

Impact of Performance Evaluation, Compensation and Promotional Practices on Employee Performance Study in Banking Sector in Nuwara-Eliya District

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Abstract

In the current scenario, HR practices play an important role in organizations to increase the employee performance. The purpose of this study is to examine the relationship between the employees' performance, compensation, performance evaluation, and promotion practices in the banking sector of Nuwara-Eliya District, Sri Lanka. A survey of 200 banking personnel was conducted through a personally administrated questionnaire to investigate the impact of compensation, performance evaluation, and promotion practices on employees' performance. The relationships are calculated by applying the Pearson's correlation matrix and multiple regression analysis. The results demonstrate that, the employee performance and compensation, performance evaluation, and promotion practices have the positive and significant relationship. The regression results indicate that the performance evaluation and promotion practices are significant but the compensation practices are not significant. This study provides help for top-management of banking sector to design or revise their HR policies and make practices to attain high employee performance.

Key words: Employee performance, compensation, performance evaluation, promotion practices

Introduction

Human Resource Management (HRM) is the management of an organization's employees providing and maintaining the necessary balance of human resource for smooth operations of the organization. Hence it is a primary function of any business. Now a days HR practices are not only concerned with traditional activities of recruitment and selection, training and development etc. but its scope has been widened to many new and distinguished areas. Organizations having qualified and experienced manpower gets a competitive edge and it is said to be the most sustainable source of competitive advantage. One of the common emerging beliefs is that "employees are a part of capital" and are considered the most valuable assets.

Performance of any organization largely depends on the performance of its employees. Successful organizations are increasingly realizing that there are a number of factors that contribute to performance but human resource is clearly the most critical (Mello, 2005). In spite of the size and nature of an organization, the activities it undertake,

and the environment in which it operates, and its success depends on its employees' decisions and their behavior. To evaluate performance of employees in organization is one of the major purposes of employing human resource practices. In the competitive environment of modern era organizations are persistently improving performance of their employees by improving HR practices.

Caliskan (2010) acknowledged that HR practices are one main source of competitive advantage. Many researchers have proven that HR practices have a significant and positive relationship with employee's performance (Delery & Doty, 1996; Guest, 2002; Harley, 2002; Huselid, 1995; Qureshi al., 2006; Tessema & Soeters, 2006). Effective HR practices improve the performance of organization and lead to higher profits. Datta et al. (2003) found that best use of HR practices reveals a stronger association with efficiency of a firm.

The reason to focus upon the banking sector is that this sector is the biggest employer of fresh graduates. This sector provides reasonable compensation to employees compared to other sectors. But now due to very rapid growth of banking industry many commercial banks also have started giving the modern banking services which motivate people to join this sector. On the basis of these facts the research investigate the impact of HR practices on employees performance in banking sector of Nuwara-Eliya District

Accordingly, the objectives of the study are as follows:

- To examine the relationship between HR practices and employees performance in banking sector of Nuwara-Eliya District. Though there are number of HR practices which affect employees' performance, the current study focuses only on the relationship between three HR practices (performance evaluation, promotion and compensation) and employees' performance.
- To examine the level of human resource management practices in banking sector in Nuwara-Eliya District.
- To analyze the level of employee performance in selected banks.
- To identify how compensation, performance evaluation, and promotion practices impact on employee Performance in selected banks in Nuwara-Eliya District.

The research questions of the study are as follows:

- To what extent does the HRM Practices exist in selected banks in Nuwara-eliya District?
- What is the level of employee Performance in selected banks?
- Does HRM Practices impact on the employee Performance in selected banks?

Literature review

HR Practices

There are a number of HR practices that could be tested in connection with employee performance. Tessema and Soeters (2006) have studied eight HR practices and their relationship with employee performance. These eight practices include recruitment and selection practices, placement practices, training practices, compensation practices, employee performance evaluation practices, promotion practices, grievance procedure and pension or social security. This study examines the relationship between three HR practices i.e. compensation, promotion and performance evaluation and employee performance. Sri Lanka is a developing country with very low per capita income and above three practices which have a relatively direct impact on financial earnings and social

status of an individual may be considered the major determinants of employee's performance. This is the reason these practices have been selected for this study

Compensation Practices

Frye (2004) examined the relationship between equity based compensation and firm performance and found positive relationship between the two. He argued that for human capital intensive firms compensation plays a crucial role in 'attracting and retaining highly skilled employees'. High performance work practices (including compensation) have a statistically significant relationship with employee outcomes and corporate financial performance (Huselid, 1995). Significantly positive correlation has been reported between compensation practices and employee performance by Teseema and Soeters (2006). On the basis of above mentioned literature and arguments it can be safely assumed that compensation practices are correlated with the performance of employees. However the relationship needs to be tested in the banking sectors in Nuwara-Eliya District in Sri Lanka. Thus, the following hypothesis is raised to be tested in the study;

H1: Compensation practices are significantly and positively related with employee's performance in the banking sectors in Nuwara-Eliya District.

Promotion Practices

Teseema and Soeters (2006) found a significantly positive correlation between promotion practices and employee performance, however HR outcomes was used as a mediating variable in their study. On the basis of above mentioned literature and arguments it can be safely assumed that promotion practices are correlated with the performance of employees. However the relationship needs to be tested in Nuwara-Eliya District in Sri Lanka. Thus, the following hypothesis is raised to be tested in the study;

H2: Promotion practices are significantly and positively related with employee's performance in the banking sectors in Nuwara-Eliya District.

Performance Evaluation Practices

Performance appraisal represents, in part, a formalized process of worker monitoring and is intended to be a management tool to improve the performance and productivity of workers' (Brown and Heywood, 2005). Employee commitment and productivity can be improved with performance appraisal systems (Brown and Benson, 2003). Performance appraisal can be enhanced HR practices like incentive pay and training and also leads to high productivity (Brown and Heywood, 2005).Basis on the above literature we can say that performance evaluation practiced have correlation with employee performance.

H3: Performance evaluation practices are significantly and positively related with employees performance in banking sectors in Nuwara-Eliya District.

So the ultimate research question is;

Does compensation, performance evaluation, and promotion practices impact on employee's performance in banking sectors in Nuwara-Eliya District, Sri Lanka?

Conceptual Framework

Conceptual model has been developed to link HRM practices and Employee performance.

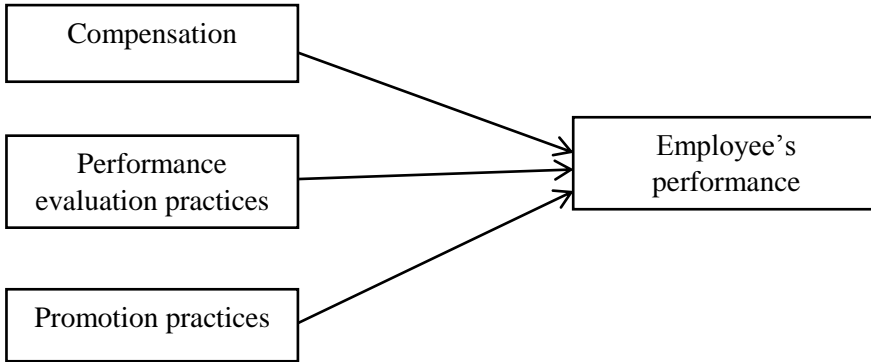


Figure 1. Conceptual model

Methodology

A questionnaire was adapted for this study from a study done by Teeseema and Soeters (2006). Data was collected through personally administered questionnaires. The population of the study was all bank employees (HNB, Commercial Bank, People's Bank, BOC and Sampath Bank). Out of these bank employees, only 200 are selected as the sample by using simple random sampling method. The study totally depends on primary data and the final questionnaire includes Likert's five scales. 200 questionnaires were distributed among employees in selected banks in Nuwara-Eliya district. Eventually a very positive response 180 duly questionnaires were received back duly filled. Univariate analysis and correlation analysis has been used for analysis purpose. Correlation and regression analysis between the two variables were determined. Employee performance is the dependent variable and the other three variables (HR practices): 1) compensation practices, 2) performance evaluation, and 3) promotion practices are independent variables in this study. After collecting data from personally administered questionnaire data were entered, arranged, processed and results are generated through Statistical Package for Social Science (SPSS 16) software.

Findings and Discussion

Table 1. Details of the respondents

Demographic factors	Category	Frequency	Percentage
Gender	Male	122	67.77%
	Female	58	32.23%
Qualifications	Graduation	120	66.67%
	A/L	60	33.33%
Level of job	Manager Grade	65	36.12%
	Non-Manager Grade	115	63.88%

Table 1 shows that the majority (63.88%) of respondents were belonging to Non-Manager Grade. Male respondents were 67% while only 33% were females. Many previous studied have used the same techniques of correlation and multiple regression analysis to examine the relationship between employee job performance and HR practices (Baloch et al, 2010; Qureshi et al., 2006; Shahzad et al, 2008; Tessema& Soeters, 2006)

Multiple regression models

$$EPP_1 = a_0 + a_1 CP_1 + a_2 PEP_1 + a_3 PP_1$$

Where EPP₁= Employee Performance, CP₁= Compensation Practices, PEP₁= Performance Evaluation Practices, PP₁= Promotional Practices. The regression diagnostics are also applied in the study. Multicollinearity and autocorrelation are checked in diagnostic tests to prove that regression results are reliable and without biasness.

Table 2. Pearson's correlation coefficient (rho) matrix.

Variable	EPP	CP	PE	PP
Employee Perceived Performance	1.00			
Compensation Practices	0.24	1.00		
Performance Evaluation Practices	0.32	0.53	1.00	
Promotional Practices	0.25	0.50	0.51	1.00

n=180, correlation is significant at *1% **5%, and 10% level of significance (2-tailed)

As the questionnaire was designed on a likert scale, so the most suitable correlation matrix for this scale. Pearson's correlation coefficient (rho) matrix. Pearson's correlations between all the variables which are used in the models are demonstrated in Table 2. This table shows that employee performance and HR practices have a strong relationship. The correlation employee between performance and HR practices show a positive relationship and statistically significant. These results of correlation are in accordance with the theoretical framework and previous studies (Baloch et al., 2010; Becker and Huselid, 1998; Guest, 2001; Ichniowski et al., 1997; Tessema & Soeters, 2006). Another purpose of calculating correlation is to assess the potential chances of multicollinearity before running multiple regression analysis. As correlation between independent variables in the model is less than 0.6. It shows that there is no multicollinearity problem in the model. In order to authenticatethe multicollinearity problem, a second method of assessing potential chances of multi-collnearity was also applied.

Table 3. Multiple regression analysis

Variable	β	Stan. Error	t-statistic	P-value
Compensation practices	-0.03	0.06	-0.51	0.61
Performance evaluation	0.35	0.068	5.10	0.00***
Promotion practices	0.15	0.06	2.08	0.0**

R² = 0.24, Adj. R² = 0.22, r = 0.49, F-Stat = 14.35, and Prob > F = 0.00***.

Variable is significant at *** 1%, ** 5%, and * 10% level of significance

The Table 3 provides multiple regression analysis results of the model which shows that model has two significant variables. Performance evaluation is significant at 1% level of significance. Promotion practices variable is significant at 5% level of significance.

While other variable which is compensation practices are insignificant. The R² of model is 23.86%, which means that (HR practices) compensation, performance evaluation, and promotion practices can explain 23.86% variance in the employee performance in the banking sector of Nuwara-Eliya District, Sri Lanka. Adjusted R² of the model is 22.19% and coefficient of correlation r is 48.84% in this study. The value of F statistics is 14.35 and is significant at 1% level of significance and model is a good fit.

Performance evaluation has the highest contribution in explaining employee performance is with a β value of 0.35 and significant it is at 1% level of significance. So researchers found performance evaluation as the most important HR practices. If these practices are properly implemented by the banks in Nuwara-Eliya District, in return they can get multiple benefits. The previous studies suggested that banks can get multiple benefits from these practices like; it can facilitate the banks to take proactive actions regarding other HR practices like increasing salaries under compensation practices, promotion practices and many other incentive schemes in order to boost performance of the bankers. Second benefit is that banks not only evaluate the strengths and weakness of its employees but also can take proactive actions like, training and development of employees. Third benefit is that performance evaluation can help the HR department of banks to check the effectiveness of other HR practices like, staffing, selection and training and development of employees (Baron & Kreps, 1999; Bowen & Ostroff, 2004; Kalleberg and Moody, 1994; Pfeffer, 1994; Tessema & Soeters, 2006).

The promotions practices also show a positive and significant relationship in the model. Promotion practices have a contribution of 0.15 in explaining employee performance and it is significant at 5% level of significance. This shows that promotion practices can affect positive to the performance of employees. The compensation practices show positive and significant relationship in correlation but in regression model is not significant. Compensation practices have only contribution of -0.03 in explaining the employee performance and are highly insignificant. From famous study of HR practices, it was proved that compensation practices can affect directly or indirectly on the performance of employees and also affect the motivation level of the employees (Huselid, 1995). The result in regression model shows that compensation practices have indirect effect on the performance of employee in the banking sector in Nuwara-Eliya District.

Conclusion and Directions for Further Research

The rationale of this study is to investigate the exact relationship between employee performance and compensation practices, promotion practices and performance evaluation (HR practices) in the banking sector of Nuwara-Eliya District. All hypotheses are accepted. The HR practices and employee performance has positive and significant relationship in this study. The regression results show that two HR practices: performance evaluation and promotion practices are significant but the compensation practices are not significant. Banking sector of Sri Lanka would quickly redefine the compensation practices in order to boost up the performance of the employees in banks. Salaries and other financial incentives of employees should be adjusted in accordance with inflation in Sri Lanka. The banking sector also has to properly implement and maintain the other HR practices like performance evaluation and promotion practices. This study can help in banking sector to properly define that HR practices can produce higher performance of employees in the banks which ultimately results in increasing the productivity and motivation in employees.

In this study, we adopted personally administered questionnaire and choose only three most important HR practices. The future studies can be done by utilizing other HR practices like recruitment and selection practices, training and development practices, placement practices, and grievance practices in several organizations and other sectors should be included. Further sample is able to be selected represent whole population. Further extension of sample size, will be able to represent the whole population.

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