

Impact of HR Practices on Employee Satisfaction and Employee Loyalty: An Empirical Study of Government Owned Public Sector Banks of Pakistan

Masoodul Hassan, Saad Hassan, Muhammad Farooq Ahmed Khan and Asghar Iqbal

Department of Commerce, Bahauddin Zakariya University, Multan, Pakistan

Abstract: Employee satisfaction and loyalty is one of the most important challenges that banking sector is facing in current competitive market. A lot of studies have been conducted to determine predictors of employee satisfaction but these studies focused only on developed countries. Therefore, the main purpose of study is to find the relationship between three HR practices i.e. compensation, empowerment and appraisal system and employee satisfaction & loyalty in government owned public sector banks of Pakistan. For this purpose, data has been collected from the employees of govt. owned public banks. Statistical software SPSS 17 has been used for validity, reliability, correlation and regression analysis. Employee compensation is found to be most important factor for creating satisfaction among employee while employee empowerment is found to be significant factor for developing employee loyalty. Theoretical and managerial implications along with limitations for future research have also been discussed.

Key words: Employee Empowerment • Employee Compensation • Appraisal System • Employee Satisfaction • Employee Loyalty • Pakistan

INTRODUCTION

Rapid changes in technology, globalization and changing customer's demands for better quality not only have revolutionized the organizations but also have created intense competition among them [1]. In order to survive in this global competition, creation of satisfied and loyal work force is vital for all organizations including banks [2]. The worldwide current competition in banking industry has been increased by globalisation, high tech-change and privatization of public banks. To keep pace with this high competition, there is a need to adopt such strategies that create superiority on rivalry banks [3]. The banking industry of Pakistan is also undergoing through this phase of intense competition. This sector is playing a significant role in the development of country's economy. As on June 2012, this sector comprises of 44 commercial banks (22 domestic banks, 5 public sector commercial banks, 13 foreign banks and 4 specialized banks) with a total number of 9847 branches throughout the country [4]. This huge network of branches depicts an intense competition among the banks. Therefore, to remain in this competition, the banks need highly motivated, satisfied and loyal employees [5].

When looking at the relationship between employee satisfaction and loyalty, numbers of studies have been conducted to find the antecedents of employee satisfaction that lead towards the loyalty [6, 7, 8, 9]. However, little attention has been paid in investigating the relationship between compensation, appraisal system, employee empowerment, employee satisfaction and loyalty in banking sector especially in the Pakistani context. This leads to the following research questions of this study:

- Do HRM practices i.e. employee compensation, employee empowerment and appraisal system affect the employee satisfaction in the govt. owned public banks of Pakistan?
- Does employee satisfaction affect the employee loyalty in the govt. owned public banks of Pakistan?

Therefore, the main purpose of the study is to empirically examine the relationship of HRM practices i.e. compensation, appraisal system and employee empowerment with employee satisfaction and loyalty.

In the section to follow, the theoretical background and research hypothesis are stated by reviewing the literature on particular topics. This is immediately followed survey methodology and measurement scale. The last part of the study presents the conclusion and discussions on the origin of the research findings, managerial and empirical implications, limitations and areas of future research.

Literature Review

Employee Satisfaction: Employee satisfaction is the factor that gives an understanding about the thinking and the emotions of employees related to their workplace and job. Moreover, it refers to the function, in which employee needs relating to job are satisfied [10]. Similarly, Spreitzer, Kizilos and Nason [11] define employee satisfaction as the feeling of the employee related to the job, or set of attitudes related to numerous aspect of job. Moreover, Locke [12] study portrays the employee satisfaction as positive emotion or pleasurable state that results from evaluation of one's job. Furthermore, study of Rice, MacDuffie [13] depicts that "satisfaction is determined, in part, by the discrepancies resulting from a psychological comparison process involving the appraisal of current job experiences against some personal standards of comparison" [6].

Numerous theories associated to the delineation of employee satisfaction have been proposed by researchers. For example motivation-hygiene theory of Herzberg's [14] states that factors creating satisfaction are dissimilar and separate from those which headed towards dissatisfaction. Factors leading towards satisfaction are named as motivators which include recognition, advancement, responsibility and achievement. On the other hand, factors that lead towards dissatisfaction and prevent job satisfaction are known as hygiene factors which primarily include supervision, interpersonal relations, administrative policies, working environment and salary [15, 16].

Employee Compensation and its Relationship with Employee's Satisfaction: Employee satisfaction is the consequence of different factors like Compensation, promotion, relationship with co-workers and promotion opportunities [17]. Among all these factors, compensation is one of the most influencing factors effecting employee satisfaction. Moreover, it is regarded as monetary or non-monetary benefits that are directly tied to the performance of the employees [18]. This argument is

supported by Handel [19] who portrays that compensations and remunerations in the form of commissions, cash recognition and stock option that makes the employee satisfied. Similarly, highly remunerated employees are more satisfied than others with less remuneration and contractual employees [20]. Moreover, compensation plays vigorous role to attract and retain employees and its relationship with employee satisfaction is found to be significant [21].

Thus, the literature exposed above lead us to formulate the following hypothesis:

H1: There is a positive and significant relationship between compensation and employee satisfaction.

Employee Empowerment and its Relationship with Employee's Satisfaction: Employee empowerment is grounded on the idea to give employee authority, resources, opportunity and motivation, as well as embracing them accountable and responsible for the outcomes of their actions [22]. The aim of the employee empowerment is to enhance the performance of the employees to reach at certain personal goals and authorizing them to participate in the process of decision making [11]. Number of studies, conducted on employee empowerment have commonly found that empowerment provide employees with positive work experience and sense of their contribution towards organization betterment, thus leading towards employee satisfaction [11, 23]. Moreover, researchers found that empowerment encourages the employee to take responsibility of their work and motivate them to do better work, thus, leading towards employee satisfaction [24].

The above literature described us that empowerment lead towards the satisfaction of the employees by enabling them to manage their own work. Thus, based on the above literature following hypothesis is proposed:

H2: There is a positive and significant relationship between employee empowerment and employee satisfaction.

Appraisal System and its Relationship with Employee's Satisfaction: Appraisal System is a technique by which performance of an employee is assessed. Moreover, performance appraisals are a part of profession growth that consists on the feedback of employee performance in the organization [25]. In HRM literature, the impact of appraisal system on employee satisfaction has been

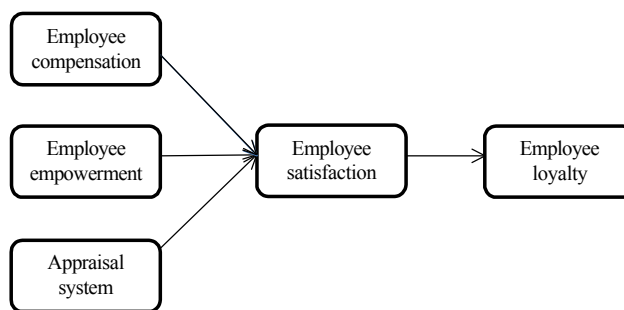


Fig. 1: Conceptual framework

broadly studied [26]. Study of Cowling and Newman [27] found that appraisal system improves the employee satisfaction by offering personal recognition. Furthermore, researchers concluded that traditional performance appraisals create dissatisfaction among employees, therefore, there is a need to adopt such appraisal systems that emphasis on the development needs of the employees [28].

Thus, from the above literature following hypothesis is proposed:

H3: There is a positive and significant relationship between appraisal system and employee satisfaction.

Relationship Between Employee Satisfaction and Employee Loyalty: Numerous research studies conducted on employee satisfaction and employee loyalty have commonly found that the relationship between employee satisfaction and employee loyalty is positive. However, employee satisfaction negatively associated with turnover intention [29, 30 31]. Study of Matzler, & Renzl, [32] provided that satisfied employees are more loyal to the organization as compared to those who are dissatisfied. Moreover, their study also concluded that higher level of satisfaction among employee lead towards higher level of loyalty and commitment of employees with their firm. Similarly, it is found that the impact of employee satisfaction on employee commitment to organization is not only positive & significant but also it is one of the most important factors that predict the employee loyalty [33, 34].

Thus, the above literature leads us to formulate the following final hypothesis of this study:

H4: The relationship between employee satisfaction and employee loyalty is positive and significant.

Research Framework: On the basis of above hypotheses, research framework has been shown in Figure 1.

Data Collection and Measurement Scales: The main purpose of study was to examine the effect of employee compensation, employee empowerment and appraisal system on employee satisfaction & employee loyalty in the banking sector of Pakistan. For this purpose, data was collected from the employees of five government owned public banks located in different cities of Punjab province of Pakistan. The instrument for data collection was questionnaire. Out of the 210 questionnaire distributed, 194 employees responded. 19 questionnaires were rejected due to incomplete responses. Therefore, a total of 177 valid responses were obtained, making a response rate of 84%. Portion of male respondent was 69.4% and of female was 41.6%. Five point Likert scale ranging from 1=strongly disagree to 5=strongly agree was used to measure the variables of the study. Employee compensation (having 5 items scale) and employee empowerment, appraisal system, employee satisfaction, employee loyalty (having 4 items scale each) were adopted from the study of Jun *et al.* [6]. The alpha reliability value of these measurement scales were .808, .723, .679, .772 & .792 respectively.

Statistical software SPSS version 17 has been used for validity and reliability analysis. For validity analysis, principle component analysis with varimax rotation was performed for all the five measurement scales. In interpreting the factors, only the factors having loading greater than .50 were considered. As shown in Table 1, all factors have loading greater than .50, therefore, no items have been dropped. Results in Table 1 show three factor solutions of independent variables (employee compensation, employee empowerment and appraisal system) having KMO= .859

Table 1: Factor analysis

Measures	Constructs Independent variables			Construct Dependent variables	
	Employee compensation	Employee empowerment	Appraisal system	Employee Satisfaction	Employee Loyalty
	KMO= 0.859, Variance Explained= 71.183			KMO=0.780, Variance Explained=69.381	
Employee Compensation					
EC 1	.764				
EC 2	.855				
EC3	.861				
EC4	.775				
EC5	.762				
EMPOYEE EMPOWERMENT					
EE1		.858			
EE2		.857			
EE3		.838			
EE4		.816			
APRAISAL SYSTEM					
AS1			.778		
AS2			.725		
AS3			.712		
AS4			.686		
EMPLOYEE SATISFACTION					
ES1				.787	
ES2				.913	
ES3				.881	
ES4				.851	
EMPLOYEE LOYALTY					
EL1					.648
EL2					.799
EL3					.846
EL4					.676

Table 2: Reliability analysis

Factor	Cronbach's Alpha	Alpha if item deleted
EMPLOYEE COMPENSATION	.909	
EC 1		.897
EC 2		.881
EC 3		.874
EC 4		.890
EC 5		.900
EMPLOYEE EMPOWERMENT	.903	
EE1		.863
EE2		.877
EE3		.864
EE4		.893
APRAISAL SYSTEM	.786	
AS1		.772
AS2		.716
AS3		.738
AS4		.758
EMPLOYEE SATISFACTION:	.906	
ES1		.887
ES2		.878
ES3		.875
ES4		.875
EMPLOYEE LOYALTY:	.763	
EL1		.754
EL2		.686
EL3		.646
EL4		.752

and variance explained =71.183. Dependent variables (employee satisfaction & employee loyalty) were extracted on two factor solutions as shown in the Table 1 having KMO= .780 and variance explained =69.381.

Cronbach’s alpha was used to measure the reliability of measurement scales. All variables of the current study have acceptable level of reliability: employee compensation ($\alpha = .909$), employee empowerment ($\alpha = .903$), appraisal system ($\alpha = .786$), employee satisfaction ($\alpha = .906$) and employee loyalty ($\alpha = .763$). These high alpha values are in consistent with the study of Jun *et al.* [6] having alpha values greater than .70. Cronbach’s alpha coefficient values are shown in Table 2.

RESULTS

Correlation Analysis: As the Conceptual framework of the study depicts the relationship between the employee compensation, employee empowerment, appraisal system, employee satisfaction & employee loyalty, therefore, correlation analysis was performed to test the relationship among these variables.

Table 3 indicates the standard deviation, mean values and correlation coefficient of all variables. The correlation coefficient shows the significant positive relation between employee compensation and employee satisfaction ($r = .617, p < .000$), between employee empowerment and employee loyalty ($r = .392, p < .000$). Moreover, results shows that employee empowerment is positively and significantly associated with employee satisfaction and loyalty ($r = .441$ & $.508, p < .000$ respectively). Similarly, appraisal system is also positively and significantly

correlate with employee satisfaction and loyalty ($r = .548$ and $.442, p < .000$ respectively). The correlation coefficient also shows the significant positive relationship between employee empowerment, employee compensation and appraisal system. Thus, these findings support all the proposed hypotheses initially and are in consistent with the previous studies [6, 8, 5, 22, 35].

Regression Analysis: Research hypotheses were tested using regression analysis. It is a technique that is carried out to test the impact of independent variables on dependent variables. In existing paper, linear regression analysis was run to find the impact of employee compensation, employee empowerment and appraisal system on employee satisfaction and then the impact of employee satisfaction on the employee loyalty. Major findings of regression analysis are shown in the Table 4.

For testing of hypotheses 1, 2 & 3, employee satisfaction was regressed on employee compensation, employee empowerment and appraisal system and found significant & positive impact of employee compensation on satisfaction ($\beta = .412, p < .000$), employee empowerment on satisfaction ($\beta = .243, p < .048$) and appraisal system on satisfaction ($\beta = .145, p < .003$). Moreover, results also indicate that independent variables (employee compensation, employee empowerment and appraisal system) account for 43.9% significant variance in employee satisfaction ($R^2 = .439, F = 38.860$) with significant T value (5.228, 3.064 & 1.998). These results showed that employee compensation, employee empowerment and appraisal system are the predictors of employee satisfaction, hence, the hypotheses H1, H2 & H3 are supported. To test the

Table 3: Correlation analysis

Number	Mean	Standard deviation	Ec	As	Ee	Es	El
Ec	3.6603	.84735	1	.578**	.448**	.617**	.392**
As	3.7072	.75393		1	.460**	.548**	.442**
Ee	3.6524	.94293			1	.441**	.508**
Es	3.6901	.83527				1	.420**
El	3.4829	.79798					1

**Correlation is significant at the 0.01 level (2-tailed). *Correlation is significant at the 0.05 level (2-tailed). Ec: employee compensation, As: Appraisal system, Ee: Employee empowerment, Es: Employee satisfaction, El: Employee loyalty

Table 4: Regression analysis

Step	Dependent variable	Independent variable	Standardized coefficient beta	F	T	Sig.	Adjusted R ²
1	Es	Ec	.412	38.860	5.228	.000	.439
		As	.243		3.064	.003	
		Ee	.145		1.998	.048	
2	El	ES	.420	30.858	5.555	.000	.171

hypothesis 4, employee loyalty was regressed on employee satisfaction and found the positive significant impact of employee satisfaction on employee loyalty ($\beta = .420, p < .000$). Furthermore, it depicts that employee satisfaction accounts for 17.1% variation in employee loyalty ($R^2 = .171, F = 30.858$) with significant T value (5.555). Hence, hypothesis H4 is supported.

DISCUSSION AND CONCLUSION

The present study was conducted in the government owned public banks in Punjab, Pakistan with an aim to find the relationship between employee empowerment, employee compensation, employee satisfaction, appraisal system and employee loyalty.

Results of the study show that employee compensation is strongly correlated with employee satisfaction which indicates that compensation is a vital factor for generating satisfaction in employees of government owned public banks in Punjab. On the other hand, employee empowerment is found to be strongly positive correlated with employee loyalty which is an indication that how important employee perceives empowerment to remain loyal to the organization. Similarly, regression analysis also portrays that employee compensation explained larger portion of variance in employee satisfaction followed by appraisal system and employee empowerment. This concludes that employee compensation is a vital factor for creation of satisfaction among employees.

Pakistan is a developing country and employees of public sector banks love to get high compensation as compared to appraisal system and empowerment. Previous research studies also show that to create satisfaction in the employees of public sector organization of developing countries, monetary benefits have great importance [36] and this research paper also supports this particular argument. Thus, the current study is consistent with the previous studies. The current study also has several implications and contributions in the literature of HRM. First, in Pakistan most of the studies have been conducted in the private banking sector, while this study investigated the government owned public banks located in Punjab, Pakistan. According to best knowledge of current study authors this study is one of the few studies that find the empirical association among employee empowerment, employee compensation, employee satisfaction, appraisal system and employee loyalty. Second, unlike the previous research studies that found the relationship between HR practices and employee

satisfaction, this study focused on developing an understanding regarding the impact of HR practices on employee satisfaction and employee loyalty. Finally, by analyzing five government owned public sector banks in Punjab, Pakistan, this study provides a comprehensive framework to the managers that while making relationship with employees they should consider employee compensation along with empowerment and appraisal system as a crucial factor to gain maximum employees satisfaction and loyalty.

Similar to all other research studies the existing study also has some limitations. First, sample of 177 employees have been taken from the province of Punjab which does not allow findings to be generalized to the employees working in other provinces of Pakistan, therefore, future studies should consider bigger sample from different provinces other than Punjab, so that comparison can be made and results can be generalized more vigorously. Another possible limitation is that present study is the cross sectional study and since employee satisfaction changes over time particularly steps taken by management to improve satisfaction and loyalty of employees [8] therefore, in future longitudinal studies should be conducted to capture details.

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