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Do human resource management practices
have an impact on
financial performance of banks?

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Key words:-

HRM practices, selection system, training, job description, performance appraisal system, compensation system, career planning system, employees participation, financial performance of the banks, planning, development, rewards.

INTRODUCTION:-

The primary worry of the bank should be to bring in proper assimilation of human resource management strategies with the business strategies. It should foster consistent team work and create commitment to improve the efficiency of its human capital. The long-term vision for India's banking system to transform itself from being a domestic one to the global level may sound improbable at present. Banking is defined as accepting for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise and withdrawal by cheque, draft order otherwise.

Human resource management acquires more importance in service industry like banks where human resources play a crucial role. The aspect of human resource development assumes importance in present day condition in banks where there is service competition among them and as the spectrum of functions of these organizations are widening. The banks in particular are entering into various innovative areas of services of their customers. Improved performance of bank through enhanced capabilities of its employees leads to the improved social image of the bank. This in turn satisfies social needs of employees. So the employees are to be given a chance to develop their capabilities like skills and knowledge through various means like career planning and growth, training, works itself which leads to better performance of the job.

Human resource management (HRM) practices are being increasingly considered as major contributory factors in financial performance of organizations. This research study effectively highlights the importance of HRM practices with impact on financial performance of banks. The major objective of the study is to find out the relationship between 'HRM Practices' and the 'Financial Performance of Banks'. As a sample, 46 scheduled banks were contacted, of

which 38 responded. The HRM practices selected for the research study were selection, training, performance appraisal system, and compensation system and employee participation. Empirical evidence was calculated through stepwise regression analysis, Pearson correlation to support theoretical models that link HRM practices with financial performance of banks. The study concluded that all tested variables have a positive relation and impact on financial performance of banks but the major contributory practices are selection, training, compensation and employee participation.

REVIEW OF LITERATURE:-

K. Aswathappa “human resource management – text and cases” (2008) McGraw Hill stated that Indian industry is waking up to the challenges thrown in by market economy. Further he stated that to survive in this competitive scenario managers are being pressurized to improve quality, increase productivity, cut down waste and eliminate inefficiency. He has made an attempt to understand human resource in its proper perspective. The contents which are covered include nature of human resource management, employee hiring, employee motivation, employee maintenance and industrial relations. T. D. Tiwari and Ms. Anuja Thakkar “New Dimension in human resource development” wisdom publication Delhi (2009) focuses on theoretical framework of human resource management and backed by the latest development in the area of HRD along with case studies on various HRD practices prevailing in corporate sectors. They stated that in most of corporate the problem of getting competent and relevant people, retaining them, keeping up their motivation and morale and helping them to both continuously grow and contribute their best to the organization are not viewed as the most critical problem with the changes in the social climate, value and norms, changes are also seen in the employees who join the organization today. They have covered various aspects like modules and various case studies covering the concept of human resource development. A. K. Saloni and Katuri Nageshwara Rao in the book “innovations in Banking- some new concept and cases” focuses on the concept and role of banks in product innovations as a mean to remain

competitive in this fast changing business environment. It also addresses important issues such as innovations in rural finance and why banking innovations matters now. As the banks are devising new and innovative products and strategies for attracting prospective customers and retaining the existing one. It attempts to understand the need and importance of product innovation in banking industry. It explores issues and challenges faced by banks in devising and delivering the product in line with customer's expectation and highlight the strategies adopted in this regards. He has also covered case studies of banks.

SIGNIFICANCE OF THE STUDY:-

The study of human resource management practice has been an important and critical area in management and organizational performance from last several years especially in the banking industry. Influence of human resource management practices on organizational performance has been an important area of research in past 25 years indicating positive relationship between HR practices and organizational performance Human resource management (HRM) practices are being increasingly treated as dependent rather than independent variables In the olden days, management gurus and researchers were involved in exploring how HRM practices affected employee performance, and organizational performance. Now they are beginning to ask how these practices impacts on financial performance of organizations. This study focuses on the impact of HRM practices on the financial performance of banks. This sector performs momentous functions in the present-day world for overall economic development of countries

Human resource management is linked with all the managerial functions involved in planning for recruiting, selecting, developing, utilizing, rewarding, and maximizing the potential of the human resources in an organization. Human resource management (HRM) is defined as the policies and practices needed to carry out the "people" or human resource aspect of a management position, including selection, job definition, training, performance appraisal, employee participation in decision making. From another point of view, HRM is defined as a

process for the development of abilities and the attitude of the individuals, leading to personal growth and self actualization which enables the individual to contribute towards organizational objectives.

In a nutshell, the major objectives of this study are to explore the relationship between HRM practices and financial performance of banks and finding impact intensity of HRM practices on the financial performance of banks functioning in selected area of the study.

RESEARCH DESIGN:-

“Convenience sampling” technique, a form of non-probability sampling, is used for data selection. This technique is used to make research process faster by obtaining a large number of completed questionnaires quickly and economically from the banks. Data was collected by questionnaire. This questionnaire was designed on a five point-Likert scale with options; 5 for strongly agree, 4 for agree, 3 for indifferent, 2 for disagree and 1 for strongly disagree. For data collection, human resource managers of 46 schedule banks were interviewed. Human resource managers from different banks were contacted for information collection regarding perceived financial performance of the banks and human resource management practices. These managers were appealed to answer all the questions to the best of their knowledge. Stepwise regression analysis, correlation were used to strengthen the results with numerical evidences.

Description of The Instruments

The questionnaire included life of the bank, number of employees, years of service, education of employees, experience of HR manager with this bank and in the banking industry and HRM practices. The various aspects covered includes

- Financial Performance of Banks
- Selection System
- Training
- Job Definition

- P. appraisal system
- Compensation system
- Career planning system
- Employee participation

HRM Practices

Research model practices. Out of these items, only HR practices were considered for analyses. Perceived financial performance of the banks in the last three years including increase in sales, market share and share price and net profit growth are selected as dependent variables. Statistical tools used were multiple stepwise regression analysis and correlation for finding organizational performance.

Variables

In this research study, perceived financial performance of the bank is considered as the dependent variable and human resource management practices (selection, training, job description, performance appraisal system, compensation system career planning system and employee participation) as independent variables. The research model is given in Figure 1. Aggregately, 8 variables are considered for analysis out of which 7 are independent variables, and 1 is dependent.

RESEARCH MODEL

Equations for stepwise regression analysis

1. $y = a + b(x_1) + e$

2. $y = a + b(x_2) + e$

3. $y = a + b(x_3) + e$

4. $y = a + b(x_4) + e$

5. $y = a + b(x_5) + e$

6. $y = a + b(x_6) + e$

7. $y = a + b(x_7) + e$

8. $y = a + b(x_8) + e$

Where X1 = S = selection system; X2 = T = Training; X3 = JD = job description; X4 = PA = performance appraisal system; X5 = CS = compensation system; X6 = CP = career planning system; X7 = EP = employees participation; X8 = FPB = financial performance of the banks.

RESEARCH FINDINGS:-

Table 1. Collinearity statistics.

Variables	Tolerance	VIF	Eigenvalues
Selection	0.64	1.55	0.01
training	0.46		0.01
job description	0.63	2.17	0.01
performance appraisal	0.40	1.58	0.01
compensation		2.47	0.01
career planning	0.40	2.50	0.00
Employee participation	0.55	1.81	0.00
	0.54	1.84	

Table 2. Co-relation of variable

Variables	FPB	S	T	JD	PA	C	CP	EP
Financial performance of bank	1							
Selection	0.50	1						
training	0.61	0.51	1					
job description	0.26	0.14	0.28	1				
performance appraisal	0.56	0.55	0.68	0.24	1			
compensation	0.50	0.24	0.37	0.50	0.51	1		

career planning	0.46	0.35	0.45	0.15	0.46	0.57	1	
Employee participation	0.50	0.15	0.39	0.55	0.37	0.58	0.26	1

Table 3. Descriptive statistics.

Variables	FPB	S	T	JD	PA	C	CP	EP
Mean	4.14	4.29	4.03	4.03	4.11	3.78	4.08	4.00
Standard deviation	0.51	0.48	0.42	0.49	0.42	0.54	0.35	0.55
Range	1.75	1.75	1.67	2.00	1.83	2.20	1.57	2.50
Minimum	3.25	3.25	3.17	3.00	3.00	2.80	3.29	2.50
Maximum	5.00	5.00	4.83	5.00	4.83	5.00	4.86	5.00
Sum	157.5	163.0	153.2	156.3	156.3	143.8	155.0	152.0
count	38	38	38	38	38	38	38	38

From the findings of this research, it can be derived that selection, training, compensation and employee participation are challenging practices in the banking sector of Navi Mumbai. It is suggested that banks operating in Navi Mumbai should give due consideration to selection, training, compensation and employee participation in order to achieve better financial performance. In order to formulate their policies, this study can be of benefit to officials with more emphasis on HR strategies. This issue is of great magnitude because a developing city country like Navi Mumbai will have to operate with emphasis on very high productivity in order to combat the challenges of today's global village. The government needs to appreciate the need for human resource management, to have a strategic perception and to communicate this need to both the private banking business owners and government banks as well for better financial performance.

CONCLUSION:-

Four independent variables namely selection, training, compensation and employee participation have a high positive effect on the financial performance of banks. It can be concluded that human resource management practices, namely selection (b = 0.27), training (b = 0.31), performance appraisal system (b = 0.05) and employee participation (b = 0.190) have a

positive impact on organizational performance. In the banking sector, it was found that compensation is also a major factor towards banking performance. The results of the research concluded that HR practices, training ($b = 0.37, 0.39$) and compensation system ($b = 0.41, 0.43$) had positive impacts on perceived firm and market performances of the firm. On the other hand, two practices namely job definition ($b = -0.21$) and career planning system ($b = -0.15$) have a negative and insignificant impact on perceived firm performance. It happened because selected areas scenario is different to some extent from other cities, where major contributory factors of organizational performance are training and compensation systems. Our study identified selection, training, compensation and employee participation as major factors for high financial performance of banks; therefore banks' interest in high performance must focus on these variables as an obligation.

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