



Employee Retention Practices for Human Capital and Its Influence on Business Performance (With Reference to Banking Industry)

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ABSTRACT

In this article, an attempt is made to assess the Employee retention practices for Human capital and its influence on business performance banking Industry in Chennai metropolitan city of India, based on the views of the bank employees. The study has covered 525 randomly selected employees of public and private sector banks in Chennai metropolitan city of India. The questionnaire instrument with 10 statement for measuring employee retention practices and 22 financial ratios for measuring the business performance is used for data collection. The internal consistency of collected data is tested by Cronbach's alpha coefficient. The ratios with high correlation are grouped under common factor using principle component factor analysis. Business performance is evaluated by canonical correlation analysis. The results of the analysis have exposed the fact that PAS in SAIL is effective.

KEYWORDS

Human Capital, Financial Performance,

Introduction

The concept of Human capital has gained tremendous attention in today's study. In the present competitive industrial world, particularly in the world of service industry like banks where human resource plays a crucial role, Human Resource Management for improving human capital acquires more importance. In Banks, human resource management practices if adopted appropriately, not only increasing the resources of the employees (human capital) through skill development but also help improving their overall performance through employee retention. Moreover, improved performance of bank through enhanced capabilities of its employees leads to the improved social image of the bank as well as satisfying social needs of employees in turn discouraging employee turnover. So the employees are to be given a chance to develop their capabilities like skills and knowledge through various means like career planning and growth, training, works itself which leads to better performance of the job and in turn better performance of the banks. However, there are no available research works on linking the human capital and employee retention practices with business performance of banks. Hence, a focus is made in this article as an endeavor to fill these gaps.

Review of Literature

Huselid (1995) stated that organizations embarking on talent management need to review their current HR practices. The 'war for talent' has focussed on acquiring and retaining the best employees in an organization. Human resources play a significant role in reaching organizational effectiveness and performance.

Bontis (1999) defines Human capital as representing the human in an organization; the combined intelligence, skills and expertise that gives the organization its distinctive character.

Armstrong (2006) defines human capital as all human abilities whether innate or acquired attributes, whose value could be augmented by appropriate development investments.

Cascio (2006) pointed out that employee retention is an important function of HRM. Retaining function comprises the activities of (i) rewarding employees for performing their job effectively; (ii) ensuring harmonious working relation between employees and managers; and (iii) maintaining a safe healthy work environment. He further suggested that fair treatment of employees, open communication, face-to-face resolution of conflict, promotion of teamwork, respect for the dignity of each individual, and pay increases based on merit are essential to retain employees.

The banking industry is considered as crucial in an economy of any country and any poor performance of the industry may diversely effect on the economy of the country as a whole. As stated by Amediku (2008), employee turnover in the banking industry has a lot of cost implications to the industry. This is because training cost, cost associated with exit interview, cost of replacing new employees and cost of gossip of the turnover which involves employee saying negative things about the company cannot be overlooked. Therefore, efforts should be made to mitigate these costs by retaining employees in the organization.

Aswathappa (2008) stated that to survive in this competitive scenario employees at managerial level in any organizations are being pressurized to improve quality, increase productivity, cut down waste and eliminated inefficiency. He has made an attempt to understand human resource in its proper perspective which are covered include nature of human resource management, employee hiring, employee motivation, employee maintenances and industrial relations.

According to Devinney et al.(2008), firm performance encompasses these specific areas of firms outcomes: (a) financial (profits, return on assets, return on investments); (b) market performance (sales, market share); and (c) shareholder return (total shareholder return, economic value added) Academically, firm performance is the ultimate dependent variable of interest for those concerned with just about any area of management: accounting is concerned with measuring performance; marketing with customer satisfaction and market share; operations management productivity and cost of operations, organizational behavior with employee satisfaction and structural efficiency; and finance with capital market response to all the above.

Deshmukh (2013) concluded that selection, training, compensation and employee participation have a high positive effect on the financial performance of the banks. In the banking sector, it was found that compensation is also a major factor towards banking performance. He further concluded that HR practices, training and compensation system had positive impacts on perceived firm and market performances of the firm. On the other hand, two practices namely job definition and career planning system have a negative and insignificant impact on perceived firm performance.

The reviews have led to the clear understanding of the human capital and performance in banking industry.

Objectives of the Study

1. To identify human capital practices employed in banking industry.
2. To find out the employee retention practices for human capital on business performance in baking industry in India.

Methodology

The present research work is solely based on primary data. The sample for the study comprises of 525 employees across three different categories of employees at managerial levels (Manager, Manager Grade I and Manager Grade II). The respondents (bank employees) for the sample are selected using simple random sampling technique.

The sample employees' perception of business performance of their banks is obtained by including 22 financial ratios in the questionnaire. As measurement of respondents' opinion has been in the 5-point scale, the opinion of entire sample is considered to be 'strongly disagree', 'disagree', 'neither agree nor disagree'(neutral), 'agree', and 'strongly agree' if the obtained mean value to 5 (score for 'strongly agree') is 0 – 20 per cent, 21 – 40 per cent, 41 – 60 per cent, 61 – 80 per cent and 81 – 100 per cent respectively.

In order to ascertain the internal consistency of the data collected from the sample employees, Cronbach's alpha coefficient is used. According to George and Mallery (2003), the internal consistency items in a measurement scale is "excellent", "good", "acceptable" if alpha coefficient is ">0.90", "> 0.80", "> 0.70" respectively.

After the validity check, the data on business performance are subjected to principle component method of factor analysis in order to groups the ratios that are highly correlated with each other under common factor to avoid multi-collinearity problem in the canonical correlation analysis, which is used to find out the employee retention practices for human capital and its influence on business performance in baking industry.

Results and Discussion

Table I provides the results of descriptive statistics for items measuring employee retention practices for improving human capital. The mean values are all in 'agree' range for all measurement items. But the percentage of mean to 5 (score for strongly agree) is 80.15 per cent for first items and ranging from 81.94 per cent to 84.95 per cent for the remaining 9 items. This envisages that respondents have agreed with employment retention practices in respect of sharing with mission, vision and value of the bank whereas they have strongly agreed that the bank allow the employees some discretion over timing of overtime, equip the employees with competencies, provide a safe and healthy workplace and set with clear performance standards.

Table I: Results of Descriptive Analysis for Items Measuring Employee Retention Practices

Measurement Items	Mean	SD	% Mean	Rank
Bank periodically shares its mission, vision and values with employees	4.01	0.67	80.15	10
Bank equip the employees with competencies	4.22	0.74	84.38	2
Employees are set with clear performance standards	4.20	0.79	84.00	4
Employees are appropriately recognized and rewarded for best performance	4.11	0.87	82.29	8
Promotions are given without delay when they are due	4.10	0.82	81.94	9
Employees are treated equally regardless of their job status	4.12	0.87	82.32	7
Provide a safe and healthy workplace	4.22	0.68	84.34	3
Provide a clean, comfortable environment	4.18	0.70	83.70	6
Include employees in decision-making	4.19	0.73	83.89	5
Allow employees some discretion over timing of overtime	4.25	0.94	84.95	1

Source: Primary Data

From the observation of the ranks based on the percentage of mean to 5, it is understood that human resource practices for human capital have focused more on allowing employees some discretion over timing of overtime (rank = 1) followed by equipping employees with competencies (rank = 2) and providing a safe and healthy workplace though the banks have given importance to other human resource practices.

Table II exhibits the results of descriptive analysis for items measuring business performance of banks. It can be seen from the table that the mean values are in 'strongly agree' range for all measurement items except for "Service time". (Mean = 4.44, in 'agree' range - >= 3.50 and < 4.50), in turn indicating that the business performance of banks in India are much better.

Table II: Results of Descriptive Analysis for Items Measuring Business Performance of Banks

Measurement Items	Mean	SD	% Mean	Rank
Service Time	4.44	0.70	88.76	10
Maintaining confidentiality of customer information	4.61	0.55	92.19	4
Transaction security	4.64	0.59	92.72	2
Time taken for responding to customer request	4.52	0.63	90.32	8
Core banking solutions	4.56	0.58	91.16	5
ATM services	4.63	0.51	92.69	3
Internet Banking services	4.56	0.63	91.16	5
Mobile Banking / Telephone Banking	4.54	0.56	90.82	7
E-banking services like RTGS, ECS and EFT	4.66	0.57	93.14	1
Corporate Social Responsibility	4.51	0.57	90.25	9

Source: Primary Data

However, the percentages of mean to 5 (score for strongly agree) are all in 'strongly agree' range, exposing the fact that the banks are very good in business performance. From ranking of items based on percentage to mean scores, it is understood that the banks are excellent in e-banking services like RTGS, ECS and EFT (% Mean = 93.14, Rank = 1), Transaction security (% Mean = 92.72, Rank = 2), ATM services (% Mean = 92.69, Rank = 3) and maintaining confidentiality of customer information.

The influence of human resource practices for human capital on business performance of the banks is analyzed using canonical correlation. The results are provided in Table III.

Table III: Canonical Correlation Functions between Employee Retention Practices and Financial Performance Dimensions

Canonical Function	Canonical R	Canonical R ² (Eigen-value)	Chi-Square	df	p-Value	Wilks Lambda	Redundancy
0	0.4395	0.1931	216.09	100	0.0000	0.6565	0.0774
1	0.2561	0.0656	105.90	81	0.0334	0.8136	0.0062
2	0.2124	0.0451	71.05	64	0.2548	0.8708	0.0027
3	0.1702	0.0290	47.36	49	0.5400	0.9119	0.0021
4	0.1507	0.0227	32.26	36	0.6472	0.9391	0.0017
5	0.1364	0.0186	20.46	25	0.7223	0.9609	0.0011
6	0.1000	0.0100	10.81	16	0.8208	0.9792	0.0008
7	0.0950	0.0090	5.65	9	0.7741	0.9891	0.0005
8	0.0393	0.0015	1.00	4	0.9097	0.9981	0.0001
9	0.0201	0.0004	0.21	1	0.6482	0.9996	0.0000

Source: Primary Data

As provided in the table, only the first two functions out of 10 produced by the analysis are significant (first one with 1% level and second one with 5% level). However, canonical correlation of 0.4395 for first function is more than 0.30, the minimum required level as a rule of thumb. Further, redundancy, which is the variance explained by the variables in the independent set (predictor set) in the dependent set, is zero for second function. Hence, only the first function is noteworthy for further inferences. As there is at least one statistically significant canonical correlation function, it is certain that the employee retention practice for human capital has notable influence on the business performance of banks.

Table IV is depicted with canonical loadings of the variables in the dependent (Criterion set) and independent set (Predictor set) with first significant canonical functions.

Table IV: Canonical Loadings of Employee Retention Measurement Variables and Dimensions of Financial Performance

Variables	First Canonical Function
CRITERION VARIABLES	
Business Performance Measures	
Service Time	0.5484
Maintaining confidentiality of customer information	0.5993
Transaction security	0.5560
Time taken for responding to customer request	0.6375
Core banking solutions	0.5829
ATM services	0.5819
Internet Banking services	0.2032
Mobile Banking / Telephone Banking	0.3029
E-banking services like RTGS, ECS and EFT	0.1667
Corporate Social Responsibility	0.6744
PREDICTOR VARIABLES	
Employee Retention Practice Measurement Variables	
Employees are shared with mission, vision and values of the Bank	0.2208
Bank equip the employees with competencies	0.4733
Employees are set with clear performance standards	0.5010
Employees are recognized and rewarded for best performance	0.7802
Promotions are given without delay when they are due	0.6922
Employees are treated equally regardless of their job status	0.8076
Provide a safe and healthy workplace	0.5315
Provide a clean, comfortable environment	0.4974
Include employees in decision-making	0.7596
Allow employees some discretion over timing of overtime	0.7993

Source: Primary Data

Note: Canonical loadings of 0.40 & above are considered.

From the observation of the loadings of the variables in the criterion set, it is understood that "Corporate social responsibility" (0.6744) contribute most to the canonical variate of the dependent followed by "Time taken for responding to customer request" (0.6375), "Maintaining confidentiality of customer information" (0.5993), Core banking solutions (0.5829), "ATM services" (0.5819), "Transaction security" (0.5560) and "Service time" (0.5484). Similarly, among the variables in the independent (predictor) set, the contribution of "Employees are treated equally regardless of their job status" (0.8076) is very high followed by the contribution of "Allow employees some discretion over timing of overtime" (0.7993), "Employees are appropriately recognized and rewarded for best performance" (0.7802) and "Include employees in decision-making" (0.7596) to first canonical variate of the independent. The other human resource practice measures such as "Promotions are given without delay when they are due", "Provide a safe and healthy workplace", "Employees are set with clear performance standards", "Provide a clean, comfortable environment" and "Bank equip the employees with competencies" are also substantially contributing to their canonical variate of the first function.

As there is significant correlation between first canonical variate of dependent and independent, it is found that the human resource practices for human capital in terms of treating employees equally regardless of their job status along with human resource practices for human capital in allowing employees some discretion over timing of overtime, recognizing them appropriately and rewarding them for best performance and including employees in decision-making tend to increase the business performance of the banks in terms of corporate social responsibility, responding to customer request at lesser time, maintaining confidentiality of customer information, core banking services, ATM services as well as overall service time.

Conclusion

This article is focused on exploring the influence of employee retention practices for human capital on business performance in banking industry. From the descriptive analysis, it is understood that employee retention practices were better in banking industry and their business performance were much better. Regarding the influence of human resource practices for human capital on business performance, it is concluded that treating employees equally regardless of their job status along with human resource practices for human capital in allowing employees some discretion over timing of overtime, recognizing them appropriately and rewarding them for best performance and including employees in decision-making tend to increase the business performance of the banks in terms of corporate social responsibility, responding to customer request at lesser time, maintaining confidentiality of customer information, core banking services, ATM services as well as overall service time.

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