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Impact of human resource practices on employee performance of Islamic Banks of Pakistan

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ABSTRACT

The main endeavor of this study is to calculate the relationship and nature of relationship between Employee Perceived Performance and Human Resource (HR) Practices (Compensation, Performance Evaluation, and Promotion Practices) in the Islamic Banks of Pakistan. For exploring this relationship primary data is collected from 193 employees of Islamic banks through personally administered questionnaire. The relationship and nature of the relationship is calculated by applying the Spearman's Correlation Matrix and Multiple Regression Analysis. The Spearman's correlation results demonstrate that, the employee perceived performance and HR practices has the positive and significant relationship. The regression results indicate that from HR practices: only performance evaluation practices is significant while remaining two compensation and promotion practices are not significant. Although little research having been done on Human Resource practices of banking sector by researchers. This study investigates the impact of Human Resource practices in Islamic banks of Pakistan by utilizing response of employees through surveys. Moreover, this research provides top-management of banking sector to design or revise their HR policies and make practices to attain high employee performance.

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Introduction

Banking sector plays an essential role in the economic life of country. The health of any economy is very much related to the reliability of its banking system. An efficient Banking system is very helpful for the optimal utilization of the resources of country. The banks enhance the productive capacity of country by mobilizing the savings of the people. If banks do not exist then a large share of a funds of the country would remain unused. In short bank is just like a heart in the economic structure and the funds provided by it is like blood in it. Modern banking system is necessary to tackle the needs of the modern and growing developing country (Zaidi, 2005).

Banking sector of Pakistan is also playing essential role in the development of country's economy. From last several years, growth and turnaround in Pakistan's banking sector has been incredible and classified as best performing sector of Pakistan (Akhtar, 2007). According to OSEC, February 2011 report "banking sector of Pakistan comprised of 36 commercial banks (including 25 local private banks, 4 public sector commercial banks and 7 foreign banks) and 4 specialized banks. Among the banks, there are 6 fully fledged Islamic banks" (Consulate General of Switzerland, 2011).

The Performance of Banking sector or any organization largely depends on the performance of its employees. Successful organizations are increasingly realizing that there are number of factors that contribute to performance but human resource is clearly the most crucial. In spite of the size or nature of an organization the activity it undertakes, and the environment in which it operates, its success depends on its employee's decisions and their behavior. Human resource practices are used to evaluate performance of employees in organization. Caliskan (2010) acknowledged that HRM practices are one main source of competitive advantage among Organizations. To compete effectively in this competitive environment organizations

persistently improving their performance by improving HRM practices. From last several years study of HRM practices has been an imperative and decisive area for organizational performance.

Many researchers have proved that HR practices have a significant and positive relationship with employees' performance (e.g. Qureshi et al., 2010; Tessema and Soeters, 2006; Park et al., 2003; Wright et al., 2003; Guest, 2002; Harley, 2002; Wan et al., 2002; Delery and Doty, 1996; Huselid, 1995). Aycan et al., (2000) Pakistan is an under researched country. In Pakistan, little research has been done to explore the association between HRM practices and employee performance in banking sector. Marwat, Qureshi & Ramay (2009) have found that HRM practices are positively correlated with performance of employees. Datta et al. (2003) found that best use of HR practices reveals a stronger association with efficiency of firm in high growth industry. HRM practices have significant association with accounting profits among a sample of banks (Delery and Doty, 1996). Effective HR practices improves the performance and lead to higher profits of the companies, due to this company achieves the opportunity to enter in new business as a result industrial development increases and economy improves.

The objective of this paper is to examine the relationship between HRM practices and employees perceived performance in banking sector of Pakistan. However there are number of factors which affect on employees' performance but current study focuses on the relationship between three HRM practices (performance evaluation, promotion and compensation) and employees' perceived performance. Hence findings and results of this study will help the banking sector to improve or revise their strategies for HRM practice.

The remaining paper is prepared as follows. Section 2 shows the literature review. Section 3 represents the data and

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methodology of paper. Section 4 demonstrates the empirical results of the study and in Section 5 gives the conclusions of this study.

Literature Review:

Human resource policies and practices of an organization are significantly important forces for determining behavior and insolvency of employees. Managing Human Resource has many forms of continuation but human resource management practically in organizations is to make use of people and have employment relations. In the progress course of action of developing countries effective HR is now more than ever prior to critical ingredient (Bennell, 1994; Budhwar & Debrah, 2001; Hilderbrand & Grindle, 1997; Kiggundu, 1989; Praha, 2004; World Bank, 1994). Declining of real incomes, unacceptable conditions of working, political intervention and deprived management from decades created cadres of public servants in most of developing countries resulted constantly demotivation & dispirited (Das, 1998; Jaeger et al., 1995; Kiggundu, 1989). (Baron & Kreps, 1999)

Cohen, Wheeler, Hilderbrand & Grindle (1997) summarize many developing countries situation of human resource management as follows: low levels of salary, deficiency of useful performance values, lack of ability to fire people, small number of incentives for excellent performance, employment measures that do not catch the attention of suitably skilled people, promotion guidelines based more on seniority than on performance of employees, deliberate promotion and lack of compensation against hard work, deficient and uncomfoting management by supervisors and lack of motivating tasks. Budhwar & Debrah (2001) reveals that many developing countries face unintentional barriers in the way of development due to outdated and unproductive HRM systems. In recent times, the major focus on HRM writing has been to elaborate the significance of efficiently administrating human resources of enterprises (Ahmad & Schroeder, 2003; Delaney & Huselid, 1996; Ichniowski, Shaw, & Prensush, 1997).

Many researchers have recognized numerous human resource organizing practices that significantly influence performance. Pfeffer (1994) supported the employ of sixteen HRM-related implementations to attain better performance. Delery & Doty (1996) classified seven human resource interconnected practices. Most of researchers have resulted that cluster of HR practices had significant affect on performance than those individual practices functioning in segregation (Arthur, 1994; Baron & Kreps, 1999; Huselid, 1995; MacDuffie, 1995). In other terms, an effective employment of those particular practices fallout in high performance transversely all nature of organizations or state. In this study, we will explain how we utilized three HR practices that we presume influence the employee performance.

Paauwe (1998) and Guest (1997) found that performance is a comprehensive and multipart observable fact. Tessema & Soeters (2006) have conducted study on eight HR practices consist of staffing and assortment procedures, selection practices, guidance, reward, promotion, and employees' performance, complaint procedure and allowance or social security in relative with the perceived performance of employees. Qureshi, Ramay, & Marwat (2006) conducted research related to Pakistan regarding Impact of human resource practices on organizational performance. He concluded that HR practice system influence business performance through outcomes of employees.

Singh (2004) demonstrated that remuneration is a behavior sustains method of employees with trade policy of the firm. Use

of dominant Hr practices illustrates a powerful relationship with firms output in high development industry (Datta et al., 2003).

Caruth & Handlogten (2001) explained: "Employees are encouraged when they are financially rewarded directly fasten to their performance". Leonard (1990) believed that the companies get more increase in return on equity than those corporations which ignores the adequate long-term incentive plans. Tessema & Soeters (2006) have concluded that positive correlation exists between employee performance and compensation practices. Shahzad et al. (2008) found positive relationship of reward practices with the performance of university teachers in their research results. We can build up argument by the help of theoretical study that if proper compensations policies are not implemented and pay no attention by the top management on constant basis then the performance of bank employees will turn down unhappily.

The structure in which performance of employees are evaluated once in a year without granting continuous attempts to provide feedback and training, it's only a performance appraisal it is not the performance management system. Performance assessment is believed to be a "systematic description" of an employee's strengths and weakness. Performance evaluation is purely a part of "bigger whole" (Halachmi, 2005). Coens, Jenkins, & Block (2000) recommended that performance evaluation is a mandatory process under which we rated, evaluated or depicted from the rater all or a group of employee's work attitudes or quality within a particular time period and the outcomes are retained by the corporation.

Datta et al. (2003) found that workers will make use of more exertion with no restrictions if adequate Performance Management (PM) system is in job and is consistent by the compensation method attached to the managing of performance system. Performance assessment and compensation plays important role in developing companies' process by enlarging efficiency (Abeysekera, 2007). There exist a positive relationship between performance evaluation and perceived employee performance (Tessema & Soeters, 2006).

Promotion constantly go with a remuneration increase, either it is made within a grade or to the superior grade. A continuous procedure which is totally rely on the span of service and professional "competency" is accepted at the moment of promotion to higher step in the job within a grade promotion. It is or perhaps "continuous" in which assessment or review or contest is set which enable for simple judgment or selection (Hdiggui, 2006). Tessema & Soeters (2006) conclude a positive association between promotion practices and employee performance. Shahzad et al. (2008) have suggested that there is positive relationship of promotion practices with the University teachers' performance.

Hypothesis:

H1: Compensation practices are significantly & positively correlated with perceived performance of employees of banking sector in Pakistan.

H2: Performance evaluation practices are significantly & positively correlated with perceived performance of employees of banking sector in Pakistan.

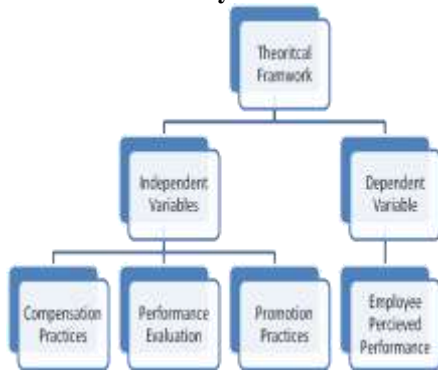
H3: Promotion practices are significantly & positively correlated with perceived performance of employees of banking sector in Pakistan.

Data & Methodology:

In this study collection of data from six Islamic banks was done in a research survey through a personally administered questionnaire. The reason for adopting the personally administered questionnaire is that this approach has higher

response rate as respondent's quires can be solved on spot. Researcher distributed the 250 Questionnaires to the employees of Islamic banks. We received the 193 completed questionnaires out of 300 which has 77% response rate which is enough for empirical analysis.

Theoretical Model of the Study



The questionnaire for this study was consisting of questions used by (Tessema & Soeters, 2006). The main reason for adopting this questionnaire is that it was well tested on internal consistency as this had Cronbach's Alpha in the range of 0.71 to 0.89. The Cronbach's Alpha of both Tessema & Soeters (2006) & this study are given in the table 1. The descriptive statistics of all the variables includes the average, maximum value & minimum value of variables.

Table 1: Cronbach's Alpha & Descriptive Statistics

Variables	Alph a ^a	Alph a ^b	Obs	Minimum	Maximum	Mean	Std. D.
Employee Perceived Performance	0.74	0.71	193	1.00	5.00	3.7578	.74298
Compensation Practices	0.82	0.89	193	1.00	4.83	3.0112	.96211
Performance Evaluation Practices	0.73	0.87	193	1.00	10.67	3.3661	1.00968
Promotion Practices	0.74	0.79	193	1.00	5.00	3.0967	.98770

Notes: a = Cronbach's Alpha of Tessema & Soeters, 2006 and b = Cronbach's Alpha of this study

The variables (Main Questions) in this study are measured through some sub-questions. The four main questions are basically Employee Perceived Performance and 3 HR Practices in the questionnaire, which can be measured by the sub-questions as specified in questionnaire in Appendix I. The employee perceived performance can be measured through 4 sub-questions. The HR Practices; the compensation practices can be measured through 6 sub-questions, the performance evaluation practices are also measured through 6 sub-questions, and the promotion practices are measured through 3 sub-questions. The likert scale is use in this questionnaire, this scale has five different options (1) for strongly disagree to option (5) for strongly agree . The one main question, which is employee perceived performance is dependent variable. The other three main questions (HR Practices) are, 1) compensation practices, 2) performance evaluation practices, and 3) promotion practices are independent variables in this study. In order to find true & actual relationship between employee perceived performance & HR Practices the control variables are used. The two control variables, 1) tenure, and 2) gender, in the study are taken from Demographics section of the questionnaire (as mention in Appendix I). The detail of the respondents can be shown in table

Table II: Profile of the Respondents

Demographics	Category	Frequency	Percentage
Level of Job	Manger Grade	62	32.1
	Non-Manger Grade	131	67.9
Qualification	Graduation	45	23.3
	Masters	144	74.6
	Others	4	2.1
Gender	Male	149	77.2
	Female	57	22.8

In this study in order to scrutinize the exact relationship, nature of the relationship, the Correlation & Multiple Regression Analysis are used. The prime reason for adopting these techniques is to test the hypothesis as describe earlier. The other reason is that in order to investigate the relationship Employee Perceived Performance & HR Practices, the correlation or and multiple regression analysis were also adopted by the previous researchers (Tessema & Soeters, 2006; Qureshi et al., 2006; Baloch et al., 2010; Shahzad et al., 2008; and Ahmad & Shahzad, 2011).

Multiple Regression Model:

$$EPP_i = \alpha_0 + \alpha_1 CP_i + \alpha_2 PEP_i + \alpha_3 PP_i + \epsilon_1$$

Where EPP_i = Employee Perceived Performance, CP_i = Compensation Practices, PEP_i = Performance Evaluation Practices. PP_i = Promotion Practices, ϵ_1 = is the error term in the Model.

The EPP_i is the dependent variable, which is the average of the questions 2 to 4 linking to the employee's performance in the questionnaire. The first question which is also linking with the employee perceived performance, but not include in the average. The CP_i , compensation practices variable is the average of 6 questions from 5 to 10. The PEP_i , performance evaluation practices variable is the average of 6 questions from 11 to 16. The PP_i , promotion practices variable is the average of 6 questions from 17 to 19.

Empirical Results:

As our questionnaire is design on likert scale the most suitable correlation matrix for this scale is Spearman's Correlation Coefficient (rho) Matrix. The Spearman's correlation between all the variables which are used in our models demonstrated in the Table II. This table show that the employee perceived performance & HR practices have a strong relationship. The correlation between the employee perceived performance & HR practices is positive & significantly significant. The results of correlations are in accordance with our theoretical framework & with previous studies (Becker & Huselid, 1998; Ichniowski et al., 1997; Guest, 2001; Tessema & Soeters, 2006; Baloch et al., 2010; and Ahmad, & Schroeder, 2003). Another purpose for this table is to assess the potential chances of multicollnaerity before running the multiple regression analysisi. The correlaton between independent variables in the model are less than the cut point 0.6 or 0.7, which shows that there is no multicollnearity problem in the modle.

TABLE II: Spearman's Correlation Coefficient (rho) Matrix

Variables	EPP	CP	PEP	PC
Employee Perceived Performance (EPP)	1.000			
Compensation Practices (CP)	.195 0.007***	1.000		
Performance Evaluation Practices (PEP)	0.258 0.000***	.511 0.000***	1.000	
Promotion Practices (PC)	.205 0.004***	.510 0.000***	.579 0.000***	1.000

Notes: n = 193, & correlation is significant at *** 1%, ** 5%, & * 10% level of significance (2-tailed).

Table III: Multiple Regression Analysis

Variables	Coefficient	Stan. Error	t-statistics	P-Value
Compensation	0.025	.063	.401	.689
Performance Evaluation	0.207	.062	3.346	.001**
Promotion	0.093	.066	1.417	.158
Constant	2.698	.200	13.466	.000

Notes: $R^2 = 0.146$, Adj. $R^2 = 0.134$, F-Stat = 10.89, and Prob > F = 0.000***

Variable is significant at *** 1%, ** 5%, & * 10% level of significance.

The table III provides the multiple regression analysis results of the model. The model has three significant variables. The variable performance evaluation practices is highly significant at 1% level of significance. While the other two variables compensation practices & promotion are insignificant. The R^2 of model is 14.7%, which means that HR practices can explain the 14.7% changes in the employee perceived performance in the Islamic banks of Pakistan. The adjusted R^2 of the model is 13.4% and the coefficient of correlation r is 14.6% in this study. The F test of the model is also significant, which means model is good fit.

The performance evaluation practices have highest contribution in explaining the employee perceived performance, 0.207 & significant at 1% level of significance. These result are in accordance of previous researches on Islamic banks of Pakistan (Baloch, et al., 2010) This reveals that the performance evaluation practices which is the most important HR practices. If these practices are properly implemented by the banks in Pakistan, in return they can get multiple benefits. The previous studies suggest that, the banks can get multiple benefits from these practices. 1) The prime merit of performance evaluation practices is that it can facilitate the banks to take proactive actions regarding other HR practices like increasing salaries under Compensation Practices, Promotion Practices & many other incentive schemes in order to boost the performance of the bankers. 2) The second benefit is that banks can evaluate the strengths & weakness of its employees & can take proactive actions like, training & development of the employees. 3) The third benefit is that performance evaluation can help the HR department of the banks to check the usefulness of other HR practices like, Staffing, Selection & Training and development of the employees of the banks (Tessema & Soeters, 2006; Baron & Kreps, 1999; Bowen & Ostroff, 2004; Kalleberg & Moody, 1994; and Pfeffer, 1994).

Conclusion:

The purpose of this study is to investigate the exact relationship and the nature of relationship between the employee perceived performance and HR practices (Compensation Practices, Promotion Practices & Performance Evaluation Practices) in the Islamic banks of Pakistan. The HR practices & employee perceived performance has the positive & significant relationship in this study. According to correlation analysis all the hypothesis are accepted.. These results are in accordance with the previous study on the banking sector of Pakistan (Baloch et al., 2010). The regression result shows that performance evaluation practices has significant while compensation and promotion practices are highly insignificant

& contradictory to the previous study done by (Baloch et al., 2010).

The Islamic banks of Pakistan quickly redefine the compensation practices in order to boost up the performance of the employees in banks. The salaries & other financial incentives of the employees should be adjusted in accordance with the higher inflation in the Pakistan. This sector also has to properly implement & maintain the other HR like performance evaluation practices and promotion practices. This study can help the banking sector to properly define that HR practices that can produce higher performance of the employees of the banks which ultimately results in increasing the productivity & motivation in the employees.

In this study, we adopt the personally administered questionnaire and choose only the three most important HR practices. The future studies must focus on other HR practices like recruitment and selection practices, training and development practices, placement practices, and grievance practices.

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