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MEDIATION EFFECTS OF SERVICE PERFORMANCE AND CONCERNS OF CUSTOMERS ON HIGH PERFORMANCE WORK SYSTEMS AND INSTITUTIONAL PERFORMANCE IN HIGHER EDUCATION INSTITUTES

Saleh Al Sinawi and Sailesh Sharma

The main purpose of this study was to examine the effects of high performance work systems (HPWS) on higher education institutions performance in Sultanate of Oman. An attempt was made to study whether performance work systems are not limited to staffing, training, involvement, performance, communication and caring practices influence employee's performance. The study also examined the effects of mediator variables namely, concern for customers and service performance on institutional performance. 530 participants were selected using a stratified sampling technique. The sample was selected from among general managers, assistant general managers or those in authority from the selected institution. Confirmatory Factor Analysis (CFA) was used to test and confirm whether the extracted factors fulfilled the psychometric properties and empirically could be considered as meaningful factors. Structural Equation Modelling (SEM) was used to test the complex relationship between HPWS and institutional performance. The results showed a direct relationship between HPWS and institutional performance and indirect relationship via concerns for employees and service performance.

KEYWORDS: High Performance Work Systems, Institutional Performance, Strategic Management, Sultanate of Oman

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INTRODUCTION

Strategic management has been defined in several ways based on different theories and constructive underpinnings. However, it generally means that strategic management as an art and a science is a process of formulating, implementing and evaluating cross-functional decisions that would enable an organization to achieve its objectives (Brown, 2005). It involves the systematic identification of organizational objectives, arrangement of achievable plans and strategies to attain the targeted objectives and using available resources to achieve the objectives. Hence, strategic management involves analysis, decisions and actions undertaken by organizations to create a conducive environment and maintain competitive advantage and cope with rapid changes in the surrounding environment (Brown, 2005). Researchers (Brews & Purohi, 2007; David & David, 2009) asserted that the strategic management process is meant for adopting a objective, logical and systematic approach for making major decisions in an organization. It attempts to organize qualitative and quantitative information in a way that allows effective decision making under conditions of uncertainty.

Strategic management is considered to be a relatively new transformation in the field of human resources management. This strategy focuses on an important role that human resource plays in the organization development, employees' satisfaction and their performance. Educational organizations are aware that the successful human resource policies and practices might have a significant positive impact on students and their teachers and would increase their effectiveness and productivity (Brown, 2004; 2005; Batt, 2002; Becker & Huselid, 1998). According to Osborne and Gaebler (1992), strategic management appeared to be part of a package of management innovations designed to reinvent or modernize the public sector. Strategic management was found to be an effective management tool for transforming a bureaucratic public sector into a more responsive and innovative administration (O'Toole, 2014; Sean, 2005).

Theorists and empirical researchers have suggested that adopting of high performance work systems in an organization whether public or private sector has an enormous positive effect on their employees' performance. According to Universalistic theorists, there is a universal set of HRM best practices that can enhance a firm's performance and facilitate the employees' psychological factors to rigorously involve in the job which consequently facilitates organizational performance (Lau & Ngo, 2004). On the other hand, contingency scholars hold different points of view and argue that the assumptions underlying the HRM strategy-performance link are applicable only under high external fit conditions, termed the "best fit" school (Bamberger & Meshoulam,

2000; Boxall & Purcell, 2008). In most organizations today, employees' skills and commitment are the sources of competitive advantage. It is, therefore, important that organizations truly leverage on the workforce as a competitive weapon to develop a competitive advantage. Although most of the studies speak of strategic human resource practices leading to performance, such a one-way line of causation is unjustified (Edwards & Rees, 2006). The usual key critique of strategic human resource and organizational performance is that sound theoretical development that explains how such human resource practices operate is absent (Becker, Huselid, & Urich, 2001). In an effort to address such theoretical developments in this area, researchers have proposed further studies to consider intermediate linkages between strategic human resource management and organizational performance (Chuang & Liao, 2010). Accordingly, a better understanding of the role of strategic human resource management in creating and sustaining organizational performance and competitive advantage should be achieved through further theoretical development and empirical evidence.

On the other hand, it was firmly hypothesized that some strategic human resource practices labelled as high performance work systems (HPWS), if implemented in the organization, would enhance employee morale, facilitate their skills and eventually would lead to enhanced organization performance, productivity, job satisfaction, better decision making and lower employee turnover (Becker et al., 1998; Sallis, 2014; Wright & Boswell, 2002). The nature and the number of these practices differ from one study to another depending on the researchers' ideology and their paradigm; however, some practices have consistently been reported as having significant impacts on organizational efficiency and effectiveness; these include but are not limited to staffing, training, involvement, performance, compensation and caring (Huselid, 1995; Pfeffer, 1998). According to strategic human resource management theory, these practices increase employees' knowledge, skills and abilities which consequently lead to organizational high performance and productivity.

Empirical studies (Al Bulushi & Rao, 2014; Armstrong, 2009; Baird, & Meshoulam, 1988; Boxall, 1996; Huselid, 1995; Karami, Analoui & Cusworth, 2004; Salanova, Agut & Peiro, 2005; Wright, Gardner, Moynihan & Allen, 2005) suggested that employee behavior largely depends on how employees interpret features and characteristics of the work environment and organizational climate. On the other hand, the work environment and organizational climate have a strong linkage with organizational performance, employees' commitment, motivation and productivity. According to Huselid (1995) strategic human resource management practices will improve knowledge, skills and abilities of an organization's current and potential

employees, increase their motivation, reduce staff turnover and enhance retention of quality employees while encouraging non-performers to leave the organization.

Several studies have suggested that the relationships between work performance system in strategic human resource management might not directly affect organizational performance, but rather have indirect effect through mediator variables such as concerns for employees, concerns for customers, service performance and helping behaviour (Chuang & Liao, 2010; Carlson, Upton & Seaman, 2006; Gandhi, 2015; Huselid, 1995; Messersmith & Guthrie, 2010; Pfeffer, 1998). According to Gandhi (2015) individual employees "may cognitively appraise their work environment in terms of what is significant or meaningful not only to their well-being but also to the well-being of other relevant organizational constituencies". Consistently, Chuang and Liao (2010) and Schneider and Bowen (1992) argued that a positive climate for customer well-being and positive climate for employee well-being are very distinctive because organizations might have policies and practices positive to the employees sense of being treated well but have little relationship with service customers' experience unless the organization also has policies and practices that encourage and promote service excellence. Thus, the statement indicated that concern for employees and concern for customers are different entities; if one is adopted it does not necessarily automatically lead to the other unless appropriate measures are taken to enhance both concerns.

Hence, this study attempts to investigate the effects of the high performance work systems on higher education institutions performance in the Sultanate of Oman. More precisely, the study would investigate the impact of staffing, training, involvement in decision making, performance appraisal, compensation and caring on institutional performance. Moreover, this study also examined the effects of mediator variables such as concern for customers and service performance on institutional performance.

Review Of Literature

Strategic management represents a relatively new transformation in the field of human resources management. It concerns the significant role that human resources management plays in organizational performance. Educational organizations are increasingly aware that successful human resource policies and practices might increase quality performance of both students and their teachers and would increase productivity (Batt, 2002; Becker & Huselid, 1998; Brown, 2004, 2005; Saraswat, 2015). Researchers (Brews & Purohi, 2007; David, David & David, 2009) asserted that the strategic management process is

considered as an objective, logical, systematic approach for making major decisions in an organization. It attempts to organize qualitative and quantitative information in a way that allows effective decision making under conditions of uncertainty. Strategic human resource management has been defined as a planned pattern of human resource (i.e. workforce) and human resource management (i.e. functional) deployments and activities intended to enable the organization to meet organizational goals and objectives (Mansour, et al. 2013; McMahan, Virick & Wright, 1999; Wright & McMahan, 1992).

Furthermore, the search for predictors of organizational performance began to focus on developing conceptual and empirical models of work performance system practices on the assumption that work performance system would predict organizational outcomes such as profitability, productivity, financial performance and innovation (Huselid, 1995; Wright & Boswell, 2002). As a system of work practices designed to operate holistically rather than individually (Huselid, 1995), work performance system directly impacts organizational performance and innovation (Hayton, 2005; Zahra, Neubaum, & Huse, 2000). Since work performance system is multidimensional in nature (Huselid, 1995; Martin-Tapia, Inmaculada, Aragon-Correa, & Guthrie, 2009), it should not be expected that all the sub-dimensions of work performance system would affect the organization at the same level and to the same extent. As earlier indicated, work performance system is a multi-dimensional construct; it includes staffing, training, involvement, performance, compensation, caring and other factors (Huselid, 1995; Pfeffer, 1998). More precisely, with employees' greater job satisfaction, lower turnover, higher productivity and better decision making, the level of organizational performance would be enhanced, and productivity would increase (Becker & Huselid, 1998; Wright & Boswell, 2002).

A burgeoning number of research studies have established empirical linkages between high performance work systems and organizational performance (Combs et al., 2006; Huselid, 1995; Pfeffer, 1998; Wright & Boswell, 2002). For example, Combs et al. (2006) in their meta-analysis study found that high performance work system practices strongly predict organizational performance when measures depict high performance work system practices rather than individual practices ($r = .28$ and $r = .14$) for high performance work systems and individual practices respectively. According to Chuang and Liao (2010), high performance work system in strategic human resource management is represented by six main dimensions. The dimensions are Staffing, Training, Involvement, Performance Appraisal, Compensation, and Caring.

However, studies suggested that these practices might not be directly affecting organizational performance but rather through other important elements such as concern for customers, and service performance. The concern for customers' climate means that employees' shared perception of the policies, practices and procedures regarding service quality provided to the customers form the focal unit (Borucki & Burke, 1999; Guenther & Schmidt, 2015; Schneider, White & Paul, 1998). The human resource practices implemented in an organization may signal to its employees the extent to which the unit values, expects and rewards providing good service, thus influencing employees' climate perceptions about the unit's concern for customers' interest (Chuang & Liao, 2010). Consistently, Salanova et al. (2005) in their study found that offering employees resources of training and autonomy made employees feel more engaged in providing adequate and quality service to the customers, which subsequently led to more positive employee shared perceptions of service climate in the unit.

Furthermore, when employees perceived a lack of management concern for themselves and customers, this resulted in reduced job satisfaction and organizational commitment. On the contrary, when employees perceive that management is concerned for their well-being as well as customer well-being, they experience higher levels of job satisfaction and exhibit stronger organizational commitment which consequently and positively affects organizational performance. Chuang and Liao (2010) found concern for customers ($r = 0.38$) related to organization market performance through service performance ($r = 0.21$). This finding confirmed the theory of work performance system which stated that dimensions of work performance system relate with organization performance mediated by concern for customers and service performance. Since this model has been extensively used in service industry, the researcher attempts to test the model on non-profit organizations such as institutions of higher education in Oman, to investigate possible direct role of high performance work systems on institutional performance and indirect role through concern for customers and service performance. Based on the literature, our purposed hypotheses are:

H1: High performance work system (HPWS) significantly influences institutional performance

H2: Concern for customers and service performance serve as a mediator between high performance work systems and institutional performance

Research Methodology

A total of 531 employees from Omani Ministry of Higher Education were selected using purposive sampling procedure. The respondents voluntarily participated in this study. The collected data was analysed using the Confirmatory Factor Analysis (CFA) and the Structural Equation Modelling (SEM) via AMOS 20. These methods were used due to their robust ability to quantitatively test what the researcher attempts to study. For instance, CFA was used to test the structure of the scale and its construct validity while SEM was used to examine the complex relationship among concerned factors (Kline, 2005; 2011).

Tool Used In The Study

This study utilized an instrument adapted from Chuang and Liao (2010) which contained 47 items divided into eight dimensions. The first five items examined staffing, five items were for training, seven items for involvement, six items for performance appraisal, seven items for compensation and rewards, five items for caring, six items for service performance, and six items for concern of customer. The researchers (Chuang & Liao, 2010) tested the validity and reliability of their constructed instrument and it was found to be valid and reliable to be used in any meaningful research activity. Moreover, Cronbach's alpha was used to test the internal consistency of the scale. It was reported that in exception of involvement dimension which had a reliability coefficient of 0.61, the other subscales displayed high internal consistency (>.92).

Results Of The Study

Confirmatory Factor Analysis for HPWS and Institution Performance measurement models

The first measurement model was run on the high performance work system (HPWS) construct using AMOS 20 (Arbuckle & Wothke, 1999). This construct contains six distinctive factors; they are staffing, training, involvement, performance appraisal, compensation and caring. However, due to length of the items, the analysis was performed twice. The first three factors were analysed in separate model while the second also ran in a different analysis. Then Maximum Likelihood method was used to assess the overall fitness of the model. The result of the first HPWS measurement model suggested that the model was fit with Chi-Square= 152.892 at df 49 (p = 0.001). Although, the p-value was statistically significant which indicated that the model was not fit, examination of other goodness of fit indices suggested otherwise. The value of

GFI (0.941), AGFI (0.907), IFI (0.931), TLI (0.933), CFI (0.943) and RMSEA (0.076) suggested that model fits well since they all exceed the threshold of 0.90 as recommended by many researchers. Moreover, the value of CMIN/DF was also 3.1 which indicated that the measurement model was adequately fit since the figure fell below the maximum recommended value of 5 (see Figure 1). These indices supported that the model was well fit.

The second construct that was investigated using the measurement model was the high performance work system model 2. This construct consisted of three underlying factors which are performance appraisal, compensation and caring with 6 items for performance appraisal, 7 items for compensation and 5 items for caring respectively. The result of this analysis showed that generally the model was a fit (Chi-Square= 311.443, df 96, p = .001). Since Chi-Square with its df is very sensitive to sample size, the researcher had turned to other indices to determine the model fit. More specifically, the fit indices were GFI= 0.931, AGFI= 0.902, IFI= 0.957, TLI = 0.945, NFI = 0.938, CFI = 0.956 and RMSEA = 0.065. The value of CMIN/DF was also 3.24 which indicated that the measurement model fit adequately since the figure fell below the maximum recommended value of 5.

The Maximum Likelihood estimation was also used to generate estimate of parameters in the measurement model. As previously done with previous measurement model, number of indices were examined to determine the overall model fit. The Chi-Square was 59.540 at df 8 (p=0.001). Although the significance of p value is considered a negative sign in the structural model, due to the sensitivity of chi-square especially when sample size is large, the researcher relied on other indices to determine the fitness of the model. The result generated fit indices that exceeded the recommended critical value of .90. The GFI reached 0.964, AGFI = 0.907), IFI =0.959, TLI =0.922, NFI= 0.953 and CFI = 0.959. The value of CMIN/DF was 3.40, indicating that the model was well fit since the number fell well below the maximum recommended value of 5 (refer to Figure 1).

Figure 1. CFA for HPWS with Summated Scale.

Confirmatory Factor Analysis for Institutional Performance

The next measurement model was conducted on institutional performance. The construct contained three distinctive factors namely; planning, management and development and training. The first factor i.e. planning consisted of five items, management contained seven items, while development and training consisted of nine items. The Maximum Likelihood of estimation was also used to generate estimate of parameters in the measurement model to investigate whether the factors concerned belonged to a construct. A number of indices were examined to determine the overall model fit. The Chi-Square was 641.567 at df 181 (p=0.001). Although the significance of p value is considered a negative sign in the measurement model, due to the sensitivity of chi-square especially when sample size is high, the researcher relied on other indices to determine the fit. The result generated fit indices that exceeded the recommended critical value of 0.90. The IFI reached 0.948, TLI =0.948, NFI=0.929, CFI=0.948 and RMSEA= 0.070). The value of CMIN/DF was 3.55, indicating that the model was well fit since the number fell well below the maximum recommended value of 5 (Figure 2).

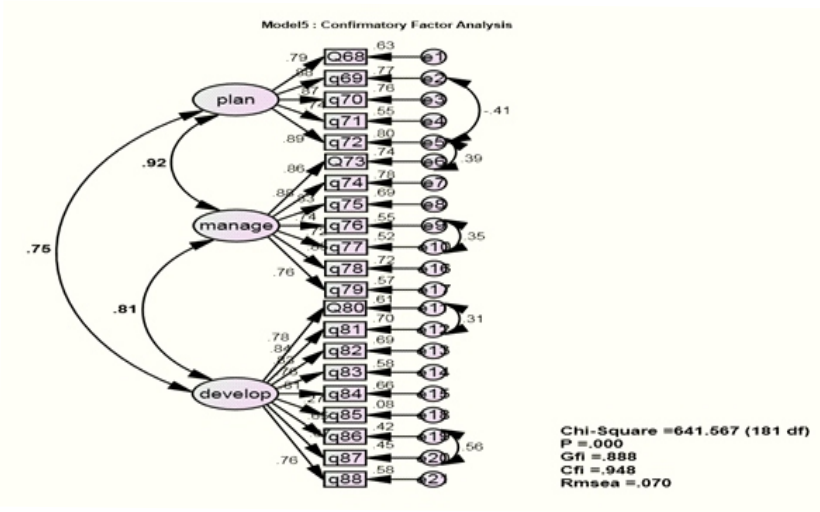

Figure 2. CFA for Institution Performance with Summated Scale.

Confirmatory Factor Analysis for Mediator Variables

The last measurement model was conducted for mediator variables. The construct contained two distinctive factors namely; concern for customer, and service performance. The first factor i.e. concerns for customer consisted of six items, and service performance contained six items, . The Maximum Likelihood of estimation was also used to generate estimate of parameters in the measurement model to investigate whether the factors concerned belong to a construct. A number of indices were examined to determine the overall model fit. The Chi-Square was 202.592 at df 47 (p=0.001). Although the significance of p value is considered a negative sign in the measurement model, due to the sensitivity of chi-square especially when sample size is high, the researcher relied on other indices to determine the fit. The result generated fit indices that exceeded the recommended critical value of .90. The IFI reached 0.969, TLI = 0.956, NFI = 0.960, CFI = 0.969 and RMSEA = 0.079. The value of CMIN/DF was 4.310, indicating that the model was well fit since the number fell well below the maximum recommended value of 5 (Figure 3).

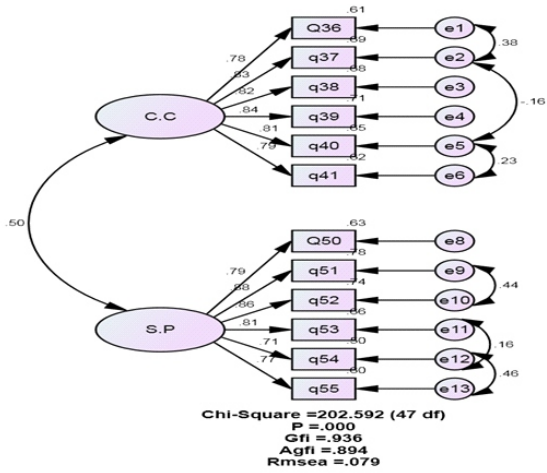

Figure 3. CFA for Mediator Variables

The Full Model

The SEM technique was used as the main statistical tool to test the main hypotheses proposed in this study. The structural relationships between latent constructs represented by single headed straight arrows were specified according to the hypotheses established. The results (see Figure 4) of the current analysis yield (χ^2 = 1230.268, df = 451, p-value =.001, χ^2/ df = 2.73, GFI = 0.946, AGFI = 0.852, CFI = .946, TLI = 0.941, , RMSEA = 0.057). The chi-square with its respected p-value suggested that the model does not fit the data since the p-value is less than 0.05. However, since the chi-square and its respective p-value is sensitive to sample size especially when sample size is larger than 200, the researcher turned to other goodness of fit indexes to examine the appropriateness of the model. The values of GFI, AGFI, CFI, TLI, NFI and RMSEA suggested that the model is fit, which can be interpreted that the observed covariance matrix matches the estimated covariance matrix in the empirical data (Hair et al., 1998). Moreover, the normed chi-square (χ^2/ df) was also examined given the sensitivity of chi-square statistical test to sample size (Byrne, 2001). The normed chi-square (χ^2/ df) showed a value of 2.73. This value falls within the acceptable ratio of less than 5.0 for χ^2/ df value (Hair et al., 1998). In summary, the various index of overall goodness-of-fit for the model indicated good fit.

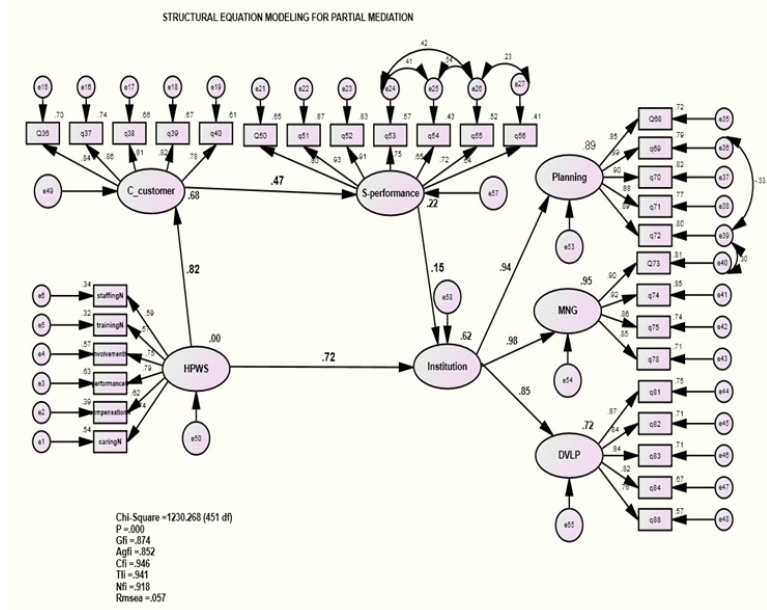

Figure 4. SEM model for relationship between high performance work system and institutional performance.

Discussion

The results of this study contributed in various ways to the effect of high performance systems in institutional performance. According to the first hypothesis, (H1) that High performance work system (HPWS) influences significantly institutional performance, the result of analysis validated that hypothesis. This finding indicated that when the human resource management practices are collectively implemented in the organization, it would lead to synergistic benefits. It was also found that high performance work systems enhance the organizational performance by combining innovative work and management practices with reorganized work flows, advanced information systems and new technologies. Furthermore, a performance work organization builds on and develops the skills and abilities of frontline workers to achieve gains in speed, flexibility, productivity and customer satisfaction. The findings were supported by many previous studies that related high performance work systems with organizational performance. Studies (Brown, 2004; Chuang & Liao, 2010; Guest, 1987; Guthrie, 2001; Jackson et al., 1989; Thompson & Heron, 2005; Wright & McMahan, 1992; Wright & Snell, 1998) asserted that high performance work systems undoubtedly enhanced employee motivation,

maximizing their effort and ability, consequently promoting organizational performance. According to universalistic theorists, there is a universal set of human resource management best practices that enhance organizational performance and facilitate employees psychological factors to rigorously get involved in the job which consequently facilitates organizational performance (Lau & Ngo, 2004). Huselid (1995) stated that as part of the high performance work system, the human capital activities can improve organizational performance through the skill of employee incentives and the organizational work structure. Differences in human resource management level can also reflect in the different levels of human capital investment (Lepak & Snell, 1999).

Amazingly, Lepak, Liao, Chung, and Harden (2006) asserted that through high performance work systems, organizations provide the chance for employees to take part in decision making, recognition of employee's input which induce motivation, improve knowledge, skill and ability to perform. Researchers also believed that the high performance work system has the potential to create significant positive results such as improved productivity and increased quality levels organizational performance, productivity, financial performance, innovation and employee turnover (Brown, 2004; Chuang & Liao, 2010; Guest, 1987; Guthrie, 2001; Huselid, 1995). The researcher also found in this study that the contribution of high performance work system to institutional performance based on standardized regression weight was 72%; this suggests that high performance work system plays a significant role in the total variance of institutional performance. Combs et al. (2006) in their meta-analysis study found that high performance work system practices strongly predict organizational performance when measures depict high performance work system practices rather individual practices (β =0.28 and r =0.14, p = 0.01) for high performance work system and individual practices respectively.

Secondly, the study also found that high performance work systems significantly influence institutional performance when mediated by concern for customers and service performance (Hypothesis 2). According to this finding, the high performance work system strongly facilitates concern for customers (β =0.83) and enhance employees' service performance, which eventually contributes significantly to institutional performance. Thus, it is obvious from these findings the important roles played by these mediator variables in the model to enhance institutional performance. In consensus with these findings, Carlson et al. (2006), Chuang and Liao (2010) and Huselid (1995) found indirect effects of concern for customers and service performance on organizational performance. According to Burke et al. (1992),

individual employees "may cognitively appraise their work environment in terms of what is significant or meaningful not only to their well-being but also to the well-being of other relevant organizational constituencies" (p. 718). Moreover, Takeuchi et al. (2009) found that concern for employees' climate mediated the relationship between high performance work performance and individual job satisfaction and affective commitment. More precisely, the study shows that concern for employees' climate positively related to both job satisfaction (β =0.50, p = 0.001) and affective commitment (β =0.75, p = 0.001) which subsequently leads to organizational performance, productivity and enhanced concern for customers characters of the employees towards the customers. Consistently, Chuang and Liao (2010) found concern for customers (β =0.38, p = 0.001) related to organization market performance through service performance (β =0.21, p = 0.05) and helping behaviour (β =0.29, p = 0.001) respectively. This finding confirmed the theory of high performance work system which stated that dimensions of work performance system relate with organization performance mediated by concern for customers and service performance.

Conclusion

The study investigated the relationship between high performance work systems and institution performance. It also examined the effects of mediator variables such as concern for customers and service performance on institutional performance. Many statistical methods were used to achieve the objective, but the most significant ones were Confirmatory Factor Analysis (CFA) and Structural Equation Modelling. The researcher used the first method to test the measurement model of each construct in the study before they can be combined for structural model. The result of analysis indicated that the models were fit for either measurement models or structural models. These findings suggested that high performance work system caused institution of higher learning to achieve high performance.

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