

Retention Issues in Banking Industry of Pakistan: A Case Study of Habib Metro and Soneri Bank

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Abstract

Every growing organization considers its human resource as the most precious and critical asset. Hence the importance of retention management in the organizations is very important. The world of banking has changed radically since last decade. In banks, employees are required to be smarter, safer, better trained, more thoughtful and more aware and engaged in order to meet the expectations of customers, colleagues, regulators and stakeholders. This study is an attempt to investigate the retention issues in private banks of Pakistan and to identify the key contributor in overall retention management among job satisfaction, empowerment, training and development, career development and planning and organization image. The study revealed that among factors used in the study, career development and organization image were key contributors which helps in increasing the retention in the two private banks. The study further revealed that there are many other factors which are explaining the retention issues and need to be explored. Questionnaires among the staff members posted at Head Office of both banks were distributed and 15% of the total population of Head Office were submitted their responses. In the end it is found that the more HR practices are in place, the more the bank employee are competent, satisfied, and have sufficient role clarity in their job and will have no intention to leave the organization. This paper concludes that if the commercial banks in developing countries like Pakistan 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.

Keywords: Career development, employee retention, empowerment, job satisfaction, training and development

1. Introduction

Modern technological changes posed a lot of challenges to the organizations for better management of their human resources. Nowadays, downsizing, rightsizing, shortage of skilled workforce etc., are what faced by many organizations. Formulating good Human Resource management practices help organizations increase their key performance indicators by creating more staff satisfaction which automatically translate into customer satisfaction and create good image of the organization in the industry (Robert & Johnson, 2012).

In the banking industry, the top priorities of the banks are to generate more revenues and profits and achieve competitive edge over others and more customer satisfaction which thereby increase their equity. Decreased employee motivation affects the customer relationships with bank, which lowers the profit margins of the banks. It is; therefore, on the top of the list for banks to retain their human resources, especially those who are adding value towards achieving the organizational goal. This is the reason, HR department and the management with the business partnership always strive to achieve lower attrition rate and spend lot of

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time, money and efforts in devising the strategies for retention and lowering the turnover, especially in the retail banking where from ATM to branch manager, there is a direct contact with the valued clients (Goyal & Joshi, 2012).

Retention is considered as important tool for the employer to exercise and retain their valuable and critical resources and avoid talent drain from the organization. Higher the association of the employee with the organization greater the retention ratio. For more than a decade, Pakistani Banking sector is growing to heights where they were never before. They are enjoying customer legacy and competition. Regulations are tightened day by day due to new technological interventions and risks. In such a challenging environment, retention of quality and skilled worker requires great effort by the top management.

This study attempts to investigate the retention issues in private banks of Pakistan and to identify the key contributor in overall retention management among job satisfaction, empowerment, training and development, career development and planning and organization image. Findings of this study help the commercial banks in understanding the key contributors in employee retention and also provide the insight to researchers to explore more factors affecting employee retention.

1.1 Problem Statement

Banking industry has witnessed increased employee turnover, especially, the talented individuals who play the key role in organizational growth. High turnover among employees reduces the performance of an organization due to the increase in replacement and training costs of newly recruited individual. It needs to evaluate the factors affecting the employee retention and increase the employee turnover.

1.2 Research Objectives

This study is conducted in order to achieve the following key objectives:

- To assess the factors increasing employee retention and reduced turnover
- To analyze the key factors which motivate the employee to remain with the organization
- To examine the role of HRM practices of the organization regarding strategy formulation and intervention regarding improvement in retention strategies.

1.3 Scope and Limitations of the Research

The scope of this research is limited to the staff members posted at the Head Office of Soneri Bank Limited and HabibMetro Bank Ltd. There are many factors affecting the retention in the organization but due to time constraint it is not possible to test all the elements/factors. Other limitations include limited sample size, decline to participate in the study.

1.4 Research Methodology

This study is descriptive in nature and primary data has been gathered from the Executives and Officers of the two banks through questionnaire which contained 24 questions i.e. 04

on each variable on a five point likert scale where 1 refers to strongly agree and 5 refers to strongly disagree. The rationale behind choosing Soneri Bank and HabibMetro Bank is that they have almost equal staff strength of about 2494 at Soneri Bank and 2499 at HabibMetro Bank. Convenient sampling technique is used to collect the data. A sample size of 15% of the population of officers, managers and executives posted at Head Office is decided to distribute questionnaire, as a similar sample size had been used by Shoaib et al (2009) and Khan et. al (2011) in similar studies. The data has been analyzed by using SPSS-16.

2. Literature Review

Banking sector continued to show resilience in the face of adverse economic conditions, posting year-on-year earnings growth of 28.3% during 1HCY12, profits after tax (PAT) of “Big 5” Banks showed year-on-year increase of 17.2% to PKR Rs. 47.4bn in 1HCY12 from PKR 40.4bn in 1HCY11 on consolidated basis and “Mid-Tier” Banks experienced profitability growth of 76.9% to PKR10.8bn over the same period. Meanwhile, net income of “Small Banks” registered a large growth of 3.6 times on consolidated basis with 1HCY12 PAT of PKR2.1bn (IBP 2012). These remarkable achievements are only possible because of good governance and through satisfied labour force.

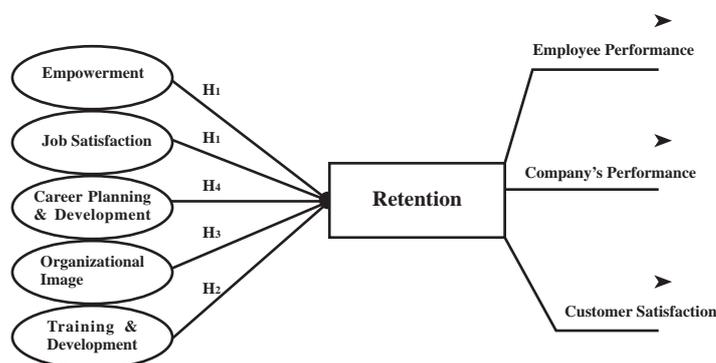
HR management practices are the key to success and increased retention and due to which the attrition rate vary from one bank to another. HR management practices are formulated to employ the competencies, commitment and culture in the organization. These three forces are helpful in carrying the affairs of the organization with optimal efficiency, reduce cost of doing business and increase sustainability (Rao, 2008). According to Pfeffer (1994), HR policies and practices impact the employee retention which are used by the organizations as a tool for employee motivation, empowerment. While strong communication, higher than average wages, cash rewards, career growth opportunities and employee share ownership plans and other practices also affect the retention positively.

According to Boyens (2007), following are the few secrets in order to minimize the employee turnover: a) hiring the right employees, b) work on key factors motivating the individuals, c) proactively manage the three Rs of turnover i.e. rewards, respect and requirements, d) open and clear communication across the organization, and e) creating a culture where all staff members can thrive.

Employee empowerment is delegation of authority and increase in the responsibility of the individual which starts from top management level and runs downwards to lower management level. Empowering peoples means motivating them towards decision making and polishing the leadership qualities in them. The empowerment tool add value towards the organization vision and mission and make the employee more responsible for achieving the desired level of performance. This is also competent for the organization (Quinn & Gretchen, 1997). Effective organizations created the culture where their employees are satisfied from their jobs (Bhatti & Qureshi, 2007). Many factors influence employee satisfaction among which HR practices have the major share. Good HR management practices make the organization culture conducive and friendly where everyone as a team tries to achieve the common organization goal i.e., increased profitability and customer satisfaction.

Every individual sets some career goals and becomes part of the process through which the person is likely to achieve those goals. The organizations make the road-map for managing careers of their employees. Thus, career planning and management requires efforts from both, i.e., organization and the individual, in order to receive maximum benefit out of it (Baruch, 2004). According to Howard et al (2008), organizational prestige is defined as “the degree to which the organization is perceived to be reputable and well-regarded”. Organizations use their goodwill and image to attract individuals / investors and customers to build long-term relationship with the organization. This is very important from employee point of view that what outsiders perceive about their company and what they comment on product and services provided by the company.

3. Conceptual Framework



Based on the above-mentioned conceptual framework the following are the variables: “increased empowerment”, “training and development opportunities”, “job satisfaction”, “growth opportunities” and “organization image” “employee retention.”

3.1 Hypotheses

The study is based on the following hypotheses:

H₁: Increased empowerment results into higher employee retention

H₂: Increased training and development opportunities results in increase employee retention

H₃: Organization’s image motivates employees for long association with the organization

H₄: Higher the job satisfaction higher the employee retention

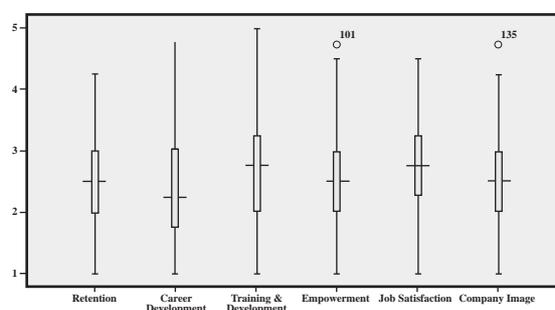
H₅: More growth opportunities increase the employee retention.

4. Data Analysis

Cronbach’s Alpha is used to check the reliability of the data. Minimum data reliability is ranging from 0.7 to 0.8 for management and business researches. Here in this study, the alpha value is 0.891 for all questions measured on the Likert scale which is reliable for interpretation and comparison. The six main constructs average Cronbach’s Alpha is 0.832, which reflects that even on 6 items the reliability is high enough for analysis and inferences.

Data was collected from the employees posted at head offices of Habib Metro Bank Ltd (HMBL) and Soneri Bank Ltd (SBL). Questionnaires were distributed among the 100 employees of HMBL and 80 employees of SBL. Only 80 filled responses received from HMBL while the response of SBL was 75. After scrutinizing, 75 questionnaires selected from HMBL and 66 from SBL with total of 141. In all, 17 females participated in the survey from HMBL as compared to 16 SBL.

Both box plot and descriptive statistic shows that data is almost normally distributed.



4.1 Test of Hypotheses

Hypothesis 1

H₁: Increased empowerment results into higher employee retention

ANOVA

| Empowerment | | | | | |
|----------------|----------------|-----|-------------|-------|------|
| | Sum of Squares | df | Mean Square | F | Sig. |
| Between Groups | .788 | 1 | .788 | 1.206 | .274 |
| Within Groups | 90.785 | 139 | .653 | | |
| Total | 91.572 | 140 | | | |

Significance level =0.05

Since the p-value is greater than 0.05 and insignificant, it means that H₁ is rejected and it is concluded that the empowerment does not impact on employee retention in both the banks i.e. Soneri Bank and Habib Metro Bank.

Hypothesis 2

H2: Increased training and development opportunities result in increase in employee retention

ANOVA

| Empowerment | | | | | |
|------------------------|----------------|-----|-------------|------|------|
| Training & Development | Sum of Squares | df | Mean Square | F | Sig. |
| Between Groups | .336 | 1 | .336 | .353 | .553 |
| Within Groups | 132.385 | 139 | .952 | | |
| Total | 132.722 | 140 | | | |

Significance level =0.05

Since the p-value is greater than 0.05 and insignificant, it means that H2 is rejected and it is concluded that the training and development do not add value in increasing the employee retention in both the banks i.e., Soneri Bank and HabibMetro Bank.

Hypothesis 3

H3: Organization image is important for individuals and motivate the individuals to remain with the organization.

ANOVA

| Company Image | | | | | |
|----------------|----------------|-----|-------------|-------|------|
| Empowerment | | | | | |
| | Sum of Squares | df | Mean Square | F | Sig. |
| Between Groups | 4.993 | 1 | 4.993 | 8.243 | .005 |
| Within Groups | 84.192 | 139 | .606 | | |
| Total | 89.184 | 140 | | | |

Significance level =0.05

Since the p-value is less than 0.05 which shows that the company image is significant impact on employee retention in both the banks and hence H₃ cannot be rejected. The bank, which is more benefiting due to their organization image, is ascertained by the descriptive statistics.

Descriptive statistics showed that in HabibMetro bank the company image ($\mu=2.29$, variance=0.697), is more important because the mean value lies in more acceptable range as compare Soneri Bank where the company image ($\mu=2.67$, variance= 0.502) is more tilted towards neutral i.e. 03. Hence, it is concluded that the company image matters for the staff working at HabibMetro bank and the bank is using it as a tool for increasing the retention ratio.

Hypothesis 4

H4: Higher the job satisfaction higher the employee retention

Career Development ANOVA

| Empowerment | | | | | |
|--------------------|-----------------------|-----------|--------------------|----------|-------------|
| | Sum of Squares | df | Mean Square | F | Sig. |
| Between Groups | 10.772 | 1 | 10.772 | 12.954 | .000 |
| Within Groups | 115.588 | 139 | .832 | | |
| Total | 126.360 | 140 | | | |

Significance level =0.05

Career development has the significant impact on employee retention in both the banks i.e. Soneri Bank and HabibMetro is clearly reflecting from the significant p-value which is less than 0.05. Hence H5 cannot be rejected.

Descriptive statistics help in identifying that which bank is taking more advantage of career development. Descriptive statistics show that in HabibMetro bank the career development ($\mu=2.17$, variance= 0.880), is more important because the mean value lies in more acceptable range as compare Soneri bank where the company image ($\mu=2.73$, variance= 0.776) is more tilted towards neutral responses i.e. 3. Hence it is concluded that the career development matters for the staff working at HabibMetro bank and the bank is taking full advantage for increasing retention ratio by providing more growth opportunities.

4.2 Regression Analysis

It is learnt from the regression analysis that p -value is significant in Soneri Bank and HabibMetro Bank and is less than 0.05 and F-ratio in the case of HabibMetro is 2.471 whereas, for Soneri Bank the value is 4.234 which implies that the factors organization image, empowerment, job satisfaction, career development and training and development contribute in overall employee retention and attract the higher association ratio in the banks.

In HabibMetro Bank R square value shows that all independent variables i.e. Company Image, Empowerment, Training and Development, Job satisfaction and career development are explaining 9% variation in employee retention. It earns that there are other 91% unexplained variation in employee retention and more factors need to be explored in order to increase explained variation in employee retention.

In Soneri Bank R square value shows that all independent variables are explaining the 20% variation in employee retention which indicates that there are still 80% unexplained variation in employee retention and lot of other factors need to be explored.

The above-mentioned Table indicates that in HabibMetro Bank the beta coefficients of Training and development ($\beta = .309$) is statistically significant over other independent variables and highly contribute towards the retention of the individual in the bank. Whereas in Soneri

Bank company image ($\beta = .340$) is statistically significant and contributing in improving the retention and motivating the individual to remain work with the Bank for longer period.

5. Results and Discussion

This comparative study conducted in two private banks located in Karachi. The theme of study was to identify the key retention issues contribution in high retention rate. It is learned from the analysis that factors affecting employee retention vary from one bank to another. In HabibMetro bank staff members posted at Head office consider training and development ($\beta = .309$) as highly contributed factor in their retention. It means the management has to invest more in the training and development of the individuals to groom them and increase their skills set. In Soneri Bank, staff members posted at Head Office consider organization image ($\beta = .340$) as their motivator and key element to stay with the bank and increase overall retention rate.

According to Pfeffer (1994) HR policies and practices impact the employee retention which also used as a tool are motivation, empowerment, strong communication, higher than average wages, cash rewards, career growth opportunities and employee share ownership plans and other practices. However, in Pakistani context, especially with reference to these banks, employees do not consider the empowerment as their strength due to which the value is insignificant at significance level of 0.05 in both banks. Similarly, in the case of Job Satisfaction, according to Hunter & Tietjen (1997) and Potterfield (1999) satisfied workforce is more productive and loyal and these happy workforce helps the organization to meet its targets by increasing the overall productivity and reflected in the customer satisfaction.

In this study, the relationship between job satisfaction and retention came to insignificant and do not impact much on the retention of the employees in both the banks. Training and development is also less contributor in retention in both banks whereas in the study of Manongi et al (2006), it was concluded that many professionals in Ghana often leave the deprived communities or districts due to limited opportunities for further training and career advancement, lack of access to quality education for their children and absence of more desirable working conditions.

6. Conclusion and Recommendations

Corporate governance emerged and gained recognition, as particularly relevant and important within banks, in the aftermath of several episodes of banking crises in the 1990s. This importance was, and continues to be, further accentuated by the market development which outpaced and relatively slow growth in information distribution. Moreover, globalization, deregulation and technological advances have increased the risks imbedded within the banking system. These risks, and the negative impact that results there-from, threaten to not just be constricted to the stakeholders of specific banks, but also pose the danger of spilling over and negatively impacting the stability of the entire banking system - due to the functional scope and inter-connectedness inherent in the financial industry (IBP, 2012). In order to monitor and exercise tight control over the rules and regulations and ensuring enforcement of laws in the organization, competent workforce is required to check the compliance.

Human resource management is considered as key driving force of the organization which, not only increases the productivity of the individual, but also provides competitive edge and advantage to the organization. Employees are the critical assets of the organization. The individual success leads to the organization success. Today individual changes their jobs frequently and do not have loyalty, as it was 30 years ago, towards their employers and frequently switched to another job. Vibrant individuals need career development path in order to grow with the growth of the organization. Mitchell et al. (2001) indicated that there are many job unrelated reason due to which individual left the job are trade, personal risk, unsolicited job offer, desire to learn new skills, unexpected events and shocks.

6.1 Future Areas of Research

Banking industry is considering as the growing industry and has to face lot of challenges and risks. Banks have to devise control and monitoring mechanisms ensuring the compliance of rules, laws and regulations. For achieving better results and strengthen the systems, policies and procedures, vibrant competent individuals required all the time to exercise and implement the policies. This creates the need to retain the critical resources of the organization. This can help researchers conduct studies in future on the subject and ascertain more factors for effecting employee retention and provide insight to the organization to work on those factors and ensure satisfied and motivated workforce in order to face the challenges of future competition.

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