

Research Article

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Impact of SHRM practices on organizational performance in banking sector of Sri Lanka

Manthreege Wasantha Kalyani¹, Siong-Choy Chong²

¹University of Sri Jayewardenepura Department of Business Administration, Nugegoda, Sri Lanka (Ph. D Student, MSU, Malaysia)

²Department of Quality Assurance, Finance Accreditation Agency, Jalan Kerinchi, Kuala Lumpur, Malaysia.

E-mail: ¹kalyani@sjp.ac.lk; ²siong-choy.chong

Abstract

The purpose of this paper is to examine the impact of SHRM on organizational performance with effect of employee retention in the banking sector in the context of This paper is based on the procedure suggested in quantitative survey method. The data was collected from 238 managers using questionnaire survey, and analyzed using the 'structural equation modeling' method. The results indicate that the relationship between SHRM practices (ability enhancement, skill enhancement and motivation enhancement) and organizational performance is completely mediated through employee rate: Strategic Human Resource Management (SHRM) theory is largely developed on traditional manufacturing organizations but not in service organizations., SHRM in service oriented industries are underdeveloped. Therefore, the expansion of SHRM knowledge into the service industry is the gap being filled by this study.

The originality of this study lies in examining the causal relationship between SHRM practices and organizational performance through the mediating effect of employee retention in banking sector in Sri Lanka by presenting a new model that bundles SHRM practices implementation.

Keywords

SHRM practices, organizational performance, Banking sector, employee retention, AMOS.

1. Introduction

In the course of the most recent ten years, huge strides forward have been many applied and experimentally examined researching the effect of Strategic Human Resource Management (SHRM) practices on organizational performance. To this end, researchers have contemplated the job of the HR work "fit" among SHRM and a scope of logical components which incorporate the outside condition (market and foundations), outer variables (structures and procedures) and association's managerial procedure. Exact proof convincingly exhibits the additional

research of SHRM for organizational performance as far as expanded efficiency, higher productivity, and lower worker turnover rates. (Arthur, 1994; Combs, Liu, Hall, & Ketchen, 2006; Knies, Boselie, Gould-Williams, & Vandenabeele, 2018, Van De Voorde, Paauwe, & Van Veldhoven, 2010). However, almost without exception, SHRM research has relied on evidence from private sector organizations and public sector organizations. Therefore, the aim of this special issue is to address this imbalance by considering SHRM in a public sector as well as private sector context (Knies, Boselie, Gould-Williams, & Vandenabeele, 2018, Ongaro & Van Thiel, 2017) .

Today, the most of the companies operate in complex and dynamic environments, where competition is constantly increasing, and therefore, the traditional sources of competitive advantage do not corresponding and guarantee the survival of an organization, creating a need for rapid adaptation. This situation is leading to a redefinition of retention strategies (Antonio, A. S., Gregorio, S.M., Arleen, M. M.2015, Pfeiffer, 1994; Werner felt, 1984). More organizations are turning to the practice of SHRM for sharing experiences and expertise, integrating knowledge, and generating new knowledge. Motivating the workforce in the organization is the main aim of Innovative Employee Practices places tremendous value on providing Quality, Service, and Innovation through employees possessing and exhibiting the right Attitude. Thus, the purpose of this paper is to investigate how SHRM influences organizational performance and, for a better understanding of the relationship between these two variables, to take into account that employee retention influence SHRM in the banking industry Context. Human resources management is more important than other competitive sources because these people use other assets in organization, create competitiveness and realize objectives. Although initial results indicate that HR practices may have a positive effect on organizational performance, most scholars suggest that more conceptual and empirical work is required (Brewster 2004; Carden and Stevens, 2004).

This paper aims to integrate the cross knowledge fields of SHRM, employee retention, and performance in the expectation of making a substantial contribution to the existing body of knowledge regarding these topics. Therefore, this research uses employee retention as the mediator, and further explores the relationships between SHRM practices and organizational performance.

Results of this study may serve as a reference for the banking industry that seeks to maintain a competitive edge. This industry could also be used as a reference for investors and governments to make the relative investment and policy decisions.

There is rising interest in using SHRM practices, because evidence showed that organizations that implemented such practices recorded remarkable success, especially in organizations in the Western context. Although extensive research has generally documented a positive relationship between SHRM and organizational performance, there is a dearth of

literature on how SHRM practices are operationalized across the management hierarchy and achievement of organizational performance through clear, consistent, and relevant HRM practices, particularly among the developing countries.

The Sri Lankan banking industry comprised of 25 Licensed Commercial banks (LCBs): 13 domestic banks, 12 foreign banks, and 2 local public Banks (CBSL, Annual Report 2017). Hence, the professional conducts of bankers are critical for the strength of the banking industry and stability of the economy of the country. Yet, the central issue of whether SHRM guarantees positive firm performance outcomes, the effect of SHRM implementation on firm performance, and whether employee retention mediates the relationship between SHRM and firm performance remain unresolved. Hence the subject matter of this study is highly problematic and critical. This study plays a vital role to solve this major issue in the banking sector in Sri Lanka.

This paper is organized as follows. Section 2 presents the literature review followed by the theoretical model and the hypotheses to be tested. The methodology and framework adopted in this study is presented in section 3. Section 4 presents key results of the study along with the discussion and practical implications. Finally, the paper concludes in section 6.

2. Literature Review

Human resources are regarded as one of the most important sources of today's firms. Having said so, there are researchers (Purcell, Kinnie, Hutchinson, Rayton, & Swart, 2003; Wright, Gardner, Moynihan, & Allen, 2005) who rejected the main assumption that SHRM directly lead to organizational performance. Rather they (Alcazar, Fernandez, & Gardey, 2005, Gerhart, 2005) influence firm's resources, such as the human capital of the firm or employee attitudes and behaviors. It is these employee attributes that ultimately lead to organizational performance (Guest, 2011). HR professionals must be aware of the latest insights on key HR practice areas related to talent sourcing, talent development, performance accountability, organization design and communication. According to Dave Ulrich, "effective HR professionals help the collective HR practices to reach the tipping point of high impact on business performance by ensuring that HR practices are focused with discipline and consistency on a few but centrally important business issues" (Dharmasiri, 2016).

The intermediate linkages and processes, through which SHRM affects organizational performance, have challenged researchers to define and examine their rationale that opens the 'black box' between SHRM and organizational performance (Chuang and Liao, 2010). Bowen and Ostroff (2004) introduce the construct 'strength of the SHRM' and describe the main features of SHRM that result in a strong organizational climate in which individuals share a common interpretation of what behaviors are expected and rewarded. This in turn leads to organizational performance at the collective level. According to their argument (Chuang & Liao, 2010, Bowen & Ostroff, 2004) the contribution of SHRM practices to organizational performance is determined not only by the choice of SHRM but also by features of SHRM practices. Therefore, 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 employee's retention, individual performance which contributes to organizational performance. Specifically, in analyzing the impact of HRM on organizational performance, each of the HRM-performance linkage models developed complements the others by adding constructs, variables or relationships (Alcazar, Fernandez, & Gardey, 2005). A serious limitation that recent reviews of the literature points out is that the link between SHRM and organizational performance is considered like a '*black box*', i.e., lack of clarity regarding 'what exactly leads to what' (Gerhart, 2005). It was further argued that it is important to consider the intervening steps in the SHRM-performance relationship, or to consider the variables mediating or moderating the endpoint variables (Becker & Gerhart, 1996, Katou, 2008).

This paper argues that the link between HR and firm performance is not as direct as suggested by the prior literature. Further, the focus has been on use of practices, with little attention given to their perceived effectiveness. Furthermore, this paper fill the knowledge gap by providing most influential SHRM practices (ability enhancement, motivation enhancement, or opportunity enhancement) which can be used as retention strategy in the Sri Lankan banking sector.

The prime challenge for the banking sector of Sri Lanka at present became the retention of an employee, whereas young, energetic and intelligent employees always ready to switch over whenever he

or she dissatisfy with any reason in the job. Profit and goodwill are being generated through these employees, who are the backbone of a business entity. Recruitment, induction, orientation, socialization, training and developing, maintaining, and retaining of an employee need more capital by the organization for minimizing employees' turnover rate and cost of selection and recruitment. Banks use diverse HR techniques and methods for retention. Although there are numerous researches have been done to identify the factors for employees' retention in various industries, Sri Lankan banking industry especially requires identification of such factors (Abewickrama, 2016) influencing on employee retention. This research uses several factors to investigate the impact of them. These factors are "ability enhancement practices", "motivation enhancement practices", and "opportunity enhancement practices" which supposed to be tested for relationships with employees' retention.

In summary, the above reviews have unified recruitment and selection, training and development, work design, performance appraisal, (ability enhancement) compensation and benefits, promotion, encouragement, high commitment, high performance, (motivation enhancement) Strategic communication involvement, participation in management, grievances handling, facilitating teamwork, and enhancing quality (opportunity enhancement) practices needed for SHRM research and argued that it is the synergistic effect of multiple HRM practices in SHRM that contributes to firm's performance.

With respect to the measurement of organizational performance evidence convincingly demonstrates the added value of SHRM for organizational performance in terms of increased productivity, higher profitability, and lower employee turnover rates (Arthur, 1994; Combs, Liu, Hall, & Ketchen, 2006; Knies, Boselie, Gould-Williams, & Vandenabeele, 2018, Van De Voorde, Paauwe, & Van Veldhoven, 2010). The literature suggests that studies on HRM performance have not determined a specific and precise meaning for the organizational performance construct. Some studies have used subjective measures to evaluate firms' performance such as employee satisfaction, customer satisfaction, executives' perceptions about the company's performance, absenteeism, employee commitment, and other behavioral aspects. The extant research findings have shown that perceived measures of performance can be a reasonable substitute of

objective measures of performance (Wan-Jing & Tung, 2005) and have a significant correlation with objective measures of financial performance.

Given this scenario, this study has opted to use multiple financial and non-financial indicators in order to assess the SHRM performance of the banking institutions to be studied. The specific items constituting the organizational performance construct are as follows: ‘satisfaction and productivity’, if the organization meets its objectives; ‘efficiency and profits’, if the organization uses the fewest possible resources to meet its objectives; ‘innovation’, for services and processes; and ‘quality’, percentage of high quality services as envisaged by various authors (Katou, 2011; Katou & Budhwar, 2007, Katou and Budhwar, 2010).

2.1 Theoretical framework and hypotheses

An organization needs to develop a human resource management system that achieves both horizontal and vertical integration towards competitive advantage. However, there is no consensus or consistency evidence illustrating what constitutes these HRM systems or bundles that associated with high firm performance. Furthermore, this study also attempts better understanding of the integration of SHRM practices on firm performance in the Sri Lankan Banking industry. Identifying the important components of SHRM practices for enhancing organizational performance, would help us better theorize the nature and impact of SHRM-performance relationship. Therefore, based on the literature review, the theoretical framework of this study is illustrated in Figure 1.

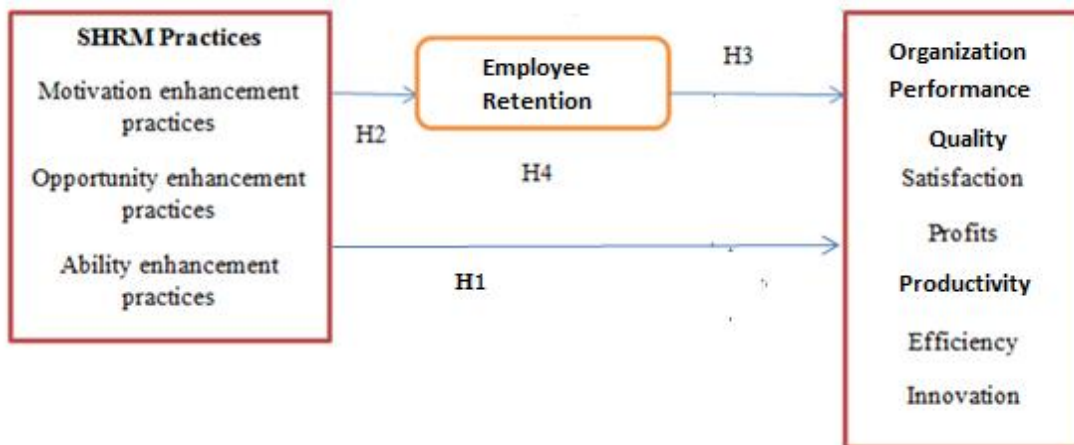


Figure 1: The theoretical framework

Previous research which were focused on the link between SHRM and organizational performance can be grouped into three categories: (1) the research on the relationship between SHRM and firm performance (Osterman, 1994; Huselid, 1995; MacDuffie, 1995; Arthur, 1992,1994); (2) the research on the facilitators of or the obstacles to adoption (introduction) of SHRM (Pil & MacDuffie, 1996; Jackson, Schuler & Rivero, 1989); and (3) the research on the internal mechanisms (mediators or moderators) through which the relationship between SHRM and organizational performance takes place (Batt, 2002). This study identify third category of above mention categories. There is a large amount of previous research on the first two perspectives, but a relatively small amount on the last perspective. In addition, some studies found that the newly adopted SHRM affect employees, but

research on possible mediating effects of these strategies in the relationship between SHRM and performance is rare (e.g., Appelbaum et al., 2000; Nishii, Lepak, & Schneider, 2007). This research mainly focuses on third perspective as mediating effect of retention behaviour on relationship between SHRM and organizational performance.

Moreover an organization’s set of SHRM practices will be effective if it is consistent with retention strategies (Aldamoe, Yazam, & Ahmid, 2012) suggesting that SHRM strategies are followed by retention strategies in determining organizational performance (contingency perspective). Thus, the above discussion leads us to the following hypotheses.

H1: There is a direct relationship between SHRM practices and organizational performance of the banking sector in Sri Lanka.

H2: There is a significant relationship between SHRM practices and organizational performance of the banking sector in Sri Lanka.

H3: The employee retention behaviour mediate the relationship between SHRM and performance of the banking sector in Sri Lanka.

H4: There is a relationship between SHRM practices and employee retention behaviour of the banking sector in Sri Lanka

3. Methodology

The descriptive research method is used to facilitate the description of the SHRM and firm performance of licensed commercial banks in Sri Lanka. The descriptive method provides logical approach because the data consisted of the perceptions of respondents, which were gathered through the administered survey questionnaire. This method of data collection was chosen for this study as it provides greatest anonymity and lowest chance of biasness. A total of 350 questionnaires were distributed to twenty five different licensed commercial banks.

3.1. Sample

As mentioned on Lanka Business Online (LBO), the current banking industry is densely concentrated in the Western Province with nearly 40 percent of the branches of commercial banks being present in this area. With respect to banks, the banking density (the number of bank branches per 100,000 persons) is 11.9 in the Western Province against a range of 5.3 to 8.4 in the other provinces. All branches of the banks are unit of the analysis of the study. Managers, senior managers, junior executive and HR managers represent the as respondent and study sample. A total of 390 questionnaires were distributed to bank branches using the method of stratified sampling. For the purpose of this study, the survey questionnaire constitutes three parts. The first part comprises demographic characteristics of the respondents such as age group, gender, how many years work, how much

longer intend to work, best represents your role, does the founder still manage , ownership. The second part of the questionnaire consists of 43 items which represent fourteen SHRM practices under three main indicators “ability enhancement, motivation enhancement, opportunity enhancement) and rated anonymously by the respondents on a 5-point Likert scale of 1 = “disagree” to 5 = “strongly agree”. The third part of the questionnaire consists 06 items which measures the retention behaviour rated by the respondents on a 5- point Likert scale of 1= “disagree” to 5= “strongly agree”. The fourth part the organizational performance by the following variables namely: 1) customer satisfaction of your company, 2) service innovation, 3) quality of service,4) operational efficiency,5) level of productivity and 6) profitability developed by katou (2008). Respondents were to rate on a 5-point Likert scale of 1 = “very poor” to 5 = “very good”. The Cronbach’s Alpha score is 0.87. The collected data analyzed using the Statistical Package for Social Science (SPSS) and Structural Equation Model with AMOS.

4. Results

In the present study, 342 questionnaires were returned during data collection process. This implies a response rate of 85.5%. Table 1 demonstrates the sample demographics including age, gender, qualification, experience, specialization and experience with current industry. In the current study, a total of 328 completed questionnaires were selected after addressing initial data filtration, out of which 55.9 percent of the respondents belongs to private local owned bank, public owned 39.1, 121 respondents were male with a percentage of 50.8% and 117 respondents were female (49.2%). Age frequency distribution indicated that 26.9% of respondents are between 31 -35 years of age, 20.6% are aged between 36 -40 years, and 13.9% are more than 50 years. While respondents 86 were from executive officers. Out of 328 respondents 58 were from managers and rests were from senior executive, junior executive and human resource managers. Most of the responses were having experience more than 15 years with a number of 108 respondents in the current industry, whilst 109 respondents have the experience above than 05year in this field as shown in Table 1.

Table 1; Frequency of respondents

Demographic analysis		
Age	Frequency	Percent
21 - 25	10	4
26 - 30	22	9
31 - 35	64	27
36 - 40	49	21
41 - 45	34	14
46 - 50	26	11
50+	33	14
Total	238	100
Gender		
Female	117	49
Male	121	51
Total	238	100
Experience		
Less than 5 years	21	9
Between 5 - 10 years	62	26
11 - 15 years	47	20
Over 15 years	108	45
Total	238	100
Hope to remain		
Less than 5 years	37	16
Between 5 - 10 years	62	26
11 - 15 years	41	17
Over 15 years	97	41
7	1	0
Total	238	100
Designation		
Human Resource Manager	6	3
Branch Manager responsible for HR functions	3	1
Non-managerial employee	18	8
Chief Manager	24	10
Manager	58	24
Executive	86	36
Junior Executive	43	18
Total	238	100

4.1 Measurement model

In the current study, SEM was used to test the measurement and structural model for the current study using AMOS 23 software. Three factors were retained after the questionnaire refine through the pilot survey of this study to capture the domain of the Strategic Human Resource Management (SHRM) construct. Then the measurement model of SHRM was analyzed using three proposed factors (Ability enhancement practices (SHA), Opportunity enhancement practices (SHO), Motivation enhancement practices (SHM). All these factors were considered as independent variables in this study. In total, twenty six items represented the factors of SHRM subject to CFA analysis. The analysis was conducted with SHRM being measured as a second-order construct. The overall Cronbach's alpha for SHRM was .872, indicating an acceptable reliability. As a required step for testing the relationship of the manifest item with their respective latent constructs, confirmatory factor analysis was conducted as recommended by Hair et al. The results indicated that all the values are within the acceptable ranges except the standard error. The researcher tested measurement model in two stages. In the first stage, all measurement models were investigated individually with the latent constructs of ability enhancement practices, motivation enhancement practices, opportunity enhancement practices, employee retention and organizational performance. If the measurement model fit indices (GFI, AGFI, CFI TLI and RMSEA) are deemed as not fit with the recommended values, then the measurement model should be re analyzed (Hair,et al.2010;Kline,2005).

The fit indices indicated a poor fit (AGFI, GFI, CFI, TLI and GFI<.9; RMSEA- >.08) in the initial measurement model for overall structure. Modification indices showed that the final model can be improved by allowing correlation of the items PE4 and PE5, PE6 and PE5, SHO9 and SHO8, SHM10 and SHM9, SHM10 and SHM8, SHM7 and SHM5, SHM5and SHM3, SHA11and SHA10, RT3 and RT2.

Find as far as close to the data consider Modification indices and covariances of the error terms within the construct. With the aim of confirming the explored factor structure testing model and stricter evaluation of the reliability and validity of indicators and scales legalized conformity factor Analysis (CFA) which's input and output factor weights are shown on the following figures. During factor analysis the factor weights that are lower than 0.5 are worth to be excluded but in this analysis all the values were acceptable. Because of this next to the continuous analysis of the fit of the overall model primarily evaluated extreme values indicated by the modification indices and demonstrated the connection path (covariance) between two errors where it was necessary. During the draft of connection paths fulfilled basic requirement that the regression arrows should be drawn between errors connected to the same factor (GASKIN, 2012) after the continuous repetitive confirmation processed through the applicable fit of the final overall measurement model for the framework.

The final measurement model fit indices are presented in Table 2 (All fit indices achieved recommended levels).

Table 2: Final measurement model result

Fit indices	Accepted value	Results
Chi square/df	<3	2.049
AGFI	>.9	.759
GFI	>.9	.792
CFI	>.9	.874
TLI	>.9	.858
RMSEA	<.08	.066
P value	>.000	.005

The co-variances of the final measurement model are presented in Table 3.

Table 3: Co-variances of the final measurement model

			Estimate	S.E.	C.R.	P	correlation
RAT	<-->	PE	.320	.051	5.957	***	.714
SHRM	<-->	PE	.271	.046	5.958	***	.678
SHRM	<-->	RT	.314	.059	5.522		.718

The assessment for unidimensionality of the final measurement model and further development of the final measurement model examining the co-variances of the final measurement model demonstrated that there were strong positive relationships between retention and organizational performance as well as Strategic Human resource Management practices and retention (correlations>0.7). Other relationship appears as (Strategic Human Resource Management Practices and organizational performance) moderately correlated (Table 3). Therefore, as indicated all co-variances in the final measurement model have high loadings (0.5) and are statistically significant (p<.05). In the next stage, all measurement models were tested together to check the model fitness and validity and reliability issues.

4.2 Convergent validity

Convergent validity refers to the amount of shared variation among items of the same constructs. It is also

the amount of correlation among the items of a construct. Convergent validity of the construct can be assessed using average variance extracted, item loadings and composite reliabilities of the construct. The AVE is the percentage of variation explained by the items in a construct. AVE refers to “the sum of square of standardized factor loadings to represent how much variation in each item is explained by latent”. The threshold value of AVE is above .50. The value of AVE for SHRM was 0.943, for RT 0.810, for PE 0.961. These values indicated that all the constructs have average variance extraction more than 0.50 which indicates all the constructs have adequate convergent validity. Table 4 shows the value of composite reliability for each construct involved in the current study. As mentioned the threshold value of the composite reliability is above .70. Table 4 shows that all the constructs have sufficient reliability ranging from .810 to .961. Therefore, the current study does not violate the convergent validity of the constructs.

Table 4: convergent validity analysis

Construct	AVE	CR
Strategic human resource management	0.943	0.711
Staff retention	0.810	0.76
Organizational performance	0.961	0.762

4.3 Discriminant validity

Criterion to assess the discriminant validity is that the square root of the average variance extraction should be higher than all inter construct correlations of the respective construct. Table 5 represents the squared inter-construct correlation of each variable and

average variance extraction. Results indicate that all the constructs have adequate discriminant validity as the square root of average variance extracted is greater than the inter-construct correlation of each variable and the values of inter construct are less than .85. It means results provide sufficient evidence of discriminant validity of the constructs

Table 5: Discriminant validity analysis

Construct	SHRM	RT	PE
SHRM	0.843		
RT	0.823	0.707	
PE	0.664	0.838	0.842

4.4 Hypothesis testing

The results show significant model fit Chi square for this model is $\chi^2=294.121$, $df=177$, $CMIN/DF=1.662$ it must be <3 , $RMR=0.050$ it must be near to 0, $GFI=0.901$ less than 1 shows a good fit, $AGFI=0.871$ close to 1 shows a perfect fit, $TLI=0.933$ which is near to 1, $CFI=0.944$ is also near to 1 shows perfect fit, $RMSEA=0.053$ respectively. Thus, all fitness statistics indicated an excellent fit to the overall model. The final estimated model, with standardized path coefficients, is presented in figure 2. First hypothesis states that H1: There is no significant direct relationship between SHRM practices and organizational performance of the banking sector in Sri Lanka. Table 6 shows resource management practices and firm performance.

Second hypothesis states that H2: There is significant causal relationship between Strategic Human Resource Management practices and organizational performance of the banking sector in Sri Lanka. In interpreting the analysis, "RT" received influence from "SHRM", giving a positive high standardization coefficient but low standardized coefficient for "PE". Therefore, it was understood that "SHRM" was a most influential factor named strategic human resource management practices. The "that path H1: Strategic Human Resource Management Practices organizational Performance having standardized path coefficient 0.058, standard error of 0.227, unstandardized estimate is 0.055 and critical ratio was reported as .241 with p value 0.810, which is more than 0.05. This provides enough evidence to accept the research hypothesis. Thus, H1 was accepted. The study established no direct relationship between strategic human

PE" dependent variable of the structural model (direct effect), "SHRM" (path coefficient=.06), "RT" (path coefficient=.79) loaded onto the "Organizational performance" factor. The "employee retention behaviour" indicator (direct effect), "SHRM" (path coefficient=.75) loaded onto "RT" factor. On the other hand the indirect effect independent variable through

employee retention "RT" .5925 loaded onto the "organizational performance" factor.

Table 7 shows the comparisons between direct and indirect effects and the ratio effects. When compared indirect effect with direct effect, "RT" was high in direct effect and "SHRM" variable showed a high indirect effect. However after standardization of the direct effect and indirect effect coefficients, the ratio among standardization synthesis effects was up to 90.8%. In the present study there is a difference when the ratio is around 90 % (Atsuko & Muta, 2006). Therefore from these findings it was interpreted that indirect effect influenced (causal) organizational performance function. Thus, H2 was accepted. The study established causal relationship between strategic human resource management practices and organizational behaviour.

Third hypothesis states that H3: There is significant relationship between employee retention behaviour and organizational performance of the banking sector in Sri Lanka. Table 6 shows that path "Retention Performance having standardized path coefficient 0.813, standard error of 0.316, unstandardized estimate is 0.787 and critical ratio was reported as 2.574 with p value 0.010, which is less than 0.05. This provides enough evidence to accept the research hypothesis. Thus, H3 was accepted. The Study established direct relationship between employee retention behaviour and organizational performance.

Fourth hypothesis states that H4: There is significant relationship between SHRM practices and employee retention behaviour of the banking sector in Sri Lanka. Table 6 shows that path strategic human resource management practices Retention having standardized path coefficient 0.752, standard error of 0.121, unstandardized estimate is 0.692 and critical ratio was reported as 5.728 with p value 0.005, which is less than 0.05. This provides enough evidence to accept the research hypothesis. Thus, H4 was accepted. The Study establishes a positive relationship between strategic human resource management practices and organizational performance.

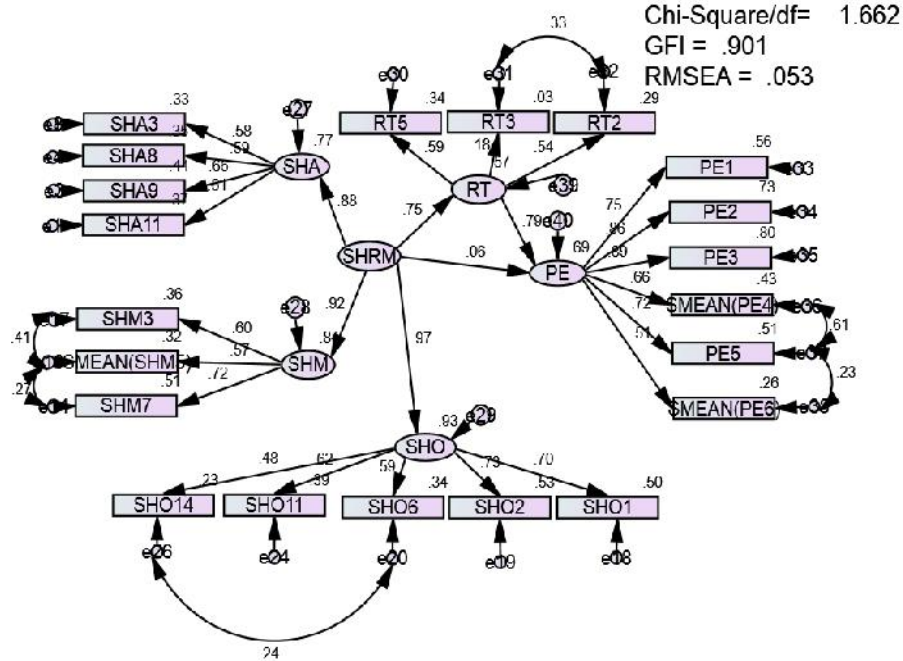


Figure 2: Result of Structural Equation modeling.

Table 6: Hypothesis result

			Estimate	S.E.	C.R.	P.	Label
RT	<---	SHRM	.692	.121	5.728	***	significant
PE	<---	SHRM	.055	.227	.241	.810	Not significant
PE	<---	RT	.813	.316	2.574	.010	Significant

Table 7: Direct and indirect coefficients

Standardized coefficients.	SHRM	RT
Direct effect	.06(9.19%)	.79(57.14%)
Indirect effect	.5925(90.8%)	.5925(42.85%)
Total effect	.6525(100%)	1.3825(100%)

Bold font indicates high values of standardization coefficients.

5. Conclusion

In this study, a hypothetical model of cause and effect, which schematizes influential factors for organizational performance, was developed. Specifically, the crucial factor in the SHRM-performance relationship is how SHRM practices shape discretionary behaviour, i.e., the choices people often make about the way their work is done, which are neither expected nor required, and therefore cannot officially rewarded or punished by the organization for their presence or absence, which is translated into improved organizational performance (Purcel et al. 2003, Katou. 2008). AMO theory is regarded to be the

heart of strategic human resources management in the sense that organizations looking for improving performance develop SHRM practices in the domains of ability enhancement, motivation enhancement and opportunity enhancement that are designated to positively shape discretionary behaviour (Boxall & Purcell, 2003; Lepak et al., 2006, Katou 2008). However, authors such as Gardner, Moynihan, Park and Wright (2001), and Purcell and Hutchinson (2007) argue that in the HRM-performance causal chain it is not HRM outcomes that affect organizational performance, but may exist a serial causation from employee behaviour as retention that finally affect

organizational performance. Nevertheless, in this study it has been hypothesized and verified that employee retention behaviour simultaneously affect organizational performance (Paauwe & Richardson, 1997,). Thus, in order to improve organizational performance the levels of retention behaviour should be improved.

The operational model in this study advocates that SHRM practices directly and positively influence retention behaviour of the banking industry, retention behaviour directly and positively influence to organizational performance and indirectly significantly and positively affects to improve organizational performance.

This study has a number of clear implications for both managers and decision makers. Notably, the major implications of the study are as follows.

Realizing that retention strategies and SHRM practices are not mutually independent, banks should develop SHRM practices with respect to the retention strategies they follow. For achieving this, organization should have HRM departments and representation of these departments at the board level.

Further recruitment and selection, training and development, work design, performance appraisal, compensation and benefits, promotion, encouragement, high commitment, high performance, Strategic communication involvement, participation in management, grievances handling, facilitating teamwork, and enhancing quality may constitute in a descending order the important aspects of the SHRM strategy.

The conclusions above, nonetheless, should be treated with caution. This is mainly because a single respondent from each organization provided information on SHRM practices, retention behaviour, and perceived measures of organizational performance. Respondent bias may have set in the form of upward or downward reporting of the measures. In spite of such limitations, the study makes some important contributions. It tests theoretical assumptions in a non- USA/UK context and it provides support for the perspective that indirect relationship between SHRM practices and Organizational performance.

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