



**ARE BUSINESS STRATEGY ? OR SHRM PRACTICES ? MORE INFLUENTIAL  
ON ORGANISATIONAL PERFORMANCE: AN EMPIRICAL STUDY ON  
EMPLOYEES OF THE SRI LANKAN BANKING SECTOR**

**Manthrege Wasantha Kalyani**

**ABSTRACT**

This research examines are business strategy or strategic human resource management (SHRM) practices are more influential on organisational performance in the Sri Lankan banking sector. Data was collected from 390 employees using a self-administrated questionnaire and analysed using the descriptive analysis. The integration of the business strategy is vital when developing the HR and SHRM strategies for an organization. Further, it can be understood that there is a significant relationship in between business strategy of an organization and performance of an organization especially, banking sector of Sri Lanka. Further, business strategy is the core factor which has an ability to influence both the SHRM practices of an organization as well the performance of a banking sector organizations in Sri Lanka. This study provides SHRM practitioners in the banking sector with a useful guide on which business strategies are significant to SHRM practices and organisational performance and hence, should be given attention. SHRM theory has been largely developed in traditional functional manufacturing organisations but not in service-oriented organisations. This study fills the gap by examining the causal relationship between the SHRM practices and organisational performance through the moderating effect of business strategy in a service-oriented industry, i.e. the banking sector.

**Keywords:** SHRM practices, organisational performance, business strategy, banking sector.

## **Introduction**

Human resources management (HRM) has been recognised as the most important source of competitiveness, since it is the human capital who use organisational assets to create competitiveness and to realise organisational objectives. Strategic competence is a trendiest word current era of competent based economy. Today's business organizations, creation and exploitation of competent strategy have become a competitive advantage. Moreover, the global competition has been strengthened due to the rapid developments in HR competency. Hence, organizations are seeking for innovative practices, processes, and systems to win the markets due to this competition. In the era of competent-based economy, the proverb in the competitive in the area of strategic human resource management. This explains the considerable number of conceptual and empirical studies which found that strategic human resource management (SHRM) practices influence organisational performance such as increased productivity, higher profitability and lower employee turnover rates (Arthur, 1994; Combs, Liu, Hall and Ketchen, 2006; Knies, Boselie, Gould-Williams and Vandenabeele, 2018; Van De Voorde, Paauwe and Van Veldhoven, 2010).

Today, most of the companies are operating in complex and dynamic environments, where competition is constantly emerging. The traditional sources of competitive advantage can no longer guarantee the sustainability of organisations, creating a need for rapid adaptation. This situation is leading to redefinition of SHRM practices and business strategies (Antonio, Gregorio and Arleen, 2015; Pfeiffer, 1994; Wernerfelt, 1984).

Most of the studies related to SHRM practices have concentrated on the Western context, with little evidence on organisations in the developing countries such as in the case of the banking industry in Sri Lanka (Abewickrama, 2016; Amin, Hossain and Khatoon, 2013; Salman, Ahmad and Martin, 2014; Shahid, 2017). In addition, due to globalisation, competition and the characteristics of millennia's has made the relationship between SHRM practices and organisational performance much more complicated as they have been previously thought of. There are research evidences to show that rather than directly influencing organisational performance, SHRM practices have been found to affect employee retention rates in a positive direction (Antonio, Gregorio and Arleen, 2015; Pfeiffer, 1994; Wernerfelt, 1984), pointing to the 'black box' in the SHRM-performance relationship. Many researchers have echoed the need to include mediating variables in the relationship to enhance the clarity of such relationship (Alcazar, Fernandez and Gardey, 2005; Becker and Gerhart, 1996; Katou, 2008).

In addition, almost without exception, SHRM research has relied on evidence from private sector organisations and public sector organisations in isolation. There is an increasing call for the need to address this imbalance by considering SHRM in a public as well as private sector context, including the banking sector.

The aim of this study is to determine whether SHRM practices are significantly associated with the performance of the banks, and whether business strategy moderates the relationship between the SHRM practices and performance of both the publicly- and privately-owned banks in a developing country such as Sri Lanka and which factor is most significant factor for the performance of organization. The Central Bank of Sri Lanka (CBSL) reported that the banking industry in Sri Lanka comprises 25 licensed commercial banks, which includes 13 domestic banks and 12 foreign banks, two of which are local public banks (CBSL Annual Report, 2017). Data were collected from the junior and supervisory levels of employees working in these banks in the Western province of the country, where most of the branches of the banks are located. The data were then analysed using structural equation modelling (SEM). By addressing the aforementioned gaps, it is hoped that the study makes incremental contributions to the body of knowledge. From the practical perspective, it is hoped that the findings could serve as a reference on what are the SHRM practices that the banks should concentrate on to most influential business strategies and to increase the performance of banks. They could also be used as a reference for investors and policy makers to make relative investment and policy decisions.

## **Literature Review**

### ***SHRM practices***

The resource-based view (RBV) theory states that a firm develops competitive advantage by not only acquiring but also developing, combining, and effectively deploying its physical, human, and organizational resources in ways that add unique value and are difficult for competitors to imitate (Barney, 1991). The central tenets of RBV as suggested by various researchers (e.g. Barney, 1991; Barney & Wright, 1998; Newbert, 2008; Takeuchi et al., 2007; Wright et al., 2001; Wright et al., 1994) are that resources that are valuable, rare, inimitable, and non-substitutable will lead to competitive advantage. Value in this context is defined as resources either by exploiting opportunities or neutralizing threats to the organization, while rarity is defined as a resource that is not currently available to a large number of the organization's current or future competitors (Barney, 1991).

Bowen and Ostroff (2004) introduce the construct of 'strength of the SHRM' and describe the main features of SHRM that result in a strong organisational climate in which individuals share a common interpretation of what behaviours that are expected and rewarded. Amongst the many theories, the AMO (ability-motivation-opportunity) theory is regarded to be at the heart of SHRM that is designated to positively shape discretionary behaviours of employees (Boxall and Purcell, 2003; Lepak et al., 2006; Katou, 2008). The theory explains three SHRM variables of (1) ability enhancement practices; (2) motivation enhancement practices; and (3) opportunity enhancement practices and their associated SHRM practices as summarised in

Table 1.

Table 1.1: SHRM variables

SHRM Practices(IV)	Business strategies	Organization Performance(D)
1. Recruitment and selection	1. Cost strategy	1. Productivity
2. Training and development	2. Innovation strategy	2. Efficiency
3. Work design	3. Quality strategy	3. Innovation
4. Performance appraisal		4. Satisfaction
5. Compensation and benefits		5. Quality
6. Promotion		6. Profits
7. Encouragement		
8. Grievances		
9. Job confirmation		
10. Communication		
11. Participation in management		
12. High performance		
13. High commitment		
14. Facilitating teamwork		
15. Communications and involvement		
16. Enhancing quality		
1.0 Developing talent to serve the business in the future.		

### ***SHRM practices and bank performance***

Dharmasiri (2016) cites Dave Ulrich that effective human resource (HR) professionals can help the collective HR practices to reach the tipping point of their high impact on business performance by focusing on few but centrally important HR practices. This suggests that the identification of the important components of SHRM practices for organisational performance would help to better theorise the nature and impact of SHRM-performance relationship.

### ***SHRM practices and business strategies***

From the contingency perspective, the literature suggests that the set of SHRM practices of an organisation will be effective if it is consistent with its retention strategies (Aldamoe, Yazam and Ahmid, 2012). With the acknowledgement that profit and goodwill are generated through employees who are the backbone of the banks, investment in SHRM practices such as recruitment, induction, orientation, socialisation, training and development can minimise the turnover rate, as well as the cost of selection and recruitment.

### ***Business strategies and bank performance***

Business strategies have proven to be one key challenge for the banking sector in Sri Lanka to achieve its business objectives. From the contingency perspective, SHRM practices are followed by retention strategies in determining organisational performance (Aldamoe, Yazam and Ahmid, 2012).

### ***Business strategy as moderating variable of SHRM practices and bank performance***

The intermediate linkages and processes, through which SHRM practices affect organisational performance, have challenged researchers to define and examine their rationale that opens the 'black box' between SHRM practices and organisational performance (Chuang and Liao, 2010). This in turn leads to organisational performance at the collective level. According to their argument, the contribution of SHRM practices to organisational performance is determined not only by the choice of SHRM but also by features and the synergistic effects of the SHRM practices. Since there is no consensus or consistent evidence illustrating what constitutes these HRM systems or bundles that are associated with high firm performance, the HR department needs to create SHRM practices that are perceived as distinct, consistent and unambiguous by employees. If SHRM practices possess these features, it will create a strong SHRM which facilitates the strong relationships between business strategy and individual performance, which ultimately contributes to better organisational performance.

## **Methodology**

The descriptive analysis was used as a data analysis method to reach the purpose of the study under the deductive reasoning. According to Lanka Business Online ([www.lankabusinessonline.com](http://www.lankabusinessonline.com)), the banking industry is densely concentrated in the Western province of Sri Lanka, with nearly 40% of the branches of licensed commercial banks located in this area. In addition, in terms of banking density (the number of bank branches per 100,000 persons), it stands at 11.9 in the Western province against a range of 5.3 to 8.4 in other provinces, making this province an appropriate setting for the study to be conducted.

A total of 390 questionnaires were distributed to junior executives, managers and senior managers positioned in the branches of the licensed commercial banks in the Western province using the stratified sampling method. With 342 questionnaires returned, only 328 were found to be valid, yielding a response rate of 85.5%. As shown in Table 2, the majority of respondents

were female with age of 31 and older. Their age corresponded with their years of experience, where the majority of them have worked for five or more years in their respective banks. Most of them hoped to remain working in the same bank for 15 or more years, followed by those between 11 and 15 years. Many of them are executives, followed by managers and junior executives, with only one response from a branch manager responsible for HR functions. In addition to the data reported in Table 2, 55.9% of them are working for privately-owned banks, with the remaining with publicly-owned banks.

Table 1: Profiles of Respondents

<b>Age</b>	<b>Percent</b>	<b>Experience</b>	<b>Percent</b>
21 – 25	4	Less than 5 years	9
26 – 30	9	5 – 10 years	26
31 – 35	27	11 – 15 years	20
36 – 40	21	15 years or more	45
41 – 45	14		
46 – 50	11	<b>Hope to Remain</b>	
50 and above	14	Less than 5 years	16
		5 – 10 years	26
<b>Gender</b>		11 – 15 years	17
Male	49	15 years or more	41
Female	51		
<b>Designation</b>			
HR Managers			3
Branch managers responsible for HR functions			1
Non-managerial employees			8
Chief Managers			10
Managers			24
Executives			36
Junior Executives			18

## Results

Table 2 shows the comparisons between direct and indirect effects and the ratio effects. When the indirect effect with the direct effect were compared, the retention factor was high in direct effect but the SHRM variable showed a high indirect effect. However, after standardisation of the direct effect and indirect effect coefficients, the ratio amongst the standardisation synthesis effect was up to 90.8%. Since there is a difference when the ratio is around 90% (Atsuko and Muta, 2006), it can be implied that the indirect effect influenced the organisational performance function

Table 2: Direct and Indirect Coefficients

<b>Standardised coefficients</b>	<b>SHRM</b>	<b>RT</b>
Direct effect (SHRM Practices)	.06(9.19%)	<b>.79(57.14%)</b>
Indirect effect (Business Strategy)	<b>.5925(90.8%)</b>	.5925(42.85%)
Total effect	.6525(100%)	1.3825(100%)

*Bold font indicates high values of standardization coefficients.*

### **Discussion and Implications**

As per the finding of the study, it is revealed that business strategy is fundamental requirement towards the performance of the banking sector in Sri Lankan context having recorded the indirect but significant relationship. Hence, business strategy is fundamental to develop SHRM strategies for the organization (Armstrong, 2006). So, the integration of the business strategy is vital when developing the HR and SHRM strategies for an organization (Gomez-Mejia & Balkin, 1992; Katou, 2008). Further, it can be understood that there is a significant relationship in between business strategy of an organization and organizational performance especially, banking sector of Sri Lanka and SHRM strategies of an organization (Bird & Beechler, 1995; Delery & Doty, 1996; Huang, 2001; Huselid, 1995; MacDuffie, 1995; Miles & Snow, 1984; Lee et al., 2010; Prince, 2015; Schuler & Jackson, 1987a, b).

### **Conclusion and Future Research Directions**

The study has made some important contributions. It tests theoretical assumptions in the context of a developing economy and provides support for the perspective that indirect relationship between business strategy and organisational performance exists and its significant. Further, business strategy directly influences to the SHRM practices of an organization and SHRM practices mainly based on the business strategy of an organization. Therefore, business strategy is vital factor which affect to organizational performance.

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