

Strategic human resource management (SHRM) practices and its effect on financial performance: evidence from some selected scheduled private commercial banks in Bangladesh

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Abstract: Formulation and execution of Strategic Human Resource Management (SHRM) practices and its effect on perceived financial performance of any organization is a burning issue in the globalized competitive business era. This study aims to find out the relationship between SHRM and financial performance to ensure the sustainability and competitive advantage of the selected scheduled private commercial banks in Bangladesh. The research has been conducted on managers as sample of some private commercial banks during the period of January to November 2012 to collect the primary data. To evaluate the financial performance researchers have used annual reports of 2011 and 2012, journals, web sites etc. as secondary source. Survey research findings indicate that strategic integration and development of HRM were practiced to a full extent in the sampled firms. From the cross sectional analysis, the financial performance indicators show that the capital adequacy was mostly at satisfactory level compared with eh industry average. The quality of assets loan varies from bank to bank but most of them are performing at the desired level. Management efficiency was out-performing the standard in most of the cases. The profitability indicators ratio was also better than the average of private commercial banks. The result presented in this study suggests practicing intensive SHRM so that improved financial performance can be asserted to sustain in the competitive environment.

Keywords: SHRM, Financial Performance, Private Commercial Banks, Bangladesh

1. Introduction

The recent trend of globalized competitive business era focuses on formulation and execution of strategic human resource management (SHRM) practices and its significant effect on the financial performance of the organization. Since its emergence, strategic human resource management (SHRM) has been the focus of debate over whether it exists in reality or is merely rhetoric. SHRM is often measured by the integration of the HR function in the strategic management process, the devolvement of HR practices to line managers, and the influence of these practices on firm performance (Andersen et al. [2]).

The aim of the study is to examine the practices of SHRM in some selected commercial banks and its impact on firm's financial performance. This paper identifies the relationship between the existing level of SHRM practices and financial performances of the organization by comparing with the standard of performance indicators. This paper also provides necessary suggestions to ensure the sustainability and competitive advantage through the effective SHRM practices and improved financial performance. The paper starts with the determination of objectives followed by relevant extensive literature review with a focus on strategic integration and development of HR practices and their links to firm financial performance.

2. Literature Review

The increasing interest of strategic management scholars in examining the role of human resources as value added in the present knowledge based economy is evident from the growing number of studies (Batt, [4]; Bhatti and Qureshi, [6]; Chang and Chen, [12]; Delery and Doty, [15]; Ghebregiosgis and Karsten, [17]; Guest *et al.*, [18]; Guthrie, [19]; Hoque, [22]; Huang, [23]; Huang and Lin, [24]; Khatri, [26]; Liao, [27]; Richard and Johnson, [32]; Wang and Hornig, [38]; Wright, Gardner and Moynihan, [39]; Tzafrir, [36]). However, critiques have been raised regarding its value creation, i.e. whether HRM can contribute directly to the implementation of the strategic objectives of firms and improve performance (e.g. Hope-Hailey *et al.*, [21]).

The concept of strategic human resource management evolved over the late 1980s and the early 1990s with an increased emphasis on a proactive, integrative and value-driven approach to human resource management (e.g. Butler, Ferris, and Napier, [9]; Schuler, [34]). SHRM views human resources as assets for investment, and the management of human resources as strategic rather than reactive, prescriptive and administrative (Budhwar, [10]; Buyens and De Vos, [11]).

The advancement of strategic HRM (SHRM) emerged in the early 1990s with more emphasis on an integrative and value-driven approach to HRM. SHRM focuses on several issues, including the fit between human resource (HR) practices and organizational strategic goals, the integration of HRM in organizational strategic management, the involvement of the HR function in senior management teams, the devolvement of HR practices to line managers, and the value that is added to organizational performance by HRM (Bowen and Ostroff, [7]; Ulrich, [37]). Despite the research efforts into SHRM, there is debate as to whether organizations actually practice SHRM, whether line managers have a role in transforming the HR function to be more strategic, and whether SHRM adds value to the bottom line (Martell and Carroll, [28]).

The senior HR manager needs to be a strategic partner with line managers, providing training, resources, incentive and a communication channel to ensure these HR practices are carried out in accordance with HRM policy (Budhwar, [10]). Most previous evidence suggests that a firm's HRM practices are related to positive performance outcomes and higher financial success. However, many of these researches have examined the relationship between HRM practices and organizational performance for firms in manufacturing and service industries or in western context (Ahmad and Schroeder, [1]; Bae and Lawler, [3]; Collins and Smith, [14]; Katou and Budhwar, [25]).

Nowadays, it is a common belief in both the business and the academic world that the human resources of an organization can be a source of competitive advantage, provided that the policies for managing people are inte-

grated with strategic business planning and organizational culture (Beer *et al.*, [5]). Purcell [31] undertook a three year study to assess the impact of people management on organizational performance. Purcell noted, while some have been able to show an association between human resource (HR) policies used and performance outcomes, it was often hard to explain when, why and how this association existed and to identify the interconnections. Purcell [31] refers to this as the "black box". He concluded that the impact of people management on organization performance is more obvious in the medium than it is in the short term and it is here that investigations of high commitment management are particularly relevant. Royal and O'Donnell [33] argue qualitative human capital analysis would assist in predicting the sustainability of organizations and their future financial performance. Notably here, performance is defined in relation to sustainability and financial performance.

Hutchinson, Kinnie and Purcell [20] report on a longitudinal study investigating how and why people management practices affect business performance. In relation to the notions of people management and performance, a number of aspects demonstrating the difficulty of demonstrating performance impact are identified. First, the relationship between HR practices and business performance can be identified at different levels ranging from the plant/establishment level to the corporation level. Second, there is a lack of consensus on what constitutes a HR package and no agreement on the level of specificity or HR practices. Third, there is a different way of measuring HR practices and a limited use of performance measures. Fourth, in some cases sophisticated measurement techniques are used and these are hard to understand. Finally, few studies take account of the reaction of employees so that it is difficult to understand how the HR practices feed through to improved levels of performance and thus causality is an issue.

Dimba and K'Óbonyo [16] investigated the nature of the effect of SHRM practices on organizational performance. The study sought to determine whether the effect of human resource management practices on organizational performance is direct or indirect through employee motivation, and whether employee cultural orientations moderate the relationship between strategic human resource practices and employee motivation.

Much of the research for evidence of the link between SHRM and firm performance has focused on intermediary performance indicators such as absenteeism, commitment, customer satisfaction and innovation (e. g., Pfeffer, [30]; Chew and Chong, [13]; Bowen, Galang and Pillai, [8]). There is a need for research to focus on bottom-line indicators (Richard and Johnson, [32]) such as return on equity and profitability as HRM is under pressure from CEOs, CFOs and senior managers to quantify added value to the bottom-line when HR managers join the senior management team (Buyens and De Vos, [11]; Sullivan, [35]). Our literature review indicates that little research has been con-

ducted on strategic integration and devolvement in Bangladesh, despite evidence that Bangladesh perceives the status of HRM more highly than almost any other developing country in the developed world. On the basis of the literature reviewed concerning SHRM and firm performance, our research hypothesis is that there will be a positive relationship between strategic HRM alignment and perceived firm financial performance.

3. Methodology

This research is mainly descriptive in nature. Both primary and secondary data have been used in this study. The managerial level employees of four scheduled private commercial banks (One Bank Limited, Prime Bank Limited, National Bank Limited and Mutual Trust Bank Limited) in Bangladesh have been surveyed during the period of January to November 2012 and the sample size was 30. Convenient sampling procedure was used for selecting managers. The managers were asked to response to the statements arranged with a Likert scale from 1 to 5, where 5 indicates strongly agree and 1 indicates strongly disagree with the statement. The researchers themselves were actively involved in primary data collection. Secondary data have been collected from different published sources such as, annual reports during the period of 2011 and 2012, books,

journals, newspapers and magazines, and web sites. For collecting primary data researchers administered a structured questionnaire and survey method has been used. Data have been analyzed through proper quantitative and qualitative techniques. The quantitative analysis performed here can be termed as cross sectional in nature as the selected banks several ratios have been compared with some firm's financial performance indicators with banking industry average as the benchmark.

4. Results and Discussion

4.1. Strategic Human Resource Management Practices

The researchers have chosen to select seven Strategic Human Resource Management (SHRM) practices and twenty five questions in a structured questionnaire. Table 1 represents the statistical measures we used for each of these individual SHRM practices. Each of the practice is constructed in the form of a variable, where mode value indicates the manner of current scenario of practices at agreement level, minimum value indicates the neutral position and maximum value states the strongly agreement of the practices.

Table 1. Descriptive Statistics of strategic human resource management practices of selected four scheduled private commercial banks

SHRM Practices	Mode	Minimum	Maximum
HR Strategy and Organization			
1. Organization regulated with the formulation and execution of HR system to achieve strategic aims.	4	3	5
2. Organization follows an effective SHRP to attract, retain and develop HR.	4	3	5
Strategic Recruitment and Selection of HR			
3. Recruitment and selection, orientation and socialization are competitive enough.	3	3	4
4. Organization applies comprehensive tests to recruit the diverse workforce.	4	2	5
5. Organization formulates and executes selection procedure on the basis of 'person job-fit philosophy'.	4	2	5
Strategic Training and Development			
6. Organization arranges Training Needs Assessment (TNA) program to train employees.	4	3	5
7. Organization arranges formal and informal training program to develop skills and knowledge.	4	3	5
8. Employees get benefits in term of skills and knowledge developed through training program.	4	3	5
9. Formal evaluation of effectiveness of training program is assessed and application of the gained knowledge is monitored.	3	2	5
Strategic Performance Management System			
10. Organization executes fair and transparent performance appraisal system with strategic congruence quantifiable results.	4	2	5
11. Participation of employees in performance goal setting is ensured properly.	3	2	4
12. Continuous formal and informal monitoring of employee performance is a strategic issue in the organization.	4	3	5
13. The employees are provided feedback about their performance positively.	3	2	5
14. There are provisions to employees to challenge the rating by supervisors.	3	1	4
Strategic Compensation and Rewards			

15. The organization provides competitive pay package to its employees.	4	3	5
16. Performance-based payment is an important mode of payment in the organization.	4	3	5
17. Organization ensures comprehensive incentive plans based on employees' contribution to company's objectives.	4	3	5
18. Compensation is the combination of both monetary and non-monetary rewards	4	3	5
Employee Participation in Management			
19. Top level authority ensures the employee participation in decision making to ensure the strategic gain.	3	2	5
20. There is provision of open door communication between superior and subordinates.	3	2	5
21. The principle of autonomy of employees is the strategic issue in their functional areas.	4	2	5
22. Employees have the opportunities to suggest improvements in the way things are performed.	3	2	5
Employee Separation			
23. Reducing the rate of turnover is a strategic issue in the organization.	4	2	5
24. High turnover rate indicates the bad performance and low turnover rate indicates the good performances of the organization.	4	2	5
25. Organization's performance is outstanding relative to its competitors	4	2	5

This study attempts to understand the relationships between SHRM practices and financial performance. Table 1 presents the strategic human resource management practices of scheduled private commercial banks in Bangladesh. SHRM practices in this study referred HR Strategy and Organization, Strategic Recruitment and Selection of HR, Strategic Training and Development, Strategic Performance Management System, Strategic Compensation and Rewards, Employee Separation, and Employee Participation in Management. The research question was whether each HRM practice positively related to financial performance. This study found that two SHRM practices, namely employee participation in management and strategic performance management system was not at standard level. These findings suggest that firms also should concentrate in strategic performance management system as well as employee participation to experience better financial performance and to cope up with the modern globalized business era (Table 1).

4.2. Strategic Human Resource Management Practices and Financial Performances

The word 'performance' is used to point out firm's achievements, state of affairs, and consistency and 'financial performance' refers the process of measuring the results of a firm's policies and operations in monetary terms. In broader sense, financial performance refers to the degree to which financial objectives being or has been accomplished. This financial performance analysis includes analysis and interpretation of financial statements in such a way that it undertakes full diagnosis of the profitability and financial reliability of the business. Financial performance analysis is the process of selection, relation, and evaluation. According to Metcalf and Titard, [29], "The analysis of financial statements is a process of evaluating the relationship between component parts of financial statements to obtain a

better understanding of the firm's position and performance". Financial analysts often assess firm's production and productivity performance, profitability performance, liquidity performance, working capital performance, fixed assets performance, fund flow performance and social performance. So this type of analysis is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. For evaluating the financial conditions of the scheduled banks commonly used tool is CAMELS rating system. It involves analysis and assessment of the six crucial indicators of banks' financial health. They are (i) capital adequacy, (ii) asset quality, (iii) management efficiency (including implementation status of core risk management guidelines), (iv) earnings, (v) liquidity, and (vi) sensitivity to market risk. Capital adequacy focuses on to protect the interest of the depositors by the adequacy of banks' capital from the potential shocks of losses that a bank might incur. To observe this capital to risk weighted assets was included in the study to see the asset quality of the bank non-performing loan to total loan was considered here which shows which proportion of total loan amount is not performing according to the expected level. Although it is difficult to draw any conclusion regarding management soundness based on quantitative indicators, as characteristics of a good management are rather qualitative in nature. Nevertheless, the total expenditure to total income can generally be used to portray management soundness. On the other hand, return on asset (ROA), return on equity (ROE), expenditure to income ratio and net interest income (NII) had used to measure the profitability of the concerned bank. For measuring the solvency, Liquid Asset Ratio was used and this is calculated by using the core measure of liquid assets as the numerator and total assets as the denominator. The analysis performed here can

be termed as cross-sectional study, as the selected banks several ratios has been compares with some firm's financial performance indicators with banking industry average as the benchmark. The following tables state the mode of strategic human resource management practices and the status of financial performances of different private scheduled commercial banks.

Table 2. SHRM Practices and Financial Performances of One Bank Limited

SHRM Practices		Financial Performances		
Contents	Mode	Indicators	Values	Banking Industry Average
HR Strategy and Organization	4	Capital to Risk weighted Assets (%)	11.39%	11.50%
Strategic Recruitment and Selection of HR	4	NPL to total loans ratios (%)	4.47%	2.90%
Strategic Training and Development	4	Expenditure to income ratio (%)	38%	71.70%
Strategic Performance Management System	3	ROA (%)	2.29%	1.60%
Strategic Compensation and Rewards	4	ROE (%)	20.04%	15.70%
Employee Participation in Management	4	Net interest income (billion Tk.)	1.968	91.4
Employee Separation	4	Liquid assets (%)	12.00%	23.90%

Source: Researchers' own survey *Source: Annual Report 2011, One Bank Limited; and Banking Performance Indicators- Appendix 3 (Table II, III, VIII, IX, X and XI), Bangladesh Bank Annual Report 2012 (June).*

The survey findings show that One Bank Limited formulate and execute the strategic human resource management practices however the practices of strategic performance management system was not at agreed level and the reason it may be the unenthusiastic of the authority. In this complied level of SHRM practices, the financial performance indicators are compared with the banking industry average. The results demonstrate expenditure to income ratio; ROA and ROE outperform the industry average. But in case of net interest income and maintenance of liquid assets the bank is performing indecently than the average. In contrast as an indication of credit risk management (capital to risk weighted assets, Non-performing-loan to total loan ratio) One Bank is performing nearly to the banking average (Table 2).

Table 3. SHRM Practices and Financial Performances of Prime Bank Limited

SHRM Practices		Financial Performances		
Contents	Mode	Indicators	Values	Banking Industry Average
HR Strategy and Organization	4	Capital to Risk weighted	11.39%	11.50%

SHRM Practices		Financial Performances		
Contents	Mode	Indicators	Values	Banking Industry Average
Strategic Recruitment and Selection of HR	4	NPL to total loans ratios (%)	4.47%	2.90%
Strategic Training and Development	4	Expenditure to income ratio (%)	38%	71.70%
Strategic Performance Management System	3	ROA (%)	2.29%	1.60%
Strategic Compensation and Rewards	4	ROE (%)	20.04%	15.70%
Employee Participation in Management	4	Net interest income (billion Tk.)	1.968	91.4
Employee Separation	4	Liquid assets (%)	12.00%	23.90%

Source: Researchers' own survey *Source: Annual Report 2011, One Bank Limited; and Banking Performance Indicators- Appendix 3 (Table II, III, VIII, IX, X and XI), Bangladesh Bank Annual Report 2012 (June).*

The mode values show the formulation and execution of SHRM practices of Prime Bank Limited at a standard level nevertheless the strategic performance management system was not at the same level. Executing such level of SHRM practices the financial performance indicators are compared with the banking industry average. The results demonstrate expenditure to income ratio, ROA, ROE, maintenance of liquid assets, capital to risk weighted assets and credit quality (non-performing-loan to total loan ratio) outperform the industry average. But in case of net interest income and the bank is performing indecently than the average (Table 3).

Table 4. SHRM Practices and Financial Performances of National Bank Limited

SHRM Practices		Financial performances		
Contents	Mode	Indicators	Values	Banking Industry Average
HR Strategy and Organization	4	Capital to Risk weighted Assets (%)	12.65%	11.50%
Strategic Recruitment and Selection of HR	4	NPL to total loans ratios (%)	2.83%	2.90%
Strategic Training and Development	4	Expenditure to income ratio (%)	24.73%	71.70%
Strategic Performance Management System	3	ROA (%)	4.01%	1.60%
Strategic Compensation and Rewards	4	ROE (%)	29.96%	15.70%
Employee Participation in Management	4	Net interest income (billion Tk.)	0.087	91.4
Employee Separation	4	Liquid assets (%)	6.11%	23.90%

Source: Researchers' own survey

Source: Annual Report 2011, One Bank Limited; and Banking Performance Indicators- Appendix 3 (Table II, III, VIII, IX, X and XI), Bangladesh Bank Annual Report 2012 (June).

Source: Researchers' own survey

Source: Annual Report 2011, One Bank Limited; and Banking Performance Indicators- Appendix 3 (Table II, III, VIII, IX, X and XI), Bangladesh Bank Annual Report 2012 (June).

The mode values showed the regular practices of SHRM though the execution strategic performance management system was hesitant. Performing such level of SHRM practices the financial performance indicators are compared with the banking industry average. The results demonstrate expenditure to income ratio; ROA, ROE and capital to risk weighted assets outperform the industry average. But in case of net interest income and maintenance of liquid assets the bank is performing indecently than the average. In contrast as an indication of credit quality; non-performing-loan to total loan ratio National Bank limited is performing nearly to the banking average (Table 4).

The authority is unenthusiastic about the employee participation in management but the overall SHRM practices are regular. In this situation comparisons of some financial performance indicators of Mutual Trust Bank limited with the banking industry average show expenditure to income ratio, ROA, ROE, net interest income and capital to risk weighted assets are performing ineffectually than the industry average. In contrast liquid assets management is better than the standard but net interest income is close to the average (Table 5).

Table 5. SHRM Practices and Financial Performances of Mutual Trust Bank Limited

SHRM Practices		Financial performances			
Contents	Mode	Indicators	Values	Banking Industry Average	
HR Strategy and Organization	4	Capital to Risk weighted Assets (%)	8.36%	11.50%	
Strategic Recruitment and Selection of HR	4	NPL to total loans ratios (%)	2.54%	2.90%	
Strategic Training and Development	4	Expenditure to income ratio (%)	85.48%	71.70%	
Strategic Performance Management System	4	ROA (%)	0.61%	1.60%	
Strategic Compensation and Rewards	4	ROE (%)	8.84%	15.70%	
Employee Participation in Management	3	Net interest income (billion Tk.)	0.639	91.4	
Employee Separation	4	Liquid assets (%)	33.50%	23.90%	

5. Conclusion

The research findings reveal that most all the banks are formulating and executing strategic human resource management activities. In most of the cases the authority of the banks is reluctant to execute only two of the SHRM functions such as strategic performance management system and employee participation management. From the cross sectional analysis, the financial performance indicators show that the capital adequacy was mostly at satisfactory level compared with the industry average. The quality of assets loan varies from bank to bank but most of them are performing at the desired level. Management efficiency was out-performing the standard in most of the cases. The profitability indicators ratio was also better than the average of private commercial banks. But one of the important earnings/profitability measures (net interest income) shows varied results, in some cases it was much better than the industry average on the other hand in another cases it was not. The liquidity indicator (liquid asset ratio) also showed assorted result. Since the prime component of the earnings of a bank depends on the net interest income, so for the better performance they should always keep it at near or above of industry average. To safeguard the interest of the depositors the fluctuating solvency condition of the banks also need to be handled with very consciously.

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