The Impact of High Performance Work System on Companies Financial Performance in India

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ABSTRACT

High Performance Work System is an integrated set of human resource practices and human resource management that has revolutionized organization's world over towards very high profitability. To focus on it, the present study has tried to find out the relationship between the High-Performance Work Systems (HPWS) and companies performance. The data have collected from 2015 to 2018 of thirty companies listed in national stock exchange. The technique for analyzing data has been used descriptive statistics, correlation and multiple linear regressions of four different variables. This study concluded that HPSW is positively and significantly associated with the company's financial performance.

Keywords: Human Resource Management, High Performance Work Systems, Company Performance, Human Resource Practices

1. INTRODUCTION

In current Globalization and competition compelled organizations to adopt new ways to enhance their financial performance internally. latest approach of strategic human resource management (SHRM) called high-performance work system.

High Performance Work System is a name given to a set of management practices that attempt to create an environment within an organization where the employee has greater involvement and responsibility. Designing a HPWS involves putting all the HR pieces together. A HPWS is all about determining what jobs a company needs done, designing the jobs, identifying and attracting the type of employee needed to fill the job, and then evaluating employee performance and compensating them appropriately so that they stay with the company.

HPWS has been defined by Bohlander et al (2004) as "a specific combination of HR practices, work structures, and processes that maximizes employee knowledge, skill, commitment and flexibility" (Bohlander & Snell, 2004, p. 690).

HPWS essentially involves HR management, total quality management (TQM) and human resource practices associated with each and every function of the organisation. HPWS and HRM practices do not lead directly financial performance, rather they influence firm's allocated resources, such as the human capital or employees' behaviour which create a skilled, motivated, productivity and empowered workforce for accelerating financial position of the company.

High-performance work systems (HPWS) are a group of separate but interconnected human resource (HR) practices as selection, training, performance appraisal, and compensation designed to enhance employee effectiveness. Employees should have better skills, more motivation, and more opportunities to excel when these high-performance HR practices are aligned and working in harmony.

2. REVIEW OF LITERATURE

Shih, Chiang and Hsu (2006) found that the effect of HPWS on firm performance is empirically tested using data collected from publicly listed companies in Taiwan. Initial factor analysis on HPWS practices supports this conceptual scheme and structural equation modeling technique (AMOS 4.0) better-performing firms were found to invest in more sophisticated HRM practices, which further enhanced organizational performance.

Drummond and Stone (2007) Explored that the potential of high performance work systems in SMEs. Analysis suggests that the common explanation for enhanced business performance in terms of HPWS (coherent bundles of human resource management practices that function synergistically and thus have more effect than might be expected from the sum of the parts) is a valid but partial. The bundles employed in these businesses are synergetic, but the enhanced outcomes produced need to be understood in terms of the system as a whole, not just the more concrete practices that are normally considered.

Ivars and Martínez (2015) analyzed that the processes that explain high performance work system (HPWS) effect on company performance in small and medium size enterprises (SMEs). This study tests this relationship in SMEs by selecting three high performance work practices (HPWP) and an outcome variable based on the return on investment. A regression model with a sample of 78 companies tests the hypothesis. Results confirm the positive effect of HPWP on the performance of SMEs.

Uyen, Rohaida and Zainal (2016) found that high performance work systems (HPWS) are an effective driver of organizational performance in several studies. This paper attempts to bridge the gaps by exploring the nature of HPWS from strategic and systematic approach as well as identifying the potential effect of synergistic HPWS on perceived organizational performance. Hence, this study enriches the cross-field literature of strategic management and HRM. The

proposed research model and proposition of the relationship between synergistic HPWS and organizational performance contribute to development of strategic HRM literature and the theoretical groundwork for further empirical studies of HPWS.

Chunling and Chen (2018) found that the functioning mechanisms of how high performance work systems (HPWS) affect organizational performance. In this study design and administer a survey questionnaire to high-level executives or founders of companies from manufacturing and service industries and receive 176 valid responses. This study tests this relationship in SMEs by selecting three high performance work practices (HPWP) and an outcome variable based on the return on investment. A regression model with a sample of 78 companies tests the hypothesis. Results confirm the positive effect of HPWP on the performance of SMEs.

OBJECTIVES

1. Analysis the relationship between high-performance work systems (HPWSs) and companies performance and find the Impact of High Performance Work Systems on companies Performance.

3. DATA COLLECTION AND RESEARCH METHODOLOGY

Data collection: Secondary data has collected from thirty companies, listed in national stock exchange which are following measurement and reporting of HPWS form 2015 to 2018. These data were collected from annual reports of companies downloaded of respective companies and additional help were taken from prowess.

Independent variables- To predicts the companies performance these variables included -market capitalizations, return on net worth, net worth, profit after tax.

Dependent variables-In this study prescribe three categories necessary for achieving a HPWS that encompass specific companys practices-

1.The employee skills category includes HR practices such as selective staffing, extensive training, competitive compensation and internal promotions.

2. The employee motivation category comprises HR practices such as performance contingent pay, decentralized decision-making, High results-based compensation, Ensuring employee security, top leadership support.

3. The employee empowerment category refers to HR practices such as employee participation, team-based structures, performance measures, knowledge management, innovative human resource management, employee creativity.

Measurement Scale: In examining each HPWS items, a dichotomous procedure was followed where each company was awarded a score of "1" if the company appears to have disclosed the

concerned reporting variable for each year and "0"otherwise, calculated the average and percentile of four year.

Multiple Regression Analysis

Multiple Regression is used to analyze the possible relationship between HPWS and financial performance of companies in India, using statistical package for social science (SPSS).

HPWSs = a + PAT X_1 +MCP X_2 + Net worth X_3+RONW X_4+ e

Where, HPWSs = High Performance Work System

PAT= Profit after tax

MCP=Market capitalization

Net worth = Working capital

RONW= Return on net worth

a = Intercept, e = Error term

4. ANALYSIS AND INTERPRETATION

Table 1 - Pearson's Correlation Matrix for all Variables With Sample Size of Thirty

Correlations

		HWPS	PAT	MCP	Networth	RONW
HPWS	Pearson Correlation	1	.712**	.413	.511**	.642**
	Sig. (2-tailed)		.000	.005	.004	.000
PAT	Pearson Correlation	.712**	1	.054	.338	.897**
	Sig. (2-tailed)	.000		.777	.068	.000
MCP	Pearson Correlation	.413	.054	1	-.100	.045
	Sig. (2-tailed)	.005	.777		.599	.815
Networth	Pearson Correlation	.511**	.338	-.100	1	.297
	Sig. (2-tailed)	.004	.068	.599		.111
RONW	Pearson Correlation	.642**	.897**	.045	.297	1
	Sig. (2-tailed)	.000	.000	.815	.111	

**. Correlation is significant at the 0.05 level (2-tailed).

Source: secondary data processed through SPSS.

Table no. 1 reveals that:

1. The correlation high-performance work systems (HPWSs) and PAT is .712**with a corresponding p value of significant of .000 which is less than 0.05. So, there is a significant positive relationship between HPWSs and profit after tax.

2. The correlation between the HPWS and MCP is .413 with a corresponding p- value of significant

of .005, which is equal to 0.05. Therefore, there is a significant positive relationship between HPWSs and market capitalization of companies.

3. The correlation between HPWS and Networth .511[**]with a corresponding p- value of significant of .004 Consequently, there is a positive significant relationship between HPWS and net worth of companies.

4. The correlation between HPWS and RONW.642[**]with a corresponding p- value of significant of .000 Consequently, there is a positive significant relationship between HPWS and return on net worth.

Table 2- Descriptive Statistics of Dependent and Independent Variables of Companies

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.712[a]	.507	.489	.62070
2	.768[b]	.589	.559	.57687
3	.829[c]	.687	.651	.51288

a. Predictors: (Constant), PAT

b. Predictors: (Constant), PAT, Networth

c. Predictors: (Constant), PAT, Networth, MCP

Source: secondary data processed through SPSS.

Table 2 represents the model summary of multiple stepwise regression models. R indicates the multiple correlation coefficients; R2 indicates percent variance explained by variables. adjusted r-square levels off: adding a second predictor to the first raises it with (.559- .489=.007), but adding a third predictor to the previous results in a (.559-.651=0.092) point increase. Final adjusted r-square is 0.687, which means that 3 predictors account for 68.7% of the variance in overall satisfaction. Further, the standard error of the estimate of indicates the degree to which the independent variables were unable to predict scores on the dependent variable.

Table 3. Statistical Significance of the Models

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.079	1	11.079	28.757	.000[b]
	Residual	10.788	28	.385		
	Total	21.867	29			
2	Regression	12.882	2	6.441	19.355	.000[c]
	Residual	8.985	27	.333		
	Total	21.867	29			
3	Regression	15.028	3	5.009	19.043	.000[d]
	Residual	6.839	26	.263		
	Total	21.867	29			

a. Dependent Variable: HPWS

b. Predictors: (Constant), PAT

c. Predictors: (Constant), PAT, Networth

d. Predictors: (Constant), PAT, Networth, MCP

Source: secondary data processed through SPSS.

In this table no. 3 show that using ANOVA indicates p-value .000 less than 0.05 in all models, so all the independent variables significantly predicts the dependent variable. This leads to the conclusion that the regression equation with three independent variables is able to predict significantly the HPWS.

Table 4- Linear Regression Analysis of Dependent and Independent Variables

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.018	.259		3.933	.001
	PAT	.390	.073	.712	5.363	.000
2	(Constant)	.757	.265		2.854	.008
	PAT	.334	.072	.609	4.646	.000
	Networth	.090	.039	.305	2.327	.028
3	(Constant)	.317	.282		1.122	.272
	PAT	.317	.064	.578	4.935	.000
	Networth	.103	.035	.347	2.995	.005
	MCP	.118	.041	.316	2.989	.005

a. Dependent Variable: HPWS

b. Source: secondary data processed through SPSS.

Table 4 revealed the coefficient summary revealed unstandardized and standardized beta coefficient of independent variables with their level of significance. In Model 1, t statistics and p value revealed that only one control variable PAT (b=.390, t=5.363, p=.000) is positive and statistically significant , which suggests that increase profit after tax when companies used HPWS in their annual report. In Model 3, t statistics and p value revealed that three control variable PAT (b=.317, t=4.935, p=.000), networth(b=.103, t=2.995, p=.005), MCP(b=.118, t=2.989, p=.005) is positive and statistically significant , which suggests that increase profit after tax, net worth and market capitalization when companies used HPWS in their annual report.

5. CONCLUSIONS, SUGGESTIONS AND FUTURE RESEARCH

Company's success is influenced by the presence of HPWS and requires the creation of HRM, HR practices to the achievement of the their goals. The findings of study emphasis on the implementation of HPWS consisting of HR practice such as employee skills, employee motivation and employee empowerment to increase their service performance which is desired by all over companies performance.The findings of the study reveals that (PAT=.000, net worth=.005, MCP=.005), HPSW is positively and significantly associated with the company's financial performance.

This study is based on secondary data, which are collected from annual reports of companies and other sources. Future research could be examined in the primary data, more than four independent variables, other methods may be used for the study and investigation of interest may be to establish whether these practices differ between management and non-management employees.

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