RESEARCH ARTICLE

Domestic Banks in Bangladesh Could Ensure Efficiency by Improving Human Resource Management Practices

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Abstract

The paper aims to examine the influence of human resource management (HRM) practices on bank efficiency using Malmquist index of total factor productivity. The model comprises HRM index that represents the quality of HRM practices. The results are decomposed into three efficiency scores, namely, technical efficiency, pure efficiency, and scale efficiency. In this study, panel data for 44 banks in Bangladesh are used for the period 2008-2013. This paper reveals that foreign banks are ahead in converting the influence of HRM practices into efficiency scores (0.946>0.833). On the other hand, domestic banks performed better than foreign banks in terms of pure efficiency and scale efficiency. But, in terms of technical efficiency, the domestic banks are regressed by 6.7% annually whereas foreign banks are progressed with a yearly value of 5.8%. The results are robust, because the Mann-Whitney test and Kruskall-Wallis test (non-parametric tests) also confirm the same results. This study emphasizes HRM practices in the banking industry to ensure efficiency in the long-term scenario. Domestic banks are suggested to ensure continuous development in HRM practices in order to compete with foreign banks.

Introduction

In recent years, human resource management (HRM) practices are considered to be a key strategic partner in all organizations to attain critical business objectives [1]. Explicitly, achieving greater organizational performance (OP) and competitive advantage depend on the alignment of organizational strategies and HRM initiatives [2,3]. Banks play a vigorous role in the financial advancement of a nation. For appreciable bank performance, human resources are considered as prime business assets. But, quantifying their value is much more complex than that of other assets [4]. Knowledge and skill are indeterminate attributes of HR. It is hard to see their economic value in the organization because of their intangibility and latent nature. In this