

## GOOD HR PRACTICES AND THEIR IMPACT ON PERCEIVED ORGANIZATION'S FINANCIAL PERFORMANCE: A CASE STUDY OF THE BOK

Saeed-ur-Rehman, MS, Sarhad University of Science & IT, Peshawar  
Email: [saeedurrehman621@gmail.com](mailto:saeedurrehman621@gmail.com)

Wali Rahman, Associate Professor, Sarhad University of Science & IT,  
Peshawar. Email: [wali.ba@suit.edu.pk](mailto:wali.ba@suit.edu.pk)

Nazim Ali, Assistant Professor, University of Malakand Chakdara.  
Email: [nazimali100@yahoo.com](mailto:nazimali100@yahoo.com)

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***Abstract.** Today organizations are competing not on the basis of their sizes but by the quality of their inputs and the processes that they employ to convert inputs into the outputs. Keeping in view this in mind this study looks into the impact of some HR Practices on perceived financial performance in the Bank of Khyber. The study employs a sample of 142 managers collected from 116 bank branches from all over Pakistan. The hypothesized relationships are tested using Amos 18 through path analysis. Out of the three hypotheses the empirical data supported two while one has not been supported. Overall, the study validates the theory of good HR practices have positive relationship with perceived financial performance of the banks. The Future research should examine the impact of this perception on the actual performance. The current study is purely quantitative. Therefore there is a need of carrying out a qualitative study with the same variables to get more subtle findings. This research could also be replicated in other banks and comparison could be drawn for more holistic results and increasing the generalizability of the results.*

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**Key words:** Training, Pakistan, competitiveness, textile industry

### Introduction

The critical nature of human resources in an organization has got eminent importance in the recent years. If people are effectually managed they can significantly contribute to the organization. Today, current global challenges are not unconnected to human behavior (Oludiyi, 2015). In the current fluid and competitive market, it has become an issue of survival for organizations to react accordingly. In all this reaction good HR practices are central that can move employee's competencies and motivational level whereas organizational structure facilitates employees to perform the chores proficiently (Bailey, 1993). Better execution of these HR practices have significant influence on the firm's

performance, therefore for the effective implementation of firm's business plan its human capital plays vibrant role. It's an emerging unanimity among HR experts and researchers that if firm's HR policies are properly communicated then these surely contribute to the firm's output. In other words, a firm can get competitive edge through its matchless and cooperative employees which will be difficult for opponents to copy (Huselid, 1995).

Organizations always try to grab more and more market share, for this they not only need latest technology but the positive behavior of their employees which is the real capital for any firm. It is this capital that ultimately makes all the available resources effective to achieve overall organizational objectives. Therefore firm first should take care of its employees to ensure the achievement of common goal (Cania, 2014). For the attainment of desired performance firm should have to develop such conducive working environment where individuals or groups warmly accept their respective assigned tasks for the constant improvement of firm's business (Armstrong, 2006). This conducive work environment can only be achieved if an organization ensures application of some good HR practices.

Among these good HR practices recruitment & selection and training & development are the two most common practices that a firm critically needs to take care of. An effective hiring could produce favorable long term results for the organization, while poor selection might be disastrous for the organization. It is argued in literature that proper employment is critical in order to get a justifiable competitive edge (Nartey, 2012). A capable HR system with good practices keeps constant eye on the level of performance in order to keep it in right direction (Khilji, 2001). Cascio (1991) found relationship among financial outcomes and level of investment in advanced HR practices. Despite of the advent of information technology and other technological changes organizations still requires uplifting the performance of their employees in order to achieve their overall goal. They still need to improve their services which could only be made possible by adapting best HR practices. It means that it is essential for firm to focus on HRM as it is resource contribution to its profitability (Delery & Doty, 1996; Huselid, 1995; Lado & Wilson, 1994). The current study has an objective to inspect the above two commonly known HR practices in the target organization i.e. Bank of Khyber. The study will be based on the perception of employees about link between these two practices and bank's financial performance.

### **Research Questions**

1. What is the quality of recruitment as HR practices being practiced in the Bank of Khyber?

2. What is the quality of Training and Development being practiced in the Bank of Khyber?
3. Do these HR practices affect bank's perceived financial performance?

### **Research Hypotheses**

The current study will be testing the following hypotheses.

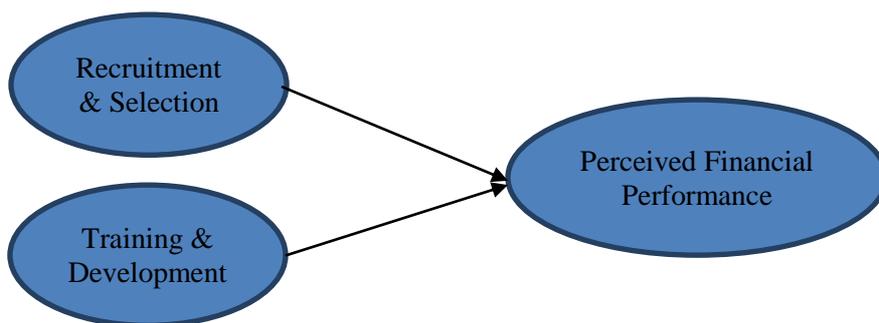
- H1 Good recruitment and selection practices have positive impact on bank's perceived financial performance.
- H2 Good training & development practices have positive impact on perceived financial performance.
- H3 Both HR practices have positive impact on perceived financial performance.

### **Theoretical Framework of the Study**

Numerous studies have discovered an extensive perception of human resource management for creating link among HR practices and organizational performance. According to widespread perception selection of best HR practices can further increase worth of business environment without following any specific strategy by the management. Those HR practices which could enhance the organizational performance can be considered the best HR practices (Huselid, 1995; Jeffrey Pfeffer, 1994). Unfortunately in Pakistan service sector is far behind in terms of sustainable strategic planning, that's why the practices which our firms are following are mostly individual's experiences which mostly discontinues when that person leaves the organization.

People with their expertise, competencies and abilities with the dimensions to install with best interest of the firm are now considered the prominent source of firm's success and competitive advantage (Armstrong, 2006). As per Barney (1991) resource based view supports that non-stop competitive advantage can be obtained if firms have advantageous group or pool of HR practices which cannot be copied by its rivals. In order to make the employee an asset for the organization it is very necessary to modernize the recruitment and selection procedure which should be merit based. However some specific or general training can be helpful for further modernization of the human asset in the organization.

Keeping the same dimensions in view, the present study will be looking into the relationship of recruitment and selection, training & development with perceived financial performance of BoK. Figure 1 shows the proposed theoretical link between the variables of the study.



*Figure 1:* Theoretical Framework of the study

### **Literature Review**

Competitive business environment is characterized by hard work which ensures the existence of an organization in the market (Jothilakshmi, 2015). When an organization believes that its employees should have favorable working behavior, it is necessary for it to have applicable HR plans (Aswathappa, 2008). It has been noticed that proper recruitment and selection can produce best fit between individual performance and organizational needs. If employees are not properly motivated their performance might not be according to their capabilities. There is a big list of HR practices which could affect human behavior. However, some are very common and have got currency among the researchers and the practitioners. These practices are generally believed to have positive effects on the motivational level of employees and can work as a bridge between the mutual interest of the employee and the employer.

The relationship between HR practices and firm’s performance has widely been accepted among research community in the field of industrial relations, organizational psychology and human resource management (Boudreau, 1991; Jones & Wright, 1992). Researcher’s advocates that by using high performance work practices including selection procedure, compensation and training etc. can boost the employee’s capabilities and knowledge and will also dismiss the non-performers from the organization. Individual employee’s performance has got importance recently but researchers believe that collective performance of employees can create a unique source which could be difficult for rivals to copy. Good HR practices not only positively affect employees’ productivity, performance, personal development and overall organizational financial performance, they also affect non-financial sectors as well (Afzal, Mehmood, Sherazi, Sajid, & Hassan, 2013). These practices uplift an employee’s productivity and her/his regularity (Al-Shuaibi, Shamsudin, & Subramaniam, 2013; Sang, 2005).

## **Recruitment and Selection**

Recruitment is the process through which an organization addresses its hiring needs and then makes selection out of the pool of potential candidates. Through this process firm can create pool of right candidates at the right time with suitable skills and capabilities (Pfeffer, 1998). This process can be handled internally or externally which depends upon the nature of requirement. The level of effectiveness of these two practices consequently reflects the quality of human resource management of a firm (Gamage, 2014). Organization bears heavy cost in the process of recruitment and selection that's why it cannot afford the selection of an incapable candidate. Therefore organizations tries to focus on selecting the right applicant with the right kills at minimum cost that supports firm's strategic objectives (Ofori & Aryeetey, 2011).

Recruitment and selection works as safeguard for providing honest and trustworthy people and in the long run it has large share for the prosperity of the firm. In reality the core objective of recruitment is to catch more and more candidates for the vacant positions and enable the authorities for selecting the best fit pool candidates (Gamage, 2014). The present literature indicates that there is a positive relationship in recruitment and selection and organizational performance (Gamage, 2014; Syed & Jamal., 2012).

## **Training and Development**

After selection of the right person for the right job in the right time, updating the knowledge, skills and abilities, training and developing is highly critical. Training and development create group or individual performance which will consequently enhance the financial performance of the firm. Organizations should consider the importance of training and development and have to invest in it for enabling their workforce to face any uncertain situation and for timely decision making to be the part of the market (Tai, 2006). Training is beneficial in many ways; on one hand it keeps and uplift the competencies of employees and on the other hand it contributes in organizational change process (Valle, Martin, Romero, & Dolan, 2000). It improves the retaining of skillful employees and minimizes the unintentional job rotation of employees (Jones & Wright, 1992; Shaw, Delery, Jenkins, & Gupta, 1998). Further, it shows long term commitment of the firm to its employees and increases the motivational level of workforce (Pfeffer, 1994).

If a firm has the objective to enrich the performance of its employees it is imperative for it to arrange training and development programs. Organizations can use many alternatives of training like coaching and mentoring, employee's participation and cooperation. All such exertions enable employees to

participate in all relevant working activities which help in boosting the overall organizational performance.

Training and development might be exorbitant in terms of money and time but in return it helps to retain the highly skill full staff (Husin, Chelladurai, & Musa, 2012). Bailey (1993) has discussed that employees usually underutilized and perform lower than their competencies. It has been further discussed that HR practices inspires employee's motivation and provide guidelines through organizational structure about how to perform their roles. In order to keep the interest of employees parallel to shareholder's interest, organization should have to promote such culture which best supports to better performance i.e. merit system, performance appraisal, internal promotion, financial rewards and training and development etc.

### **Research Methodology**

The researchers have applied survey method for the current research. Population of the present study is all managerial staff of BoK which is almost 300 as per information provided by AVP rank officer. In all, 300 questionnaires were distributed from which 158 were received. Sixteen questionnaires were found faulty are removed from analysis. Response rate is 53% and total 142 questionnaires have been analyzed in the final analysis. Recruitment & selection and training & development have been measured through 5 items Likert scale. For analysis SPSS and AMOS have been employed.

### **Analysis**

Three different scales for the three variables of the study have been employed. To check the validity of the measurement and structural and models a number of goodness of fit indices have been employed. They include chi-square, CMIN/df, root mean square residual (RMR), root mean square error of approximation (RMSEA), goodness-of-fit index (GFI), comparative fit index (CFI). The basic motive behind using four fit statistics has to have a holistic approach to the model. All the values in the both case have been found within the acceptable level as per Hair et al. (2006).

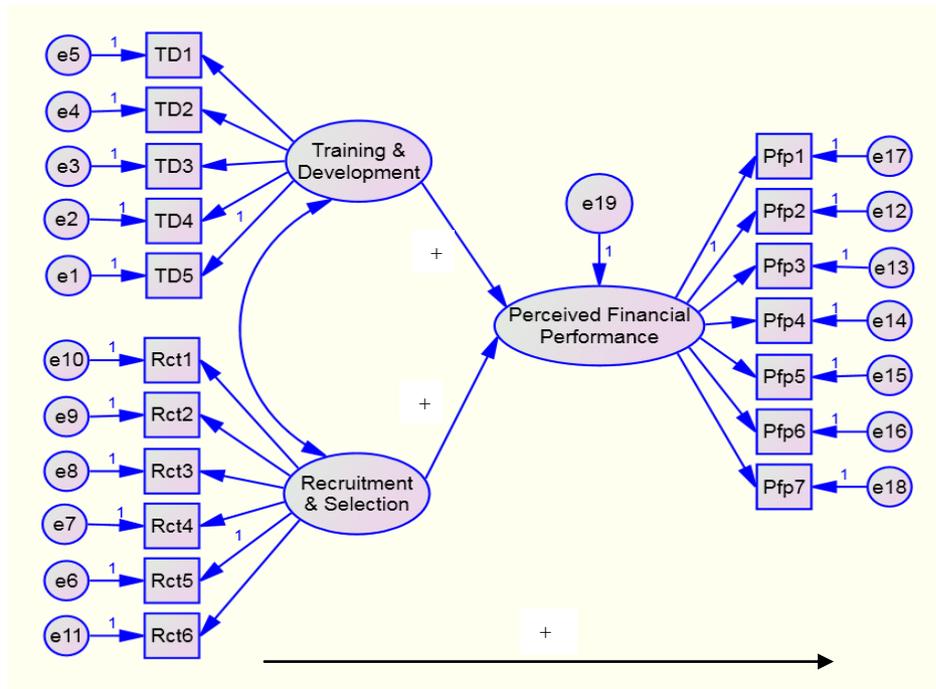


Figure 1 The Proposed Theoretical Model

### Hypotheses Testing

There are three hypotheses in the study. They have tested by employing structural equation modeling (SEM) through Amos and Multiple Regression through SPSS. To find out the impact of independent variables (recruitment 7 selection, and training & development) on the dependent variable (perceived financial performance), path analysis through SEM and Multiple Regression through SPSS were conducted. Relationships among these variables were hypothesized. These hypothesized relationships were analyzed in two ways; a test of the overall path model and individual tests. Model estimation procedures for simultaneous equations were used to test the hypothesized model (Figure 1).

Hypothesis 1: Good recruitment practices have positive effects on perceived financial performance.

Hypothesis 1 was aimed at testing the impact of recruitment and selection on perceived financial performance in the sample. Since the standardized path coefficient of 0.08 and the t-value of 1.19 happened to be insignificant ( $p=0.227$ ), the hypothesis has not been supported by the data. In other words it can

be said that in the sample data the chance is greater than 5% which means that here the data has failed to reject the null hypothesis.

Hypothesis 2: Good training & development practices have positive impact on perceived financial performance.

Hypothesis 2 was aimed at testing the impact of training and development on perceived financial performance in the sample. Since the standardized path coefficient of 0.57 and the t-value of 4.61 happened to be significant ( $p < 0.000$ ), the hypothesis has been supported by the data. In other words it can be said that the null hypothesis has been rejected.

Hypothesis 3: Both HR practices have positive impact on perceived financial performance.

The summary results of the hypotheses testing are presented in Table 1.

Table 1 *Summary of Hypotheses Testing*

<b>Hypotheses</b>		<b>Results</b>
H1	Good recruitment and selection practices have positive impact on bank's perceived financial performance.	Not Supported*
H2	Good training & development practices have positive impact on perceived financial performance.	Supported
H3	Both HR practices have positive impact on perceived financial performance.	Supported

## **Discussion**

The proposed model in figure 1 and summary of hypotheses in table 1 provide the results of the data analysis with respect to understand the antecedents and consequences of the employee development. The study hypothesized that HR practices like recruitment & selection, and training & development in the subject banks have positive impact on the perceived financial performance. The analysis of the data supported this prediction. If paraphrased in simple words this would mean that if the banks practice these practices there is a significant likelihood that they will affect the dependent variable to the level of 50%. These results support previous researches on the impact of such HR practices on the performance on the organization (Afzal et al., 2013; Al-Shuaibi et al., 2013; Delery & H. Doty, 1996; Huselid, 1995; Lado & Wilson, 1994; Sang, 2005). However, there is a need of realizing the fact the results here are not that much encouraging. There could be a number of reasons for this trend in the subject

banks. The subject HR practices have yet to get central role in the overall organizational culture in the country. For individual employees the system appears to carry contaminations and deficiencies (Noe, Hollenbeck, Gerhart, & Wright, 2005) and has almost no validity.

The results of the current did not support common perception regarding the positive role of recruitment in the performance of organization. Though there is a widespread support (Gamage, 2014; Montana & Charnov, 2000; Rauf, 2007; Syed & Jamal, 2012) for the critical role of recruitment in organizational performance, other factors like absence of trust in the system, manipulation in recruitment, favoritism, etc. could jeopardize the real worth of this HR practice.

The empirical results of the study regarding the role of training and development in perceived financial performance are in line with the previous studies (Bartel, 1994; Delery & Doty, 1996; Huselid, 1995; Knoke & Kalleberg, 1994). These results reflect that training and development play an important role in building the perception of the employees. There is a need of making this activity an integral part of the bank culture and its frequency and quality be taken care of.

On the whole the empirical evidence supports the third hypothesis. The results indicate that there is an overall impact of the subject HR practices on managers' perception. In other words, the quality of these HR practices can promote and strengthen their perceptions of financial performance. Therefore, it is presumed that this study would provide guidelines to help policy makers better understand to look into these HR practices for positively affecting managers' perception. It is also presumed that this study would be helpful for those at the helm of affairs in making better decisions about the overall management.

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