

## THE EFFECTS OF HIGH PERFORMANCE WORK SYSTEMS ON EMPLOYEE JOB SATISFACTION AND PERFORMAMANCE (CASE OF BANKING INDUSTRY IN MYANMAR)

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### ABSTRACT

*The purpose of this study is to contribute to the literature of high performance work systems (HPWS) practiced by banking industry in Mandalay, Myanmar. The high performance work systems (HPWS) are the important contributor to job satisfaction and performance based on perception of employees. As HPWS, the study focused on training, performance appraisal and communication. The specific objective of the study is to analyze the effects of HPWS on job satisfaction and employee performance. The employees from banking industry in Mandalay were selected as the respondents of the study. 395 respondents were included in the final analysis. Structure questionnaire with five-point Likert scale was used to collect primary data. Structure Equation Modeling (SEM) with Linear Structural Relationships (LISREL) 8.72 was utilized. The results revealed that HPWS have significant direct effects on job satisfaction and indirect effects on employee performance. Communication among employees and departments was the most essential requirement for employees. Training and performance appraisal were the second and third important variables. Employee job satisfaction fully mediated the relationship between HPWS and employee performance. By examining the mediating effect of job satisfaction on the relationship between HPWS and employee performance, the results supported the banking industry to effectively practice HPWS to upgrade job satisfaction and performance of employees.*

Keywords: high performance work systems, job satisfaction, employee performance, banking industry, Myanmar

### INTRODUCTION

In the strong competitive business environment, the survival and success of organizations is difficult. Human resources are essential to shape the success and long-term survival. To attract employees, their satisfaction at work is priority for organizations. Several conditions shape the satisfaction of employees. The high performance work systems (HPWS) are greatly emphasized by practitioners. Comprehensive recruitment and selection, incentive-based compensation, performance management, extensive employee involvement, and training initiatives are regarded as HPWS (Huselid, 1995). Various findings explain the effects of HPWS on employee job satisfaction, retention, performance and even organizational performance. Organizations use HPWS as an investment to pool the human capital so that employees are well trained, skilled, and empowered to conduct their jobs (Becker & Huselid, 1998). Current perspectives on HPWS are closely aligned with research on high involvement work practices and high-performance management practices. Way (2002) suggested that employees possess a broad range of superior skills and abilities that are used at work for firm performance.

Myanmar is one of the LDCs countries. The economic development of the country relies on several sectors. Financial sector is essential for businesses and investors both from national and international. In the present days, the establishment and development of banks are more emphasized by the government. Foreign investors also have plan to establish banks in Myanmar. The increased number of private banks creates strong competition in Myanmar. Banks use several strategies to overcome competitors. The development and sustainability of private banks depend mainly on excellent services provided by the skillful and talented employees and their performance improvement. It is necessary for banks to find the best way to improve job satisfaction and employee performance. Sometimes, it is difficult for banks to gain performance improvement without considering significant practices for human resource development. Banks always try to improve performance of employees because banks accept that the excellent performance of employees will provide excellent services to customers for satisfaction and retention. For performance improvement, the practice of HPWS and the creation of job satisfaction are strongly demanded to be created by banks. The practice of HPWS plays an essential role for employee satisfaction and performance. Banks should have the knowledge about the effects of HPWS on job satisfaction and employees performance. The survival of banks mainly depends on those employees with high performance. The purpose of this study is to contribute to literature on employee reactions to HPWS for job satisfaction and performance of employees in Myanmar Private Banks. According to the research problem, the specific objectives are set forth:

- (a) To analyze the effects of HPWS (training, performance appraisal, communication) on job satisfaction and employee performance of banking industry in Mandalay
- (b) To examine the mediating effect of job satisfaction on the relationship between HPWS and employee performance

### LITERATURE REVIEW

Human resource management is highly demanded to upgrade the performance of whole organization. Organizations consider effective practices to enhance organizational performance through individual performance. Organizations focus on high-performance work systems (HPWS) to yield excellent performance of employees. High-performance work systems assume that employees can create competitive advantage that is difficult for others to imitate and they are capable of continuous improvement for higher levels of performance (Pfeffer, 1998a). The high performance work systems refer to a human resource management approach which creates employee commitment and involvement to achieve the organizational performance without the employees are controlled by sanctions and pressures (Walton, 1985; Wood & Albanese, 1995).

High-performance work systems (HPWS) have recently been defined as “a group of separate but interconnected human resource (HR) practices designed to enhance employees’ skills and effort” (Takeuchi et al., 2007, p. 1069). The high-performance work systems can be applied to improving workplace safety. Increasingly, human resource (HR) researchers and practitioners have found that organizational performance is substantially improved by HR systems that leverage human capital by acquiring, developing, and motivating the best talent. The HR systems that enhance employee competencies, commitment, and productivity are often called “high-performance work systems” (HPWSs) (Appelbaum et al., 2000; Datta et al., 2005). Many researchers proved that the high-performance work systems (HPWS) create benefits and are specific ways to maximize employee contributions toward competitive advantage (Becker & Huselid, 1998; Huselid, 1995). High performance work practices can improve the knowledge, skills and abilities of a firm’s current and potential employees, increase their motivation, reduce shirking, and enhance retention of quality employees while encouraging nonperformers to leave the firm (Huselid 1995, p.635). Evans and Davis (2005) also proved HPWS practices that enhance the knowledge, skills, and abilities (KSAs) of the people in organization. They also stated that HPWS intend to build commitment-based organizational culture.

Some researchers explored that staffing, self-managed teams, decentralized decision making, training, flexible job assignments, open communication, and compensation as HPWS (Becker & Huselid, 1998; Guthrie, 2001; Pfeffer, 1998a). According to Boselie & Dietz (2003), employee development and training, participation and empowerment, information sharing and compensation systems are severally mentioned as the high performance work practices or systems. Although the effects of HPWS are varied among organizations, the benefits for individual and organizational performance can be seen. HPWS generally involve flexible job assignments, rigorous and selective staffing, training and development, empowerment, adequate communication, career opportunity, performance appraisal, competitive compensation, job security and competitive compensation (Becker and Huselid, 1998; Guthrie, 2001; Jensen et al., 2011). Significant practices of HPWS were explored in various research areas.

According to Sels et al. (2006), HPWS are a set of HR practices to utilize the knowledge, skills, and abilities of employees for the benefit of organization and those practices play a key role in enhancing a firm’s competitive advantage through effective contribution of employees. Takeuchi et al. (2009) found that HPWS was associated with employee job satisfaction and affective commitment. Macky & Boxall (2007) tested HPWS and employee job satisfaction in New Zealand. They proved the relationship between HPWS and job satisfaction. Some studies proved employee retention, commitment and organizational performance as the results of HPWS. In the present study, as HPWS, training, performance appraisal and communication were focused to create job satisfaction and employee performance. It is expected that the practice of HPWS will contribute to the performance of employees through job satisfaction. When high-performance work practices are in alignment with the requirements of employees, the highest level of employee performance will be the outcome (Messersmith et al., 2011). They also stated that human resources will more satisfy their work through the creation of HPWS by department.

## TRAINING

The survival of the organizations need to promote the knowledge, skills and abilities of employees through training which is one of the critical human resource functions (Hussain, 2011). The effects of training on job satisfaction are explored to prove the importance of training for organizations. Training and development is the continuous effort of organizations to improve the knowledge, skills and abilities of employees and performance of organization (Mondy & Martocchio, 2016). They also stated that training provides learners with the knowledge and skills needed to be applied in their present job. Training and development generally includes practices for employees to improve their competencies to meet the current and future job demands and it is important for employees because of the link with the functional capacity of the organization (Truss, 2001). Training is one of the factors to be emphasized by organizations to have advantages over competitors. Training can upgrade the required skills of employees to cope with the specific situation and to perform assigned tasks effectively (Batool and Batool, 2012). The literature on HPWS highlighted employees need more training programs either in terms of the number of hours provided or the percentage of employees covered by the training programs (Delaney & Huselid, 1996). Furthermore, the knowledge, skills and abilities of employees gained in training reflect the performance of individual and the whole organization. The effects of training on job satisfaction and employee performance are tested by the following hypotheses.

**H1(a): Training has direct effect on job satisfaction.**

**H1(b): Training has direct effect on employee performance.**

## PERFORMANCE APPRAISAL

Performance is defined as the extent to which an organizational member contributes to achieving the goals of the organization (Islam & Rasad, 2006). Performance management is a systematic process for improving organizational performance through the performance of individuals and teams (Armstrong, 2009). Performance appraisal (PA) is implemented by organizations as a formal system to review and evaluate individual or team performance and an individual’s performance is reviewed on a continuing basis (Mondy & Martocchio, 2016). The effective performance appraisal system is a mean to upgrade employee performance and to create their satisfaction. Employee’s performance should be appraised periodically and organization can get the information about the efficiency of the organization (Chahal et al., 2013). Performance appraisal is not only for understanding the difference between actual and expected performance of employees but also for gaining job satisfaction of employees through transparent appraisal results. Thus, the measurable performance standards, the required training and feedback, and attractive incentives are essential requirements to eliminate performance deficiencies (Dessler, 2017).

**H2(a): Performance appraisal has direct effect on job satisfaction.**

**H2(b): Performance appraisal has direct effect on employee performance.**

## COMMUNICATION

According to Dwyer (2002) communication is defined as “the process whereby people within an organization give and receive messages”. Employee who is effectively informed by their supervisor can understand their job requirements and expectations of their contribution to the success of organization (Downs & Adrian, 2004). Communication within the organization has become an essential prerequisite for the well performance in the organization and job satisfaction (De Nobile & McCormick, 2008; Tourani & Rsat, 2012). Communication is valuable for everyone who involved in communication network to increase understandings and to eliminate misunderstandings (Jorfi et al., 2011). The effective communication provides employees to gain information about jobs and to understand the reasons of their contribution to their jobs.

**H3(a): Communication has direct effect on job satisfaction.**

**H3(b): Communication has direct effect on employee performance.**

## JOB SATISFACTION

The job satisfaction of employees can be created by several factors. The definition of job satisfaction varies depends on the nature of job and the perception of employees. Locke (1976) has defined job satisfaction as a pleasurable or positive emotional state of employees in forming their tasks. Job satisfaction is really importance for the growth of any organization. Job satisfaction is the favorableness or un-favorableness of employees in viewing their work (Hassan et al., 2011). Employees who are satisfied their job will be more motivated and the better performance of employees will be achieved (Messersmith et al., 2011). Additionally, the high job satisfaction is the hallmark of well managed organization and is the result of effective behavioral management in organizations (Sehgal, 2012). In the literature, many different factors have been proposed as antecedents of employee job satisfaction. Most empirical studies of HPWS or practices are intended to investigate employee attitudes like motivation and job satisfaction which are the antecedents of increased performance of employees (Appelbaum et al., 2000; Guest, 2002). HPWS will create highly skilled, engaged and empowered employees who feel values and enjoyed higher job satisfaction and thus, there is a strong positive relationship between HPWS and job satisfaction (Appelbaum et al., 2000). A research focused on healthcare center explored job satisfaction as moderator between HPWS and perceived quality of care (Leggat et al., 2010). To be a satisfied workforce, the impact of different factors on job satisfaction of employees should not be ignored by organizations to attain the high performance of employees. Thus, in this study, job satisfaction is tested to have the effect on employee performance.

**H4: Job satisfaction has direct effect on employee performance.**

## EMPLOYEE PERFORMANCE

Performance is a major multidimensional construct aimed to achieve the expected results to provide the goals of an organization (Mwita, 2000). Employee performance is an important building block of an organization and factors for high performance of employees must be analyzed by the organizations (Abbas & Yaqoob, 2009). Develop a performance culture encourages high performance of employees in such areas as productivity, quality, levels of customer service, growth, profits, and, ultimately, the delivery of increased shareholder value (Armstrong, 2009, p.145). The essence of HPWS is to increase productivity of employees and their effectiveness, to help employees in identifying the firm’s goals and to work hard to accomplish those goals (Whitener, 2001). Previous empirical studies proved the relationship between high performance work system and employee performance (Batt, 2002; Guthrie, 2001). Huselid (1995) stated that HPWS could lead to significant decrease in employee turnover, increase in productivity and improved corporate performance. Employees with more committed behavior to the organization and more trusting of management will result in improved performance (Wheatley, 1997). The achievement of success of business organization mainly depends on employee performance which is determined whether employee performs his or her task effectively or not (Aroosiya and Ali, 2013). Thus, the performance of employees is one of the main issues of organizations. The present study contributes to the human resource management literature by exploring the role of HPWS and the effects HPWS on job satisfaction and employee performance and also by developing a theoretical perspective on the important implementation of HPWS in banking industry based on Myanmar case.

**H5: Job satisfaction mediates the relationship between high performance work systems and employee performance.**

## METHODOLOGY

### RESEARCH INSTRUMENT AND KEY RESPONDENTS

In this study, questionnaire was used to collect primary data. Except for the general information about the employees, all variables were measured with thirty two five-point Likert scale items (six items each for independent variables and seven items each for job satisfaction and employee performance). All items were adopted from previous empirical studies. In the final analysis, six items each for all variables were included. This study focused on the HPWS of private banks located in Mandalay. There are seventeenth private banks in Mandalay. Among them, five private banks with the largest number of branches were selected. 1755 non-managerial employees are at those five selected banks. The required sample size was 480 (fifteen times of measured variables) (Kline, 2011). 480 employees were selected proportionately from the banks and structured questionnaires were distributed to the respondents. 395 complete set of questionnaires were included in the final analysis of the study. The respondents had the experience of attending training programs and their performance was evaluated at least one to two times a year. They can also evaluate the communication system of their banks among different levels and departments. Thus, employee perception on selected HPWS were sure to evaluate their satisfaction and performance improvement. Employees of the selected private banks specifically provided their perception on the selected variables of the study.

**ANALYTICAL TOOLS AND PROCEDURE**

Firstly, the demographic factors of the respondents were explored. The reliability of the variables were tested before the main analysis. Structural Equation Modeling (SEM) with LISREL was used to test the proposed model with the empirical data. Before doing the main analysis, the distribution of all variables was checked to see if they violate the assumption underlying the chosen analytical procedures. For factor analysis, confirmatory factor analysis (CFA) was carried out. CFA is an inseparable part of the SEM technique because it provides a way to test a measurement model or the relationship of observed variables to understanding constructs (Yamkovenko & Holton, 2010, p.396). The internal consistency among the variables was checked with the Cronbach’s alpha. The alpha value more than 0.70 were regarded as the acceptable reliability level (Cronbach, 1951).

**RESULTS**

According to the demographic factors of the respondents, female respondents were more than male respondents. All respondents were graduated and most of them had more than three years of work experiences. The results of the employee perception on latent variables (mean values), reliability and correlation of variables are shown in Table 1.

**Table 1: Means, reliability and correlations of variables**

Variables	Mean	T	PA	C	JS	EP	Alpha
Training (T)	3.74	-					.782
Performance appraisal (PA)	3.88	.548**	-				.804
Communication (C)	3.95	.573**	.682**	-			.769
Job satisfaction (JS)	3.79	.601**	.596**	.637**	-		.827
Employee performance (EP)	4.01	.541**	.503**	.589**	.724**	-	.813

\*\* . Correlation is significant at the 0.01 level (2-tailed); Dependent variable: Employee performance (EP)

In the model fit statistics, multiple fit indexes were used: based on the values of  $\chi^2/df$ ; comparative fit index (CFI); incremental fit index (IFI); standardized root mean square residual (SRMR) and root mean square error of approximation (RMSEA) (Bentler, 1990; Hair et al., 2010; Williams et al., 2009). A well-fitting model will have the value of  $\chi^2/df$  is smaller than 2, CFI and IFI values are 0.95 or higher, SRMR value less than 0.08 and RMSEA value below 0.05 (Bentler, 1990; Hair et al., 2010; Williams et al., 2009). The model fit statistics are presented in Table 2.

**Table 2: Models and fit statistics**

Models	$\chi^2$	df	CFI	IFI	SRMR	RMSEA
Proposed model	904.11	204	0.93	0.93	0.14	0.09
Revised model	171.45	143	1.00	1.00	0.03	0.02
Suggested values	$\chi^2/df < 2$		$\geq 0.95$	$\geq 0.95$	$\leq 0.08$	$\leq 0.05$

All  $\chi^2$  values are significant at  $p < 0.05$ . df = degree of freedom, CFI = comparative fit index; IFI = incremental fit index; SRMR = standardized root-mean-square residual; RMSEA = root-mean-square error of approximation.

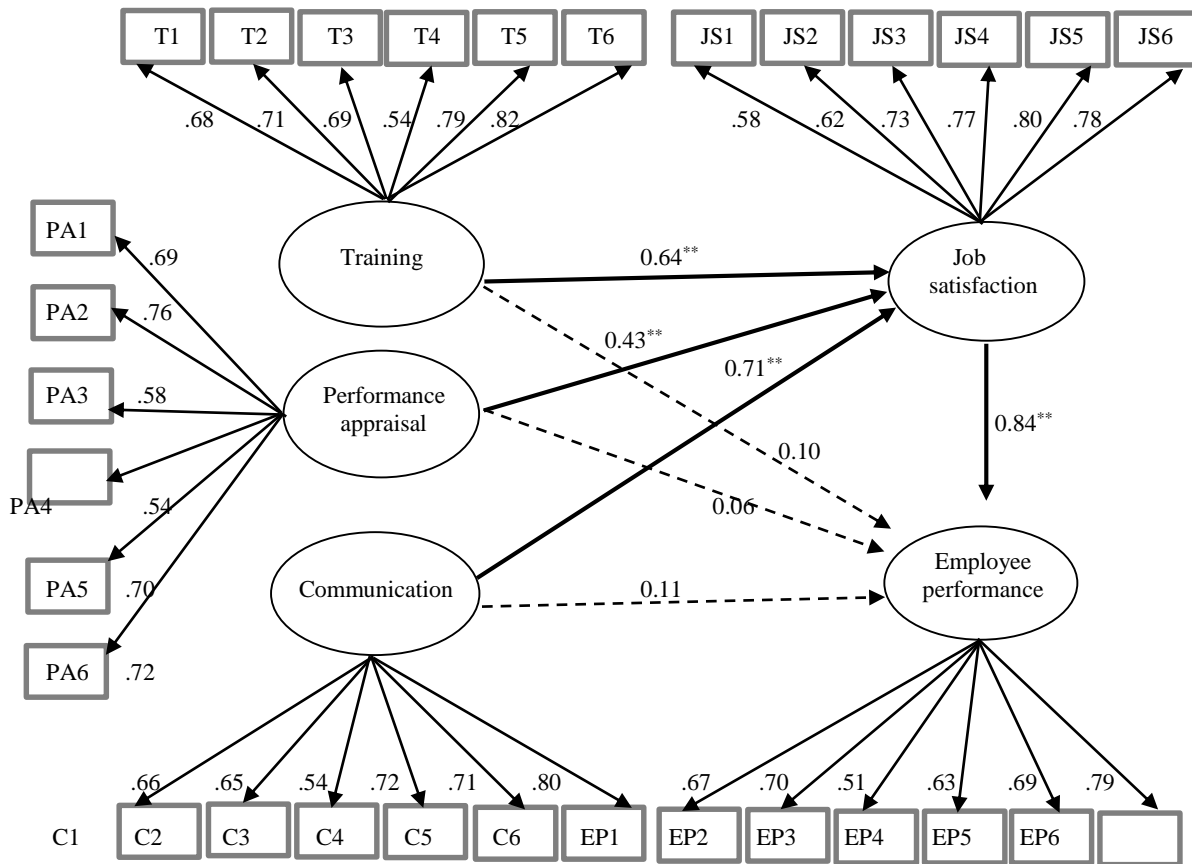
The results revealed that training had significant direct effect on job satisfaction ( $\gamma = 0.64$ ). Performance appraisal had significant direct effect on job satisfaction ( $\gamma = 0.43$ ). Communication had significant direct effect on job satisfaction ( $\gamma = 0.71$ ). Hypothesis 1(a), 2(a) and 3(a) were supported. On the other hand, there was no significant direct effect of training, performance appraisal and communication on employee performance. Hypothesis 1(b), 2(b) and 3(b) were not supported. Job satisfaction had significant direct effect on employee performance ( $\beta = 0.84$ ) and thus, hypothesis 4 was supported. According to the results of hypotheses, the practice of HPWS by the banks can create job satisfaction. On the other hand, the influence of HPWS on employee performance cannot be proved by this study. It was concluded that job satisfaction fully mediated the relationship between training, performance appraisal, and communication and employee performance. Hypothesis 5 was also supported. Because of job satisfaction, the expected employee performance can be yielded by the banks. The results of direct effects, indirect effects and total effects of the latent variables are shown in Table 3. The model with results is shown in Figure 1.

**Table 3: Summary of effects**

Variables	Job satisfaction			Employee performance		
	DE	IE	TE	DE	IE	TE
Training	0.64**	-	0.64**	0.10	0.43**	0.53**
Performance appraisal	0.43**	-	0.43**	0.06	0.68**	0.74**
Communication	0.71**	-	0.71**	0.11	0.54**	0.65**
Job satisfaction	-	-	-	0.84**	-	0.84**

\*\*p < .01; DE = Direct effect; IE = Indirect effect; TE = Total effect

Figure 1: Results of the structural model



\*\*p < .01

**FINDINGS AND DISCUSSIONS**

The study mainly focused on the effects of HPWS on job satisfaction and employee performance. According to the results, all latent variables (training, performance appraisal and communication) have significant direct effects on job satisfaction. All variables were essential for employees to upgrade their satisfaction. Among them, communication was the most significant variable to create job satisfaction. The effective communication among individuals and departments were essential to do the tasks more effectively, to provide services to customers and to solve the problems of customers. Sharing information among employees through communication can provide employees to understand their tasks and to promote their knowledge and skills.

As the second important variable, training was the requirement of employees. All banks in Mandalay implement orientation training for new staffs. Regular training programs are provided to upgrade the skill requirements of employees and to handle changes in technology and daily tasks. All employees prefer attending training programs and the banks accept training programs as ongoing process. Performance appraisal was also significant for employee job satisfaction. The banks perform systematic appraisal system for employees to know their strengths and weaknesses. The results of performance appraisal create job satisfaction. The results support the findings of previous studies that explored the relationship between HPWS and job satisfaction (Appelbaum et al., 2000; Takeuchi et al., 2009; Messersmith et al., 2011; Zhang et al., 2013). Based on previous studies, HPWS are essential for employees and the results of the study are the area to be focused more by the banks.

Additionally, job satisfaction had significant direct effect on employee performance. Employees with job satisfaction had strong desire to perform their tasks more effectively. The more the job satisfaction created by the banks, the more the employee performance improvement can be gained as the results. On the other hand, all latent variables had no significant direct effects on employee performance. Training, performance appraisal and communication cannot directly create or upgrade employee performance without job satisfaction. Thus, job satisfaction was the requirement for employees for their performance improvement. It can be concluded that HPWS along were not sufficient to directly create employee performance with the absent of job satisfaction. Job satisfaction mediated the relationship between HPWS and employee performance.

The results of the study are essential for managerial levels to be focused on HPWS of the bank. Training effectiveness should be evaluated periodically and the employee perception on HPWS should be reviewed. Moreover, the use of HPWS cause employees and organizational outcomes such as performance. It is certain that firms experiencing high performance of employees are better



positioned to invest in HPWS and to provide attractive workplace for job satisfaction. Previous studies pointed out the role of HPWS in attracting and retaining employees and in achieving organizational performance (Takeuchi et al., 2007; Wu et al., 2015). Additionally, HPWS has mainly focused at the organizational or firm level and has paid attention to organizational performance as the outcome. Although results on firm level are essential in explaining the whole picture of the organization, the present study focused on the effects of HPWS at the employee level. The perception of individual employees and their perceived performance were sure to gain the performance of whole organization. Thus, the practice of HPWS by banking industry in Mandalay is demanded to fulfill the job satisfaction of employees. Without job satisfaction, performance improvement, commitment, retention cannot be expected by the banks. The implementation of training, performance appraisal and communication as HPWS by private banks in Mandalay were effective for employees to upgrade their job satisfaction and then they better performed their tasks.

## **SUGGESTIONS AND RECOMMENDATIONS**

The results of the study have several knowledge to private banks in Myanmar and other industries that rely on human resources. The findings of the direct effects of HPWS (training, performance appraisal, communication) on employee job satisfaction suggested that the banks need to create HPWS. The training programs should be reviewed whether the programs actually provide the job requirements of employees. If the training and the requirements are met, employees will satisfy to attend training and will try to apply the trained skills. Furthermore, the sufficient opportunities to attend training is the expectation of employees. The private banks should evaluate the training needs of employees to attend training and to fulfill their knowledge and skills.

The performance appraisal of the banks are sure to inform the actual performance of employees and their strengths and weaknesses. The positive feedback based on the results of performance appraisal is necessary for employees. The private banks should evaluate employee performance based on systematic performance appraisal to yield their satisfaction. Moreover, the knowledge and experiences of appraisers are important for effective performance appraisal. Employees prefer the fair evaluation about their performance. The banks need to focus on appraisers and the whole appraisal system to create benefits for banks.

The open communication among employees and their managers and supervisors is the requirement for job satisfaction of employees. The communication of the banks provide employees to know the information in time. The banks should focus on communication to be effective for job satisfaction. On the other hand, the direct effects of HPWS on employee performance cannot be explored in this study. The practice of HPWS of the banks was for employee job satisfaction. HPWS were not sure to yield employee performance without job satisfaction. Thus, HPWS should be reviewed to gain high employee performance directly.

Additionally, the direct effect of job satisfaction on employee performance was explored in this study. The more the job satisfaction was provided by the banks, the more the employee performance can be yielded by the banks. The banks should review job satisfaction level of employees and their perception on HPWS. Job satisfaction is shaped by various factors associated with the job of employees. The job satisfaction of private bank employees was associated with HPWS which include training, performance appraisal and communication. Thus, the use of HPWS by banks are sure to provide benefits for employees. The HPWS of the banks should be analyzed to create employee performance through job satisfaction of employees. The results of this study highlighted the need for further discussions of HPWS utilization in different scopes by both practitioners and scholars.

## **CONTRIBUTIONS AND IMPLICATIONS OF THE STUDY**

The findings of this study significantly contributed to the research gap of the theory of HPWS based on the scope of the study. As the first contribution of this study, the study focused on the employees of banking industry in Mandalay which is the first study based on theory of HPWS. There was no study that focused on HPWS in the present scope of the study. The results provided banking industry in Mandalay to put emphasis on HPWS to gain job satisfaction and employee performance improvement. Second contribution of the study is that the proposed model of the study was the actual requirement for banking industry in Mandalay. The strong competition among banks forces banks to find the best way to create and upgrade employee job satisfaction and better performance. The results of the study provided the banking industry to focus more on HPWS to promote employee performance. The HPWS models, the review of theories and results of empirical studies can help the managers, human resource development professionals and practitioners of both private banks and other service organizations to understand the importance of HPWS and the improvement of individual performance through job satisfaction of employees. Business executives, managers, HR practitioners and training professionals can understand the results of the implementation of HPWS and the role of HPWS for job satisfaction and performance improvement of employees. Additionally, the exploration of HPWS, job satisfaction and employee performance of present study can be applied in other manufacturing and service industries to contribute to the success of organization.

## **LIMITATIONS AND NEEDS FOR FURTHER RESEARCH**

The limitations of the study should not be ignored by further research to fulfill the gap of the study. As one limitation, the study focused on the perception of employees from banking industry located in Mandalay. The results cannot represent the banking industry in other areas of Myanmar. Further research should test the employee job satisfaction and performance in other banking industry and private service businesses. Moreover, the study tested three latent variables (training, performance appraisal and communication). Other variables of HPWS proposed by previous studies such as empowerment, compensation, feedback, etc. were not considered in this study. Thus, further studies should focus on variables of HPWS not only in Mandalay but also in other areas to gain better and unexpected results to upgrade the performance of whole organization.

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