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**Human Resource Practices and their Impact on Employee Productivity:  
A Perceptual Analysis of Private, Public and Foreign Bank Employees in  
Karnataka**

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## **Abstract**

Over recent years there has been an increasing interest in the field of human resource management. Currently, the literature encourages the consideration of human resources as strategic factors, not only because they play important role in strategy implementation, also because they are beginning to be reckoned as sources of sustainable competitive advantage. Relationships between human resource management and productivity have been studied from different perspectives. This study is an attempt to investigate the extent to which Commercial Banks of Karnataka differ on aspects of human resource management practices and the key Human Resource Practices contributing to employee productivity from a sample of 184 respondents from three commercial banks of Bangalore (one foreign sector, one private sector and one public sector bank).

**Key words:** HR practices, Employee productivity, Commercial banks, private, public and foreign sector bank

## **Human Resource Practices and their Impact on Employee Productivity: A Perceptual Analysis of Private, Public and Foreign Bank Employees in Karnataka**

### **Introduction**

The literature has emphasized the important role played by the human component in the competitiveness and response capacity of organizations, and this is reflected in numerous publications and research studies that have appeared in recent years (Barney, 1991; Barney and Wright, 1998; Wright et al., 1994). According to this view, human capital is proposed as one of the key resources on which companies build their competitive advantage (Becker and Gerhart, 1996; Boxall, 1996; Tyson, 1995).

Without doubt, Human Resource Management (HRM) is one of the company functions that have experienced significant changes over the last few decades. Since the beginning of the 1980s, a vast literature has been developed calling for a more strategic role for human resources (Guest, 1987; Miller, 1987; Armstrong, 1991). The increasing interest in human resources is due to the assumption that employees and the way they are managed is critical to the success of organization and can be a source of sustainable competitive advantage (Itami, 1991; Lado and Wilson, 1994; Wright et al., 1994; Kamoche, 1996; Mueller, 1996; Barney and Wright, 1998). Although HRM is currently considered to be critical, researchers and professionals agree that its importance will grow further in the future (Clark, 1993; Sparrow et al., 1994; Becker and Gerhart, 1996; Anderson, 1997; Ulrich, 1998).

## Literature Review

Developments in the field of Human Resource Management are now well documented in the literature (see Legge, 1995; Schuler, 2000; Schuler and Jackson, 1999; Sisson and Storey, 2000). As firms are entering into a more dynamic world of international business and as the globalization of world markets continues apace, comparative HRM issues appear to be gaining momentum. Both practitioners and academics in the field of HRM are increasingly aware of the need to examine and understand the HRM system suitable to different parts of the world. They are also interested in finding relevant HRM policies and practices for different types of organizations (for example, public/private sector, manufacturing/service sector) around the globe. HRM practices are central to improving the quality of services offered by the governments. In the words of Pfeffer (1994), 'having good HRM is likely to generate much loyalty, commitment or willingness to expend extra effort for the organization's objectives'. Moreover, Stone (1998) remarks that 'HRM is either part of the problem or part of the solution in gaining the productive contribution of people'.

The above quotes suggest that organizations need to effectively manage their human resources if they are to get the maximum contribution of their employees. But the question is, how and when does HRM affect performance? Recently, the dominant focus on HRM literature has been to demonstrate the importance of effectively managing human resources of organizations. Management scholars and practitioners alike have become increasingly interested in learning more about HR practices to enhance employee and organization performance (e.g. Boselie et al., 2001; Den Hartog and Verburg, 2004; Ferris et al., 1999; Guest, 1997; Huselid, 1995; Paauwe, 1998, Paauwe and Boselie, 2003; Pfeffer, 1994). In particular, the last ten years have seen an increasing research interest in the HRM –performance relationship, although the focus of the research is in the developed world as well as in the manufacturing industry. The current study aims to test empirically the impact of eight HR practices on employee performance in a developing country: Indian commercial banks. This is crucial for developing appropriate management practices. It can also become an important training tool for expatriate managers. The increased probability of having to manage in an international situation demands the conduct of more comparative HRM research (Boxall, 1995; Brewster et al., 1996; Budhwar and Debrah, 2001; Budhwar and Sparrow, 2002).

Barney (1991) felt that firms could develop strategic capability and for attaining this, the strategic goal will be to create firms, which are more intelligent and flexible than their competitors.

The human resource management function has emerged as one of the most important areas of organizational practice. It has not been developed in isolation but rather in the context of industrial change and economic development. The uniqueness of HR requires a totally different type of attention from management. The HR function

has the characteristics that provide the greatest challenges as well as opportunities.

## **Objectives of the Study**

The following two objectives have been set for the present study:

1. To examine and compare the human resource practices followed by three commercial banks in Bangalore of Karnataka state
2. To find key human resource practices contributing to employee productivity in these banks.

## **Methodology**

A critical review of literature including various studies conducted in Bangalore and others related directly or indirectly to the topic of the study, have facilitated the identification and selection of various Human Resource practices contributing to Organizational performance. Various HR practices, which are perceived to affect the Organizational performance (in terms of employee productivity) have been identified and selected on the basis of their relevance to the banking sector.

The sampling technique employed for the research study was convenience sampling. 184 respondents from three commercial banks, one private sector (Bank 1), one foreign sector (Bank 2), and one public bank (Bank 3), formed the sample of the study. Data have been collected from the employees at branch level

The survey instrument used for this research study was a carefully designed structured questionnaire. Validity of the instrument refers to its capacity to measure what it wants to measure. Hence validity of the questionnaire used as survey instrument for the research study needs to be established. It has been considered necessary to pretest validity of all the questions with a pilot study. For this the first draft of the questions was administered to thirty bank employees of three selected banks. Results showed good consistency and correlations. On the basis of its findings, the main questionnaire was modified. Reliability of the survey instrument was checked with test- retest reliability method. The questionnaire contained 80 items, out of which 71 items are framed on 17 HR practices and 9 items on employee productivity have been jumbled up to avoid any bias. The 17 HR practices have been given nomenclature as factors which include, F1- manpower planning, F2- recruitment & selection, F3- motivation, F4- performance management, F5- reward system, F6- training & development, F7- career planning, F8-

creativity & innovation, F9- team building, F10- grievance redressal, F11- Quality of Work Life (QWL), F12 – employee participation, F13- employee accountability, F14- compensation management, F15- benefits and services, F16- discipline and F17- incentives. The employee productivity (F18) has been taken as dependent variable.

The study makes use of Duncan's mean test to compare various Human resource practices among the respondents of three banks, correlation and multiple regression analysis of the three selected commercial banks. In addition graphical presentations have been used where ever required. This has been done to obtain respondents opinion about various HR functions and identify areas for improvement. The questions have been designed to facilitate the respondents to identify major strengths and weaknesses of the banks and provide insights. It has been the endeavour of the researchers to identify the key human resource issues, on which employee's perception can be obtained. The respondents have been requested specifically to ignore their personal prejudices and use their best judgement on a 5 point Likert scale. The above process has been followed to make the response a true reflection of organizational reality rather than an individual's opinion. The 5 points of the scale indicated in the questionnaire are 1-Strongly Disagree, 2-Disagree, 3-Undecided, 4-Agree and 5-Strongly Agree. Data collected in the form of responses has been thoroughly examined. Question No. 35, 37, 39, 40 and 68 have been included as negative questions to ensure that blind tick marking is not restored by the respondents. Out of the total 184 valid responses, 61 are from private sector bank (Bank 1), 63 from foreign sector bank (Bank 2) and the remaining 60 from the public sector bank (Bank 3).

## **Data Analysis and Results**

### **Duncan's Mean Test**

In order to compare various Human resource practices among the respondents of three banks, Duncan's mean test have been carried out in the present study. Table 1 provides the descriptive statistical information like mean, standard deviations and comparative analysis of human resource practices followed by three commercial banks in India. From the Table 1 we can conclude that there is a significant difference between the three banks in practicing four human resource practices namely, grievance redressal, and quality of work life, compensation management and incentive system. All the three sector banks differ from each other in providing incentives and structuring compensation this can be because compensation expectancy theory emphasizes that there is a perceived link between pay and behaviors. Managers believe that high employee performance followed by an incentive reward system will

make future high performance more likely. Indeed, Delaney and Huselid (1996) find that a compensation system based on excellence results in increased employee performance. In addition, Kaufman (1992) notes that a profit sharing system increases productivity and contributes to improved performance by, among other things, decreasing absenteeism. Also the quality of work life is found to have difference in observance in the three banks this may be because in today's competitive, liberalize and globalize world, implementation of QWL program is very essential due to its numerous advantages. QWL is one of the interesting approaches to motivation. It also works as a means of increasing productivity and reducing inflation and as a way of obtaining industrial democracy and minimizing employee disputes. The basic purpose of QWL is to develop jobs and working conditions that are excellent for people as well as for the economic health of organization. Observance of grievance procedure in all three banks differ, this may be because they follow different approaches to resolve grievances.

### Correlation Analysis of all three Banks

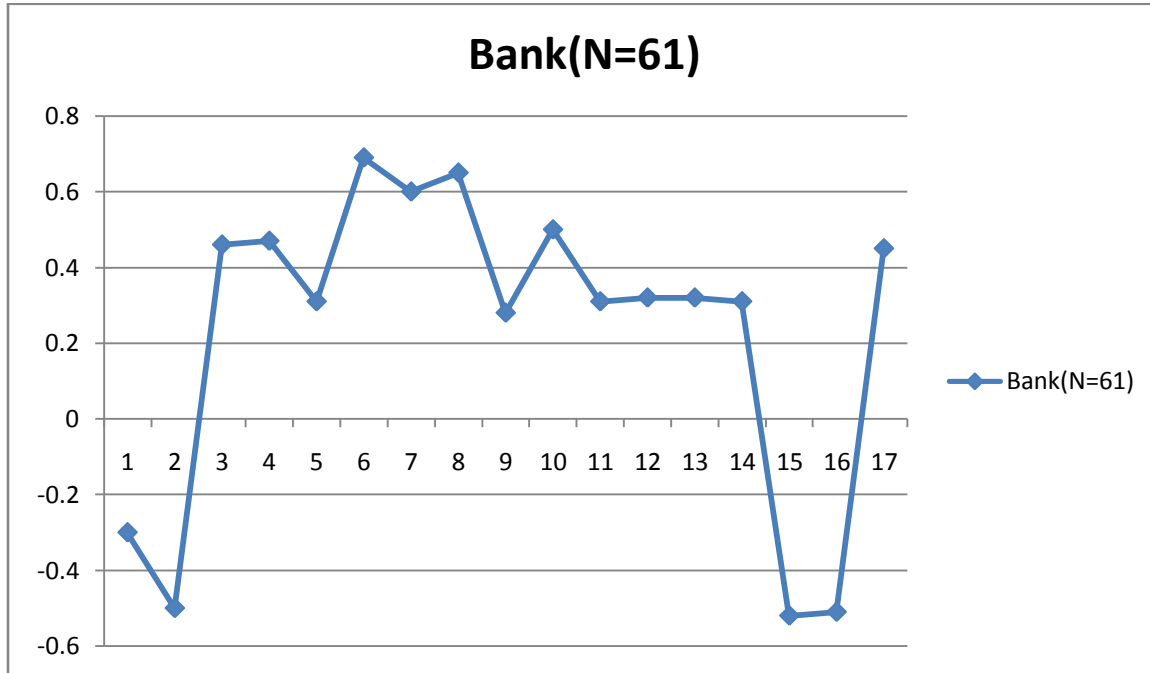
**Table 1: Comparison of Various Factors among the Respondents of Three Banks  
(Duncan's Mean Test)**

S.NO. Factors	Bank 1 (N=61)		Bank 2 (N=63)		Bank3 (N=60)		A v/s B	A v/s C	B v/s C	F-Value
	Mean	SD	Mean	SD		SD				
1. Manpower Planning	3.79	0.46	4.01	0.41	3.97	0.42	*	*	—	4.71**
2. Recruitment & Selection	3.52	0.61	3.73	0.45	3.7	0.45	*	—	—	2.91**
3. Motivation	3.79	0.42	3.78	0.33	4.02	0.39	-	*	*	7.37**
4. Performance Management	3.73	0.53	3.58	0.38	3.20	0.51	-	*	*	20.01**
5. Reward System	3.62	0.53	3.79	0.35	3.19	0.68	-	*	*	20.5**
6. Training Development	4.12	0.73	3.73	0.45	4.06	.55	*	-	*	8.06**
7. Career Planning	4.00	0.59	3.87	0.44	3.77	0.60	-	*	-	2.69
8.Creativity & Innovation	4.24	0.76	4.00	0.69	4.35	0.73	-	-	*	3.61*

9. Team Building	3.71	0.83	4.09	0.38	4.27	0.57	*	*	-	12.6**
10. Grievance Redressal	2.50	0.60	3.07	0.48	3.59	0.50	*	*	*	63.9*

Results of Multiple correlation analysis and values of observed correlations of independent variables with the dependent variable (Employee Productivity) for Bank 1, Bank 2 and Bank 3 are shown in Table 2. From the Figure 1 (private sector bank) we observe that all independent variables (except benefits and services with correlation co-efficient -0.078) are positively related with Employee Productivity. The maximum positive value (0.531\*\*) is for motivation while the minimum positive value (0.119) is for discipline. This suggests that in private sector banks (bank 1) employee productivity is highly dependent on high motivating environment in the bank while benefits and services here are not sufficiently motivating for the bank employees thus retarding their performance. The lowest value of correlation for discipline is indicative of rigid and high disciplinary actions in the bank hence it does not contribute much to the employee productivity. In contrast, foreign bank employees (Figure 2) have a perception that Training and Development is the strongest human resource practice in their bank (maximum positive value 0.677\*\*) while the minimum positive value (0.139) is for incentives. This suggests that in foreign banks, employee productivity is highly dependent on effective training and development programs that are enabling the employees to enhance their skill and knowledge according to the new innovations in banking industry. The lowest value of correlation for Incentives is indicative of absence in providing fair and adequate incentives which can motivate the employees adequately to work better.

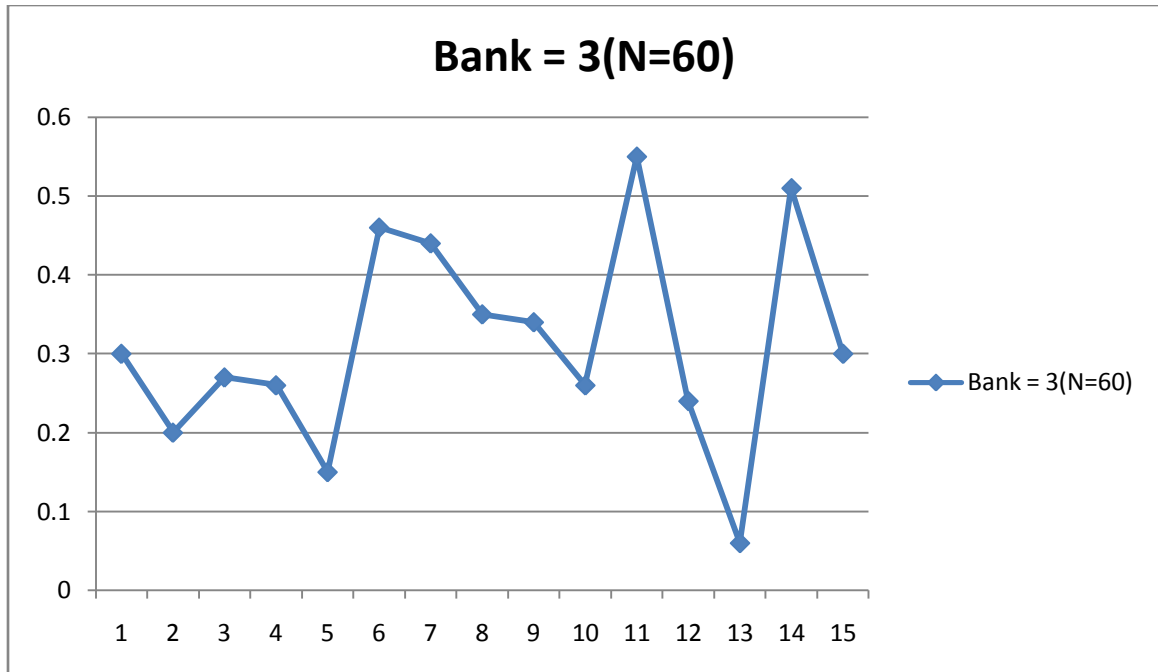
**Figure 1: Variations in Correlation Coefficients of HR Practices with Employee Productivity in Bank 1**



**Figure 2: Variations in Correlation Coefficient of HR Practices with Employee Productivity in Bank 2**

However, public sector bank employees (Figure3) perceive that all independent variables (except employee accountability with correlation co-efficient-.073) are positively related with employee productivity. The maximum positive value (0.579\*\*) is for benefits and services while the minimum positive value (0.152) is for reward system. This suggests that in public sector bank employee productivity is highly dependent on good benefits and





**Figure3: Variations in Correlation Coefficients of HR Practices with Employee Productivity in Bank3**

Services while the lowest value of correlation for reward system is indicative of present absence in providing fair and adequate reward system. The survey discovers that employee accountability in this bank is negatively correlated to the productivity this can be because in today's business environment, many employers feel that they are held hostage by their employees. They are afraid to hold employees accountable, take disciplinary action or terminate problem employees, and also when employers don't hold problem employees accountable, good employees leave. There are a number of ways that employee performance can be documented, such as an employee incident log , written performance evaluations and written personnel memos so as to have employee accountable without hampering his performance.

**Multiple Regression Analysis for all three Banks**

Table3, 4 and 5 shows the results for multiple regression analysis of the relationship between human resource practices and employee productivity of all three banks. The data inTable3 indicate that in private sector bank the beta coefficients of several factors in the regression equation are statistically significant. For example, out of four emerged HR practices affecting employee

**Table3: Multiple Regression Analysis Bank1**  
(Foreign Sector Bank)

Independent Variables	Dependent Variables: Employee Productivity Factor = 18		
	Beta	Simpler	t-value
F3 Motivation	0.033**	0.531**	3.00
F13 Employee Participation	0.44**	0.332**	4.67
F10 Grievance Redressel	0.45**	0.304*	4.80
F8 Creativity Innovation	0.29**	0.431**	2.67

MultipleR=0.75

R square=0.57

\*Significant at 0.05 level

\*\*Significant at0.01 level

**Table4: Multiple Regression Analysis Bank 2**  
(Foreign Sector Bank)[N=63]

Independent Variables	Dependent Variable: Employee Productivity		
	Beta	Simple r	t-value
F6 Training & Development	0.38**	0.677**	4.40
F3 Motivation	0.45**	0.447**	5.57

F16	Discipline	-0.30**	0.466*	-3.75
F12	Employee Participation	0.24**	0.363**	2.82

Multiple R=0.83

R square=0.69

\*Significant at 0.05 level

\*\*Significant at 0.01 level

**Table5: Multiple Regression Analysis Bank3**

**(Public Sector Bank)[N=60]**

Independent Variables	Dependent Variable: Employee Productivity		
	Beta	Simpler	t-value
F15 Benefits & Services	0.20*	0.579**	2.15
F11 Quality of Work Life	0.41**	0.549**	5.03
F17 Incentives	0.36**	0.561*	4.06
F9 Team Building	0.20**	0.340**	2.51
F8 Creativity& Innovation	0.17**	0.346**	2.09

Multiple R=0.82

R square=0.67

\*Significant at 0.05 level

\*\*Significant at 0.01 level

Productivity grievance redressal (Beta value=0.45\*\*) has come as highly significant contributor to the employee productivity along with employee participation (Beta value=0.44\*\*) which is the second largest contributor

to employee productivity. The other two predictor components of employee productivity found are motivation and creativity & innovation. Results of multiple regression analysis of Bank2 (Table4) indicate that in the foreign sector bank also, four human resource practices significantly contribute to the employee productivity, these include contribute to the employee productivity, these include development (Beta value=0.38\*\*) and employee participation (Beta value=0.24\*\*). The fourth human resource practice which emerged in regression equation is discipline with the negative sign (Beta value=-0.30\*\*) suggesting that discipline becomes the hindering factor as far as employee productivity is concerned in foreign sector bank. Results of multiple regression analysis of Bank3 (Table5) indicate that out of five emerged HR practices affecting employee productivity quality of work life (Beta value=0.41\*\*) has come as highly significant contributor to the employee productivity. Incentives (Beta value=0.36\*\*) is the second largest contributor to employee productivity. The other contributors to employee productivity in Bank3 are Benefits and services (Beta value=0.20\*) and Team building (Beta value=0.20\*\*). Creativity and innovation has secured the lowest Beta value (0.17\*) in public sector bank. The results signify that the HR system can elicit the appropriate employee role behaviors necessary for the efficient implementation of the firm's strategy to have high performance.

## **Discussion and Conclusion**

The purpose of this study has been to investigate the relationship between the human resource practices and employee productivity in the Indian context. Respondents of three banks varied in their perception on four practices, which are significantly different in all three banks as brought about by Duncan's mean test, these are grievance redressal, quality of work life, compensation management and incentives. These are ought to vary as organizations change, their management's philosophy and priorities differ. However, a consensus needs to be developed amongst them to have a coordinated consortium of banks for achieving socio-economic goals. In commercial banks the HR processes needs to be seriously looked into to make it an effective practice to enhance employee productivity.

The results of this study strongly support the research question as there is significant relation of employee productivity with Human resource practices including selection, employee benefits, compensation, training and staffing practices. Thus, through the use of strategy- based HR policies and practices, banks create a more competent and committed workforce, which in turn the results indicate that HR policies and practices help to sustain the level of competence that is created by banks' HR practices. This implies that bank cannot simply improve the quality of its human resource by pumping in more training dollars or recruiting employees at the eleventh hour when industry

conditions shift or market demand changes. The managerial implication is that building a firm's Human resources is a long-term commitment. Banks that resist trimming employee training or recruitment budgets during economic hardships are more likely to recover faster and build a more sustainable competitive advantage when market demand improves. The study also found that the banks with high disciplinary action were not able to reap a sustained performance advantage, as indicated by the significantly negative association with employee productivity. Overall, the results suggest that HR configurations that are more difficult for competitors to imitate generally had positive relationships with bank performance. On the other hand, because these findings are relatively novel and exploratory, the attempt should be viewed simply as an attempt that requires further explication and refinement in future studies.

The significant relationships shown by this study between HR practices and firm performance (employee productivity) are consistent with institutional theory and the resource-based view of the firm (Tolbert and Zucker, 1983; Baronetal., 1988; Barney,1991;Wright,McMahanandMcWilliams,1994). HRM practices are found to show a considerable positive impact in affecting performance. All these results confirm the expectations based on theoretical insights. Clearly, the HRM- performance link that has been demonstrated in the Western hemisphere also exists in the Indian context. Five critical motivational issues in banking today are: (1) performance management, (2) equal pay demands for comparable worth, (3) training and development,(4)how to best motivate individuals, and(5) providing competitive compensation beyond the bounds of one's own industry. Although the compensation area\ is a dominant concern, very few banks have developed effective compensation plans.

However, the findings should be interpreted carefully; as there are number of limitations which also represent opportunities for future research First, unmeasured exogenous variables may affect the relationships we studied. For example, other human resource practices and organizational principles that we did not study may affect employee productivity; therefore, in future research measures of human resource practices and employee productivity organizational factors should be simultaneously as a means to determine the extent to which HR Practices affect the employee productivity. Second limitation is the 'static' nature of the study, that is, the study is based on a one-time view of certain aspects of the firm rather than collection of data at different periods of time. Thus, future research should be based on data collected at different periods of time to determine more precisely the relationship between human resource practices and employee productivity.

Despite the above limitations of the present study, there are certain implications for practitioners. First of all, new techniques in employee selection are helping management find the right people to work in today's challenging

banking environment. Secondly, just finding good people is not enough. With technology and customer demands changing continuously, management must continue to train and develop its people to keep a competitive edge. Finally, once management finds and develops the best people, the challenge is to retain them. Banks are among the many organizations experimenting with alternative reward and benefit programs, including several innovative compensation plans.

Hence, we have found that the more HR practices are in place, the more the bank employee are competent, satisfied with the existing HR practices, have sufficient role clarity in their job and have no intention to leave the organization. This paper concludes that if the commercial banks in developing countries like India are able to successfully implement HR practices, they could achieve the maximum contribution of their employees, although, at present, the economic and political environment within which HR practices operate is not that conducive.

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