Impact of Human Resource Management Practices on Perceived Organizational Performance of State Commercial Banks Within Northwestern Province in Sri Lanka

Rupika Jeewanthi[1], Niluka Rajakaruna[2], Hiranya Dissanayake[3]
[1]Postgraduate Unit, Faculty of Business Studies & Finance,
Wayamba University of Sri Lanka
[2,3]Department of Accountancy, Faculty of Business Studies & Finance,
Wayamba University of Sri Lanka
[1]wrarjeewanthi@gmail.com, [2]niluka@wyb.ac.lk, [3]hiranya@wyb.ac.lk

Abstract: The stability of the Sri Lankan financial system heavily relies on the sound health regarding the performance and the capital adequacy of the six largest Licensed Commercial Banks (LCBs). Those banks are described as Systemically Important Banks (SIBs). This group consists of the two main reputed public sector commercial banks which have been targeted in this study. However, the ineffective implementation of the Human Resource Management function of public sector Commercial banks has been a continuing issue within the Sri Lankan context. The current study examines how the perceived organizational performance of public sector commercial banks is linked with human resource management practices namely, Recruitment and Selection, Training and development, Performance Appraisal, Rewards management, Employee retention, and Employee relations which provides a solution for the problem of relatively low performance of state commercial banks in Sri Lanka compared to employee base. The study was quantitative and the survey method was applied for data collection. A structured questionnaire was distributed using simple random sampling and 158 clear and completed responses were returned representing a population of 750 managerial employees within two public sector commercial banks of Northwestern Province of Sri Lanka. The collected data were analyzed using Statistical Package for the Social Sciences (SPSS) version 23.0. The methods used in the analysis of this study involved simple descriptive analysis, correlation analysis and multiple regression analysis. The findings concluded a significant positive relationship of perceived organizational performance with recruitment and selection, training and development, performance appraisal, rewards management, employee retention and employee relations.

Keywords: *Human Resource Management, Licensed Commercial Banks, Perceived organizational performance*

Introduction

Human Resource Management is an important function for any organization that makes people who work there, directly and indirectly responsible for achieving the organization’s goals and objectives (Wilkinson et al., 2010). The banking sector in Sri Lanka continues to be concentrated with large banks, namely; Domestic Systematically Important Banks (D-SIBs) which comprises Bank of Ceylon, Peoples Bank, Commercial Bank, and Hatton National Bank accounting for a 56.2% of industry assets as at the end of 2021, with the two-state banks (Bank of Ceylon and Peoples Bank) accounting for a 35.5% share of total industry assets.

The public sector commercial banks play a crucial role in the structure of the Sri Lankan financial system, and they act as providers of liquidity to the total economy and perform the useful function of transforming the risk characteristics of assets. Another important function is also associated with payment services, which help various entities to perform their transactions. However, banks also generate systemic risks, at least in part, because of maturity transformation and interconnectedness. Thus, the stability of the banks is a very important factor that preserves confidence in the financial system. Hence any failure within the banking sector could ripple across the other financial and or non-financial entities in the economy.

Human Resource Management (HRM) is paramount due to Human Resource's immense contribution to the organization's survival. This is not an exception to the public sector commercial banks in Sri Lanka. However, the ineffective implementation of the Human Resource Management function of public sector Commercial banks has been a continuing issue within the Sri Lankan context. Based on the current dynamic business environment which has escalated competition through globalization, there is a need for the Sri Lankan Public Sector Banking System to employ more standardized rationalized HRM practices (Mangaleswaran, 2015). The major HRM practices include selection and recruitment, training and development, compensation and rewards management, performance management, employee relations, industrial relations, employee retention as well as grievance handling.

The structure of the banking industry in Sri Lanka has experienced changes over the past forty years, mainly as result of deregulation of financial market in the country. All of these reforms were intended for the enhancement of productivity and efficiency, and the degree of competition in the financial market.

Sri Lanka's banking system has been dominated by the state banks throughout the years. Since their inception, State banks have served as a driving force for the Small and Medium Enterprise (SME) sector from major cities to rural outposts across the country. But to benchmark with the international financial market, more enhancement needs to be done by the state banks in Sri Lanka in terms of efficiencies (Tennakoon, 2011). Despite their significant contributions to the financial sector, these banks often face challenges related to their perceived organizational performance. Among the myriad factors influencing perceived organizational performance, HRM practices emerge as a critical determinant. Thus, the central problem under investigation in this research paper is the suboptimal perceived organizational performance of public sector commercial banks in Sri Lanka, attributed to inadequacies in HRM practices.

Sri Lanka's public sector commercial banks serve as vital entities in the country's financial landscape, facilitating economic activities, providing credit facilities, and supporting government initiatives. However, these banks encounter persistent issues concerning their performance metrics. Recent World Bank's financial sector modernization project has declared a highly unsatisfactory overall outcome for the financial sector in Sri Lanka with unsatisfactory rating for state banking performance and modest rating for monitoring and evaluation quality. The problem of suboptimal perceived organizational performance within public sector commercial banks in Sri Lanka is multifaceted. Despite significant investments in infrastructure and technology, these banks often struggle to meet key performance indicators such as profitability, efficiency, customer satisfaction, and innovation. These banks have lagged in profitability and efficiency compared to regional counterparts. As of 2023, their Return on Assets (ROA) and Return on Equity (ROE) were lower than that of banks in India, Pakistan, and Bangladesh, indicating inefficiencies in resource utilization. According to a report by International Monetary Fund (IMF) ROA of state banks in Sri Lanka IS 0.9% whereas ROA of Indian public banks is 1.4% and Pakistani public banks is 1.2% as of 2023. These metrics highlight the need to improve performance to meet international benchmarks. Recent customer surveys suggest low satisfaction levels with public sector banks due to long wait times, limited digital services, and lack of product innovation (CBSL, 2022). State-owned banks have invested in technology, but adoption has been slow, and customer usage rates for online banking remain below 30%. This low satisfaction can be linked to HRM gaps such as insufficient employee training and development.

Studies from developing countries, including Pakistan, India, and Bangladesh, show that HRM practices particularly recruitment, training, and performance appraisal are crucial in driving performance. In Sri Lanka, however, HRM deficiencies are apparent. A survey conducted by Fernando et al. (2020) indicated that 60% of employees in public sector banks were dissatisfied with career progression and performance appraisal systems. Mangaleswaran (2015) reported that ineffective rewards management and employee relations negatively impacted motivation, contributing to high turnover rates of 12-15% per year. These issues demonstrate that poor HRM practices limit employee engagement and organizational productivity.

Underperforming public sector banks hinder economic growth by limiting credit access to businesses, especially in the Small and Medium Enterprise (SME) sector, which contributes nearly 45% to Sri Lanka's GDP (CBSL, 2023). A lack of efficient banking operations also reduces financial inclusion efforts, with 35% of the population still unbanked, undermining the government’s sustainable development goals (Madan & Bajwa, 2016). Evidence suggests that deficiencies in HRM practices contribute significantly to these performance gaps (Mangaleswaran, 2015; Fernando, Yusoff, Khatibi, & Azam, 2020).

The underperformance of public sector commercial banks in Sri Lanka bears substantial consequences for the national economy. Inefficient banking operations impede economic growth by limiting credit access for businesses, hindering investment opportunities, and diminishing consumer confidence (Amos & Natamba, 2015). Moreover, low perceived organizational performance undermines the government's efforts to enhance financial inclusion and promote sustainable development goals (Madan & Bajwa, 2016).

The present study focuses only on the relationship between HRM practices and the perceived organizational performance of the public sector commercial banks in Sri Lanka. It delves into the unique challenges faced by these banks in managing human resources and explores how improvements in HRM practices can address performance deficiencies. While acknowledging the broader contextual factors influencing perceived organizational performance, the study narrows its scope to HRM practices within the public sector banking domain.

Given the critical role of public sector commercial banks in Sri Lanka's economy and the documented performance challenges they face, understanding the impact of HRM practices is imperative. By addressing deficiencies in HRM, banks can potentially enhance employee engagement, productivity, and overall organizational effectiveness. Furthermore, insights gained from this research can inform policy decisions and strategic initiatives aimed at revitalizing the public sector banking sector and driving economic growth.

The problem of suboptimal perceived organizational performance within public sector commercial banks in Sri Lanka underscores the importance of investigating the role of HRM practices. By identifying and addressing inadequacies in HRM, banks can unlock their full potential, contribute to economic development, and better serve the needs of stakeholders. This study aims to shed light on the intricate relationship between HRM practices and perceived organizational performance, providing actionable insights for policymakers, bank management, and researchers. Accordingly, the research will focus on how perceived organizational performance of public sector commercial banks is linked with the 6 identified HR practices namely; Recruitment and Selection, Training and development, Performance Appraisal, Rewards management, Employee retention and Employee relations which provides a solution for the problem of relatively low performance of state commercial banks in Sri Lanka compared to employee base along with ineffective Human Resource Management which lead to unsatisfied employees. Most of the previous studies; El-Ghalayini, 2017; Mangaleswaran, 2015; Awais, Afzal, Shahzadi, & Khalid; Amos & Natamba, 2015; Gamage, 2014 suggest that the above 6 practices have a greater impact on the perceived organizational performance of State Commercial banks within many other developing countries like Pakistan, India and Bangladesh compared to other HR policies and procedures. The researcher will focus on how these practices work in the Sri Lankan context.

While studies from other developing countries like Pakistan, India, and Bangladesh demonstrate the positive impact of HRM practices on bank performance, limited research has been done to explore how these practices function within Sri Lanka's public sector banking context. This research seeks to address this gap by focusing on six key HRM practices: recruitment and selection, training and development, performance appraisal, rewards management, employee retention, and employee relations within public sector banks. By doing so, it aims to provide actionable insights for improving HRM practices, enhancing organizational effectiveness, and ultimately contributing to economic growth in Sri Lanka. The study's findings will offer valuable strategies for policymakers and bank management, specifically tailored to the unique needs and challenges of public sector banking in the country. Therefore, the objective of this study is to identify the impact of HRM practices as recruitment and selection, training and development, performance appraisal, reward management, employee relation and employee retention on the perceived organizational performance of state sector commercial banks in North Western Province in Sri Lanka.

Literature Review

The study used Resource-Based Theory as an underpinning theory of the study. This theory explains that competitive advantage can be attained through the application of valuable internal resources, especially the human resource factor. It's important in this study because it demonstrates how strategic HRM can build resources that, from the perspective of competitive advantage, are valuable, rare, and difficult to imitate. The legal requirements on recruitment, organizational best practices, as well as the number and types of places for recruitment and selection methods and skills and abilities needed for interviewing and evaluating potential employees. All these explain the importance of recruitment and selection (Kapur, 2018). According to Katou & Budhwar (2006), as cited by Khan *et al* (2016), recruitment and selection are critical components in the process of acquiring capable human capital for any organization and the success of the organization and its administrative efficiency is influenced by the kind of human capital an organization acquires. According to Singh and Finn (2003) as cited by Tabbasum (2011), an organization's ability to attract and retain capable employees can be the most important determinant of organizational effectiveness because recruitment plays a significant role in enhancing organizational survival and success in competitive and turbulent business environments. As revealed by Sunday *et al* (2015), recruitment and selection practices have increased the performance of employees and the bank, high percentage of respondents stated that the selection and recruitment policy has helped them improve upon their performance at the bank and in what they do.

According to Goldstein (1993) as cited by Mangaleswaran (2015), Training is generally understood as the acquisition of skills, knowledge, concepts or outlooks that enhance performance in the workplace. Training and career development are very vital in any organization that aims at progressing. This includes decision making, thinking creatively and managing people (Vinesh, 2014). Vinesh (2014) further identified the following reasons for training and development to be vital; assists in addressing employee weaknesses and improve worker performance, ensuring consistency in worker performance and worker satisfaction, increased productivity and improved quality of service and products, reduced costs, and reduction in supervision. According to Stone (2002) as cited by khan et al (2011), training has a distinct role in the achievement of an organizational goal by incorporating the interests of the organization and he workforce.

A study by Amin *et al* (2014) noted that test results showed the level of relationship between HRM practices and perceived organizational performance depending on career planning performance appraisal to be highly influential. According to Taamneh *et al* (2018), Performance appraisal has the potential to enhance perceived organizational performance. Based on a comparative study on human resource Management practices between Sri Lankan and Indian public sector banks by Mangaleswaran (2015), Sri Lankan Public sector banks have given less attention towards the performance appraisals as a practice to enhance perceived organizational performance compared to Indian public sector banks.

A fair reward system could build job satisfaction and productive behavior in an employee and rewards are proved to be a tool to increase performance and change behaviours in dissatisfies employees, because the employees are the asset of the firm and they are the hands and brains through which the whole organizational process comes to life (Mehmood, Ramzan, & Akbar, 2013). According to Ghoshal and Bartlett (1995) as cited by Armstrong (2014), reward management is there to add value to people.

A positive employee relations climate creates a social atmosphere, which encourages high employee involvement and an employee-centered culture. In response, employees feel comfortable and contribute positively to perceived organizational performance (Ali, Lei, & Xiao-YongWei, 2017). They also underscored that because of the rivalry in the services industry, banks need to understand how employee relations and HRM practices impact on perceived organizational performance. Chuang & Liao (2010) as cited by Ali *et al* (2017), employee relations climate is also an important determinant of organizational performance because it encourages employees to deliver quality services to clients and encourages cooperation from co-employees.

Employee relations climate is an important aspect of organizational effectiveness as it motivates the employees to serve the client well and support each other in the organization.

According to Balakrishnan (2014) as cited by Kurdia et al (2020), employee retention is the key to success of any perceived organizational performance and with these employees, organizations can have competitive advantage. Application of employee retention strategies that are in line with employees are what motivate the staff for performance (Gberevbie, 2010). The turnover of key employees can have a disproportionate impact on the business (Armstrong & Taylor, 2014).

Methodology

This study entails a deductive research approach. The process involves moving from the general to the specific, where the researcher begins with a broader theoretical framework and narrows down the focus to gather specific data to either support or refute the initial proposition. The conceptual framework of the study encompasses two key dimensions: the independent variable, which refers to HRM practices, and the dependent variable, which represents perceived organizational performance. This structure aids in investigating how HRM practices impact performance outcomes in the targeted sector.

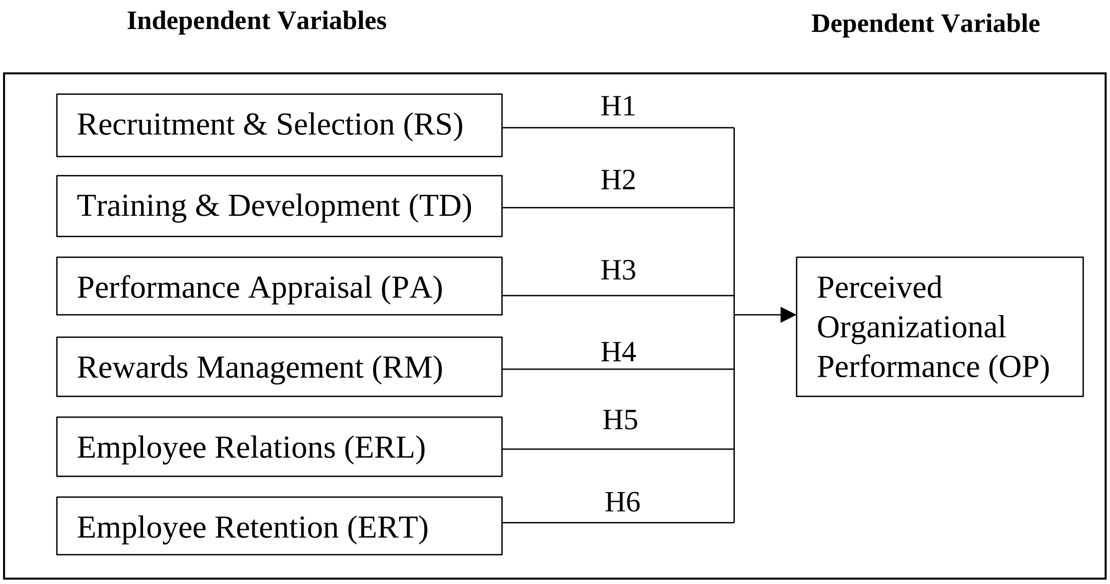

Figure: Conceptual Framework

Source: Developed by authors

Population refers to the entire set of employees within which this research focuses. According to the annual reports of these selected public sector banks, there are a total of 750 employees holding various managerial positions within the

Northwestern Province. These positions range from lower levels to higher levels of the organizational hierarchy. The sample of employees was chosen using the simple random sampling technique. This method ensures that every employee in the defined population has an equal chance of being included in the sample. Simple random sampling was chosen because it minimizes classification errors and requires minimal prior knowledge of the population beyond its framework. Its straightforward nature also facilitates easier interpretation of the collected data. In this research study, where detailed information about the entire population is limited, simple random sampling is the most suitable method. The sample size consists of 158 employees. Data were gathered using a structured questionnaire developed based on the previous studies. It was developed 5-point Likert scale question items for the variables. The dependent variable of perceived organizational performance means "how stakeholders feel about the organization, which can drive behavior such as customer loyalty, employee engagement, and investor confidence" (Delery, 1996). It was distributed 300 questionnaires taking a sample size of 254 (Krejcie & Morgan formula, 1970) with a non-response rate of 30%. However, only 200 questionnaires were returned and only 158 responses were clearly and completely responded.

Data analysis

Demographic Analysis

Age Distribution of the Respondents

Table 1: Age Distribution of the Respondents

Age	Frequency	Percent
Less than 25	14	8.9
Between 25-30	38	24.1
Between 31-35	61	38.6
Between 36-40	29	18.4
More than 41	16	10.1
Total	158	100.0

As observed from Table 1, The age distribution within the sample of 158 individuals reveals a notable concentration in the 25-35 age range, with 38.6% falling between 31-35 and 24.1% between 25-30. The demographic trend suggests a significant representation of young to mid-adult participants. Notably, the frequency declines beyond the age of 40, with those over 41 constituting 10.1% of the total. The data indicates a demographic skew towards a relatively younger population in the sample, potentially reflecting the characteristics of a specific group or demographic profile.
Based on the arguments from the employees derived from the qualitative analysis, this representation is due to the

delay in the last intake of the employees in the public banking sector. The pie chart below assists to further understand the age distribution of the respondents.

Gender Distribution of the Respondents

Table 2: Gender Distribution of the Respondents

Gender	Frequency	Percent
Male	62	39.2
Female	96	60.8
Total	158	100.0

As shown in Table 2, the study was composed of female employees, 96 (60.8%) and male employees, 62 (39.2%). This means that the gender equality between male and female employees is not well harmonized because the gender gap is large.
This implied that there was unequal representation of male and female employees in the public sector commercial banking sector, because women are more attracted towards public sector banking service in Sri Lanka than men. The pie chart below is a further elaboration of the gender distribution of the respondent
.

Educational level distribution of the respondents

Table 3: Gender Distribution of the Respondents

Educational level	**Frequency**	**Percent**
GCE A/L	4	2.5
Diploma	6	3.8
Bachelor's Degree	105	66.5
Master's Degree	43	27.2
Total	158	100.0

The data reveals a diverse educational profile among respondents, with the majority holding bachelor’s Degrees, constituting 66.5% of the total. This suggests a substantial proportion of individuals in the surveyed population have completed undergraduate education. Master's Degrees follow closely behind, representing 27.2%, showcasing a significant presence of postgraduate qualifications. GCE A/L and Diploma holders constitute 2.5% and 3.8%, respectively, indicating a lower prevalence of these qualifications. Overall, the trend suggests a well-educated sample, with a predominant focus on undergraduate education, followed by a noteworthy representation of postgraduate qualifications, highlighting a commitment to higher levels of academic attainment within the surveyed group.

A degree or a master's degree being a major requirement and a plus point for the career development within the public sector banking sector has encouraged the employees to progress to higher educational levels. Obtaining a master's degree either thorough work experience or right after the bachelor's degree has been one of the major expectations of most of the employees working in the public sector banking system in Sri Lanka.

Table 4: **Descriptive Analysis**

Descriptive Statistics									
	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
RS	158	4	5	4.57	.340	-.415	.193	-1.163	.384
TD	158	2	4	3.31	.640	.063	.193	-1.036	.384
PA	158	2	4	3.33	.665	.227	.193	-1.299	.384
RM	158	2	4	3.24	.605	.188	.193	-.784	.384
ERL	158	2	4	3.08	.507	.626	.193	-.534	.384
ERT	158	3	4	3.62	.467	.054	.193	-1.046	.384
OP	158	2	5	3.10	.754	.583	.193	-.873	.384
Valid N (listwise)	158								

Descriptive statistics of the study featuring 158 participants reveal some data in the area of human resource management practices and perceived organisational performance. Each of the four areas has a positive mean score, although recruitment and selection achieve the highest score of 4.57. The values of standard deviations indicate the differences in the extent of the respondents' perceptions where perceived organizational performance has the largest standard deviation of 0.754 meaning the perceptions made by respondents are not uniform. Skewness values are slightly negative, meaning most participants gave practices positive feedback; and the negative Kurtosis values show that the distribution is flatter, less peaky than the mesokurtic. Taken collectively, these statistics suggest a primarily positive orientation toward the subject of human resource management practices and their relationship to observed organizational outcomes, indicated directions for

additional research and increased intervention.

CORRELATION ANALYSIS

Correlation analysis is done to test the level of relationship as well as the type of relationship between the dependent and the independent variables (Franzese & Iuliano, 2018).

	RS	TD	PA	RM	ERL	ERT	OP
RS	1						
TD	0.114	1					
PA	.230**	.861**	1				
RA	.359**	.652**	.521**	1			
ERL	.502**	.780**	.777**	.649**	1		
ERT	.337**	.730**	.567**	.606**	.720**	1	
OP	.322**	.727**	.830**	.501**	.727**	.536**	1

Recruitment and Selection and Perceived Organizational Performance were positively and significantly related, at 0.01 level of significance, r = +0.322. This shows that Recruitment and Selection have a moderate positive correlation with Perceived Organizational Performance. As such, the current study accepts the alternative hypothesis because there is a positive relationship between these two variables.

The result of this study revealed that Training and Development has a positive relationship with Perceived Organizational Performance with a Pearson Correlation coefficient of + 0.727 at a 0.01 significant level. This is in concordance with the hypothetical path between Training and Development and Perceived Organizational Performance. Hence the alternative hypothesis is supported since both variables have a strong positive correlation.

The Correlation between Performance Appraisal and Perceived organizational performance was statistically significant at the 0.01 level with a Pearson Correlation coefficient of +.830. It shows that there is a positive strong relationship between the Performance Appraisal and the Perceived organizational performance. Therefore, the alternative hypothesis is accepted, as there is a significant positive relationship between Performance Appraisal and Perceived organizational performance.

The rewards management and perceived organizational performance have a positive correlation which was statistically significant at 0.01 level with the coefficient of +0.501. This shows a positive correlation between Rewards Management and Perceived Organizational Performance. Hence, the research null hypothesis is rejected and therefore we accept the research alternative hypothesis that a positive relationship exists between these two variables.

The relationship between the variables, Employee Relations and Perceived Organizational Performance reached the significance of 0.01 and the coefficient value of the Pearson Correlation was 0.727 positive. This implicates a positive correlation between variables of Employee Relations and Perceived Organizational Performance. Thus, the alternative hypothesis accepted, as the analysis reveals a strong positiveness between these two factors.

There was a statistically significant positive correlation between Employee Retention and Perceived Organizational Performance at 0.01 level of significance. The correlation coefficient + 0.536. This shows a clear positive increase between Employee Retention and Perceived Organizational Performance. Hence, the alternative hypothesis is accepted. That means that there is a positive relationship between these two parameters.

Regression Analysis

Having run the Model Summary, the researchers noted that the requirements for the Durbin-Watson value are between 1 and 3 ($1 \leq$ Durbin-Watson ≤ 3). When the value is within this range, it confirms that the observations such as independence of the observation has met.

Under Model Summary, the Durbin-Watson value must be not less than 1 or greater than 3 ($1 \leq$ Durbin Watson ≤ 3). If within the said range, the independence of the observations has met. As observed from Table 4.17, the data set under consideration has a Durbin Watson Value of 1.695, therefore the condition is met. Further, the R Squared value is .712 or 71.2% with a statistical significance of $P < 0.05$. That means 71.2% of the variation in perceived organizational performance (outcome) was predicted from level of considered Human Resource Management practices (Predictors). It shows a good level of prediction.

Table 51: Model Summary

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.844[a]	.712	.701	.413	.712	62.236	6	151	.000	1.695

a. Predictors: (Constant), RS, TD, PA, RM, ERL, ERT

b. Dependent Variable: OP

ANOVA Table

Table 62: ANOVA Table of the Multiple Regression Analysis

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	63.615	6	10.603	62.236	.000[b]

	Residual	25.725	151	.170		
	Total	89.340	157			

a. Dependent Variable: OP

b. Predictors: (Constant), RS, TD, PA, RM, ERL, ERT

The F-Ratio in the ANOVA Table tells that the over all regression model is significant for the data under study. If the calculated level of significance is 0.05 or less, the calculated level of significance shows the model is appropriate. According for the data in table 4.18, there is also evidence that the independent variable are significant predictors of the dependent variable $F(6, 151) = 62.236$, $p < 0.05$. Therefore, it can be concluded that the regression model is a good fit of the data.

Coefficients

Unstandardized coefficients depict the behaviour of a dependent variable as a result of an individual independent variable controlling all other independent variables. A final interpretation for the "Beta (β)" values can be made using the plus or minus signs before each of the "β" values. In particular, with reference to the given model, the strength of relationship uses the coefficient 'β' to describe that for each one unit change in independent variable there will be a corresponding change in the dependent variable by a factor of 'β'.

For the standardized Beta values, five percent level of significance has been used whereby the calibrated value of 'p' must be less than 5% ($p < 0.05$) for the predictor variable to contribute significance unique variance to the prediction of the dependent variable. In this case, if $p > 0.05$ with regard to a given variable, this means that the given variable is not giving any unique contribution to the prediction of the dependent variable.

Table 7: Multiple Regression Analysis

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
RS	.714	.168	.322	4.247	.000
TD	.856	.065	.727	13.212	.000
PA	.941	.051	.830	18.571	.000
RM	.625	.086	.501	7.225	.000
ERL	1.082	.082	.727	13.233	.000
ERT	.866	.109	.536	7.926	.000

a. Dependent Variable: OP

The unstandardized coefficient β pertaining to Recruitment and Selection is equal to 0.714. This means that for each one unit increase in Recruitment and Selection, there is an increase in perceived organizational performance of 0.714 times of units. Since the p-value is significant, we reject the null hypothesis (which assumes no effect) and conclude that Recruitment and Selection has a meaningful positive impact on perceived organizational performance.

The unstandardized coefficient β of Training and Development is equal to 0.856. This means that for each unit an increase in Training and Development, and there is an increase in perceived organizational performance of 0.856 times of units. Since the p-value is significant, we reject the null hypothesis (which assumes no effect) and conclude that Training and Development has a meaningful positive impact on perceived organizational performance.

Performance Appraisal has an unstandardized coefficient of β= 0.941. Therefore, it was established that for every one-unit change in Performance Appraisal, the perceived organizational performance changes by 0.941 units. Given the obtained p-value, we fail to retain the null hypothesis and conclude that Performance Appraisal has a significant positive influence on perceived organizational performance.

The unstandardized coefficient β of Rewards Management is 0.625. This means that for each unit an increase in Rewards Management, there is an increase in perceived organizational performance of 0.625 times of units. Since the p-value is significant, it can be rejecting the null hypothesis (which assumes no effect) and conclude that Rewards Management has a significant positive impact on perceived organizational performance.

The unstandardized coefficient β of Employee Relations is 1.082. This means that for each unit increase in Employee Relations, there is an increase in perceived organizational performance of 1.082 times of units. Since the p-value is significant, it can be concluded that Employee Relations have a significant positive impact on perceived organizational performance.

The unstandardized coefficient β of Employee Retention is equal to 0.866. This means that for each unit an increase in Employee Retention, and there is an increase in perceived organizational performance of 0.866 units. Since the p-value is significant, it can be rejected the null hypothesis and conclude that Employee Retention has a meaningful positive impact on perceived organizational performance.

Conclusion

The purpose of this research thus was to assess the relationship between HRM Practices and the perceptions of organizational performance among the public sector commercial banks in Sri Lanka. The research focused on six key HRM practices as recruitment and selection, training and development, performance appraisal, rewards management, employee relations, and employee retention. The findings reveal that HRM practices significantly influence bank performance, with a 71.2% impact, indicating the importance of these practices in driving organizational success.

Recruitment and selection emerged as a critical practice, with employees expressing satisfaction with policies and procedures. The alignment of these practices with the bank’s strategy has contributed to improved performance. These findings align with Huselid (1995) and Gamage (2014), who emphasized that effective recruitment enhances labor productivity and service quality. However, weaknesses were identified in training and development. The results show dissatisfaction among employees with the discussion of their training needs, reflecting that training strategies are not aligned with individual and organizational goals. Amos and Natamba (2015) emphasized that clearly defined training objectives improve employee performance, which suggests that banks need to streamline their training policies.

Performance appraisals were another area of concern. Although employees acknowledged that appraisals influence behavior, they felt the existing system was not growth oriented. Ahmed et al. (2010) noted that a well-implemented performance appraisal system increases job satisfaction, which is essential for reducing turnover. However, findings show a lack of structured performance appraisals in banks, affecting goal achievement. The study also found limitations in reward systems. While employees reported some recognition for performance, there was dissatisfaction with the absence of performance-based bonuses and rewards, highlighting the need for contingent rewards to foster motivation (Armstrong & Murlis, 2004). Non-financial rewards, such as relational rewards, were identified as crucial in retaining employees.

Employee relations presented a mixed picture. Employees appreciated being allowed to join trade unions but felt that their participation in decision-making was limited. Poor interpersonal relationships were identified as a barrier to implementing strategic objectives effectively, consistent with findings by Khalumba (2012). Lastly, while banks provided employment security and career advancement opportunities, employees reported frustration with their jobs and felt undervalued, affecting performance. Gberevbie (2010) argued that employee retention strategies, including participative management and humane treatment, are essential to organizational success.

This study contributes to understanding HRM practices in public sector banks; however, it is limited by a small sample size of 158 respondents, which restricts generalizability. Future research could expand the sample and explore the role of moderating and intervening variables in HRM-performance relationships. Additionally, the model can be adapted to other sectors in Sri Lanka, where inefficiencies may also exist. Expanding the scope of HRM practices and including other performance-related variables would provide a more comprehensive understanding of the relationship between HRM and perceived organizational performance.

Research Implications

Recruitment and selection of the employees is one of the important practices of HRM which has a profound effect of state bank's performance. It was agreed by participants in this study that poor recruitment and selection methods could lead to hiring of incompetence employees who cannot competently execute the bank's responsibilities. These are job analysis, job description, person specification and job placement as major determinants of the employee recruitment and selection in the banking organizations. These factors affect the efficiency of the recruitment process and the results influence the improvement of the performance of the banks.

The purpose of the Performance Appraisal is to establish key areas of specific performance shortcoming of the employees and possible steps to enhance their performance. Lack of routine performance assessments also means that the bank's management cannot identify strengths and working weaknesses of the employees that would help in improving performance management strategy that is also in consonance with the bank's overall performance strategy. Other factors that are also influential in the perceived organizational performance of the public sector commercial bank include training and development; however, the focus on training needs should be better communicated with employees and probably linked more closely with the bank's strategy. Administering training as reinforcement for the employees will not suffice; it has to meet the interests of the employees and the needs of the organization.

Rewards management also proved to be an essential practice that determines the perceived organizational performance which seemed to be at an acceptable position within state banks, however, a performance-based reward system needs to be introduced to achieve higher performance as individual recognition is vital for performance enhancement. The significant positive relationship between employee relations and perceived organizational performance emphasized the importance of maintaining rapport relationships with each other within the bank, which was identified to be a minus point of the bank. Employees expect a high standard for themselves as well as good interpersonal relationships. Thus, improving employee relations has become a major policy implication to the banks. The outcome indicated a significant positive relationship between employee retention practices and perceived organizational performance.

The State Commercial Banks have flexible enough policies and procedures to ensure employment security, yet employees need to be appreciated for their work and provided with the sense of challenging and achievable job tasks.

Recommendations

Training and development programs play a pivotal role in ensuring employees are equipped with the skills and knowledge needed to meet both current and future challenges. Research by Huselid (1995) and Gamage (2014) emphasizes the need for a strategic alignment between training programs and both organizational objectives and individual career aspirations. A well-structured training plan should not only focus on improving technical skills but also promote personal growth, leadership development, and adaptability.

Traditional performance appraisal systems often focus heavily on past performance without adequately supporting future growth and development. To address this limitation, organizations should shift toward growth-oriented performance evaluations that provide constructive feedback and developmental opportunities. A well-designed appraisal system helps clarify expectations, aligns employee performance with organizational goals, and offers actionable insights to improve individual contributions.

Reward and recognition systems are critical to motivating employees and reinforcing desired behaviors. A study by Ahmed et al. (2010) highlights the importance of combining financial and non-financial incentives to drive performance. Financial incentives such as bonuses, salary increments, and profit-sharing schemes encourage employees to exceed performance targets. However, non-financial rewards, including public recognition, flexible work schedules, career advancement opportunities, and personalized thank-you notes, also play a significant role in enhancing motivation. Strong employee relations are fundamental to building a collaborative and engaged workforce. (Radu, 2023) emphasizes that fostering a positive work environment improves employee involvement in decision-making processes, which in turn leads to increased organizational commitment. Organizations that prioritize open communication and transparency can create an inclusive workplace where employees feel respected, valued, and heard.

Employee job satisfaction and well-being are essential for maintaining high levels of motivation and productivity. Gbereybie (2010) identifies factors such as heavy workloads and a lack of recognition as significant contributors to low job satisfaction. Addressing these issues is critical for organizations to foster a healthy and supportive workplace.

HRM practices are constantly evolving, and organizations must stay ahead of emerging trends to remain competitive. Encouraging continuous research and development in HRM helps companies identify best practices, adapt to changing workforce dynamics, and implement innovative solutions. Research by HR professionals and academics provides valuable insights into employee behavior, motivation, and engagement, which can inform strategic HR decisions. Organizations can foster a culture of continuous improvement by staying updated on developments in technology, diversity and inclusion practices, and remote work management. For example, adopting HR technologies such as performance management software, employee engagement platforms, and data analytics tools can enhance HR functions and provide better insights into workforce dynamics. Collaborating with universities, attending industry conferences, and participating in professional networks can also help organizations stay informed about the latest HR trends. Continuous R&D in HRM practices ensures that organizations remain adaptive and responsive to both internal and external changes. This proactive approach allows companies to maintain a competitive edge and attract top talent by offering innovative work environments and cutting-edge HR practices.

Research Limitations and Suggestions for Future Research

Thus, this study offers a limited view on the relationship between the specific practiced human resource management strategies and the perceived organizational performance of the public sector commercial banks in Sri Lanka. The time and cost constraints have limited the sample size to 158 respondents and therefore, the level of generalizability cannot be assured as the population may have varying demographics. This study aimed to identify the influence of HRM practices on perceived organizational performance and those practices have been identified through a literature survey. However, the bank performance of commercial banks is influenced by numerous numbers of factors particularly Human Resource Management concepts which were not identified through the literature survey. Hence the researcher suggests increasing the number of variables for the model. This study focused only on the banking sector. Future researchers can develop the same model for other sectors with inefficiencies within the Sri Lankan context as a developing nation. Another research limitation was that the research only assumed direct effects between the independent and dependent variables without taking into account the mediating and moderating factors that exist in the variables. Thus, it can be suggested that further investigations could continue by comprehending moderating and intervening factors since they have facultative impact on the direct links between the factors.

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