shafiei, 2010; Ricardo and Wade, 2001; Scott, 2003). By examining these diverse definitions and literature, it is possible to recognize different components/ outcomes of OP. However the majority of such outcomes are being influenced by a whole range of factors (both internal and external), which have nothing to do with employees and Human Resource Management (HRM) practices implemented by that particular organization. The performance outcomes of HRM can be captured in a variety of ways. As adapted from Dyer and Reeves (1995), performance outcome would include;

1. Financial outcomes (e.g., profits; sales; market share)
2. Organizational outcomes (e.g., output measures such as productivity; quality)
3. HR-related outcomes (e.g., attitudinal and behavioural impacts among employees, such as satisfaction, commitment, and intention to quit)

Both organizational outcomes and HR related outcomes can be considered more proximal and thus more suited towards measuring performance (Paauwe & Boselie, 2008). The concept of employee commitment (EC) has been investigated and proven to be a consequence of HRM practices in many studies (DeCotiis & Summers, 1987; Mathieu & Zajac, 1990). Therefore, in this research, OP is measured by the EC which is a HR-related outcome because that is directly influenced by HPWS (HRM practices) of that particular organization. According to Meyer & Allen (1997), it is possible to recognize three dimensions of the EC: affective commitment (the psychological feeling and attachment of an employee to stay in the workplace socially and organizationally), continuance commitment (the cost-benefit evaluation of whether to stay or leave), and normative commitment (the

feeling of being obliged to stay in the organization because of moral factors). *Therefore, the problem addressed in this study is to investigate the extent to which HPWS determine affective commitment, continuance commitment and normative commitment of employees in FMCG sector in Sri Lanka.*

Research Framework

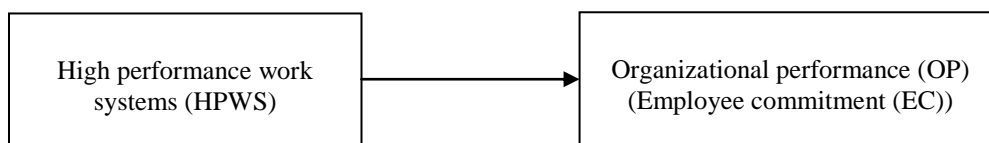
There are number of ways that term “High Performance Work System” has been defined in previous studies. HPWS is a system that increases the empowerment of employees and enhances the skills and incentives that motivate and enable them to participate effectively (Appelbaum, Bailey, Berg and Kalleberg, 2001). According to Boxall and Macky (2007), HPWS is a system of work practices for core workers in an organization that leads to superior performance. As Shih, Chiang and Hsu (2006) define HPWS is a set of HRM practices that can enhance firm performance. As defined by Beltran- Martin, Roca- Puig, Escrig- Tena, and Bou- Llusar (2008), HPWS is “an HRM approach that tries to elicit employee commitment and involvement with the organizational goals so that people’s behavior is self-regulated rather than controlled by sanctions and pressures. Dayarathna (2012, pg;165) defines HPWS as “a system of HRM practices that increases the employees’ empowerment, knowledge, skills and incentives that ultimately motivate them to achieve greater performance”. By analyzing all the above definitions, researcher would like to define HPWS as a system of HRM practices that improve the employees’ and organization’s ability to achieve goals and objectives of the organization.

The dependent variable of the present study, EC has been defined in many ways in the relevant literature. According to Robbins (2003), employee commitment refers to the willingness to exert effort in order to accomplish the organizational goals and values, and a desire to maintain membership in that organization.

Meyer, Allen and Smith (1993) identify three dimensions of the employee commitment as affective commitment, continuance commitment and normative commitment. The affective commitment measures the emotional reasons for which employees would stay in the organization. The continuance commitment measures the economic reasons for which employees would stay in the organization and the normative commitment measures the ethical and the moral reasons for which employees would stay in the organization. Hence, the researcher hypothesizes the following:

Hypothesis₁: High performance work systems will be positively associated with employee commitment.

Figure: 1. Schematic Diagram of the Research Framework



Method

Study Design

The main objective of this study is to establish the relationships between the independent variable (HPWS) and the dependent variable (employee commitment). Therefore, the type of investigation of this study was correlational rather than causal study. This study was analytical in nature, because according to Sekeran (1992), studies that engage in hypotheses testing usually explain the nature of certain relationships, or establish the difference among groups or the independence of two or more factors in a situation. This was a field study because it examined the relationship between HPWS and organizational performance in natural working environment of FMCG sector in Sri Lanka. None of the variables were controlled or manipulated. As the study was conducted in natural environment where events normally occur, that is non - contrived setting. No any artificial or contrived setting was created for the study. The survey method characterized by a structured questionnaire was selected as the method of data collection in this study. This study was purely based on primary data. The non-contrived field-setting environment was used to collect these primary data.

The study was carried out among the sample of 50 employees consisting both managers and employees in the FMCG sector in Sri Lanka and simple random sampling method was hired. Manager's category includes both managers and executive in this sector.

Measures

The independent and dependent variable were measured through questionnaire with five point Likert-type scales, which were completed by the respondents themselves approximately as they have experienced. The level of measurement of both variables would be interval.

The questionnaire for measuring HPWS is a standard questionnaire, which was developed by Chuang & Liao in 2010. Originally, it contained six dimensions of HPWS, namely Staffing, Training, Involvement & Participation, Performance Appraisals, Compensation and Caring. Original questionnaire developed by Chuang & Liao in 2010 includes 35 statements to measure the HPWS. In the present study, researcher uses four dimensions as representatives of HPWS including Staffing, Training, Performance Appraisals and Compensation. The questionnaire used in the study contains 22 statements (questions) to measure the HPWS in FMCG sector in Sri Lanka. The questionnaire would include a five point Likert type questions ranged from "Strongly agree" to "Strongly disagree".

Similarly, the questionnaire for measuring employee commitment is also a standard questionnaire, which was developed by Meyer, Allen and Smith in 1993. The model developed by Meyer, Allen and Smith in 1993 was used without any modification for data gathering and it consists of three dimensions containing 19 statements (questions) to measure employee commitment in FMCG sector in Sri Lanka. Similarly, this questionnaire would also be a five point Likert type questions ranged from "Strongly agree" to "Strongly disagree".

Techniques of Data Analysis

The data collected from the primary (questionnaire) source were analyzed using the computer based statistical data analysis package, SPSS (version 16.0) for validity, reliability, and relationship testing. The data analysis included univariate, bivariate and multivariate analyses.

Results

To investigate the responses for independent and dependent variables of the employees of the FMCG sector, univariate analysis was used. The results of the univariate analysis are given in Table 2. Table 2 consists of the result for each dimension of the independent and dependent variable and the result for the independent and dependent variable in total.

Table: 2 Univariate Analysis

	HPWS					Employee Commitment (EC)			
	Staffing	Training	PA	Compensation	HPWS	AC	CC	NC	EC
Mean	3.7622	3.4720	3.2022	3.8152	3.5629	3.3600	3.4452	3.3328	3.3793
Median	4.0000	3.4000	3.2000	3.7050	3.5875	3.3000	3.5150	3.2000	3.4283
Mode	4.00	3.20	4.00	4.00	3.25	3.00	2.90	3.60	3.20
Std.Deviation	.54167	.55219	.60237	.44856	.45200	.60103	.47149	.50451	.48322
Variance	.293	.305	.363	.201	.204	.361	.222	.255	.233
Skewness	-.273	.039	-.364	.467	.012	-.054	.059	.034	.028
Std. errors of Skewness	.337	.337	.337	.337	.337	.337	.337	.337	.337
Kurtosis	-.700	-.831	-.671	-.009	-.550	-.808	-1.249	-1.067	-1.063
Std. errors of Kurtosis	.662	.662	.662	.662	.662	.662	.662	.662	.662
Range	2.20	2.00	2.00	1.90	1.87	2.41	1.59	1.80	1.70

As indicated by Table 2, the mean value of all four dimensions in HPWS and all three dimensions in employee commitment are between 3.2 and 3.8. Further, the mean value of HPWS is 3.5 and the mean value of employee commitment is 3.4. Therefore, it is founded that HPWS and employee commitment in this sector is “Good” since it is higher than the moderate level that is 3. The skewness and Kurtosis of HPWS are .012 & -.550 and the skewness and Kurtosis of employee commitment are .028 & -1.063, which indicated that the data recorded for HPWS and employee commitment are approximately normally distributed.

The bivariate analysis, Pearson’s Correlation between HPWS and employee commitment in the FMCG sector is illustrated in Table 3.

Table 3: The Pearson’s Correlation between Independent Variable and Dependent Variable.

		HPWS	EC
HPWS	Pearson Correlation	1	.803**
	Sig. (1-tailed)		.000
	N	50	50
EC	Pearson Correlation	.803**	1
	Sig. (1-tailed)	.000	
	N	50	50
**. Correlation is significant at the 0.01 level (1-tailed).			

According to the results of the Pearson’s correlation shown in Table 3, HPWS is positively and significantly correlated with employee commitment of the FMCG sector in Sri Lanka.

Pearson correlation between the two variables is .803 which is positive. It shows that there is a positive relationship between HPWS and employee commitment in the FMCG sector. The found relationship is statistically significant as correlation is significant at 0.01 level (1-tailed). Thus, there is statistical evidence to claim that HPWS and employee commitment are positively related.

The result of simple regression analysis of the independent variable (HPWS) against the dependent variable (employee commitment) is given in Table 4 (Curve Fit Analysis).

Table 4: Curve fit analysis

Variable	HPWS
Method	Linear
R Square	.645
Adjusted R Square	.637
F	87.087
Significance	.000
B-constant	.321
b-value	.858

According to Table 4, regression equation of HPWS is:

$$\text{Employee commitment} = 0.321 + 0.858 (\text{HPWS})$$

The b value of the equation, the gradient of the regression, is 0.858, which is significant at 1% (significant = 0.000). As indicated by R Squared, 63.7% % of the variance of employee commitment is explained by HPWS with the standardized beta of 0.645. The F value is 87.087, which is significant at 1% (p = 0.000), which suggests that HPWS has significantly explained 63.7% of the variance of employee commitment.

Discussion and Conclusion

According to the results of Pearson's Product Moment Correlation analysis, it was found that HPWS was positively and significantly correlated with employee commitment in FMCG sector in Sri Lanka. Hence, there is statistical evidence to support to accept the hypothesis formulated for the study. The hypothesis of the present study was: High performance work systems will be positively associated with employee commitment. It was concluded that HPWS in FMCG sector has a positive and significant relationship with employee commitment.

The findings of this research study shall be important on the theoretical as well as practical scenario. As this research model was substantiated, the findings of study are important to improve the employee commitment in the FMCG sector in Sri Lanka. As a major way of enhancing employee commitment in this sector, companies could implement successful HPWS practices in their organizations.

Comprehensive recruitment and selection procedures, incentive compensation and performance management systems, and extensive employee involvement and training (Huselid, 1995); motivating, linking performance appraisal and rewards, implementing practices that promote employees' work-life balance, involving employees in decision making (Chuang & Liao, 2010); providing flexible work schedules and locations (Schneider & Bowen, 1992) could be identified as successful HPWS practices that can be implemented by any organization, according the literature, to enhance the employee commitment.

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