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Do HRM Practices Influence Perceived Financial Performance? A Case of Banks in Pakistan

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Abstract

Recently ubiquity in Human Resource Management (HRM) literature has been found and much more focus is directed towards exploring HRM practices and their effect on perceived financial performance of a firm. This study is an endeavor to contribute in the Pakistan context literature of HRM vis-à-vis Financial Performance paradigm. It was aimed at finding the relationship pattern of HRM practices over its contribution in firm's performance. A questionnaire was deployed to ascertain the extent of relationship among the two and financial services sector was chosen to fill the questionnaire. Partial Least Squares Structural Equation Modeling (PLS-SEM) was employed for analysis to understand the structural dimensions of exogenous and endogenous constructs. Out of the six HRM practices, only two came out to be significantly impacting the perceived financial performance of firms. Compensation Policy and Decentralization results were found to be affecting the perception of employees towards the financial growth of the firms.

Keywords: *HRM Practices, Perceived Financial Performance, PLS-SEM, Banking*

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INTRODUCTION

The study entails the effect of Human Resource Management (HRM) practices on perceived financial performance of firms. Albeit, extant HRM literature (Darwish, Singh, & Wood, 2016a; Khandekar & Sharma, 2005; Pfeffer, 1994, 1998; Schuler & Jackson, 1999) delineates managing the human resource as a vital element encompassing the efforts towards the competitive advantages that any firm vies for, but the fuzziness persists as which of the practices has its performance importance (Becker & Gerhart, 1996; Dyer & Reeves, 1995; Guest, 2011; Paauwe, 2009; S. Singh, Darwish, Cristina Costa, & Anderson, 2012; Wright & Gardner, 2003). Measuring the performance of a firm in an effective way has also been the focus lately in literature (Darwish, Singh, & Wood, 2016b; Paauwe & Boselie, 2005). The argument within the empirical research exists that some Human Resource Management (HRM) practices may have their impact on perceived financial performance collectively when they are considered as an integrated system and sometimes those practices, when interacted alone for their respective effect, performed weakly (Ichniowski & Shaw, 1999). Multifariously, an integrated system of HRM practices within an organization, substantially contributes in exploring synergies (Barney, 1991). Viability of certain HRM practices is predominantly contingent upon the environment and setting in which they are usually operationalized, such as a sector of an economy.

There has been a ubiquity of literature that explores the effect of different HRM practices (individually and collectively) towards the enhancement of organizational performance in general (Becker & Gerhart, 1996; Dyer & Reeves, 1995; Guest, 1997, 2011; Paauwe, 2009; S. Singh et al., 2012; Wright & Gardner, 2003). To a different tune, this study aims to explore an already defined framework of a set of HRM practices and its effect on perceived financial performance of firms operating in financial services industry in Karachi, Pakistan locale.

The financial services sector is construed as a significant part of the indigenous economic domain as the currency in adoption of innovative technologies is reflected with products and services that are being used by people (Erturk, Froud, Johal, Leaver, & Williams, 2008; Froud, Johal, Leaver, & Williams, 2006). The permeation of sophisticated adoption of new methodologies, especially digitalization of financial services, in daily life also highlights its major share impacting other firms within the local economy.

Jensen (2000) argued, while delineating agency theory implications, that managers and employees with continued job security and reward expectations, exhibit their enthusiasm in adding value to shareholder’s wealth. Corroborating with the same concept, it can well be conceptualized that within financial sector, more emphasis is directed and focused on HRM practices that boost firm’s performance (Erturk et al., 2008; Froud et al., 2006).

The objective of this study is to establish the determinants of HRM Practices in Pakistan context and to explore the relationship between HRM practices and Perceived Financial Performance of a firm. Additionally, it would also be investigated that which dimension of HRM practices would have the greater performance importance over the perceived financial performance.

The structure of this study further continues with discussion of extant HRM literature highlighting the relationship between HRM practices and performance and follows by subjective and objective aspects of organizational performance measurement. Next the study's context would then be elaborated with the methodology adopted, results and discussion write-up and ending with conclusion and managerial implications of the study results.

The conceptual model of the study is shown in Figure 1.

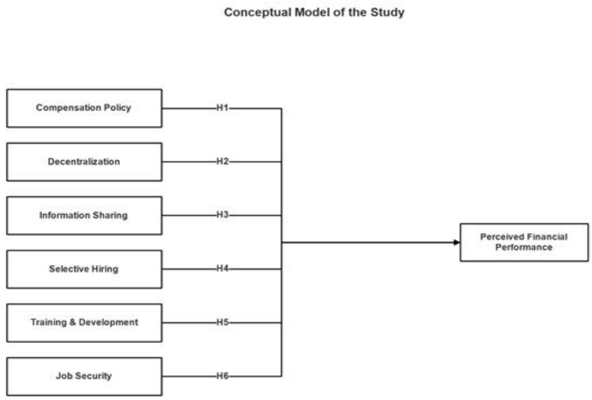

Figure 1. The Conceptual diagram of the Study

LITERATURE REVIEW

Human Resource Management (HRM) is termed as a lynchpin within the structure of any organization and often it is regarded as valuable albeit, very few firms recognize its significance and compositional value (Pfeffer, 1998). Operationalization of HRM practices vis-à-vis its influence over performance of the organization has gained attention among researchers of HRM field. Many research studies (Brewster, 2004; Cardon & Stevens, 2004; Givord & Maurin, 2004) discussed that there is a need for more conceptual framework to further elucidate the implications existing within, despite the fact that certain HRM practices have been empirically related positively with firm's performance.

The resource based view of a firm highlights its disposition in a conceptual perspective that better performance of a firm is only by virtue of compound effects of its corporate resources utilized for the purpose. HRM practices may evolve a firm as a superior performer in a business environment and may contribute in development of sustainable competitive advantage in the context of competition because of the fact that these practices are transparent, often unique and imperfectly imitable (Barney, 1991; Voss, Tsikriktsis, Funk, Yarrow, & Owen, 2005; Wright & McMahan, 1992). Similarly, contrasting to this fact, several research works (Ahmad

& Schroeder, 2003; Barringer, Jones, & Neubaum, 2005; Cardon & Stevens, 2004; Givord & Maurin, 2004) argue that every HRM practice followed in a firm does not contribute in fostering the competitive advantage. Much of these studies propelled a new direction and thrust in HRM theoretical paradigms for differentiating few empirically proven practices from the otherwise generally available ones that actually and significantly impact a firm's performance and may be classified as performance-importance-oriented practices.

Extant HRM research literature and studies have mentioned several HRM practices that impact firm's performance. Several meta-analytic studies on literature have mentioned a long list of practices in vogue by firms in different sectors of economies. Pfeffer (1998) initially proposed the HRM practices framework which could impact firm's performance. Underpinning Pfeffer's (1998) seminal work, this study examines the consequent effect and relational interaction between HRM practices on firm performance.

Pfeffer (1998) proposed seven HRM practices and there has been a growing number of empirically evidential studies confirming the significant relational effect of these HRM practices on firm performance. Only six out of seven are adopted in this study. The considered six HRM practices are 1) compensation, 2) decentralization in decision making, 3) information sharing (financial and performance information). 4) hiring selectively, 5) training and development, and 6) secured employment.

COMPENSATION POLICY

Employee compensation related with performance is predominantly significant practice in the domain of HRM and used as a tool to encourage better employee performance as it has been empirically established that performance related compensation mechanism, prevalent in firms, is positively related with firm and employee performances (Brown, Sturman, & Simmering, 2003). Employee perceived expectations, developed through motivation is considered as a bridge between performance and compensation. Expectancy theory (Vroom, 1964) in his seminal work in HRM explains the notion that employees in a firm exhibit their performance according to their expectations of positive outcomes of their deeds. Though, HRM research has highlighted the relational direction of performance related compensation systems and organizational performance, structure for compensation within an organization is also elemental in performance management (K. Singh, 2005; Wimbush, 2005).

Delery and Doty (1996) emphasized in their study that compensation based on performance by virtue of compensation mechanisms has been established as one of the strongest manifestation of organizational performance. Employee retention and performance is substantiated by integrated compensation schemas (merit-based or performance-based) prevalent in organizations (Uen & Chien, 2004).

Widener (2005) postulated model proposition encompassing relationship between human capital reliance and pay structure along with the non-financial evaluative measures related with bonus compensation. Results of Widener's (2005) study exhibit the relationship between two HRM practices viz. human capital reliance and non-financial measures being moderated by pay structure. It was also highlighted in the study that firms which have adopted the hierarchical pay structure, have stronger relationship between the two variables.

Brown et al. (2003) in their study found that better performance was related with higher pay system while studying the different pay structures and levels and its association with financial performance. Tosi, Misangyi, Fanelli, Walden, and Yammarino (2004) conducted their research study based on Fortune 500 companies' sample over ten years examining the relationship among CEO compensation and company performance and CEO perceived charisma. The results of their study revealed CEO's charisma impacted stock prices only and could not influence other company performance determinants. Top executive team composition is also being affected by executive compensation (Gerhart & Milkovich, 1990). Association between HRM practices and firm's growth of sales and stock, are intervened through the mediating role of top executives' social networks (Collins & Clark, 2003).

Compensation policies in an organization must be coherent with overall objectives of an organization. Contrary to this fact, a range of HRM research work (Ahmad & Schroeder, 2003; Lawler & Rhode, 1976; Rodriguez & Ventura, 2003) have shown that, albeit not often, employees construe compensation policies as a way to reign and tame their individual organizational behavior and consequently compensation policies foster lesser employee commitment and loyalty.

Cardon and Stevens (2004) established that compensation is empirically important as a practice for smaller firms as it raises the operational legitimacy of firms and additionally benefit the retention and recruiting endeavors. Compensation policies geared with retention-orientation direction is positively related to multiple firm performance measures (Ngo, Turban, Lau, & Lui, 1998). Incentives in an organization are elemental in minimizing the employee turnover rates as Banker, Lee, Potter, and Srinavasan (2001) highlighted that incentives mechanism of employee compensation is strongly associated with reduced costs, greater revenues, and better comparable profits.

The study proposes the hypothesis as follows:
H1: There is a positive effect of Compensation Policy over Perceived Firm Performance

DECENTRALIZATION

Teamwork holds its own significance in the success of any organization. In order to achieve any common interest and the organization's objective, there should be more and more employees working hand in hand as teams and cooperate with each other while making decisions for meeting company goals. In order to work effectively as a team, employees need to possess professional skills, profound comprehension of aptitudes, capacities, dispositions and individual characteristics of colleagues (Ahmad & Schroeder, 2003).

Employees feel more committed and attached with the firm and show more participation and interest when there is a transfer of decision making and teamwork involved in attaining firm's objective, therefore it indirectly affects the organizational performance (Tata & Prasad, 2004). Decentralization and self-managed teams were regarded as significant HR practices in terms of high performance, by many researchers overtime (Pfeffer, 1998; Singer & Duvall, 2000; Wagner, 1994; Yeatts & Hyten, 1998). It was observed by Jayaram, Droge, and Vicekry (1999) that flexibility and time are positively affected by decentralized teams. It was found that there is a mediating effect of social network of top management on firm's performance and HR practices. HR practices play an important role in order to create competitive advantage for the firm (Collins & Clark, 2003).

An organization where there is small scale centralization is a responsive or favorable situation for self-managed groups/teams (Tata & Prasad, 2004). Batt (2004) Conducted a study in a telecom company and found that if an employee engages in self-managed teams, there is a high probability that his job is secure and he will be satisfied.

Nicholis, Lane, and Brechu (1999) studied how effectively self-guided groups can be connected in an unprecedented research setting. Study elucidated that by putting forth concentrated effort, self-managed teams would evolve; however the procedure of usage will be more enduring than it is anticipated. Moreover, there is a need for employee training in order to achieve effective results and to enhance employee skills.

H2: There is a positive effect of Decentralization over Perceived Firm Performance

INFORMATION SHARING

Information sharing is beneficial for the organization and while sharing information, the company gains the perception of trust of their employees as it is shared with them transparently. Additionally sharing of information empowers employees to take better and informed decisions for the sake of benefitting the organization. It is necessary to give feedback to employees on their performance so that they do not assume their performance to be satisfactory even in the situation when they didn't perform well (Chow, Harrison, McKinnon, & Wu, 1999). Moreover, sharing of information encourages fairness and transparency in an organization which diminishes turnover (Ahmad & Schroeder, 2003) and creates synergy within employees.

Morishima (1991) concluded that there is a positive impact of information sharing on profitability and productivity but it has a negative impact on labor cost. Information sharing is not a much extensively practiced concept yet. Companies doesn't feel safe in sharing their confidential information with the employees due to the fact that the company may become weaker in position in front of its employees or its control over its employees may be lost by this attempt (Pfeffer, 1998). Furthermore there is always a risk of information leakage to competitors, associated with information

sharing (Rauch & Hatak, 2016).
Sharing of information depends mainly on the nature of data. Burgess (2005) examined the level of employee motivation for exchange of information, it was found that employees share information for the sake of rewards and they seek to move upward in an organization through information sharing.

It was found through research that information sharing was associated with increased profits (Roberts, 1995). Conversely, in another research it was found that information sharing did not have a significant impact on productivity (Ichniowski & Shaw, 1999).

H3: There is a positive effect of Information sharing over Perceived Firm Performance

SELECTIVE HIRING

This HR practice emphasize the hiring of those people who possess the desirable skills set for the vacant position with the alluring qualities and knowledge so that they can easily fit in the culture of the organization and consequently the firm is less likely to spend on their training and development, it will automatically lower the cost of employee training.

Hiring selective employees leads to profit creation. Moreover, Huselid (1995) analyzed HR practices and found that pulling in and choosing the correct candidates, who would represent the company, would increase their morale and productivity, their performance would be boosted and would reduce employee's probability of leaving the organization.

Collins and Clark (2003) presented that sales grow due to selection of right people for a particular job. Paul and Anantharaman (2003) found that effective hiring is beneficial to the company because it will result into the people with appropriate set of skills and qualification that will lead the firm to produce good quality products. Moreover it has an economical benefit as well.

Cardon and Stevens (2004) postulated that it is difficult for the small organizations to go for selective hiring because they have restricted financial resources and vague job responsibilities. therefore; it is less likely that they hire more qualified employees.

H4: There is a positive effect of Selective Hiring over Perceived Firm Performance

TRAINING AND DEVELOPMENT

Training and development affects the company's performance in multiple ways. First of all, by conducting training programs, an organization tends to possess employees with specific skills set which will results into more productive employees and it will reduce their dissatisfaction towards job, causing low employee turnover (Huselid, 1995). Furthermore it reduces the cost of recruiting the employees over and over again; it will boost the productivity of existing employees and will mitigate the risk of turnover.

Any organization must prepare and nurture its workers and furthermore must advocate their positive career direction. This would eventually help emp~~loyees to~~ concentrate on the skills, and better system of productivity and effectiveness would then prevail. Organizations may take a step towards counseling their representatives in planning their career. In doing so as such, organizations urge employees to develop more skills in them which are necessary for them to compete in the organization Brewster (2004) analyzed the contrasts between American and European HR administration frameworks and found that effectiveness of training and development is inherent and ubiquitous in these regions. Huselid (1995) highlighted that the training and development affects both employee's efficiency and the performance of the firm, be it short-term or long-term.

Making changes in an organization's structure and its management practices, and these changes will bring about the negative impact on the employee's behavior. When the organizations grow older it becomes more difficult to bring innovation in their management practices even if they are beneficial for the company in the long run.

Barringer, Jones, and Neubaum (2005) studied the firms having rapid and slow growth and put forwarded that rapid growth companies rely deeply on their employee's skills, capabilities and effort that they put forth in order to make company achieve its growth through its strategies. Rapidly growing companies put more emphasis on training and development of their employees as compared to slow growth firms.

It was proposed through a result of a study, conducted in a small firm in UK, that the small companies should also focus on training and development of their employees in order to increase firm's performance (Storey, 2002).

H5: There is a positive effect of Training and Development over Perceived Firm Performance

JOB SECURITY

Job security is the making the employees confident that they are working in such an organization where their jobs are secure. When the employees are given such surety from the employer, they tend to put extra efforts for the success and productivity of the firm. They tend to feel committed with the organization (Pfeffer, 1994, 1998). These days' firms do not bother to provide job security to its employees more often. In a survey conducted by Givord and Maurin (2004) it was found that technology change causes decrease in the incentives and increase in job insecurity. Job security has a positive impact on job performance whereas it has indirect impact on operational performance (Ahmad & Schroeder, 2003; Pfeffer, 1998). A negative correlation of corporate performance with job security was found as permanent employees perceived threat to their jobs due to temporary workers (Michie & Sheehan-Quinn, 2001).

H6: There is a positive effect of Job Security over Perceived Firm Performance

PERCEIVED FINANCIAL PERFORMANCE (AS SUBJECTIVE FINANCIAL DETERMINANT)

Organizational Performance (OP) has gained the popularity for being one of the all-encompassing criterion in HRM studies with multifarious perspectives and dimensions in which several research works of HRM research has already been undertaken. On the other hand, the implicative concept of OP is still elusive and deserves proper definition and elucidation (Guest, 2011; Paauwe & Boselie, 2005; Rogers & Wright, 1998). While studying the determinants of OP, Scott (1977) established that OP is one of the topics in HRM in which, the more one dives deep in learning, the more unexplored dimensions are manifested. The defined concept of OP explains that it is a comparison of value expected by owners and value operationalized to yield desired expected results by organization. Organizational Performance is usually considered as the manifestation of financial indicators yielding financial results and this itself is a simple but narrowly defined concept (Venkatraman & Ramanujam, 1986). Theoretical and empirical determinants for financial performance are delineated as stakeholder well-being, profits, sales, return on assets, market share, return on equity, stock price, and growth etc. Moreover, strategic management's extant literature also focuses on financial indicators of organizational performance (Rowe, Morrow, & Finch, 1995).

Contrary to above, there has been a range of empirically founded studies regarding HRM practices and firm performance exploring the subjective financial determinants of organizational performance (Beltran-Martin, Roca-Puig, Escrig-Tena, & Carlos, 2008; Delaney & Huselid, 1996; Joseph & C., 2009; Lee, Lee, & Wu, 2010; Razouk, 2011). Subjective financial determinants are pivoted and anchored more on behavioral dimensions while reflecting their normative rationality and which is in contrast to economic rationality perspective. Razouk (2011) emphasized that subjective financial determinants are more implicative in measurement of OP. The fact remains that objective financial determinants of OP are more crisp and non-fuzzy but usually marred by measurement error risks and universally non-harmonized accounting standards prevalence in various regions. Additionally, the general or normal tendency has been observed that these objective financial determinants of OP are occasionally overstated by organizational managers for the sake of keeping operational fallacies incognito (Bjorkman & Budhwar, 2007; Fey, Bjorkman, & Pavlovskaya, 2000; Razouk, 2011). Existing research endeavors highlight that comparison of results outcome through objective and subjective financial determinants of OP are equally viable and generally comparable (Dess & Robinson, 1984; Tzafrir, 2005). Dess and Robinson (1984), in their study, concluded that self-reported subjective determinants of OP can be undertaken as reliable and acceptable in parallel to objective determinants. Earlier, a research study by Powell (1992) had also presented the results that explained the relationship between subjective and objective financial determinants of OP.

METHODOLOGY

The population considered for the study is commercial banks head offices and their various branches operating at different locations within the locale of city of Karachi, Pakistan. The sampling unit consisted employees of banks that are well versed with the operations of their employer viz. commercial bank. The survey was carried out within Karachi. Convenience sampling was adopted to select the respondent employees and initially they were screened to participate provided who had acceptable knowledge about and carried a fair idea of financial performance of their bank and appreciable construe the dimensions of HRM practices prevalent within their organizational setting.

The questionnaire was developed and pilot testing was conducted randomly with few selected banks' head offices located at the central location of the city. Pretest results helped in refining the final questionnaire. For pilot testing respondents were chosen as who were HR managers and managers adept at financial knowledge about the financial services sector of the economy.

For the sample size calculations and estimation for the study, G*Power (Faul, Erdfelder, Buchner, & Lang, 2009) software was used with parameters effect size as 0.15 (medium) and Power value was taken as 0.8 and keep with six predictors in perspective, the estimated sample size turned out to be 98 respondents. Additionally, for the sake of use of PLS-SEM, sample size was calculated with considerations of model background, data distribution characteristics, determinants' psychometric attributions and the desired relationship value of R-square (Hair Jr, Hult, Ringle, & Sarstedt, 2016). With these perspectives for the study, significance level was chosen as 0.05, statistical power value as 0.8 and R-square value of minimum 0.25. employing these parameters for sample size estimation as per guidelines delineated by Marcoulides and Saunders (2006), from the study model (Figure 1) it was ascertained that the maximum arrows pointing at a latent construct was six and likewise the sample size came out as 75. Hoyle (1995) highlighted the fact that sample size falling between a number of 100 to 200 for path modeling algorithms, is acceptable. Hence, the sample size was kept at 150 respondents initially and same numbers of questionnaire were distributed. We received 108 (72% response) questionnaires duly filled and after screening the data only 99 (66% usable) were found to be useful for the study considering the data assumptions of multivariate analysis. Non-response bias was also tackled with two-waves following the guidelines of Armstrong and Overton (1977).

For measures, the HRM practices determinants were adopted from Pfeffer (1998) and only six dimensions were chosen to be included in the study considering the existing practiced dimensions and their assumed weightage in HRM practices operationalized in the country. Likert scale was used with five anchor degrees ranging from 1 being "strongly disagree" to 5 being "strongly agree" with intermediate degrees in-between. Concerning the Perceived Financial Performance as a subjective financial determinant, special attention was focused in collecting responses to cater for reduced as self-reported positive bias. Common method variance or bias was tackled by adopting the suggested framework of "unmeasured marker variable" (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). Various research work (Day, 2003; Podsakoff & Organ, 1986) have argued that self-reported subjective determinants may sometimes elicit acceptably accurate indications. The perceived financial performance indicators were taken as a) perceived cost (PC), b) perceived market share (PMS), c) perceived overall performance (POP) d) perceived product quality (PPQ), and e) perceived sales (PS).

PLS-SEM

Partial Least Squares (PLS) modeling technique was chosen for the study to understand the latent structural dimensions of HRM practices over perceived financial performance. The PLS technique is a modeling approach Structural Equation Modeling (SEM) less stringent on data distribution assumptions (Vinzi, Trinchera, & Amato, 2010). PLS-SEM has been employed in several disciplines such as marketing (Henseler, Ringle, & Sinkovics, 2009), organization (Sosik, Kahai, & Piovoso, 2009), behavioral sciences (Bass, Avolio, Jung, & Berson, 2003), and strategic management (Hulland, 1999). For the analysis of PLS-SEM, SmartPLS v. 3.2.7 (Ringle, Wende, & Becker, 2015).

RESULTS

From the onset of the analysis protocol, normality test was conducted by employing Mardia's multivariate technique (Mardia, 1974) and skewness and kurtosis values depicted that data was not normal and hence as suggested by several studies that this justifies the use of PLS-SEM.

MEASUREMENT MODEL ANALYSIS

The inner model and the outer model for the analysis was operationalized (see Figure 2). All seven variables are reflective latent constructs. The data did not contain any missing values, hence the missing values settings in the software have been ignored.

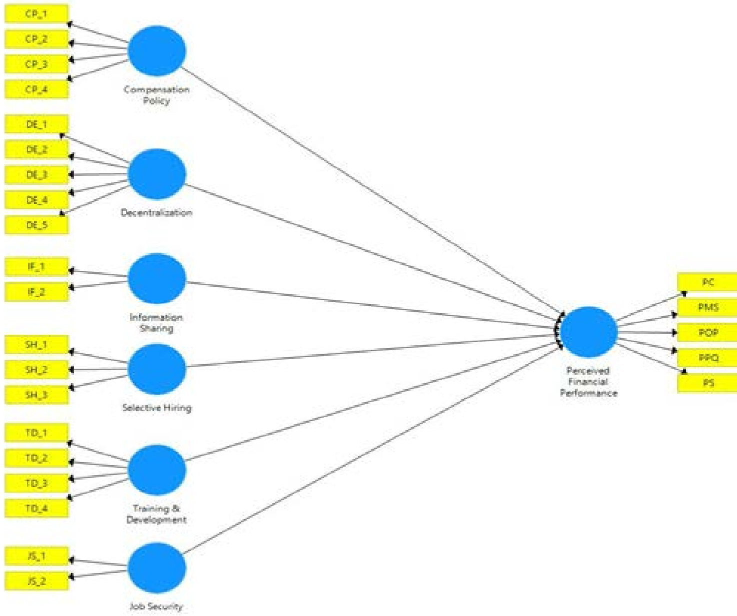

Figure 2. PLS-SEM Model of the Study

After the initial run of the analysis in the software (see Table 1), construct reliability and validity output was studied and the outer model indicator loadings were observed and it was found that none of the indicators loadings were less than 0.5 (Hulland, 1999) and indicator reliability was found to be well within the specified value. For convergent validity, Average Variance Extracted (AVE) values should be greater than 0.5 (Bagozzi & Yi, 1988; Fornell & Larcker, 1981). All AVE values for the constructs resulted greater than the mentioned criterion. Composite Reliability (CR) is usually considered a better measurement estimate in PLS-SEM than Cronbach's alpha and values must be greater than 0.7 in order to prove the internal consistency (Gefen, Straub, & Boudreau, 2000). It is evident from the table 1, internal consistency was found in constructs of the study. Dijkstra and Henseler (2015) suggest to use Rho A instead of Cronbach alpha value and emphasized that Rho A values be greater than 0.7 to ascertain indicator reliability. All values for Rho A were found to be meeting the suggested criterion.

Table 1. Measurement Model Assessment

	Items	Loadings [a]	AVE [b]	CR [c]	Rho A [d]
Compensation Policy	CP_1	0.778	0.572	0.841	0.780
	CP-2	0.807			
	CP_3	0.641			
	CP_4	0.788			
Decentralization	DE_1	0.820	0.740	0.934	0.917
	DE_2	0.818			
	DE_3	0.921			
	DE-4	0.893			
	DE_5	0.846			
Information Sharing	IF_1	0.894	0.774	0.873	0.716
	IF_2	0.865			
Selective Hiring	SH_1	0.760	0.694	0.871	0.804
	SH_2	0.917			
	SH_3	0.815			
Job Security	JS_1	0.861	0.780	0.876	0.736
	JS_2	0.905			
Training and Development	TD_1	0.805	0.558	0.832	0.747
	TD_2	0.873			
	TD_3	0.623			
	TD_4	0.657			
Perceived Financial Performance	PPQ	0.790	0.671	0.910	0.882
	PC	0.858			
	PMS	0.704			
	PS	0.837			
	POP	0.894			

Items removed: None as indicator items loadings were higher than 0.5

a All item loadings > 0.5 indicates indicator reliability (Hulland, 1999 p. 198)

b All Average Variance Extracted (AVE) > 0.5 indicates Convergent Validity (Bagozzi & Yi, 1988; Fornell & Larcker, 1981)

c All Composite Reliability (CR) > 0.7 indicates Internal Consistency (Gefen et al., 2000)

d All Rho A > 0.7 indicates indicator reliability (Dijkstra & Henseler, 2015)

For discriminant validity, two measurement criteria were employed and read from the results output by PLS-SEM viz. Cross Loadings criterion (Chin, 1998) and Fornell-Larcker criterion (Fornell & Larcker, 1981). Respectively results for both are given in Table 2 and Table 3.

Table 2. Cross Loadings criterion result

	CP	DE	IS	JS	PFP	SH	TD
CP_1	**0.778**	0.427	0.065	0.409	0.487	0.390	0.493
CP_2	**0.807**	0.838	0.392	0.268	0.786	0.698	0.738
CP_3	**0.641**	0.331	0.183	0.388	0.513	0.427	0.525
CP_4	**0.788**	0.542	0.123	0.222	0.563	0.447	0.671
DE_1	0.613	**0.820**	0.270	0.297	0.647	0.616	0.620
DE_2	0.615	**0.818**	0.229	0.199	0.633	0.591	0.625
DE_3	0.695	**0.921**	0.301	0.235	0.750	0.734	0.726
DE_4	0.617	**0.893**	0.272	0.196	0.750	0.717	0.679
DE_5	0.689	**0.846**	0.250	0.385	0.766	0.775	0.826
IF_1	0.279	0.300	**0.894**	0.085	0.243	0.262	0.235
IF_2	0.213	0.239	**0.865**	0.229	0.216	0.294	0.214
JS_1	0.326	0.251	0.137	**0.861**	0.322	0.267	0.320
JS_2	0.395	0.288	0.167	**0.905**	0.385	0.350	0.425
PC	0.684	0.749	0.204	0.253	**0.858**	0.731	0.698
PMS	0.630	0.542	0.136	0.262	**0.704**	0.473	0.608
POP	0.717	0.751	0.259	0.343	**0.894**	0.629	0.769
PPQ	0.624	0.741	0.276	0.395	**0.790**	0.729	0.667
PS	0.635	0.588	0.182	0.394	**0.837**	0.600	0.767
SH_1	0.511	0.611	0.199	0.354	0.555	**0.760**	0.619
SH_2	0.647	0.773	0.254	0.236	0.750	**0.917**	0.756
SH_3	0.524	0.610	0.335	0.316	0.619	**0.815**	0.676
TD_1	0.588	0.481	0.179	0.375	0.632	0.623	**0.805**
TD_2	0.668	0.703	0.234	0.362	0.754	0.657	**0.873**
TD_3	0.534	0.433	0.156	0.353	0.563	0.587	**0.623**
TD_4	0.659	0.794	0.185	0.176	0.596	0.591	**0.657**

Table 3. Fornell-Larcker criterion result

	CP	DE	IS	JS	PFP	SH	TD
Compensation Policy	**0.756**						
Decentralization	0.752	**0.860**					
Information Sharing	0.282	0.308	**0.880**				
Job Security	0.411	0.307	0.173	**0.883**			
Perceived Financial Performance	0.804	0.828	0.261	0.403	**0.819**		
Selective Hiring	0.677	0.803	0.315	0.353	0.777	**0.833**	
Training & Development	0.822	0.813	0.256	0.426	0.859	0.823	**0.747**

For Cross Loadings criterion all values generally were found to be acceptable according to the threshold identified by Chin (2010). But the Fornell-Larcker criterion results showed some mixed results as some of the constructs could not discriminate well with each other.

Measurement could be biased (hence error prone) consequent to biases inherent in method and among the variety of biases, one of measurement error is common method variance (Podsakoff et al., 2003). Unmeasured Marker Variable (UMV) remedy was adopted to tackle the common method variance or bias (CMV/CMB). The R-square value before incorporating the UMV in the model came out to be 0.781 and after its incorporation it was 0.786. The difference calculated was 0.005. Hence it was concluded for CMV that it is well under the threshold acceptance value of difference of less than 10% (Podsakoff et al., 2003).

Structural Model Analysis

Multicollinearity testing was done and the results from the table output showed none of item's variance inflation factor (VIF) values greater than 5. For hypothesis testing the bootstrapped values should be higher than the 1.96 (t, 0.05, 2-tailed > 1.96) (Peng & Lai, 2012). Results for bootstrapping showing path coefficients between the six exogenous latent variables and one endogenous latent variable (PFM) of the study depicted that, four out of six constructs have a non-significant relationship with PFM and only two had significant p-values (see Table 4). This table clearly shows that only two latent constructs were having significant relationship with PFM. The two latent variables were Compensation Policy (CP) and Decentralization (DE). All the relevant calculations e.g. predictive relevance (Q2) and effect size (f2), though very small, are given in Table 4 with 95% confidence lower and upper confidence intervals.

Table 4. Complete hypothesis testing results

Relationship	Std. Beta	Std. Error	t-value	Decision		*f2*	*Q2*	95% CI	
				p-Value	Acc/Rej			LL	UL
Compensation Policy -> Perceived Firm Performance	0.19	0.086	2.349	0.019	Accepted	0.050	0.011	0.035	0.336
Decentralization -> Perceived Firm Performance	0.321	0.125	2.451	0.014	Accepted	0.096	0.015	0.268	0.580
Information Sharing -> Perceived Firm Performance	-0.016	0.05	0.439	0.661	Rejected	0.000	-0.002	-0.086	0.084
Job Security -> Perceived Firm Performance	0.075	0.053	1.567	0.117	Rejected	0.023	0.000	0.006	0.187
Selective Hiring -> Perceived Firm Performance	0.205	0.117	1.699	0.089	Rejected	0.050	0.006	0.120	0.481
Training & Development -> Perceived Firm Performance	0.222	0.139	1.661	0.097	Rejected	0.046	0.006	0.118	0.433

DISCUSSION

The final resultant table 4 depicts hypothesis results highlighting the influence of HR practices on the perceived financial performance of banks. It was hypothesized that six respective HR practices have positive impact over the perceived financial performance. The analysis primarily did not support these hypotheses. Only two out of six hypotheses were accepted being an HR practice, have an impact on the perceived financial performance of banks. The two HR practices are compensation policy and decentralization. From this study it is a found fact that all the HR practices in banking sector has not been efficacious and influencing over the improving the reputation and thus perceived financial performance of banks. Only two practices, albeit they are prominent within corporate scene in Pakistan, significantly impacting the perceived financial performance as the organizational culture prevalence in the economy is a consequent to society's culture influence exhibiting employees demanding better compensation policies. Employee compensation policies fructify firms by yielding better performance when they are in congruence with employee's own goals, behavior and vis-à-vis firm's strategy and if managed with due diligence (Baraibar-Diez et al., 2019; Coviello et al., 2018; Duffhues & Kabir, 2008; Yin et al., 2021). Decentralization is one the rise in progressive organizations although have not been fully manifested within the corporate domain. The fallacies of congestion of communications transparency for employees have proven to be less effectual especially in turbulent times. The HR practice of decentralization is considered to be a strategy for boosting morale, empowering employees, and building capacity to foster and implement ideas for the sake of benefitting the company (Alonso-Pauli & Bru, 2020; Alves & Lourenço, 2022; Lehn, 2021).

One of the probable reasons for the shortcomings of other four HR practices in influencing the perceived financial performance, could be due to the incongruency of thoughts to adopt HRM in its strategic role. The inabilities may be due to top management not showing concerns to recognition and appreciation of HRM activities and practices endeavored by HR managers. The demoralization may develop disinterested employees venturing in to innovative tasks and activities for the benefit of an organization. On the other hand, it could also be a reason for the rejection of these four hypotheses that human resource planning may be considered as a time-consuming futile exercise. The management thinks that they may get away by manipulating employees with short-term benefits and incentives so human resource planning is usually lower in agenda items.

In the light of above brief discussion, the study hopefully, provides a picture for management to concentrate on the areas where their due attention is needed more often or at least in parallel to other management functions.

CONCLUSION

This study endeavored to contribute to HRM literature in Pakistan Context. Similar research studies in the context other than Pakistan had different results probably due to different work environment and culture (society and organization). The study found that out of six predictors as HRM practices, only two were found to be significantly impacting the perceived financial performance of organizations undertaken in the study. Results of this research highlighted that Compensation Policy and Decentralization is significantly impacting the perception of employees towards organizational financial performance. As the study was conducted within the financial services sector, it could be construed that these organizations need to improve on the relationship paradigm of four HRM practices viz. Selective Hiring, Job Security, Information Sharing, and Training and Development. As the analysis domain was narrowly focused on the effect of HRM Practices on Perceived Financial Performance, future research could be directed toward finding out which practices have importance in contributing towards firm's performance via Importance Performance Measure Analysis (IPMA).

DECLARATION OF INTERESTS

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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Appendix
Questionnaire

#	STATEMENTS	RATING				
1.	We reward personnel to reduce turnover.	1	2	3	4	5
2.	We use incentives to boost individual performance.	1	2	3	4	5
3.	We select and pay employees based on their contribution.	1	2	3	4	5
4.	Employees that care about firm's objectives are rewarded.	1	2	3	4	5
5.	We encourage decentralized decision making.	1	2	3	4	5
6.	We use teams to decide about production problems.	1	2	3	4	5
7.	We regularly use teams to perform various task.	1	2	3	4	5
8.	All team members contribute to decision making.	1	2	3	4	5
9.	We encourage and reward personnel being team players.	1	2	3	4	5
10.	Our employees know well our objectives and strategy.	1	2	3	4	5
11.	We inform personnel about their performance.	1	2	3	4	5
12.	We focus on job security.	1	2	3	4	5
13.	Employees that perform modestly do not get fired.	1	2	3	4	5
14.	We use consultant when hiring personnel.	1	2	3	4	5
15.	We use pre-recruitment tests.	1	2	3	4	5
16.	We select personnel that fits our culture.	1	2	3	4	5
17.	Training is a motive for employees to achieve more.	1	2	3	4	5
18.	We systematically train and develop our personnel.	1	2	3	4	5
19.	We provide training in one key skill.	1	2	3	4	5
20.	We train personnel to gain many skills and abilities.	1	2	3	4	5
21.	We believe sales for the organizations is increasing.	1	2	3	4	5
22.	We have a larger market share than our competitors.	1	2	3	4	5
23.	We have quality financial instruments than our competitors.	1	2	3	4	5
24.	We have better cost management system in our organization.	1	2	3	4	5
25.	We believe that our overall financial performance is good.	1	2	3	4	5