



## CONTRIBUTION OF HUMAN RESOURCE POLICIES TO THE EMPLOYEE PERFORMANCE, EMPLOYEE TURNOVER AND PROFITABILITY IN BANKS OF PAKISTAN

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### Abstract

Human Resources are the principal quality of any organization. Hence, employee efficiency is the core for organizational performance. In recent times, Human Resource policies and practices serve a vital part in the performance of employees in any organization. Since, banks serve vital role in the economic growth of any state. Therefore, the study in hand is aimed to analyze the connection between a variety of Human Resource Policies (related to performance, assessment, rewards and encouragement) and the Employee Performance, Employee Turnover and organizational profitability in Banks of Pakistan. Recurring behaviors of employees and Human Resource practices to manage the same and improved output from the employees is the scope of this study. This is due to have an idea about whether these practices and policies serve the required purpose or need any amendments for betterment to have desired outcomes. The methodology of this paper is based on secondary data. A case of Pakistan was discussed and analyzed for the required outcomes. Related Literature was reviewed in detail and financials of four major banks of Pakistan were extracted for analysis and findings. Findings of this study reveal that significant positive relationship exists in between Human Resource Management Practices (Independent Variable) and Employee Performance and profitability (dependent variables) in banks of Pakistan. However, no significant relationship of these policies was observed with the Employee Turnover. Moreover, behavior of the variables reflected to be quite different in private banks from that of the bank working under government sector.

**Key Words:** Human Resource Policies, Performance of Employees, Employee Turnover, Banks, Profitability.

### Introduction

Human Resource Policies are basically the force to develop and progress the most important asset of an organization i.e. Human Resources. These Human Resource policies and applications are the key to back the distinctive environment and approach of the organization. Employees must be allowed to share their inputs for the health of the organization. Various studies were conducted on the stated area and significant association was observed in between Human Resource Policies and the Profitability of Banks in Pakistan.

Banking was considered to be a luxurious job at its beginning till the end of 20<sup>th</sup> century. However, this field has come accrossed with various multiple challenges as time passed and facing the immense critirm these days with respect to the care for employees. Various policies related to the banking hours, trainings, job posting, rotations, compensation, appraisals and performance rewards are under the bucket of the critiques.

Bell Curve policy of performance appraisal is one of such policies those are being considered in favor of the employers only leaving the employees disadvantaged. This policy does not seem to be the real judge of performance rather it is based on comparative performance according to which all employees are graded as compared to the others so that they could be adjusted from low performers to the high ones.

### Objective and Scope of Research

The rationale behind this research is to expose the influence of various Human Resource policies and practices being applied in Banks of Pakistan to the employess performance, turnover and the profitability of banks in Pakistan. This study is intended to be useful to assess the quality and strength of policies in relation to the organizationa performance so that progressive measures, if required, may be adopted and applied.

### Research Hypothesis

H1: Human Resource Policies positively contribute to the Employee Performance, Employee Turnover and profitability in Banks of Pakistan.

H0: Human Resource Policies do not contribute to the Employee Performance, Employee Turnover and profitability in Banks of Pakistan.



### **Review of Related Literature**

Dr. Alim Al Ayub Ahmed, Wahiduzzaman Khan and Md. Nur-E-Alam Siddiqui discusses the impact of three Human Resource Practices including Compensation based performance, performance measurement or assessment and promotion practices on the apparent employee performance in Banks of Bangladesh. Thus, relationship of one dependent variable is checked with three independent variables. Survey of employees of banks in Bangladesh was conducted through questionnaire having set of degrees for all responses. 75% respondents of the questionnaires were male whereas 25% were female employees. Results of the study reveal that most of the employees are satisfied with the HR practices. However, the results further elaborate that employees are satisfied with the human resource practices related to compensation and performance evaluation practices. However, they are not satisfied with the promotion practices being followed in banks. Moreover, it is observed that behavior of banks towards customers is different in public sector banks from that in the private sector. Customers are usually more satisfied with the services they are receiving from private banks whereas employees in public sector banks are getting considerable high compensations. Hence, there is a need to revise HR practices that can lead employees to become performance oriented for having the desired compensations.

Tahir Masood Quresh, Ayisha Akbar, Mohammad Aslam Khan, Rauf A. Sheikh and Syed Tahir Hijazi (2010), studied the connection between Human Resource practices being used by the banks in Pakistan and performance of banks in financial perspective. Various human resource policies and practices are discussed in this paper and their subsequent impacts are analyzed.

Ms. Kirti Chetty and Prof. Dr. Archana Bai (2015) discussed the negative aspects of an important Human Resource policy recognized as bell curve that has been attained considerable popularity in various organizations to measure employees' performance. Besides, cons of the policy, probable ways to avoid these cons have also been addressed and suggested.

Lynn Fendler and Irfan Muzaffar (2008), also discusses the idea of Bell Curve, its origin and implication. Normal curve i.e. also termed as Gaussian curve assumes that occurrences of any event if evaluated are happened in the middle whereas a few occurrences were observed at the ends (both low and high). Shrihari S. Sohani and Biju Varkkey (2015), state that bell curve implementation has a short term focus. The author has discussed the alternatives of bell-curve system.

Nadeem A. Syed, Farooq A. Cheema, Asif Kamran and Hira Khalid (2013), explain the influence of human resource policies on the private and semi private banks of Pakistan. Esha Mehta (2016), focused on the policies being applied in the banks both under public as well as in the private ownership. As per the study, these policies vary from one organization to the other and in a similar organization from time to time. Since, banking is the field under continuous development. Hence, ongoing changes in the human resource policies are also required to come up with these changing circumstances. This study is found on the secondary data to draw conclusions. It was observed that public and private sector organizations have entirely different purposes i.e. social and economic welfare is the main objective for public banks whereas private banks retain their focus on the profitability. Therefore, human resource policies must also be designed keeping in consideration the differences in organizational objectives. Study concludes that human resource practices are not being correctly designed and implemented in the private banks.

Sheikh Abdur Rahim (2012) has reviewed and analyzed the performance appraisal system of a bank in Bangladesh. Importance of appraisal system in any organization is the cause behind taken this area for study. This is due to the reason that how well employee performance is assessed the well plans for the future may be developed. Mohitul Ameen Ahmed Mustafi, Tanzia Rahman and Nusrat Jahan (2016) also targeted the commercial banks of Bangladesh to study the human resource practices in banking industry. A random survey of employees in banks of Bangladesh was conducted. The results reveal the significance of various policies related to the human resources.

Ms. Ramila Ram Sing and Dr. S. Vadivelu (2016), review the practices of performance appraisal in India. Their focus area of concern was to discover the appropriate motivational techniques for retention of employees through the appraisal process. Rajwinder Singh (2013) also discusses the human resource management practices with special consideration on the banking sector of India. As per the study under consideration, managers in the banks of India have outstanding capabilities in the administration to manage both that is development and growth of industry as well as the human resources. P Ramakrishna and Dr. K Srinivasa Rao (2017) also addressed the human resource practices being followed in the banks of India. They have extracted that banks in India working in the private setup are performing relatively better than those under public sector. Findings and conclusion of this study are based on the review of literature i.e. the findings of various earlier researches conducted in the perspective of Indian banking sector.



Swapnil Moyal and Dr. Vijaylaxmi Iyengar (2016), discuss the importance of performance appraisal system in an organization with special emphasis to the banks of India. As per their study and observation, appropriate techniques to measure employee performance and reward accordingly help enhance their participation in the organizational performance specifically in banks which are in the process of continuous development.

Dr. Shagufta Showkat (2013) considers performance review as one of the major concepts in the organizational management. Performance appraisal is deemed to be wide-ranging concept i.e. elaborated through the review of two banks in India under the said study. This is the system through which not only organizations assess their employees but employees also have a chance to expose the level of their capabilities.

Ismail Khan, Muhammad Shahid and Samina Nawab (2013), based their work out on the two factor theory of Herzberg and respective influence on the employee and the organizational performance. They are of the view that this mechanics and results of this study are useful for the research students, policy makers and the organizational managers to understand the concept, application and influence of rewards.

Casey Ichniowski, Kathryn Shaw and Giovanna Prensushi (1995), studied the relationship of human resource policies with the productivity of employees in the steel industry. Main focus remained over the concept of incentive pay as compared to the predetermined timely wage rate and group policies rather than the individual. Both aspects showed positive connection with the productivity.

Muhammad Hamid, Sumra Maheen, Ayesha Cheem and Rizwana Yaseen (2017), studied the influence of human resource applications on the performance of telecommunication industry of Pakistan. In this study, organizational performance is assessed on the strength of three independent variables related to human resource policies and affirmative relationship was observed in between the same.

Hamna Shafiq (2014) analyzed the measurement systems being applied in the banks of Pakistan. She has expressed this aspect through a case study on the employees and management of Habib Bank Limited. Findings of the study reveal that the performance evaluation should be clear to the employees. Employees are motivated if they are evaluated without any bias and are well-versed about their weaknesses.

Divya Srivastava and Dr. Jaya Yadav (2015), discuss the performance evaluation practices being applied in unscheduled cooperative banks in Noida. It is observed that performance appraisal system in these banks is threatening the employees and they are not being advised how to improve their performance.

Solomon Mekonnen (2016) analyzed the performance appraisal system in Abay Bank. Results of the study reflect that employees in the bank are being evaluated and rewarded based on personal preferences and not based on their performance. Moreover, behavior of employees close to the time of appraisal is focused while rating their performance.

Robert D. Bretz Jr., George T. Milkovich and Walter Read (1992), revealed the recent situation of study and applications for performance appraisal. Their observations extracted many areas that need to be addressed to bring improvement in such practices in any organization.

### **Research Methodology**

This study analyses the relationship between Human Resource Policies and their impacts on various aspects of the organization. HR Policies are considered to be Independent variable whereas Employee Performance, Employee Turnover and Profitability of Banks in Pakistan are the dependent variables under the study under review. This study utilizes and relies on secondary data to get the desired outcomes. Employee Performance is measured through the Net Income per Employee. Employee Turnover is calculated through the number of employees at every year-end from 2013 to 2017 in four major banks of Pakistan. Analysis is based on the literature reviewed for the stated subject and related aspects of the annual reports of these banks supported the conclusions of this paper.

### **Research Findings and Discussion**

#### **Performance, Profitability and Employee Turnover through Financials**

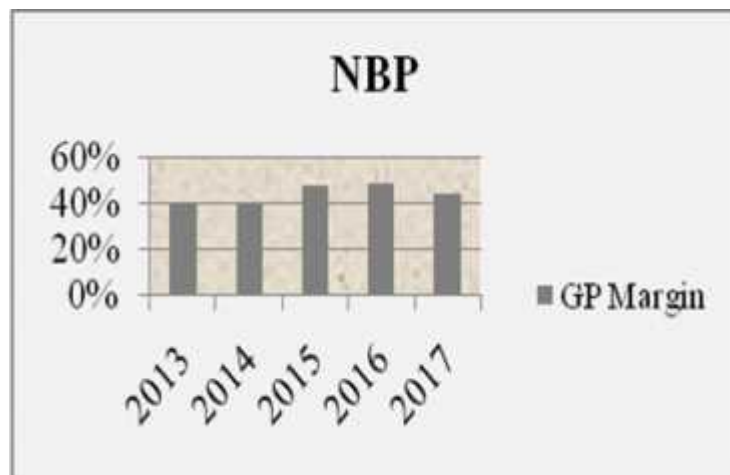
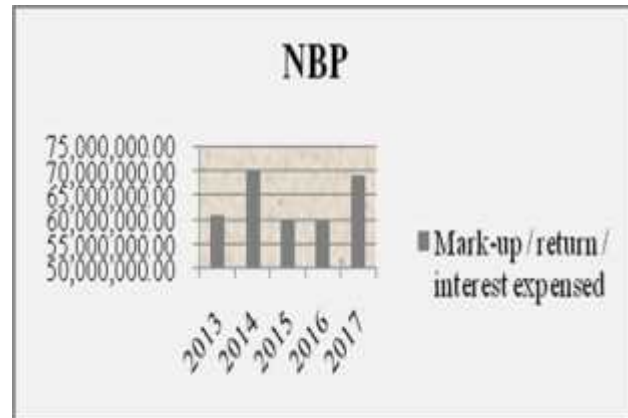
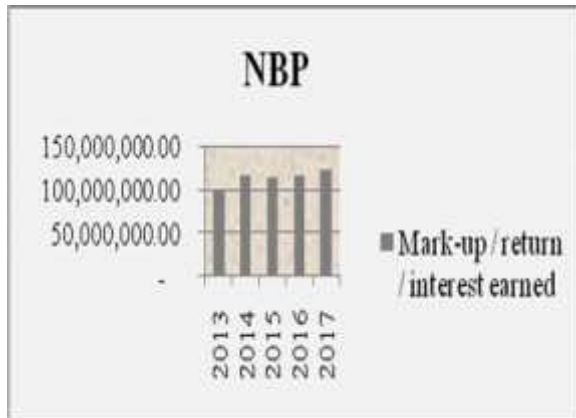
Appended are the bank-wide findings and discussion over the same:

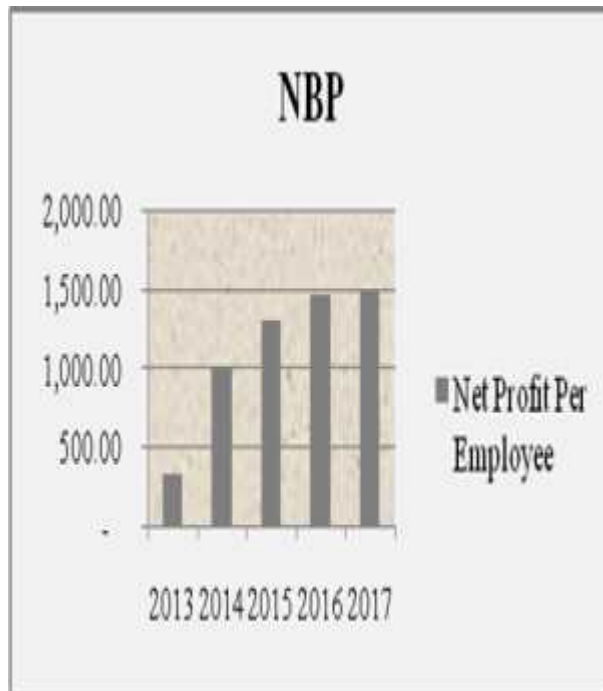
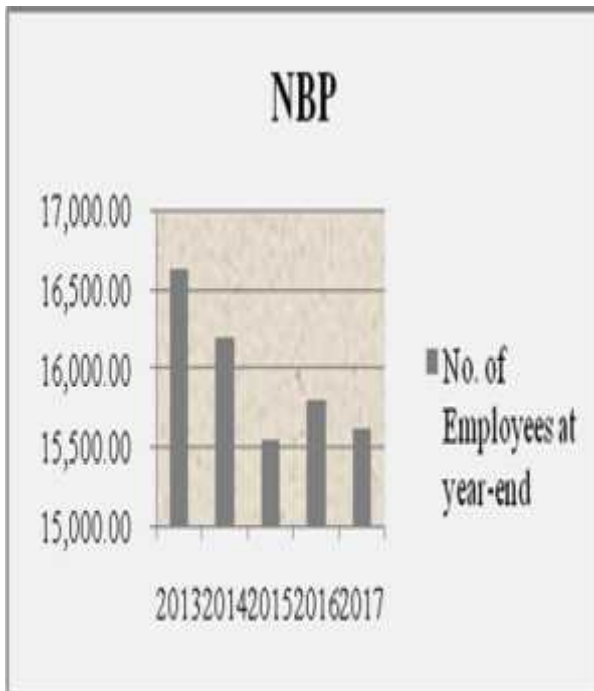
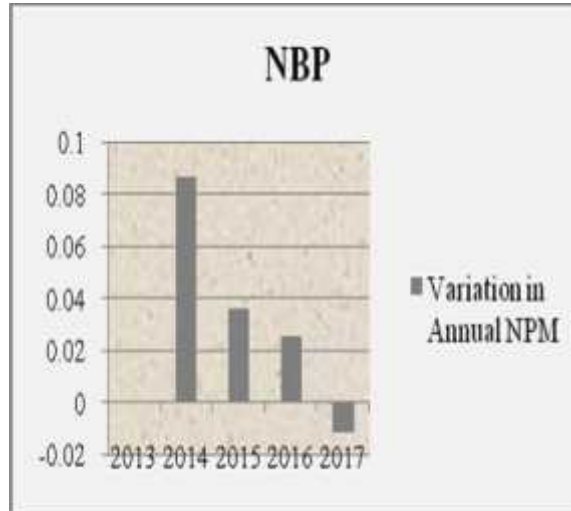
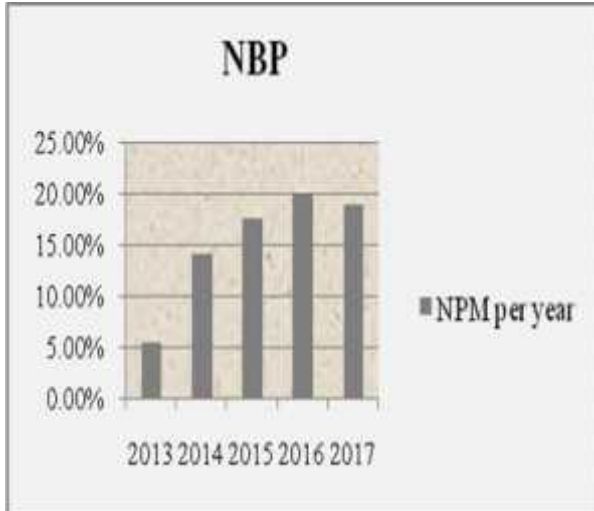


**National Bank of Pakistan (NBP)**

	NBP				
	(Rupees in ("000"))				
	2013	2014	2015	2016	2017
<b>Mark-up / return / interest earned</b>	100,192,320.00	115,251,748.00	114,386,364.00	115,028,828.00	123,415,023.00
Mark-up / return / interest expensed	60,894,358.00	70,099,505.00	59,999,374.00	59,594,350.00	68,810,743.00
Net mark-up / interest income	39,297,962.00	45,152,243.00	54,386,990.00	55,434,478.00	54,604,280.00
Net Profit after Tax	5,306,783.00	16,071,184.00	20,076,583.00	23,087,260.00	23,345,862.00
<b>NPM Per Year</b>	<b>5.30%</b>	<b>13.94%</b>	<b>17.55%</b>	<b>20.07%</b>	<b>18.92%</b>
<b>Variation in Annual NPM</b>		<b>8.65%</b>	<b>3.61%</b>	<b>2.52%</b>	<b>-1.15%</b>
<b>No. of Employees at year-end</b>	<b>16,619.00</b>	<b>16,190.00</b>	<b>15,548.00</b>	<b>15,793.00</b>	<b>15,616.00</b>
<b>Net Profit Per Employee</b>	<b>319.32</b>	<b>992.66</b>	<b>1,291.26</b>	<b>1,461.87</b>	<b>1,495.00</b>
<b>GP Margin</b>	<b>39%</b>	<b>39%</b>	<b>48%</b>	<b>48%</b>	<b>44%</b>

Source: Annual Reports of the Company





Above Financial Position of National Bank of Pakistan (NBP) reveal the following:

1. Gross Profit Margin has declined in 2017 as compared to the previous year.
2. Net Profit Margin also declined in 2017 as compared to the previous year.
3. Number of Employees declined whereas Net Profit Per Employee showed a minimal increase in 2017.

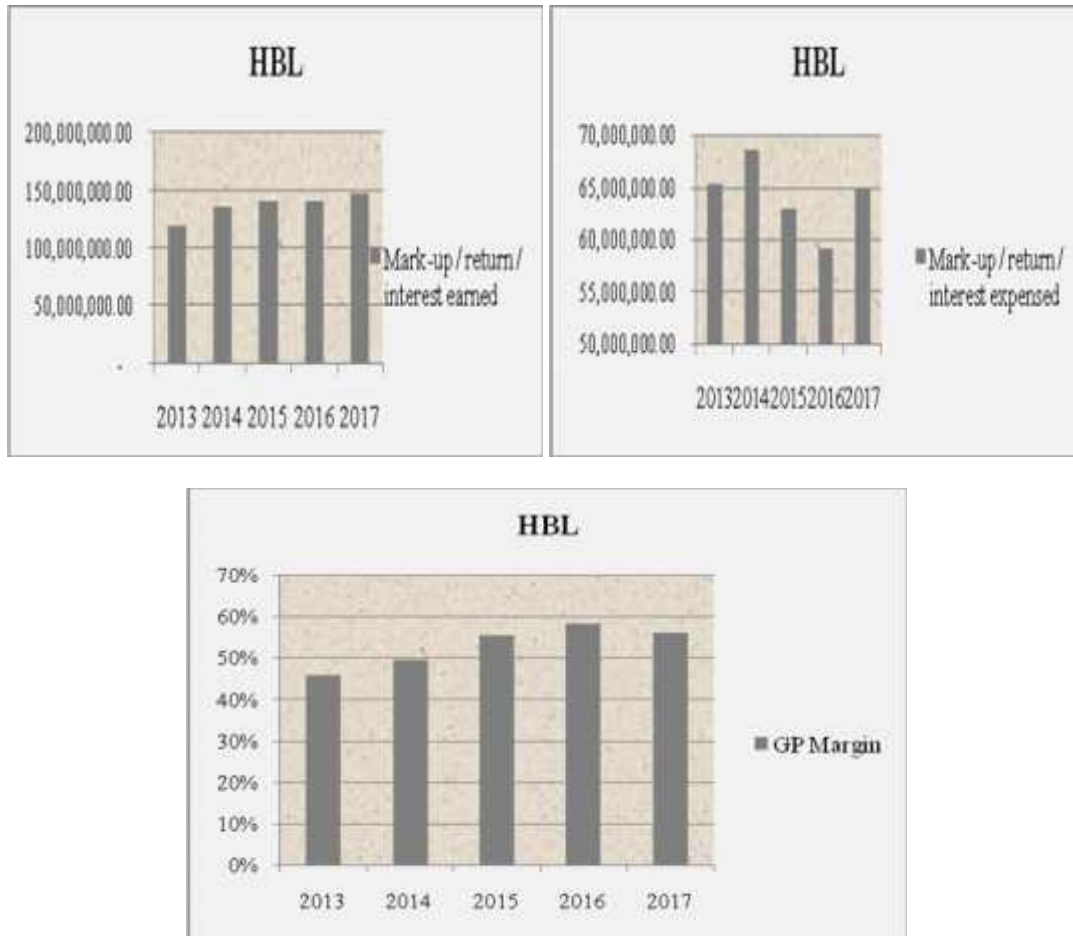


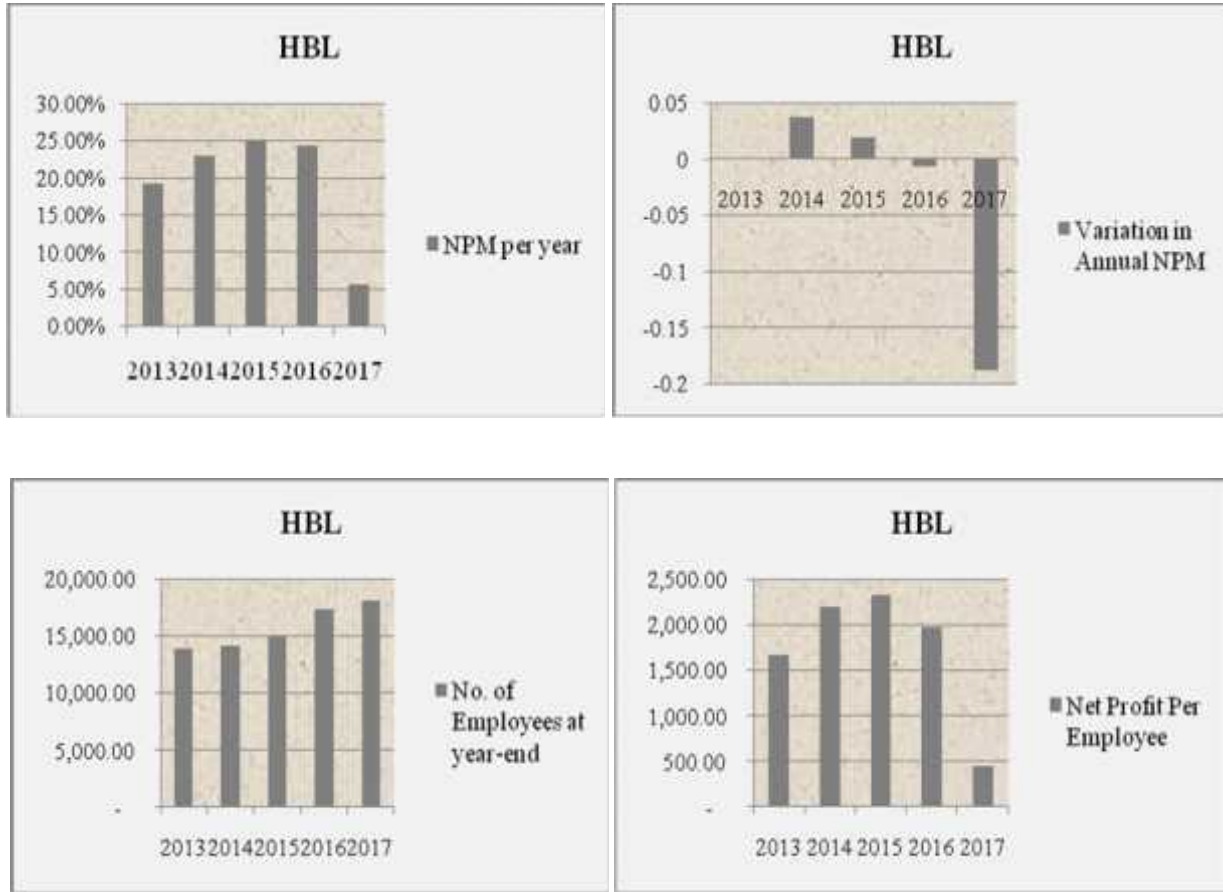


**Habib Bank Limited (HBL)**

	<b>HBL</b>				
	<b>(Rupees in ("000"))</b>				
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Mark-up / return / interest earned</b>	120,222,773.00	135,747,879.00	141,101,285.00	141,089,244.00	148,010,269.00
Mark-up / return / interest expensed	65,207,109.00	68,498,443.00	62,932,509.00	59,137,882.00	64,942,797.00
Net mark-up / interest income	55,015,664.00	67,249,436.00	78,168,776.00	81,951,362.00	83,067,472.00
Net Profit after Tax	23,027,095.00	31,112,521.00	35,101,591.00	34,206,254.00	8,182,127.00
<b>NPM Per Year</b>	<b>19.15%</b>	<b>22.92%</b>	<b>24.88%</b>	<b>24.24%</b>	<b>5.53%</b>
<b>Variation in Annual NPM</b>		<b>3.77%</b>	<b>1.96%</b>	<b>-0.63%</b>	<b>-18.72%</b>
<b>No. of Employees at year-end</b>	<b>13,842.00</b>	<b>14,123.00</b>	<b>15,060.00</b>	<b>17,303.00</b>	<b>18,129.00</b>
<b>Net Profit Per Employee</b>	<b>1,663.57</b>	<b>2,202.97</b>	<b>2,330.78</b>	<b>1,976.90</b>	<b>451.33</b>
<b>GP Margin</b>	<b>46%</b>	<b>50%</b>	<b>55%</b>	<b>58%</b>	<b>56%</b>

Source: Annual Reports of the Company





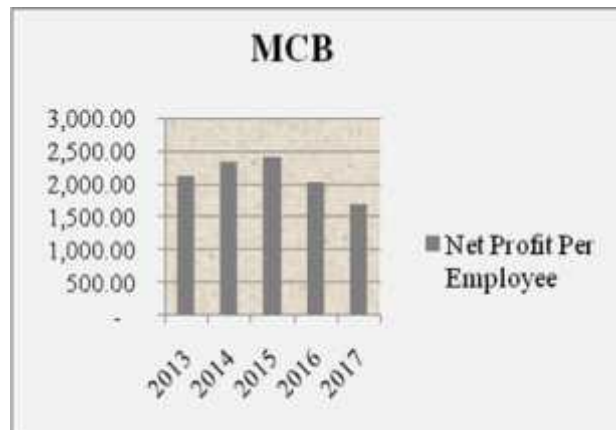
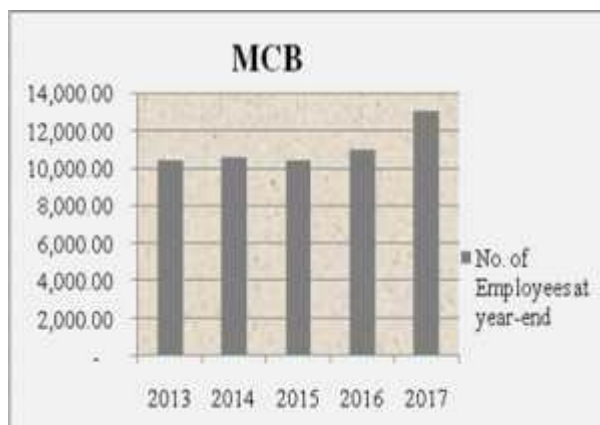
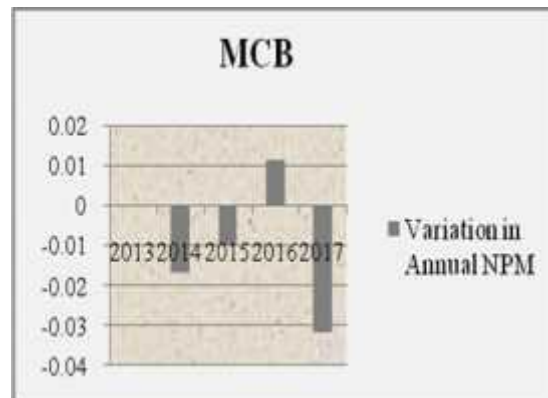
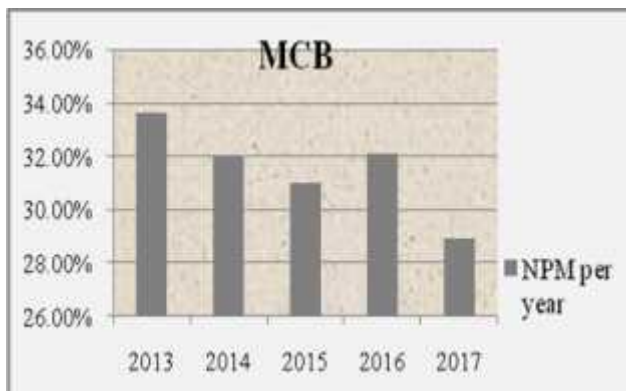
Above Financial Position of Habib Bank Limited (HBL) reveal the following:

1. Gross Profit Margin has declined in 2017 as compared to the previous year.
2. Net Profit Margin also declined in 2017 as compared to the previous year.
3. Number of Employees increased whereas Net Profit Per Employee showed a substantial decline in 2017.

#### MCB Bank Limited

	MCB				
	(Rupees in "000")				
	2013	2014	2015	2016	2017
<b>Mark-up / return / interest earned</b>	65,186,388.00	77,411,189.00	80,726,402.00	69,014,090.00	76,189,800.00
Mark-up / return / interest expensed	27,219,433.00	33,770,144.00	31,171,853.00	24,167,340.00	32,649,614.00
Net mark-up / interest income	37,966,955.00	43,641,045.00	49,554,549.00	44,846,750.00	43,540,186.00
Net Profit after Tax	21,950,141.00	24,774,446.00	25,035,112.00	22,174,145.00	22,047,764.00
<b>NPM Per Year</b>	<b>33.67%</b>	<b>32.00%</b>	<b>31.01%</b>	<b>32.13%</b>	<b>28.94%</b>
<b>Variation in Annual NPM</b>		<b>-1.67%</b>	<b>-0.99%</b>	<b>1.12%</b>	<b>-3.19%</b>
<b>No. of Employees at year-end</b>	<b>10,372.00</b>	<b>10,601.00</b>	<b>10,396.00</b>	<b>10,951.00</b>	<b>13,014.00</b>
<b>Net Profit Per Employee</b>	<b>2,116.29</b>	<b>2,336.99</b>	<b>2,408.15</b>	<b>2,024.85</b>	<b>1,694.16</b>
<b>GP Margin</b>	<b>58%</b>	<b>56%</b>	<b>61%</b>	<b>65%</b>	<b>57%</b>

Source: Annual Reports of the Company







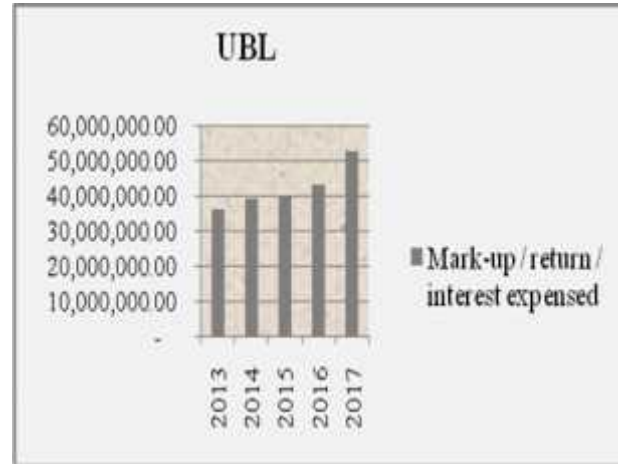
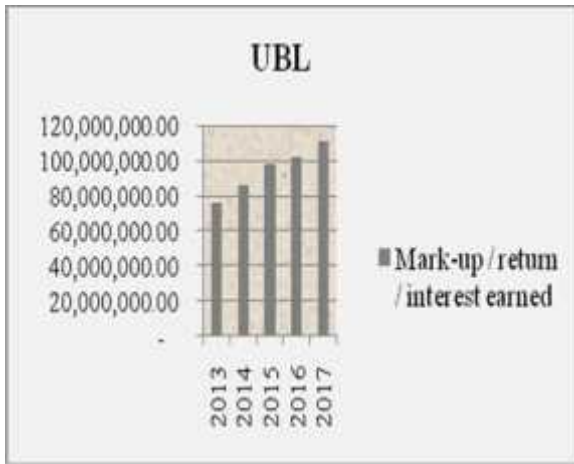
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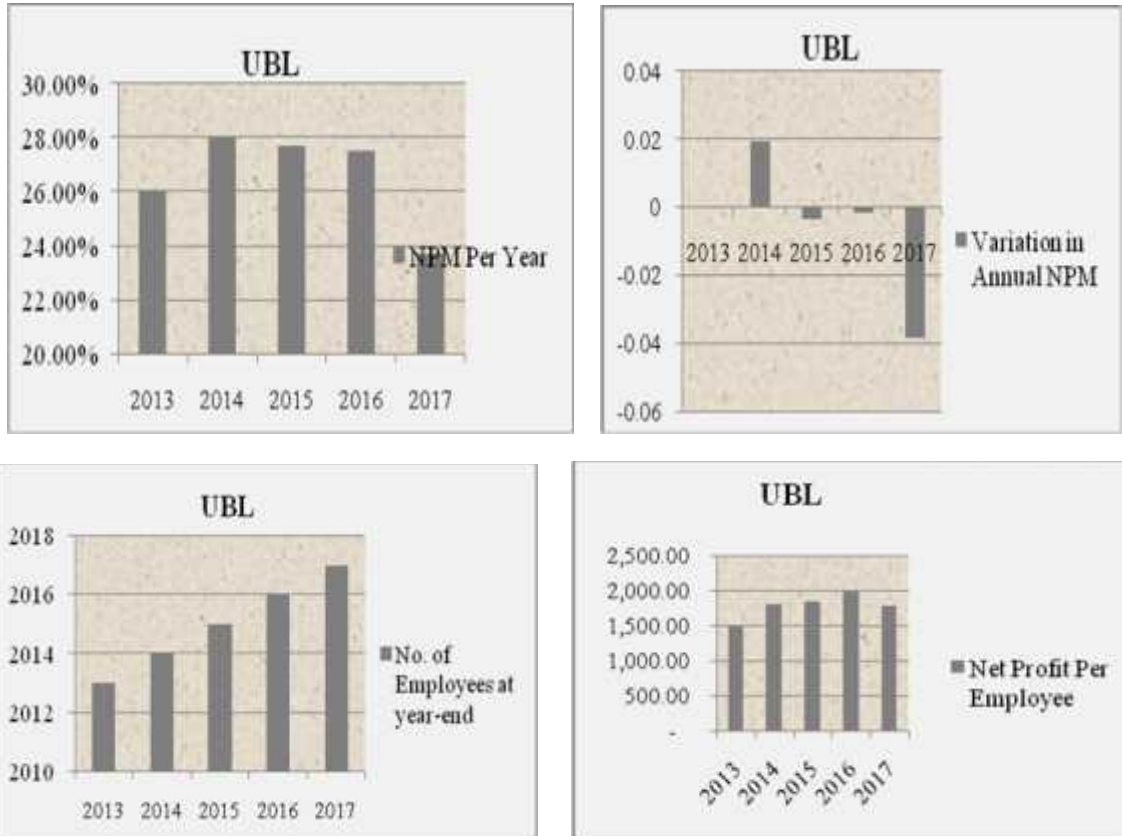
1. Gross Profit Margin has showed a considerable decline in 2017 as compared to the previous year.
2. Net Profit Margin also declined in 2017 as compared to the previous year.
3. Number of Employees increased whereas Net Profit Per Employee showed decline in 2017.

**United Bank Limited (UBL)**

	UBL				
	(Rupees in "000")				
	2013	2014	2015	2016	2017
<b>Mark-up / return / interest earned</b>	75,709,170.00	85,760,646.00	97,574,003.00	101,755,044.00	110,579,895.00
Mark-up / return / interest expensed	36,199,807.00	38,846,868.00	39,715,160.00	42,933,935.00	52,487,753.00
Net mark-up / interest income	39,509,363.00	46,913,778.00	57,858,843.00	58,821,109.00	58,092,142.00
Net Profit after Tax	19,730,771.00	24,024,803.00	27,009,626.00	28,002,302.00	26,196,589.00
<b>NPM Per Year</b>	<b>26.06%</b>	<b>28.01%</b>	<b>27.68%</b>	<b>27.52%</b>	<b>23.69%</b>
<b>Variation in Annual NPM</b>		<b>1.95%</b>	<b>-0.33%</b>	<b>-0.16%</b>	<b>-3.83%</b>
<b>No. of Employees at year-end</b>	<b>13,270.00</b>	<b>13,382.00</b>	<b>14,623.00</b>	<b>14,153.00</b>	<b>14,771.00</b>
<b>Net Profit Per Employee</b>	<b>1,486.87</b>	<b>1,795.31</b>	<b>1,847.06</b>	<b>1,978.54</b>	<b>1,773.51</b>
<b>GP Margin</b>	<b>52%</b>	<b>55%</b>	<b>59%</b>	<b>58%</b>	<b>53%</b>

Source: Annual Reports of the Company





Above Financial Position of United Bank Limited (UBL) reveal the following:

1. Gross Profit Margin has showed a considerable decline in 2017 as compared to the previous year.
2. Net Profit Margin also declined substantially in 2017 as compared to the previous year.
3. Number of Employees increased whereas Net Profit Per Employee showed decline in 2017.

### Conclusion

Accumulated findings of the related financials of four major banks in Pakistan are being summarized as follows:

1. Gross Profit Margin of only NBP increased whereas all other three banks those are in private sector showed decline in the same.
2. Net Profit Margin of all four Banks declined in 2017 as compared to the previous year
3. Number of Employees increased in all three banks covered under the study except National Bank of Pakistan whereas Net Profit per Employee declined in all three banks except National Bank of Pakistan

Hence, it is concluded from the above findings that there may be some inefficiency in employee productivity that caused reduction in net profit margin even with the greater number of employees as compared to the previous year. Conclusively, there is significant Positive relationship of the Human Resource Policies with Employee Performance, Employee Turnover and Profitability in Banks of Pakistan

### Recommendations

Following measures are being suggested that may bring improvement in employee productivity and organizational profitability:

1. Human Resource Policies should be revised in a way that may not exploit the employees for the sole benefit of organization. Rather, these policies should also keep the employee welfare under consideration.
2. Practice of Bell Curve is quite discouraging in an organization where the workforce is sincere to their obligations. Hence, performance based appraisal practices are encouraged to be applied.
3. Being a developing country, employee motivational techniques should be utilized including make them relaxed at the end of fulfillment of their basic necessities.



### Limitation of the Study

This study is based solely on the secondary data including literature and financials. Moreover, results are based on the financials of four banks of Pakistan due to limited time, finance and access to the desired respondents for collection of primary data.

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