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Strategic Human Resource Management Practices and Organizational Performance: Evidence from Selected Commercial Banks in Punjab, India

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Abstract. Human Resource Management (HRM) policies and practices significantly influence the performance of all organizations especially in banking sector: This study aims to measure the impact of major HRM practices like recruitment, training, compensation and performance appraisal systems on the performance of four major commercial banks in India. The primary data for the study was collected with the help of a structured questionnaire. A purposive sample of 268 employees of four major banks working in various branches in Punjab was selected. The regression analysis of the data confirmed that all HRM practices except recruitment have a positive and significant relationship with the performance of the banks. Recruitment was found to have a positive but insignificant impact. The findings of the study can help the decision makers to improve organizational performance by adopting the appropriate human resource policies and practices.

Keywords: Strategic Human Resource Management practices, Organizational Performance, HR Capabilities, Organizational Culture.

1. Introduction

The banking sector occupies an important place in the economic system of all developing economies. By mobilizing funds from various sectors and making them available to the productive institutions, the banks significantly contribute to the development of the economy. The opening up of the Indian economy and the entry of private sector banks, both Indian and foreign, resulted in increased competition in the banking system. However, it has also led to technology induction, digitalization of the banking system and mergers of banks to optimize costs and improve their performance. A significant development in this competitive scenario is the greater focus on the human resource system in the banks, which includes the major human resource practices like recruitment, training, employee appraisal, compensation etc. It is well known that good HR policies and practices lead to greater job satisfaction, and commitment and result into better performance. Thus Human Resource Management (HRM) has made a transition from a state of insignificance to one of strategic importance (Schuler et al, Teagarden and Von

Glinow, 1997). As organizations are moving into global system, the comparative human resource management practices and the HR issues appear to be gaining greater importance with a view to achieve competitive advantage and improve financial and non-financial performance.

This study is an attempt to examine the impact of human resource management practices on the performance of commercial banks in Punjab. The research study covers four major human resource management functions; Recruitment, Training, Employee Appraisal and Compensation practices. Data has been collected from a purposive sample comprising 268 bank employees working in various branches of four major commercial banks. The banks covered in the study are two each from public and private sector selected on the basis of the size determined by number of branches. The selected banks and the location of their branches are given below:

- State Bank of India – Public Sector
- Punjab National Bank – Public Sector
- HDFC Bank – Private Sector
- Axis Bank – Private Sector

The sample of respondents selected for data collection have been working in their branches in the three districts of Punjab: Ludhiana, SAS Nagar and Fatehgarh Sahib.

2 Objectives and Hypotheses

The specific objectives of the study are:

- To examine the perception of respondents about the recruitment practices of the commercial banks in Punjab, India
- To evaluate the employee training practices in commercial banks in Punjab, India
- To assess the compensation practices of the banks under study.
- To find the opinion of the respondents about the employee performance appraisal system in the commercial banks in Punjab, India.

2.1 Research Hypotheses

Based on review of literature and the objectives of the study, the following hypotheses have been established in their null form, which are to be tested in this research study:-

- There is no significant relationship between recruitment and performance of commercial banks in Punjab, India
- There is no significant relationship between employee training and performance of commercial banks in Punjab, India

- There is no significant relationship between compensation policies and performance of commercial banks in Punjab, India
- There is no significant relationship between employee performance appraisal system and performance of commercial banks in Punjab, India.

3. Review of Empirical Studies

3.1 Some important studies on the subject are reviewed below. Huang (1998) compared the HRM practices in the American, Taiwanese and Japanese-owned firms. The findings of the study showed that companies in the developed countries were using SHRM more frequently than their counterparts in other countries. The study further indicated that companies practicing SHRM had improved ranking than others. A study was conducted by Wan in 2002 in Singapore. The investigation focused on the effect of SHRM practices on outcome variable which was performance of the companies under study. A positive relationship was noticed between the independent and dependent variables. Rodwell and Teo (2008) examined the relationship between SHRM and performance of for-profit and not for-profit firms in the health care sector. It was found that possession of SHRM orientation can make a positive difference in the performance in the organizations. Onyango and Kipchumba (2012) conducted a research study on Hospitality sector in Kenya with a view to examine the relationship, if any between SHRM orientation and performance of the firms under study. Another variables examined in the study was employee innovation. It was noticed that out of all HRM policies and practices, training and compensation practices were most intimately related to performance.

3.2 HR Capabilities and Expertise. Analysing the Resource Based View (RBV) theory, Wright (2004) stated that an important resource in any organization is HR capability and expertise which contributes significantly towards competitive advantage and firm performance. These capabilities are the outcome of collective knowledge of the firm employees which is developed through long experience, is valuable and cannot be easily imitated by competitors.

3.3 Organizational Culture. Organizational culture is a widely talked about term. In a given organization it is made up of written, spoken and unspoken practices which are practiced daily and are critical for performance in the firm (Slocum and Hellriegel, 2007). There are four types of cultures that can be found in organizations namely: Market Oriented, Hierarchical, Clan and Adhocracy culture. Ogbonna and Harris (2002) examined the relationship between organizational culture and performance in British companies. A sample of 100 companies was taken for the study. The researcher found that all the four types of organizational culture had a strong relationship with performance of the concern companies. Bansal (2025) conducted a Research study on the influence of

Organisational Cultural orientation of Strategy on performance in Selected Universities in India. The doctoral study indicated that all four types of organizational cultures had a strong positive and significant effect on operational performance of the universities. The results however, indicated that Achievement culture accounted for highest contribution towards performance followed by Adhocracy culture.

4 Demographic Profile of the Respondents

Table 1 below shows briefly the demographic profile of the respondents under survey.

Table 1. Demographic Profile of Respondents (N=268)

Characteristics	Frequency	Percentage
Gender		
Male	161	60
Female	107	40
Total	**268**	**100**
Age		
Less than 35 years	94	35
35-40 years	80	30
41-45 years	54	20
More than 45years	40	15
Total	**268**	**100**
Level of Education		
Matriculation	4	2
Diploma	20	7
Bachelors	92	34
Master’s/LLB	145	54
Doctorate	5	2
Others	2	1
Total	**268**	**100**
Service (in years)		

Upto 3 years	90	34
4-5 years	95	35
More than 5 years	83	31
Total	**268**	**100**
Level in Hierarchy		
Head of Section	85	32
Others	183	68
Total	**268**	**100**

Table 1 show data about the characteristics of the demographic profile respondents of the study. The data as per table, shows that respondents were fairly distributed across gender as well as age groups with 60% of the total respondents, the male were marginally more than the female respondents who were 40%. This is in line with the general employment market where males are more than the female. It also shows a fair balance where neither gender has monopolised all the positions in the industry. Age wise analysis also indicates that respondents were fairly distributed. 94 respondents (35%) were less than 35 years of age and another 80 respondents (30%) were between 35 and 40 years old. This implies that 65% of the employees were in the most active age group. Around one fifth of the employees (54) were between 41-45 years and 15% of respondents (40) were above 45 years of age. As the commercial banks have rapidly grown during the last couple of decades, therefore the percentage of younger employees is larger compared to older employees. The age structure of employees also creates an opportunity for the banks to plan for succession so that the younger employees can take over from their older colleagues.

Education-wise distribution of respondents shows that a majority of respondents (54%) had a masters or a law degree. In all about 95% of the employees possessed either a Diploma or Bachelors or Masters/Law degree. A few employees had qualifications like matriculation, Doctorate or others. In addition to masters or law degrees, another group of 92 employees (34%) had Bachelor’s degree. This shows that Bank employees, especially at supervisory and managerial positions require more skills and maturity than basic qualification.

A most uniform distribution of respondents was noticed according to length of service of respondents. Data shows that 90 respondents (34%) had upto three years of service, 95 respondents (35%) had a service of four to five years and 83 respondents (31%) had more than five years of service. The length-wise experience along with the age structure is very conducive to team functioning as we do not find wide differences. The range of experience and age structure also implies that most respondents are fairly experienced and matured to understand and respond on the human resource management policies and performance of the banks.

Table 1 further indicates that 85(32%) respondents were working as Section heads, or Branch heads while 183(68%) were working in other position. Data includes some respondents who had earlier worked for some time as section head but were working in other position later on.

4.1 Descriptive Analysis

Descriptive analysis presents the characteristics of the variables under study. Apart from descriptive data about the major functional variables like recruitment, training, compensation and performance management, human resource capabilities, banking industry culture and organizational performance are also discussed.

5. Testing of Hypotheses

The study had designed four research hypotheses to be examined and tested with the help of survey data. Testing of hypotheses required the use of multiple regression analysis. The methodology for hypothesis testing required a number of steps as mentioned below:

- Selection of significance level: The significance value represents the probability of rejecting true null hypothesis. Generally significance level or values used are 0.05 (5%) or 0.01 (1%)
- Next step involve selecting the appropriate test. The major test in use are z-test (for large sample), t-test (for small sample), or chi-square test (for categorical data) depending upon type of data and sample size.
- The third step in the process is determining the critical value or a decision rule p-value is commonly used for this purpose.
- Fourth step is comparison of calculated data with chosen significance value as indicated below:
  If p-value is ≤ significance level of 0.05 (5%) or 0.01 (1%) = then the hypothesis is rejected.
  If p-value is > significance level of 0.05 (5%) or 0.01 (1%)= then we fail to reject the hypothesis.

The application of regression analysis for hypothesis testing required the use of field data and interpretation of results according to adjusted R2 values and significance value. Each variable under study was regressed on performance indicator. A composite performance measure reflecting the overall organizational performance had to be computed.

6. Development of Regression Equation/Model

A regression equation has been developed to explain the relationship between independent variables also called SHRM practices and the dependent variable. The regression equation obtained from the analysis will help to find out the outcome in terms of organizational performance on the basis of the effect of independent variables like recruitment, training, performance appraisal and compensation. The statistics of the regression analysis are summarized in table 2 below:

Table 2. Regression Statistics

Sr.No	Goodness of Fit / Predictors	Statistic / Coeff	t-statistic	P-value
1	Adjusted R-squared	0.6369	-	-
2	R-squared	0.6430	-	-
3	F-Statistic	114.58	-	0.000***
4	Breusch-Pagan Test	0.40	-	0.514
5	Recruitment	0.221	1.31	0.180
6	Training	0.595	9.38	0.000***
7	Performance Appraisal	0.360	3.17	0.001***
8	Compensation	0.432	7.21	0.000***
9	Constant	7.449	1.72	0.075

***Significant at 5 Percent. ***Significant at 1 Percent. Source: Primary Data*

Table 2 above shows statistical data which can explain the contribution of independent variables together towards the dependent variable. The adjusted R-squared value is 0.6369 which means that all independent variables under study namely recruitment, training, compensation and performance appraisal jointly explain about 63.69% variation in the organizational performance. This further means that the remaining 36.31% variation in the organizational performance are explained by other factors. The F-static is 114.58 at a P-value if 0.000. The data shows that the regression equation is significant. The Breusch-Pagan or the heteroskedasticity test with a value of 0.40 and P-value at 0.514 further assures about the reliability of the regression equation which can be used to test the significance of the co-efficient in the model given below:

$$OP = \beta_0 + \beta_1 R + \beta_2 T + \beta_3 PA + \beta_4 C$$

Where: OP indicates Organizational Performance; R indicates Recruitment; T indicates Training; PA indicates Performance Appraisal; C indicates Compensation; β indicates Beta co-efficient for the concerned variable.

The output from this regression equation can be shown below:

Organizational Performance = 7.449 + 0.221 recruitment + 0.595 training + 0.360 performance management + 0.432 compensation

7. Object and Hypothesis-wise Analysis and Results

7.1 The first objective of the study aimed to investigate the relationship between the recruitment and performance of commercial. The null hypothesis (Ho1) stated as under is based on the premise that the recruitment in the banks has no effect on the performance of the banks under study.

Ho1: There is no significant relationship between recruitment and performance of commercial banks in India.

The coefficient value of recruitment as shown in Table 2 is 0.221. This implies that an increase of one unit in recruitment will cause an increase of 22.1% increase in value of organizational performance. This is explained as a direct relationship between the two variables i.e recruitment and organizational performance. The data further shows the t-statistic and p-value at 1.31 and 0.180 respectively at a significance level of $P<0.001$. On the basis of these values the study fails to reject the null hypothesis. It can, therefore be concluded that recruitment function in commercial banks is not having any significant relationship with the banks performance.

7.2 The second objective of the study sought to examine the relationship between training programmes conducted for the staff and performance of the organizations under study. The relevant null hypothesis designed is as under:

Ho2: There is no significant relationship between training and performance of commercial banks in India.

Table 2 shows that the co-efficient for training was 0.595. This implies that a unit increase in training function in the bank will cause 59.5% increase in the organizational performance in a direct relationship between the two variables i.e training and organizational performance. The t-statistic and the p-value as per table 2 were 9.38 and

0.000 respectively at a significant level of 1 percent. Since $P<0.001$level of significance the null hypothesis given above stands disproved or rejected. Thus it can be clearly understood that the training of employees has an important influence on the performance of the organizations. On the basis of data it can be concluded that there is a significant positive relationship between training and development function and performance of banks.

7.3 The third objective sought to study the effect of compensation policies on the performance of the organizations under study. For this purpose a null hypothesis was formulated which is stated below:

Ho3: There is no significant relationship between compensation policies and performance of commercial banks in India.

Table 2 shows the relevant statistics to examine the above objective/hypothesis. As per the given table the coefficient of compensation was 0.432. The t-statistic and the corresponding p-values are 7.21 and 0.000 respectively with the significance level of 1%. Since $P<0.001$ level of significance, the null hypothesis is rejected meaning that the compensation policies have a significant positive relationship with performance in the organizations under study. The beta co-efficient for compensation with a value of 0.432 implies that a unit increase in compensation is likely to result an increase of 43.2% in organizational performance in a direct relationship between the two variables under study.

The fourth objective examined the relationship between employee performance appraisal systems and the organizational performance. For this purpose the following null hypothesis was formulated:

Ho4: There is no significant relationship between employee performance appraisal system and performance of commercial banks in India.

As per Table 2 the coefficient value of performance appraisal is 0.360. The t-statistic and P-value are 3.17 and 0.001 respectively at a significant level of 1 percent. The beta value of 0.360 for employee performance appraisal implies that a unit increase in performance appraisal is likely cause a change of about 36.0% in the performance of the organization under study in a direct relationship between the two variables under study.

The study shows that $P<0.001$ level of significance. Therefore the null hypothesis stands rejected and it can be concluded that performance appraisal system has a significant positive relationship with the performance of the organization under study.

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8. Summary of the Results of Hypotheses Testing

The outcome of the four hypotheses under study is given in Table 3 below:

Table 3. Summary of results of Hypotheses analysis

Sr.No	Hypothesis	P-Value	Accepted / Rejected
Ho1	There is no significant relationship between Recruitment and Performance of Commercial Banks in India	0.180	Accepted
Ho2	There is no significant relationship between Training and Performance of Commercial Banks in India.	0.000	Rejected
Ho3	There is no significant relationship between Compensation policies and Performance of Commercial Banks in India	0.000	Rejected
Ho4	There is no significant relationship between employee Performance Appraisal System and Performance of Commercial Banks in India	0.001	Rejected

Source: Primary data

9. Discussion

The analysis of primary data in the previous section can be used to understand the findings with in the theoretical framework on the subject and can be related with some of the previous studies having relevance with the topic.

9.1 Recruitment and Performance

The first objective and the concerned hypothesis was designed to understand if there was any relationship between recruitment and performance of the organizations under study. The objective relied on the theoretical framework of contingency theory which stated that recruitment and acquisition practices would be successful if it is properly integrated with the organizational and industry needs. In other words, it means that the HR should recruit people strictly as per skill and experience requirements of the organization. In real life there are challenges resulting in recruitment on grounds of other that merit and skill requirements leading to failure on the part of the management to retain efficient employees. It may also be due to deliberate selection of candidates with a given background in order to develop a homogenous team. Such practices are criticized by many. However, others justify it on the ground of discharging a social responsibility towards community or to satisfy existing employees (Kamoche, 2003), Blunt (2005) justify it on the ground that employees belonging to same area or same cultural background give each other psychological support in an unfamiliar environment. Holbeche (2001) on the other hand, suggest that recruitment and acquisition practices in an organization should not simply aim at filling vacancies but should be pro actively directed towards hiring those skills and experiences into the organization which are needed and are not available in the existing manpower inventory. The analysis of data in this study show that recruitment function has long way to go meet this goal.

9.2 Training and Performance

The second objective and the related hypothesis of the study aimed at examining the relationship between training and the organizational performance. The finding of the study that training has a high influence on the performance of the organization is consistent with many previous studies (Bartel, 1994, Black and Lynch 1996; Huselid, 1995; Paul & Anantharaman, 2003; Kotau & Budhwar, 2007; Dimba & K'Obonyo, 2009). The study shows that the training programmes conducted by the commercial banks under study are relevant to the jobs of the employees and have been conducted efficiently. This is also supported by the plans of the organizations. One of the theoretical assumption of the study is the postulate of resource based view. The theory (RBV) is based on the logic that the resources and capabilities including the skills possessed by its employees are not only valuable for the organization but are difficult to be acquired by others and are not easily substitutable. These resources are in a way intangible assets. Appropriate training could help in the development and promotion of such resources. Training and development programmes help in bridging the knowledge gap in the organization by imparting needed knowledge and skills. The results of the current study on the influence of training on performance of the organization varies with the study conducted by Noor (2010) on public academic libraries in Jordan who failed to find any effect of training on organizational performance. The reason perhaps is that the scope of the current study is much wider compared of the study conducted by Noor and it considers training and development from the long term strategic angle compared to the tradition HR function.

9.3 Compensation Policies and Performance

Apart from salary, compensation policies cover certain other benefits like incentives of different types linked with performance, profit sharing, bonus schemes, stock option, etc. They are expected to motivate the employees by linking extra rewards with their performance. Commercial banks in India encourage employees to improve their performance by providing incentive schemes for both managerial and non-managerial employees.

These findings support some of the prior studies on the subject (Marchinglon and Grugulis, 2000; Hope, 2012). Marchinglon and Grugulis suggested that with a variety of incentive schemes, an organization motivates the employees that they will benefit from higher performance under one or the other scheme. In the same way benefits like non-financial incentives medical leave, maternity/paternity benefits to all employees to gives the signal of equality among the managerial and non-managerial staff and promotes team work resulting in superior organizational performance. Hope (2012) recommended that organizations should aim at developing compensation packages in such a way that they are able to attract and retain the best talent in the competitive scenario. The argument for talent improvement is based on the theoretical premise that adoption of the best practices in compensation will motivate employees resulting into improved organizational performance.

9.4 Employee Performance Appraisal Systems

The finding of the study on the relationship between employee performance appraisal systems and the organizational performance support the study conducted by Nzioka (2008) who recommended that the organizations should employ perfect employee performance evaluation instruments and use performance appraisal information for replacement and training and reward system of employees to promote higher productivity.

Abdulkadir (2012) found a positive relationship between the two variables and suggested that an organization can promote the desired attitudes and behaviours of the employees by following the appropriate appraisal mechanisms. In other words, as per research study, with proper use/application of appraisal-based information, the organization can change the attitudes and behaviours of the employees towards the desired direction.

The findings of the current study are in line with configuration theory which assume that a proper alignment of the external environment with the HRM strategy and business planning will help in improving the organizational performance. The findings of this research also support many previous researches conducted in the context of private and public sector organizatios (Boselio, 2010, Gould-Williams & Gatenby, 2010; Katou & Budhwar, 2010; Boon et al, 2011). Thus it can be concluded that a proper performance appraisal system in the firm leads to the organizational performance improvement. This is applicable in private and public sectors in different countries and in different cultures across the world.

It can be concluded on the basis of the study, that all HRM practices, except recruitment, have a positive relationship with the organizational performance in commercial banks. Therefore, in the growing competitive scenario, the banks should improve their human resource practices in order to develop a team of competent and committed employee force.

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