Investigation into the Influence of Human Resource Development on Performance of Malaysian Banks

Aliyu Mohammed Gidado[a,*], Suhal Kusairi[b], and Suriyani Muhamad[c]
[a]Universiti Malaysia Terengganu, 21030 Terengganu, Malaysia
[a]University of Maiduguri, 1069 Maiduguri, Nigeria
*Email: GSK1537@pps.umt.edu.my
[b]Universiti Malaysia Terengganu, 21030 Terengganu, Malaysia
suhal@umt.edu.my
[c]Universiti Malaysia Terengganu, 21030 Terengganu, Malaysia
suriyani_md@umt.edu.my

Abstract

Due to the diverse nature of results found in previous studies, the economic value of human capital still remains a hypothesis that must be subjected to additional investigation and tests using variety of data from a variety of sources. To this end, the current investigation builds on the theoretical argument that a firm's ability to profit from its human capital depends upon its aptitude for Human Resource Development (HRD), Further, divergent literatures on the relationship between bank performance (BP) and human resource development (HRD) are organized to hypothesize that the BP-HRD relationship is positive with a view to alleviate shortages in literature advocating HRD as a determinant of performance among Malaysian banks. This investigation is premised on the belief that the magnitude, value, and relevance of human capabilities become fruitful by the investment channeled to achieve it. Hence, data on expenses relating to employees' constitute costs and are assumed to generate paybacks that are likely more than the value of the expenditures. As a result, it is argued that these elements could be critical to Bank Negara Malaysia's (BNM) design to fine tune efficient process operations in the Malaysian banking industry. The research objective is therefore, to determine the extent to which profit of banks become subjective to investments in human resource development. The investigation deliberately used valuable empirical data available in the annual financial reports and statements declared from 2005-2011 by a sample of firms carefully chosen from a population of licensed commercial banks and listed in the Bursa Malaysia (BM). Subsequently, panel regression method tested the hypothesized effect between investments in HRD and profitability of the sample. The findings of the investigation mainly suggest the significance of expenditure on training employees as an effective human resource development measure having positive effect on the profits of Malaysian commercial banks quoted by the Bursa Malaysia.

Keywords: *Human resource development; Bank performance; Employee expenditure, Panel regression*

1. Introduction

Performance is a crucial parameter for measuring, evaluating, determining, securing and sustaining market share among financial institutions. It is an imperative that facilitates decisions of investors and other stakeholders in the banking industry. In every economy the banking sector emerges the most important component of the financial system. This is mainly for both their large contributions to the Gross Domestic Product (GDP) and their function of providing and facilitating credit availability to other economic agents for the purpose of trade and production. Given recent occurrences including the last major crunch in the world financial system, performance has gained increased attention because banking firms are compelled to diversify into more areas that ensure improved performance. Indeed, ensuring sustainable performance has become an all-time preoccupation that has challenged stakeholders in the industry while remaining an academic problem that has bedeviled the research world. In theoretical inquiries like Olayemi (2012) it has been suggested that improved productivity and long run economic growth can be achieved through investments in human resource development. Certainly, as human capital has come to embody an increasing portion of many banks total assets, the relevance of investing in human resource development measures has become critical. Additional evidence to this is also found in Abdullah et al., (2007) who alleged that ‘The socio-economic development of Malaysia is greatly influenced by human resources activities in both the private and public sectors!” This perception and approach to economic development outlines a paradigm that aligns with some major Malaysian financial system development initiatives of which the Malaysian banking sector employs a reasonable percentage of the Malaysian labour force and it also comprises assets totaling a little above 42% of their financial economy.

The diversity of the Malaysian financial system is an area that holds academic value. Hence, this work is inspired by an initiative launched as the ‘Knowledge-Based Organisation’ (KBO) in 2000 to influence productivity and performance among Malaysian banks (Bank Negara Malaysia, 2002). However, despite the KBO initiative comprising human resource development objectives which greatly improved human capital quality among Malaysian banks since 2000, research investigations examining human resource development relationship with performance of Malaysian commercial banks are short in supply. Therefore, to assuage the dearth in literatures linking human resource development to bank performance in this South East Asian economy, this paper examines human resource - performance nexus in the Malaysian banking sector. To this end, the current investigation proposes that a firm's ability to profit from its human capital depends upon its aptitude for human resource development. This study approaches an assessment of the performance phenomenon in the Malaysia banking industry by first assuming all expenditure in improving human resources as investments rather than as costs. This way the value of its opportunity cost as well as expectation of future returns is accounted. Second just as the financial or service products of banks are assessed by the proportion of revenue they return for the firm assessed by the total revenues generated over a particular period, this study assess and evaluates investments to develop the human capital elements in banks such that their influence on select related performance variables is estimated over time to establish the impact, degree of effect and implication over time. This way the possibility of generating data to proxy for the identified variables is higher while outcomes obtainable would bear more information to guide policy formulation regarding the human capital asset of banking institutions.

Further still, numerous researches have established the relationship between human resource development and employee performance (Jamil & Som, 2007; Khattak et al., 2010; Murphy et al., 2006). However, not much is known about its relationship with bank performance. This probably emanated from the myopic ideology which views human resource development as just another management unit. This type of perception certainly clouds the true potential of the composite of employees and their accompanying skills and knowledge. We therefore put forward that to grasp the impact role of human resources and their skills in shifting the performance curve of their respective organizations they must be viewed and assessed as some form of capital as widely upheld by economists. This is true because equipment becomes obsolete and requires total overhaul or upgrade to newer versions; same applies to several other resources at the disposal of organizations. Hence, human capital has value because of returns on human capital. For instance, the type of products and services offered by a particular innovative bank could easily be replicated in several other banks within a short period of time. However, the intellectual mind and knowledge developed through HRD makes decisions in unique ways that defy replication and this ultimately accords banks with possibilities of competitive edge. Bearing this, we then inquire as to; why do banks invest in developing human capital? What is the nature of association between HRD in Malaysian banks and their performance? How does HRD influence performance of commercial banks in Malaysia? These questions hold relevance for the Malaysian financial system mainly because Malaysia is a proponent of globalization seeking transit into a full blown knowledge-economy, "To ensure that Malaysia retains its competitiveness in the new global economy, the government has initiated and implemented various policy measures and projects aimed at promoting the use of knowledge and technology to spur further economic growth of the nation. Both the private and public sector organizations are encouraged to be knowledge intensive and knowledge enabled to remain competitive and relevant to survive in the new era of economy. Human resource development has also been recognized as an important strategy to achieve the above nation's vision and aspiration (Yussoff, n.d.)."

In this study, we empirically assess the investment in HRD by banking institutions of Malaysia. The current research exhibits dual value as it utilizes a panel data set which provides current data on select Malaysian commercial banks estimated using a model specifying variables obtainable in the chosen banks thereby precisely probing the relationship of human resource investment gauges to bank performance.

In lieu of this introduction, the next section provides related literature which analyses the claims made in earlier research about performance and human resource development in relation to the banking sector. Subsequently, highlights on data, method and techniques utilized follow under methodology, while, section four discusses the results, and the conclusions are presented in section five.

2. Related Literature

2.1 Human Resource Development and Firm Performance in and Developing Economies

Recent studies strongly highlight the importance of human resources in fostering economic development [Sulaiman et al., 2012; Olaniyi et al., 2013; Abdullah, 2009; Gennaoili et al., 2013; Tsai et al., 2010]. Remarkably, Abdullah (2009:52) contends that 'Human Resource Development (HRD) is rapidly gaining importance in … firms in Malaysia, as there are strong driving forces such as legal, financial and infrastructural support from the Government. This is because the Government believes that investment in human capital is key to the success of the country's economy'. Further, Abdullah implies that a poor human resource development structure may render the Human Resource Development Act of 1992 ineffective so she set out to examine the human resource development structure of manufacturing firms in Malaysia. Abdullah (2009) relied on responses and data collected from questionnaires and interviews with the respective HR managers in those firms which yielded results showing that, although only large firms had appropriate HRD structures, small, medium and large firms concentrate on training and development towards output improvement. She however revealed that firms view training centres as expensive cost points and argues that hitherto there are no definite empirical factors for HRD value in Malaysian firms.

In the Malaysian financial sector, intense competitive pressure has led human capital to be held as pivotal to the development of a world-class capital market (Muhammad & Ismail, 2009). They idealize human capital as the collective value of banks' competencies, knowledge, and skills thus; they argue that Malaysian banks can become more competitive by accentuating high level employee skills and knowledge to promote innovativeness. Perhaps, that is why 'Malaysia's central bank requires banks to spend the equivalent of at least 2.5 per cent of salary costs on training (Todd, & Peetz (2001)'. Such developmental ideology may have been responsible for a barrage of other research works in relation to human resources and their subsequent development in their respective organizations.

Among them, many studies have directed the focus of their investigations on explaining impact of training on employee performance. Such include the likes of Ramakrishna et al., 2012; Pramod, 2012; Rokibul, 2013; Aarti, 2013; Mubashar & Aslam, 2011; Nitish et al., 2013; and Karti & Graf, 2010. Several researchers have even posted positive influence training has on employee performance (Khattak et al., 2010; Jamil & Som, 2007; Murphy et al., 2006), Yet another category of scholars believe that efficient employees are indispensable to the achievement of improved bank performance [Tahir et al., 2014; Leng, 2012; Akhtar et al., 2011]. In Tahir et al., (2014) particularly, effort was directed to ascertain the likely effect training and development exerts on employees' performance and productivity. The study reported a p-value of 0.000 indicating the statistical significance of the model thereby depicting that training and development affects employees' performance and productivity positively. The study relied on perceptive responses which limits the value of outcomes to stakeholders because real industry variables were not used to proxy for both dependent and independent variables. Ahmad et al., (2014) also examined the effect of training and development on employee performance in North Punjab banks. In their investigation, job training and delivery style which represented employee training and development had a positive impact on the dependent employee performance.

Sridevi, & Basavaraj, (2015) contend that 'human resources play an important role in the effective utilization of other resources in the organization'. They propose favor for HRD in financial corporations on the assumption that all investments in human resources will eventually yield benefits in the long run. To them success in the finance sector was strongly hinged on the efficiency and quality of the human factor. To buttress this they set out an investigation to assess the influence of HRD on the level of performance of employees by examining training & development, performance appraisal, and HRD mechanisms in financial corporations. They found that both training & development and performance appraisal was low in financial corporations thereby leading to insignificant level of performance improvement among employees. Notably, Srivastava, & Agarwal, (2014) believe that banks train their employees for the sole purpose of improving their performance. They solicited data from annual reports of banking institutions to compare influence of training on employees of private and public sector banks. They emphasize the role of training in shaping and enhancing the performance of bank staff. Effort was made to prove that 'training was proportional to revenue' meaning that if employees are better trained then there will be an expected rise in productivity. Their methodology was to study profit per employee from private and public sector banks to establish the relationship with banks' revenue. They found that profit per employee for private sector banks was higher than those of public sector banks because the former had a more effective training method. Khan et al., (2014) contend that training is a crucial factor for influencing employee performance. This is because they found that in financial institutions of Pakistan training was responsible for up to 71% improvement in employee performance. Specifically their model shows that a 1% investment in training will cause a 69% increase in employee performance. Kamal et al., (2012) significantly stands out to demonstrate that human resource development refers to the attainment of health, knowledge, motivation and skills.

However, investigations in the course of the current study observe that studies on training and development in banking is impartially limited to examining how training impacts employee performance, for this reason findings emerging therefrom gain limited attention from stakeholders in the industry implying the existence of a gap in investment information. For this, we argue that to increase human resource development prominence in the banking sector, stakeholders must be provided with empirical evidence that clearly justifies human resource development in banks either in terms of its effect on their investments or in terms of how it impacts returns accruable to their return coffers.

Numerous studies have explored the relationship between human resource development and bank performance. However, 'while majority of the published studies do show significant relationships between human resource and firm performance, these relationships are neither universal nor consistent (Becker and Gerhart, 1996)'. Ojo, (2011) also emphasizes that the multitude of studies have only returned mixed results. This makes it difficult for any generalized inference to be drawn. In fact, he stresses that "The empirical evidences emerging from various studies about the effect of human resource management on corporate financial performance have so far yielded mixed results that are inconclusive and contradictory (Ojo, 2011)", which implies the need for continued research to understand the possibility of existence, nature, process, and extent of the relationship between human resources development and firm performance."

3. Research Method

3.1 Research Model

According to the Bank Negara Malaysia (BNM) "Human capital plays a critical role in the growth and development of the financial sector. Investments in human capital is instrumental in shaping the improvements to the financial services industry where knowledge, skill, competencies and capabilities have become key strategic drivers of productivity, competitiveness and growth. Human resource development is thus implemented to improve the efficiency of human resources in the banking sector with 'conscious and deliberate organizational and/or individual undertakings aimed at enhancing the skills, knowledge, ability and other attributes of an employee for effectiveness in current job demands and anticipated future challenges (Benjamin, (2012: 110-111)'. Human resource development usually targets improvement in both the individual and firm performance. In the case of the latter, human resource development will affect profitability (Muhammad & Ismail, 2009). Olalere & Adesoji (2013) argued that profitability in banks will be affected by human resource development. Thus;

CBP = f (HRD)
[1]

Where; CBP represents Commercial Banks' Performance expressed in Ringgit Malaysia and HRD is the Human Resource Development.

3.2 Estimation

Data on the independent and dependent variables from eight BNM licensed commercial banks listed in the Bursa Malaysia for 2005-2011 were utilized for estimation. This implies a longitudinal form of data which yields more information about the behavior of the independent variable. Furthermore, the current investigation draws from Muhammad & Ismail (2009) who computed HC as investments in human capital during a period or total salary and wage. This study however modifies human resource development in banks to include other determinants such as all expenses directly relating to human capital development over a period. Hence, equation (1) is expanded and expressed in its panel form as;

e-ISBN 978-967-11473-2-0

$CBP_{i,t} = \beta_o + \beta_1 SAW_{i,t} + \beta_2 EXE_{i,t} + \beta_3 EET_{i,t} + \varepsilon_{i,t}$, i=1…N, t=1…T
[2]

Where; i stand for each commercial bank in the sample cross section, t stands for year and $\varepsilon_{i,t}$ denotes a random error term i.e. $E(\varepsilon_{it}) \sim N(0, \sigma^2)$, while SAW describes Salaries and Wages; EXE refers to Expenses on Employees; and EET represents Expenditure on Employee Training.

3.3 Variables and Data

Human resource development is the independent variable in the model specified by equation (1) and it includes total salary and wages, expenditure on training, employee expenses over the period under investigation. In this regard, *Human resource development* refers to all investments directed to renew and improve employee ingenuity and resourcefulness. *Bank performance* on the other hand is measured by profit after tax as is the trend in bank performance literature which is expected to rise or decline depending on the nature of pressure exerted on it by the independent human resource development variable.

4. Results and Discussion

4.1 *Impact of Human Resource Development on Performance of Commercial Banks*

In table 1, results from the estimation regression models where the CBP is dependent variable is obtainable. From the results of the regression, the pooled model shows that expenditure on employee training affect bank profits at a positively significant level, thereby implying that commercial banking firms who spend and implement well-structured training for their staff will gain increases in their level of profits and similar results have been suggested in Dumas & Hanchane (2010). The results mainly imply that if expenditures for training bank employees are improved then there will be an increase in bank profits at a significant level. These results reflect that effective human resource training in commercial banks will give rise to a significant improvement in bank performance in terms of increased profits across the Malaysian banking industry. The fixed effects analysis equally demonstrates that training bank employees positively affect banks' profits at a significant level of 1%. The results entail that appropriate training schedules and programmes designed to meet bank objectives gives rise to positive performance. The fixed effect model implies that influencing bank performance can be positively achieved at a significant level of 1% via effective employee training applications. This is similar to Obisi (2011) who argues training as a process through which the skills, talent and knowledge of an employee is enhanced and increased. The results for expenditure on employee training affect banks' performance positively. This points that if bank employees are better trained then profitability will become progressive, thereby symbolizing that effective human resource training will ably improve banking structure that could provide development potentials. Likewise, the random effect model demonstrates that expenditure on employee training positively affect profitability of banking institutions at a significant level of 1%. This reliably interprets that adequate expenditure for training employees will lead to gains in profitability for banks in Malaysia.

Lastly, the robustness checks show a mean vif of 1.07 indicating the absence of multicollinearity concerns. And the random effect model was deemed reasonable because the Breusch-Pagan LM test returned a p-value of less than 0.05. However, the decision to apply fixed effect model or random effect model for estimation was confirmed by the Hausman test which favored the FE model because the p-value of Hausman statistic is less than 0.05

Table 1: Results from Panel Model Estimation
Dependent Variable: $CBP_{i,t}$

Independent Variables:	**Pooled Model**	**RE Model**	**FE Model**	**PCSE**	**OLS with Hetero & Serial correlation**
Constant	1.28 (2.33)	-0.873 (-1.44)	-1.824 (-2.52)	1.17 (2.11)	1.17 (0.65)
$SAW_{i,t}$	0. 317 (-0.86)	0.741 (1.64)	1.069 (1.41)	0.416 (2.33)**	0.416 (-0.22)
EET_{it}	-0.016 (-0.28)	0.158*** (2.83)	0.259 (3.71)***	-0.016 (0.43)	-0.016 (0.47)
EXE_{it}	0.748 (…)	-	-	-	-
LM test	37.1 (0.00)***		-	-	-
Hausman test	-	7.06 (0.0149)**		-	-
No. of Obs. (N)	56	56	56	56	56
Multicollinearity (vif)	-	-	1.09	-	-
Heteroskedasticity (χ^2 – stat)	-	-	24725.71 (0.0000)***	-	-
Serial correlation	-	-	33.16	-	-

(F – stat)			(0.0003)***		

Source: Results from STATA computation
* = Significant at 10%; **= Significant at 5%; ***= Significant at 1%

5. Conclusion

Generally, our findings advocate that bank performance is only marginally subjective to human resource development measures. The investigation mainly suggests the significance of expenditure on training employees as an effective human resource development measure having positive effect on the profits of Malaysian banks. It is pertinent to note however, that our investigation examined but a small number of banking firms in Malaysia and our conclusions are drawn over a short duration in which the study was accomplished. Other research are encouraged to advance beyond profitability to establish the long-term effects of human resource development on other performance indicators to increase instance of more generalized deductions.

References

Abdullah, H. (2009). Disposition of human resource development structure in manufacturing firms in Malaysia. *Journal of Social Sciences,* 5(1): 52-59

Abdullah, H., Raduan, R., & Kumar, N. (2007). Human Resource Development Strategies: The Malaysian Scenario Journal of Social Science 3(4): 213-222

Ahmad, N., Iqbal, N., Mir, S. M., Haider, Z. & Hamad, N. (2014). Impact of training and development on the employee performance: A case study from different banking sectors of North Punjab. *Arabian Journal of Business and Management Review (Nigerian Chapter),* 2 (4): 19-24

Akhtar, M. F., Ali, K., Sadaqat, S., & Hafeez, S. (2011). Extent of training in Banks and its Impact on employees' motivation and involvement in job. *Interdisciplinary Journal of Contemporary Research in Business*, 2(12): 793-806

Aarti, C. (2013). A study of training need analysis based training and development: effect of training on performance by adopting development based strategy. *International Journal of Business and Management Invention*, II: 41-51.

Bank Negara Malaysia (2002). 'Organisation development'. Annual Report, Pp. 224-227.

Becker, B., & Gerhart, B. (1996). The impact of human resource management on organizational performance: Progress and prospects. *The Academy of Management Journal*, 39(4): 779-801.

Dumas, A. & Hanchane, S. (2010). How does job-training increase firm performance? The case of Morocco. *International Journal of Manpower*, 31(5): 585-602, DOI 10.1108/01437721011066371

Mubashar, F., & Aslam, K.M. (2011). Impact of Training and Feedback on Employee Performance. *Far East Journal of Psychology and Business*, 23-33

Gennaioli, N., Porta, R., Florencio, L., & Shleifer, A. (2013). Human capital and regional development. *The Quarterly Journal of Economics,* 105–164. doi:10.1093/qje/qjs050.

Pramod, G. K. (2012). The impact of training and development on performance of officers of select public sector banks for sustainable human development. *International Journal of Sustainable Development*, 5(7):87-96

Jamil, R., & Som, H. (2007). Training needs analysis: Practices of top companies in Malaysia. *International Review of Business Research Papers*, 3(3): 162-175.

Rokibul, K.M., Ullah, M., & Chowdhury, M. M. (2013). Impact of human resources training on the performances of banks: An empirical study. *China-USA Business Review*, 12(5): 524-531

Kamal, M. H. M., Mat, R., Abdul Rahim, N., Husin, N., & Ismail, I. (2012). Intellectual capital and firm performance of commercial banks in Malaysia. *Asian Economic and Financial Review*, 2(4):577-590

Karti, K., Shyamala, R. K., & Graf, D. (2010). Impact of Training in Indian Banking Sector – An empirical investigation" *International Journal of Business and Management*, 5(7)

Khan, N., Ahmad, N., Iqbal, N., & Haider, N. (2014). Relationship of Training and Education with Employee Performance in Financial Institutions. *International Letters of Social and Humanistic Sciences*, 41: 150-156. doi:10.18052/www.scipress.com/ILSHS.41.150

Khattak, M. A., Bashir, F., &Qureshi, T. M. (2010). "Training and Development paradigm, and its contribution in economic uplift of the country, A case from Pakistan", *12th International Business Research Conference*, pp.1-16.

Nitish, K., Singh, K. L., Dash, K.. S., & Mohan, S. (2013). The Impact of training on service delivery in Banking Sector: A Case study in selected Indian banks" *International Journal of Contemporary Business Studies*, 4(6)

Leng, K. S. (2012). From tellers to sellers to thinkers: the case of Malaysian banks. *Journal of Human Capital Development*, 5(1): 117-140

Muhammad, N.M.N. & Ismail, M.K.A. (2009). Intellectual capital efficiency and firm's performance- study on Malaysian financial sectors. *International Journal of Economics and Finance*, 1(2): 206-212

Murphy, C., Cross, C., & McGuire, D. (2006). The motivation of nurses to participate in continuing professional education in Ireland. *Journal of European Industrial Training* , 6 (5), 365-384.

Obisi, C. (2011). "Employee Training and Development in Nigerian Organizations: Some Observations and Agenda for Research", *Australian Journal of Business and Management Research*, 1(9): 82- 91.

Ojo, O. (2011). Impact of strategic human resource practice on corporate performance in selected Nigerian banks. *Ege Academic Review*, *11*(3): 339-347.

Olaniyi, T. A., Osemene, O. F. & Omotehinse, D. (2013). An evaluation of bank workers welfare in post-consolidation era in Nigeria. *Research Journal of Finance and Accounting*, 4(7): 108-113

Olayemi, S.O. (2012). Human capital investment and industrial productivity in Nigeria. International *Journal of Humanities and Social Science*, 2(16): 298-307.

Ramakrishna, G., Kameswar, M., Giridhar, M., & Krishnudu, C. (2012). Effectiveness of training and development programmes- A case study of Canara bank employees in Kurnool District. *International Journal of Multidisciplinary Research*, 2(4)

Sridevi, G., & Basavaraj, J. M. (2015). HRD practices in Karnataka state financial corporations. *PARIPEX - Indian Journal of Research*, 4(6): 421-423

Srivastava, E., & Agarwal, N. (2014). Impact of Training on Bank Employee Performance: A Comparative Study of Public Sector Bank and Private Sector Bank in India. *International Journal of Advance Research in Computer Science and Management Studies*, 2(1): 631-641

Sulaiman, N. F., Muhamad, S., & Sanusi, A. (2012). Innovative Capacity, Human capital and its Contribution to Economic Development in Malaysia, *World Journal of Social Sciences*, 2(6): 218 – 230

Tahir, N., Yousafzai, I. K., Jan, S., & Hashim, M. (2014). The Impact of Training and Development on Employees Performance and Productivity: A case study of United Bank Limited Peshawar City, KPK, Pakistan. *International Journal of Academic Research in Business and Social Sciences*, 4(4): 86-98. DOI: 10.6007/IJARBSS/v4-i4/756

Todd, P. & Peetz, D. (2001). Malaysian industrial relations at century's turn: Vision 2020 or spectre of the past? *International Journal of Human Resource Management*, 12(8): 1365-1382.

Tsai, C., Hung, M., & Harriott, K. (2010). Human capital composition and economic growth. *Soc. Indic. Res.*, 99:41–59, DOI 10.1007/s11205-009-9565-z

Yusoff, M. M. (n.d.) Globalization and Human Resource Development in the Malaysian Public Service. Retrieved Oct. 08, 2015, from United Nations Public Administration Network; http://unpan1.un.org/intradoc/groups/public/documents/EROPA/UNPAN014 373.pd