

# Human Resource Management Practice Models Applied in Banking Industry: A Review

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## Abstract

Human resource which known as manpower or people in organizations, is important asset for organization sectors such as manufacturing, service and production. It is also a resource that needs to maintain in a competitive business environment nowadays. Managing people in the organization is harder unlike controlling capital, organizational system and technology to ensure an effective management. The organizations need an effective human resource management (HRM) whereby HRM practices could support the organizational functions in order to achieve the organization goals. In this regard, HRM practices are organizational activities that monitor the pool of human resource and confirm that human resource is utilized towards the organizational goals. The main objective of this study is to review the models that have been applied in banking industry in order to build an understanding of HRM practices adopted by that industry. This study employs a qualitative approach by using the library-oriented method. The results indicate the understanding of human resource management practices framework in banking industry and its implications.

*Keywords:* Human resource management practice; banking industry; HRM model; HRM framework; Malaysia

## Abstrak

Sumber manusia yang dikenali sebagai tenaga kerja atau manusia dalam sesebuah organisasi merupakan aset penting bagi sektor-sektor organisasi seperti pembuatan, perkhidmatan dan pengeluaran. Ia juga adalah sumber yang perlu dipelihara dalam persekitaran perniagaan yang kompetitif pada masa kini. Pengurusan manusia dalam organisasi adalah sukar, tidak seperti pengawalan modal, sistem organisasi dan teknologi bagi memastikan pengurusan yang berkesan. Organisasi memerlukan suatu pengurusan sumber manusia (PSM) yang berkesan yang mana PSM boleh menyokong fungsi-fungsi organisasi ini untuk mencapai matlamatnya. Amalan PSM adalah aktiviti-aktiviti organisasi yang mengawal selia sumber manusia dan mengesahkan bahawa ia digunakan ke arah matlamat organisasi. Objektif utama kajian ini adalah untuk menilai model-model yang telah digunakan dalam industri perbankan bagi membina kefahaman tentang amalan PSM yang telah digunakan oleh industri tersebut. Kajian ini menggunakan pendekatan kualitatif dengan kaedah berorientasikan perpustakaan. Dapatan kajian menunjukkan kefahaman rangka kerja tentang amalan pengurusan sumber manusia dalam industri perbankan dan implikasinya.

*Kata kunci:* Amalan pengurusan sumber manusia; industri perbankan; model PSM; kerangka PSM; Malaysia

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## 1.0 INTRODUCTION

Malaysia has identified the financial services industry as one of the key industry that need to be developed, and these financial industries growth rapidly due to the accepted as sophisticated and competitive mode of financial mediator (Izah & Mazlina, 2007). Today's, Islamic and conventional banking have undertaken a long journey in this path of financial industry which the latest global banking assets and assets under management have reached USD750 billion and is forecasted to hit USD1 trillion (Bank Negara Malaysia, 2011). However, the banking industry faces various challenges that need to be addressed in order to prepare a sound base for future course (Khan, 2007). Therefore, this development become one of the most important and critical aspect to boost up the organization performance and factors contributing to financial institutions towards optimistic attitude. Nevertheless, it starts from how the HRM practices that was used in the banking industry. According to Chakrabarty (2012), HRM is important for any banking industry because banking is a service industry. It faces with two key challenges which management of people and management of risk. How you manage the people and how you manage the risk determines the success in the banking industry.

There is little conflict recently that the success or failure of most organizations depends on the rivalry of their human resource (Claudia, 2007). Some of the scholars have said that, manage the people is harder than managing money capital, technology and system that operate in organization and the weaknesses of an organization are much related to the weaknesses of managing human resource (Sabah Alorfi, 2012). Nevertheless, the advantage for organizations that have taken the initiative to learn and make a long term investment in ensuring that human resources performance well within the organizations because attaining and expelling human resources takes a long

period and also burdensome to organization itself (Wright & McWilliam, 1994). As such, currently HRM has made a transformation from a state of worthless to one of strategic significance academically and business perspicacious. In fact, human resources are the centre of the organizational activities because according Khatri (1999), people are one of the important factors provided to an organization the flexibility, stability and adaptability, and being a source to an organization accomplishing the competitive advantages from other competitors in business environment. This is because, from the human resources; they are able to covert the resources such as money, machine, procedures and material into output like product or service. The competitor can duplicate other resources for example system, technology and capital but human resources are unique.

The purpose of this study is to explore the models that have been applied in banking industry, and try to develop an understanding of HRM practices and examine the similarities or differences of HRM practices that has been carried out by banking industry in Malaysia.

## 2.0 LITERATURE REVIEW

### 2.1 Definition of Human Resource Management

Human resource management (HRM) has been defined as the act of design the management system in determining the human skill is used impressively and competently to achieve the organizational aims (Lim *et al.*, 2011). Its' activities includes planning, managing, developing and guiding the people in organizations. In other words, HRM known as the guideline to convince employees to gain the highest level of productivity with proficiency and matching with the organizational and the employees towards the direction and the contribution in noticing the goals of each. Other than that, each employee must be selected, recruited, trained, and managed effectively.

Verata (2010) defines HRM as a system in management for the organizations requirement to make sure that the correct amount of employees with necessary expert with their fields is available when needed. Therefore, this definition shows that the human resources is an important process to captivate individuals and develop them, preserve them in the boundaries of realizing the organization's goals and employee's aims.

### 2.2 Types of Human Resource Management Practices

There is no specific on what establish HRM practices (Boxall, 2007). Some researchers have over the years suggested numerous varied lists of practices however there is no agreement on what or which practice eligible as an angle of HRM (Guest, 1997). It is important to notice that there are still some practices that form the essence of the variety practices proposed. These include employment and selection, training and development, performance management, and reward plan. Nevertheless, others such as job design and also employee entanglement are more random and are yet to gain grounds in the HRM literature. However, Guest (1997) puts forward seven of the practices classified such as selection, training, appraisal, rewards, job design, involvement and security.

### 2.3 Human Resource Management Models

There are sorts of HRM models that have been built from several teams of the researchers previously. All of the models have assisted the human resource practitioner to manage the human resources in organization whether these models are international or Islamic practices. Some of the existing HRM models have been discussed as follow:

#### 2.3.1 Harvard Model

Figure 1 shows the Harvard model developed by Beer *et al.* (1984), and the function is as a guideline to drive all managers in their relations with employees and focusing on human or soft aspects of HRM, and it focuses on employees commitment in order to enhance employees loyalty toward organizations.

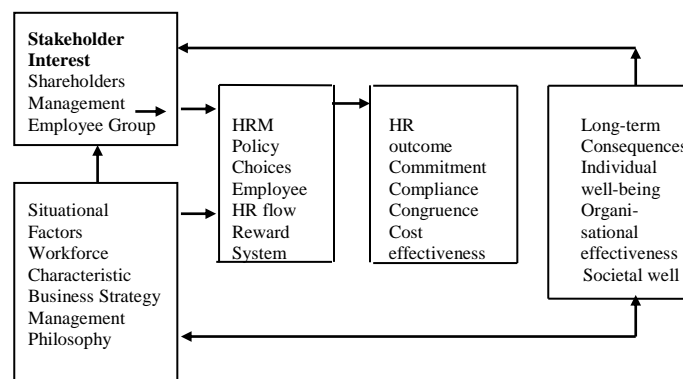
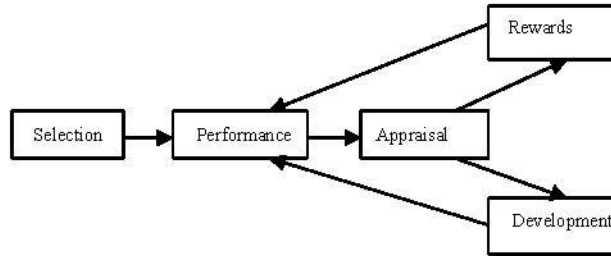


Figure 1 Harvard model

**2.3.2 Michigan Model**

Figure 2 shows the Michigan model designed by Amstrong (2000) concentrates on hard HRM. It put belief on the organization’s administer that people should be managed like any other resources and gained with cheap, used sparingly, and exploited fully. It also emphasized on the relationship of HRM activities among organizational performance. This model focuses on selection, appraisal, development and rewards that are geared towards organizational performance.



**Figure 2** Michigan model

**2.3.3 Guest Model**

Figure 3 demonstrates Guest model, and its’ functions more on the capability of the management in order to integrated HRM practices which will result in superior individual and organizational performance. HRM totally differs from the performance management because HRM is more to change people in facing the innovation that occurs in organizations by better training, fairness appraisal, selection, rewards, job design, involvement, and security leading to more quality outcomes such as commitment and flexibility (Guest, 2002).

<u>Policies</u>	<u>Human resource outcomes</u>	<u>Organisational outcomes</u>
Organisational and job design Policy formulation and implementation/management of change	Strategic planning/ implementation	High job performance High problem-solving
Recruitment, selection and socialisation	Commitment	Successful change
Appraisal, training and development	Flexibility/adaptability	Low turnover
Manpower flows – through, up and out of the organisation		Low absence
Reward systems	Quality	Low grievance level
Communication systems		High cost-effectiveness i.e. full utilisation of human resources

**Figure 3** Guest model

**2.3.4 Warwick Model**

Figure 4 demonstrates the Warwick model developed by Hendry and Pettigrew (1990), and had as center for strategy and change of Warwick University in early 1990s. It emphasizes on analytical approach to HRM. Warwick model also identifies the impact of the role of the personnel functions on the human resource strategy content. Many researchers used this model to focus their researches on mapping the context, identifying the internal (organization) and external (environment) context.

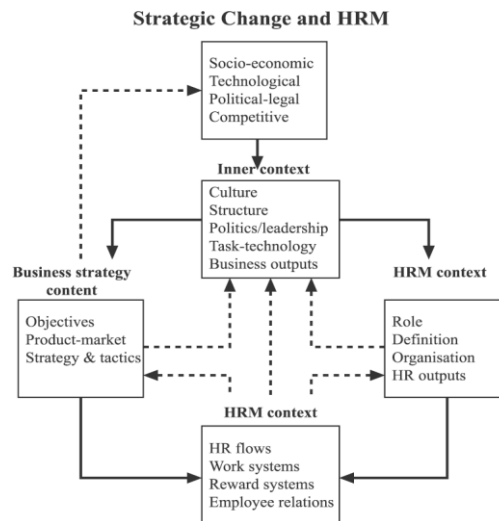


Figure 4 The Warwick model

2.3.5 Islamic Human Resource Management Model

Figure 5 illustrates the Islamic Human Resource Management (HRM) model proposed by Junaidah (2009) which was emphasizing on the fairness and justice. It was indicated a positive and significant influence of the empowerment, organizational communication and good procedure as determinants of employees trust toward their organization.

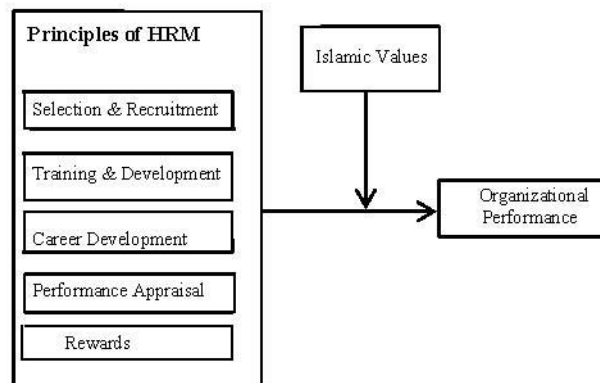


Figure 5 The Islamic human resource management model

3.0 METHODOLOGY

This study employs a qualitative approach whereby the library-oriented method is used to find out the results. In order to review the models of HRM practices uses by banking industry in Malaysia, available literatures from journals, books and report publications that are related in this area are referred. This study are conducted by searching the online databases like Emerald and Scopus which could be accessed through Universiti Teknologi Malaysia (UTM) library with the keywords such as ‘framework human resource management’ and ‘model human resource management in banking industry’, to narrow down the search to banking setting. Possible related articles are retrieved, read and analysed. The main journal that has been referred for this study was the International Journal Human Resource Management, and the content analysis is the technique used to extract necessary information about the study.

4.0 RESULTS AND DISCUSSION

The analysis of the previous studies and several HRM models shows how internal and external factors influence HRM practices, and then how these HRM practices later create benefits for the organization and overall corporate performance.

Based on the analyses, the researchers found that integrated HRM framework or model could formulate HRM policies with three resources, that is:

- (i) Organization  
The organizational resource includes the mission and the strategy, policies and procedure, management culture and task technology of organization. Usually it involves a matter that has setting for long term period that to be achieved by the organizations.
- (ii) Personal  
The personal resource constitutes individual frames or references, perception, awareness, and ideology towards organization in order to achieve the target that has been stated by the organizations. They are the boundaries that individual or people should consider to sustain the organizational performance.
- (ii) External  
The external resource usually stands with the environmental, and it consists of socioeconomic, political and cultural, and includes a wide range of stakeholders, associations, unions and other organizations.

The three resources, that is, organization, personal and external resources could be established as the input to HRM formulation and further led the senior or executives in organizations to a process of formulation of HRM policies and frameworks. These policies are transferred to functional and management level then will give direct and indirect impacts during the implementation and affect the individual, organization and society at the end. The policies affect them through improved performance and work quality (Dessler, 2003). The benefits of this integrated HRM framework are as follows:

- (a) The approach of this model is holistic and integrated model that involves understanding of personal, organizational and environmental factors in way to formulate it policies.
- (b) It includes the careful planning and estimating at the input stage and takes concern on the issues like organizational culture, individual sensitivity and stakeholder analysis. It also integrates the Harvard and Warwick models, which explores the interrelatedness of inside and outside contexts Of Warwick model without minimizing the thrust towards quality, employee participation and high commitment management.
- (c) This model also represents the strategic HRM for the long run. Employees are viewed not only as a cost but as an investment. In order to fulfil the organizational goal, people at the all level in organization are the main actors to sustain the organizational performance.
- (d) This integrated framework or model emphasis on the internal and external context of HRM, and it can be a good model in analyzing intervention of the environments.
- (e) This integrated framework will improve the ability of an organization to meet the demands and expectations of its various stakeholders.

## 5.0 CONCLUSION

The results of the study show that to effectively regulating human resources, organizations have to implement an integrated HRM framework. The organizations which implement the integrated framework remain ahead of their competitors because such practices affect other variables such as competitive advantage, job satisfaction, financial performance, employee turnover, service quality, employee dedication and others in positive manner and guide the whole corporate achievement. However planning and performing such practices should be examined critically from time to time. The HRM practices are found dissimilar from one organization to another organization and from one country to another country. It also leads to increase in the productivity and performance of employees as well as of the organization. A good approach to assert the relations between HR policies and the way to achieve organization's goals is by considering the external environment, which plays the role in driving the banking industry. In addition, the integrated HRM framework also can improve the adaptability of the approach. However, the approach that has been implemented has to aim towards the same goals, business effectiveness and profitability.

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