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The role of human resource management practices in bank performance

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This paper examines bank performance using a data envelopment analysis that includes human resource management (HRM) practices as a quality component. The proposed methodology, which investigates the direct impact of HRM practices on traditional bank performance measurement, is applied for the first time to the banking sector. The performance scores are then decomposed into four efficiency scores using the Malmquist index. For empirical results, panel data of 48 banks are taken from Bangladesh over the period of 2004–2013. The results state that foreign banks are still in the queue to achieve the scale efficiency comparable to that of local banks. However, considering HRM practices as quality indicator, foreign banks progressed by 2.6% annually, whereas local banks regressed with a yearly value of 17.1% over the study period. Thus, the results show that, while local banks possess an acceptable level of performance in terms of their operations, their HRM practices must be improved in order to deal with both modernisation of banks and competition. The results are robust to the special assumptions of variables, national banking convergence, and statistical test. Limitations and policy implications are addressed.

\textbf{Keywords:} human resource management practices; bank; DEA; Malmquist index

1. Introduction

Like in other countries, the bank is the key player in the economic growth of Bangladesh. In the banking sector, human resource management (HRM) practice is one of the most influential factors for profitable and proficient banking operations, creation of new banking products, and provision of better services to clients (Haines & St-Onge, 2011; Vemić-Durković, Jotić, & Marić, 2013). Through strategic HRM practices, employees achieve a specific set of competencies that differentiates banks, and leads to the achievement of competitive advantages in the banking industry (Quresh, Akbar, Khan, Sheikh, & Hijazi, 2010). In Bangladesh, the banking services do not differ much from each other. Banks therefore need to create skilled and knowledgeable employees to satisfy their existing clients and to attract new clients, which results in profitable banking (Nguyen, Islam, & Ali, 2011). The impact of HRM practices on bank performance is too complex to be measured. To rationalise the necessary investments on human resource department, it is the contribution of HRM practice to the organisational performance of banks must be examined. In this study, the authors scrutinised the impact of HRM practices on the

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