

## Effects of Human Resource Management Practices on Organizational Commitment in Sri Lankan Public Sector Banks

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### Abstracts

HRM has tremendous relevance to service sector like Bank. Human input is the single largest input that contributes to improve productivity of the banking sector. This study was designed to explore the effect of HRM practices on organizational commitment in Srilankan Public Sector Banks. The sample was drawn from among 281 employees working in Public sector Banks in Sri Lanka. To measure the effect of HRM Practices on organizational commitment, a structured questionnaire was used to collect data. The results of this study reveal that the HRM practices influence the organizational commitment in Sri Lankan Public Sector Banks.

**Key words:** Human Resource Management, Commitment, Public Sector Banks

### Introduction

The HRM is a developed concept. It has tremendous relevance to service sector like Bank. Human input is the single largest input that goes in the banking industry. The level of efficiency/productivity of this input gets reflected in the quality of service offered by the banks to its customers, as also in its ultimate growth, productivity and profitability.

Human Resource Management Practices have been studied extensively among manufacturing, service and Small Medium Enterprises. However only a few studies have addressed the banking industry. Even these researchers have not explored Human Resource Management Practices and its effect on organizational commitment.

A lot of study have been made that Human Resource Management Practices effect on the outcomes such as employee satisfaction, employee commitment, employee retention, employee presence, social climate between workers and management, employee involvement, employee trust, employee loyalty, organizational fairness [ Edgar, Geare (2005); Paauwe and Richardson (1997); and Storey (1989)]. Some of the authors indicate that these outcomes and HRM Practices can lead to firm performance such as Profits, Market value of the company, market share, Increase in sales, Productivity, Product service quality, customer satisfaction, development of products/services, future investments

Globally each organization is now confronted with major challenges arising out of globalization, concern for profitability, and rapid technological advancements coupled with the emergence of the new intellectual capital. Organizational survival and success will invariably depend on how they respond to these challenges. For effective management response, organizations have to evolve internal capabilities for enhancing speed, quality, learning and building employee competencies. Human Resource Management (HRM) is fundamental to generating and affecting these capabilities. This has been the experience of world-class organizations. As Dave Ulrich (1998), a renowned human resource researcher and commentator say: Human resources have never been more necessary. The competitive forces that managers face today and will continue to confront in the future demand organizational excellence. The efforts to achieve such excellence through a focus on learning, quality, teamwork, and reengineering are driven by the way organization get things done and how they treat their people. These are fundamental issues. To state it plainly organizational excellence must be the work of HR.

### Literature Review

Ferris et al.1999 described that Driven by significant internal and external forces, HRM has grown from largely a maintenance function, dismissed as a pure cost of doing business, to what many scholars and practitioners regard as a source of sustained competitive advantage for organizations. Once charged mainly with record keeping, HRM has evolved into a strategic partner, sharing boardroom status with the accounting, marketing, and finance departments (Dulebohn et al., 1995).

(Boslie & Wiele, 2002) pointed out that Human Resource is the most important assets in the service organization than manufacturing organization and improvement has to be linked more strongly to the people issues.

Fitz-enz, 2000 says that In management terms human resources refers to the traits people bring to the workplace-intelligence, aptitudes, commitment, tacit knowledge and skills, and the ability to learn. But the contribution of this human resource to the organization is typically variable and unpredictable. This indeterminacy of a resource the “most vexatious of assets to manage”.

According to (Braton & Gold, 2003) described that Human resource differs from other resources, partly because individuals are endowed with various levels of ability (including aptitudes, skills and knowledge), with differences in personality traits, gender, role perception and experience, and partly as a result of differences in motivation and commitment.

(Guest, 2001) examined four areas of HRM practice – good and safe working conditions, training and development, equal employment opportunities (EEO), and recruitment and selection. These areas of HRM have been selected because they have previously been identified as those likely to have the greatest impact on employee behavior and attitudes.

Statistically significant results were obtained between HRM practice and employee attitudes. HRM practice (for the areas of good and safe working conditions, training and development, and recruitment and selection) and three employee attitudes (organizational commitment, job satisfaction and organizational fairness) Edgar & Geare (2005.)

According to the Storey (1989) HRM models, whether British or American, commonly assert that employees should be regarded as valued assets and that there should be an emphasis on commitment, adaptability and consideration of employees as a source of competitive advantage.

Meyer and Smith, (2000); Guest, (1997) examined three employee work-related attitudes – organizational commitment, job satisfaction and organizational fairness. These attitudes are generally considered to be desirable outcomes that result from the use of soft HRM.

Reichheld (1996) and Pfeffer (1998) have recognized human Resource Management (HRM) The importance of organizational characteristics in the creation and maintenance of employee work attitudes such as organizational commitment. These authors argue that organizations that pursue a strategy of increasing employee commitment gain competitive advantage over other organizations that do not follow a similar strategy. Reichheld (1996) in his book “The loyalty Effect”, states that organizations that exhibit loyalty to their customer, employees and investors realize growth and profit that support a competitive advantage. He argues that when employees are satisfied with their organization, they will in turn show loyalty to the organization and will ensure that the organization’s services or products satisfy the customer. As satisfied employees tend to stay with an organization, the organization will save costs on recruiting and training new employees as loyal employees remain with the organization. He cites several examples of companies that have pursued strategies of attracting developing and re-training competent employees as evidence that loyalty to employees can be a powerful source of competitive advantage.

As both Reichheld’s (1996) and Pfeffer’s (1998) books lack empirical evidence to support their arguments, there arises a need for researchers to produce more empirical evidence to support the proposed link between management practices and positive organizational outcomes. Meyer and Allen (1997), in their book “commitment in the workplace: Theory, research and application” describe several empirical studies which have shown a positive relationship between organizational practices, organizational commitment and desirable outcomes such as performance, organizational citizenship behaviour, turnover, adaptability and job satisfaction.

Guest, (1987) pointed out that HRM comprises a set of policies designed to maximize organizational integration, employee commitment, flexibility and quality of work.

The need today, clearly, is to revamp and rejuvenate the existing people management (HR) systems. The HR Practices need to be made more dynamics, effective and in tune with the changing situation. It is also important to keep reviewing how HR systems are working. There is an increasing concern for assessing the contribution of HR practices to organizational effectiveness and bottom-line performance of the firm. However, a direct linkage of HR practices with a firm is financial performance is not likely to exist, as also pointed out by Rao(1990). What the HR practices are more likely to influence directly are: the employee attitudes, skills, knowledge and, the climate of the organization. These outcomes, in turn, may contribute to performance. One of the approaches to assessing the effectiveness of HR practices and, thereby, to review them, is in terms of employee satisfaction with the HR practices and their implementation.

Sangwan (2005) says that Banking is the service industry and delivers its service across the counter to the ultimate customer. The activities of banking industry are all about “relationship”. Hence, banking industry

for providing better services to the customer with a smile in order to cultivate and maintain long lasting relationship with their customers. Notwithstanding the level of technology, banking is primarily a labour intensive service sector, hence it will not be possible for the banks to sustain effectiveness unless human resource management is given prime importance because the technology is only an aid to human effort and not a substitution there of. If the technology is the equalizer, then the human capital shall be the differential in future.

It is recognized fact that human resources occupy a unique and sensitive position in banking sector; no meaningful change is possible without the involvement of their employees. Therefore, if banks have to undertake any significant changes to adapt themselves to new competitive environment, one of the most crucial initiative lie in organizing and preparing its human resources to the requirement of competitive banking. Human asset being an intellectual asset, the new source of competitive advantage, can be defined as the sum total of knowledge, skills and competencies that an organization possesses. The fundamental principle of human resource management is to treat people as a valuable asset. Good HRM is to attract the best talent, retain and motivate them.

Only one asset holds the power to differentiate banks in the competitive environment i.e. a dedicated, productive and innovative workforce. No longer an organization can afford to underestimate and demoralize their workforce to succeed at the expense of those who help and make success possible. Respect human dignity and have faith in every employee as resource and potential asset while achieving organizational objectives efficiently. In short, banks have to invest in their work force.

### **The association of HRM practices and organizational commitment**

Walton, (1985a) says that the Harvard concept stresses that HRM should lead to employee commitment – not simply as a means to employer objectives of improved productivity and profits, but because “the fulfillment of many employee needs is taken as a goal rather than merely a means to an end”.

Guest, (2002) described that High levels of employee commitment have also been found to be related to the use of “appropriate” HRM practice and results from investing in HRM practices, which benefit employees.

The literature concerning “soft” versions of HRM suggest that one outcome of the adoption of HRM is organizational commitment. The commitment resulting from HRM policies is considered to result in greater effort, which, in turn, results in improved performance. In a Meta analysis of commitment research (Mathieu and Zajac, 1990) it was found that the organizational antecedents of organizational commitment included job characteristics (Hackman and Oldham, 1976). The largest correlation was with an aggregate score of the components of the job characteristics model, rather than with any individual component. The conclusion that can be drawn from the analysis is that enriched jobs resulting from “soft” HRM policies will yield higher commitment levels.

Dave Ulrich (1998) found that HR increase employee contribution; that is, employees’ commitment to the organization and their ability to deliver results.

Good HR practices are those that contribute to one or more of the three C’s-Competencies, Commitment and, Culture, pointed out Rao (1999). They need to be identified and implemented cost-effectively; reviewing and revising them from time to time enhance their effectiveness and appropriateness. It is the job of the HR managers to be in constant touch with the employees and be aware of the HR Systems, tools and interventions that can keep their motivation and commitment levels high.

Many Researchers have begun to focus their attention on the moderating effect of human resources management practices on organizational commitment (Iles, mabey & Robertson, 1990; Graetner & Nollen, 1992; Meyer & Allen, 1997; Meyer & Smith 2000; McElroy, 2001).

McElroy (2001); Meyer & Herscovich, (2001); Whitener, (2001) have investigated The relationship between a variety of HRM practices and organizational commitment. McElroy (2001) argues that it is natural that HRM practices would influence organizational commitment, as they are concerned with the management of people. He points out that organizations that do not select the right employees to begin with, may not be able to keep these employees in the end because of low employee morale arising from a poor job fit. He also contends that organizations that do not socialize new employees into their jobs and/or the organization may not be able to cultivate from them a sense of loyalty and commitment to the organization to newcomers.

Heskett et al, (1997); Hall, (1993); Maister, (1997) pointed out that Employee commitment may be more important in certain business environment than in others. Commitment is more likely to be a goal of HRM in the service sector than in other sectors because committed employees are important for customer loyalty and satisfaction..

Relatively, there is still very limited research that supports the argument that Human Resource Management practices can affect the level of organizational commitment. Given this situation it is imperative

that more research is done around this area. Surprisingly, the research studies dealing the Human Resource Management practices in banks are rarely conducted in Sri Lanka and No one studied its effect on organizational commitment in banking sector. Against this background, it was felt that there is a need for the study of HRM practices and its outcome in banks. The present study therefore aims to explore the effect of HRM practices on Organizational commitment of Public sector Banks in Sri Lanka.

### **Objectives**

The following objectives has been made in this study:

- To find out the effect of HRM Practices on organizational commitment in Sri Lankan Public sector Banks.
- To examine the relationship between HRM practices and organizational commitment dimensions in Sri Lankan Public sector Banks.

### **Hypotheses**

The present study is undertaken with the following hypotheses:

H1: HRM Practices will effect on organizational commitment.

H2: HRM practices influence organizational commitment dimensions.

### **Methods**

The research under study is sought to measure the employee's perception of HRM practices and its effect on organizational commitment in Public sector Banks.

### **Samples**

Two public sector banks in Sri Lanka were selected to study the employee's perceptions of HRM practices and its effect on organizational commitment. Confidential purpose the researcher does not disclose the name of the banks. The sample of the present study consists of 281 respondents from PSB in Sri Lanka. The respondents were selected multi-stage sampling procedure. They are working in different departments of the Branches and Regional offices of the Banks. There were totally 400 questionnaires distributed and 281 filled in valid questionnaire were received back and used in the study. The response rate of the questionnaire survey was 70.2 percent.

### **Measures**

The data were collected by the use of structured questionnaire containing seventy-seven questions. It was designed to enable us to test employees' perceptions about HRM Practices (staffing, training, compensation, Performance appraisal and employee relations), and organizational commitment (Affective commitment, Continuance commitment and Normative commitment). The following instruments were used in a survey to measure the variables in the study.

#### **1. HRM practices**

HRM practices used fifty items (Staffing-9, Training-13, Compensation-12, Performance appraisal-10 and employee relations-6). Researcher constructed these items based on tested questionnaire and theory. Tested items have taken from Barbara Myloni, in her PhD (Athens University of Economics & Business, Greece) titled transfer of HRM practices in Multi national companies. , Stenson Tan Teck Khim (1998) in his PhD (University of South Australia) titled HRM practices in Singapore based firms, Terry H. Wagar, (2003) in his study (Saint Mary's University, Canada) titled HRM and organizational Change, Edel Conway (2003), Dublin City University, Dublin. Five point likert scales was utilized ranging from 1:strongly disagree to 5: strongly agree.

#### **2. Organizational commitment**

Meyer et al., (1993) organizational commitment consisting of eighteen items was utilized with a five-point response pattern ranging from 1: Strongly disagree to 5: Strongly agree. It comprises three dimension (Affective commitment-6, Continuance commitment-6 and Normative commitment-6).

### **Result and Discussion**

The data was analyzed by using statistical Packages for Social Sciences (SPSS). To find out the significance effect of HRM practices on Organizational commitment by using multiple correlation.

**Table 1: Correlations between HRM practices and Organizational commitment**

	<b>Affective commitment</b>	<b>Continuance commitment</b>	<b>Normative commitment</b>	<b>Organizational Commitment</b>
<b>Staffing</b>	.085	.135*	.224**	.202**
<b>Training</b>	.177**	.131*	.216**	.243**
<b>Compensation</b>	.149**	.166*	.292**	.278**
<b>Performance appraisal</b>	.164**	.144*	.298**	.278**
<b>Employee relations</b>	.133*	.208**	.156**	.231**
<b>HRM</b>	.197**	.215**	.338**	.345**

\*P<0.05, \*\*P<0.01

Table 1 indicates that HRM practices have correlation ( $r=.34$ ) at  $P<0.01$  with organizational commitment in Public Sector Bank Sri Lanka. HRM Subscales: Staffing( $r=.20$ ), Training( $r=.24$ ) and employee relations( $r=.23$ ) have low relation with organizational commitment. Compensation (0.27) and Performance appraisal( $r=.27$ ) have high relation with organizational commitment. The entire variables reveal strong significant correlations with organizational commitment.

**“The above analysis result supports to the Research Hypothesis 1 hence it is accepted.”**

HRM practices have correlation with affective commitment in Public Sector Bank Sri Lanka. Total HRM practices explain ( $r=.19$ ) at  $P<0.01$  with affective commitment. HRM Subscales: Staffing( $r=.08$ ), employee relations( $r=.13$ ), and Performance appraisal( $r=.16$ ) have low relations with affective commitment. Training ( $r=.17$ ) has high relations with affective commitment. All variable except staffing reveal significant correlations with affective commitment.

HRM practices have correlation ( $r=.21$ ) at  $P<0.01$  with continuance commitment in Public Sector Bank Sri Lanka. HRM Subscales: Staffing( $r=.13$ ), Training( $r=.13$ ), Compensation (0.16) and Performance appraisal( $r=.14$ ) have low relation with continuance commitment. Employee relations ( $r=.20$ ) has high relation with continuance commitment. All variable reveal significant correlations with continuance commitment.

HRM practices have correlation ( $r=.33$ ) at  $P<0.01$  with normative commitment in Public Sector Bank Sri Lanka. HRM Subscales: Staffing( $r=.22$ ), Training( $r=.21$ ) and Employee relations( $r=.15$ ) have a low relation with normative commitment. Compensation (0.29) and Performance appraisal( $r=.29$ ) have high relation with normative commitment. The entire variables reveal strong significant correlations with normative commitment.

**“The above analyses results support to the Research Hypotheses 2 hence it is accepted”.**

## Conclusion

This study was conducted in PSB in Sri Lanaka involving a sample of 281 participants to whom structured questionnaire was administered. Results reveal that HRM activities correlate with, and presumably influence, organizational commitment. These conclusions are consistent with McElroy (2001); Meyer & Herscovich, (2001); Whitener, (2001) study. These correlations found for all HRM activities included in this analysis but some of the HRM practices were not highly correlated with organizational commitment. Affective commitment and Continuance commitment were found low correlation with the same HRM activities. Organizational commitment seems mostly affected by the compensation and performance appraisal, and to a lesser degree by staffing while continuance commitment also was influenced by compensation and performance appraisal.

This study found that HRM Practices positively correlated to organizational commitment. This means that effective HRM practices tend to express commitment to their organization. Hence HRM practices in Sri Lankan PSB influence the organizational commitment.

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