

CONSEQUENCES OF DISCRETIONARY AND NON-DISCRETIONARY HR PRACTICES ON THE BANKING SECTOR OF PAKISTAN

*Dr.Hakim Ali Mahesar
Dr.Naveed Iqbal Chaudhry
Hira Hafeez*

ABSTRACT

This study aims to investigate the mediating effect of Perceived Organizational Support (POS) between the relationship between organizational commitment and turnover intentions with discretionary Human Resources (HR) practices and non-discretionary HR practices. Furthermore, to investigate the relationship between the antecedents of HR practices and its ultimate consequences. The data was gathered from 246 banking professionals who were randomly selected for this study. Questionnaires were administered and data was analysed for this study.

Keywords: Perceived Organizational Support, Organizational Commitment, Human Resources Management, Turnover Intentions

INTRODUCTION AND BACKGROUND

Considerable variations occur in human resource practices across companies in different areas such as recruitment, selection, performance appraisal, training and personal development. Murray & Dimick, (1978) argued that human resource practices may be adopted to 'be regular with the understood demands of technology size and environmental influences'. Different schools of thoughts have explained more particularly how environmental and establishment factors might be associated to choice of HR practices (cf. Cohen & Pfeffer 1986, Guthrie, Gupta & Olian 1988, Schuler & Jackson 1989). Those practices which organization selects to be strategically focused and different from transactional practices are Discretionary HR practices, which imply optional investment in the human capital of the organizational programs, and practices. Non-discretionary HR practices are transactional in nature and are requirements of doing business. Perceived organizational support (POS) and non-discretionary HR practices are not as highly valued as discretionary HR practices by employees.

Now, HR has adopted a cross-functional domain that has extended its wideness of analysis beyond the primary and functional tasks such as selection, compensation, training and development, performance appraisal and benefits enrolment. Finally, the "state-of-the-art" research provides extended literature in these substantive fields. Final discussion based on the

suggestions for future research and moving the Science and Art of HR practices into the next era, which means not only to focus on the specific HR practices. Such as (selection and recruitment, performance appraisal) which have been published in recent years but also put emphasis on the Personnel and Human Resources Management series and sequences, and other outlets (Hutchinson & Garstka, 1996; Wayne *et.al.*, 1997, and Allen *et.al.*, 2003).

Huselid (1995) found relationship between HR practices and Organizational Outcomes. He further argued that investments in high performance work practices were found to be connected with turnover, productivity, and organizational commitment. HR systems that focused on human capital development were found to be directly related with organizational outcomes. Study revealed that bundles of HR practices contributed to productivity and quality, and the presence of high level practices was found to be positively correlated to commitment and turnover (Arthur, 1994). Discretionary HR practices are those, which require optional investment in the human capital of the organization in practices and programs such as selection, recruitment, training and development, Participation and involvement and performance management initiatives (Hutchinson & Garstka, 1996).

This study found that the work conducted in SHRM field, which suggests that investment in human capital leads to competitive advantage, and integrate it with organizational support theory. On the other hand non-discretionary HR practices are executive and such practices are typically associated with mandated compliance. These are more traditional HR practices and transactional in nature and, they are requirements of doing business. Transactional practices include timely administration, benefits enrolment, processing worker compensation claims.

Perceived Organizational Support: Wayne *et.al.*, (1997) and Allen, *et.al.*, (2003) claimed that supportive, direct, organized behaviours which are generally facilitated by organizational environment is subsumed as a variable called Perceived Organizational Support. Eisenberger (1986) found that employees from global approach believe that organization will value their contributions and care about their wellbeing in the firm. Employee behaviour is influenced by this perceived organizational support and they view this thing as the organization's committed to them (Wayne 1997). Perceived organizational support focuses on the relationship between the individual employee and the organization. If employees get support from the organization in different ways then they develop extra positive attitudes towards his organization (Eisenberger *et.al.*, 1986). Eisenberger found that support from the organization reduced absenteeism, turnover intentions and increased organization commitment. High degree of perceived organizational

support has impact on thoughts of trust and feelings of classification with the organization (Rhoades & Eisenberger, 2002). According to Sherony and Green, most of the individuals respond very positively to the support that they receive from their organizations so, it is expected that Perceived organizational support have a strong impact on the turnover intention towards the organization. Eisenberger (1990) perceived that individuals with high Perceived organizational support would be less likely to find for other alternative employment opportunity in other organizations.

Organizational Commitment: Organizational Commitment has defined by Meyer & Allen (1997) employee commitment is emotional attachment with goals and values of the organization, which give extra optimal effort to achieve the organizations goals. Robins (2005) defined organizational commitment as a mental condition in which an employee asses organization values and its goals, and also wishes to remain member of the organization the organization.

The execution of HR practices in any organization leads to enhanced employee commitment. According to Maheshwari (2005), commitment of employees towards organization and its implications for HR practices with in organizations. This study suggests that condition needs to reform its Human Resource practices to manage the employees effectively and properly. High commitment specify that organization is fully satisfying their member and in response members are trying to do what is best for organization (Mowdayet *et.al.*, 1982).

Turnover Intentions: Employee turnover or turnover intention perceived as a major challenge for the organization now a days. The companies start implementing effective HR practices, which help to reduce the percentage of the employee turnover or intention in the employee mind (Abeysekera, 2007). Employee turnover and turnover intention are two different concepts “employee turnover” is an action while “turnover intention” is a mental condition or sometimes decision prevailing in individual’s mind with reference to a job to stay with it or leave this (Jacobs & Roodt, 2007). Intention to leave the job is the instant relation to turnover behaviour (Bole, 2007). It is therefore, widely accepted concept that identifying and dealing with antecedents of turnover intentions is a more effectual way of reducing actual turnover rates (Dess & Shaw, 2001).

HR practices and Organizational Commitment: According to different views, HR practices and activates have been influencing employees to boost their organizational commitment (Ogilvie, 1986, Arthur, 1994, Meyer & Smith, 2000). Based on this fact of social exchange theory, according to Ogilvie (1986) that employee’s perceive HR practices as a factor, which create a sense of reciprocity, degree of organizational commitment in the employees mind. Employee when feels that the company

take cares about their welfare and take action or steps for the progress of individuals and recognizes their contributions then individuals level of commitment get high. According to Arthur (1994) organizations with higher commitment level, human resource, emphasizing the employee performance will have high productivity level with low rate of employee turnover, so that past histories mostly works on employee performance and his satisfaction rather than on his behaviour and attitude (Arthur 1994, Huselid, 1995 and Batt, 2002).

HR Practices and Turnover Intentions: Huselid (1995) presented high performing HR activities and practices that help in the development of employees and also for the motivation such as promotion, participation and involvement, compensation and performance management which contribute to enhanced retention, and also found data that such practices had a clear blow on organizational turnover ratios. Similarly, Shaw, Jenkins & Gupta, Delery (1998) argued that HR practices that have investments in human capital of the organization or intended to boost commitment should reduce organizational turnover rate. Pitt & Ramaseshan (1995) institute that individual who displayed a high inclination to leave their job were those who supposed that the interview process was not practical such as their documentation and other formalities were not handled effectively.

HR Practices and Perceived Organizational Support: HR practices possibly have a direct and significant relation with perceived organizational support. Modern research provides evidence of strong positive relationship between HR practices and recent empirical research, which have established a positive relationship between HR practices and perceived organizational support (Wayne, 1997). According to social exchange theory, perceived organizational support is anticipated to create feelings of obligation to and in return put efforts to achieve organizational goals, high Perceived organizational support to lower turnover (Eisenberger, 1990 and Wayne, 1997). Thus, Eisenberger and co-workers argued that employees who expect support from their organization or management would put high efforts in return to repay the organization (Shore & Wayne, 1993). Another way for an employee to pay back to the organization is to continue through participation. Eisenberger, 1990 argued that perceptions of support will encourage the acceptance of organizational job as an important part of an individual self-identity. Thus, individuals perceive effective assistance would less likely to leave the organization.

HR Practices Perceived Organizational Support Commitment and Turnover Intention: Some researchers that perceived organizational support have mediating effect on the relation of HR practices, commitment and turnover intentions presume this. In the presence of perceived organizational support organizational commitment will boost and turnover intention get

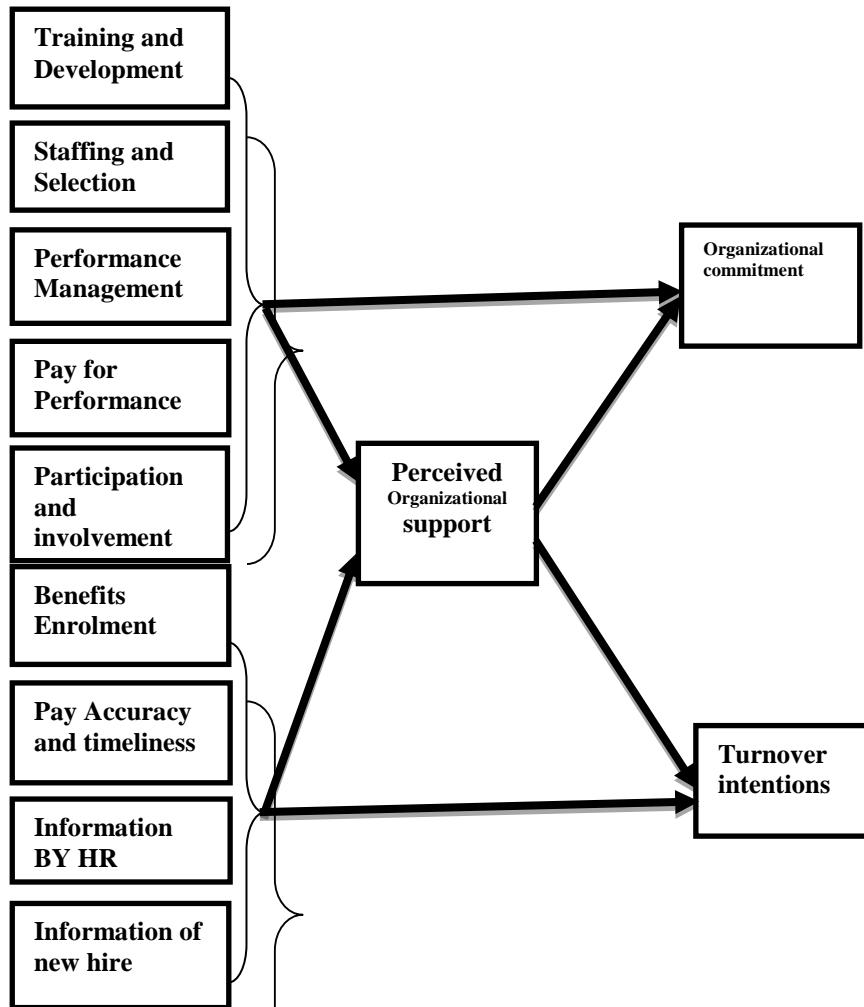
reduced. Kinicki (1992) argued that relationship of HR practices with employee attitude, which based on commitment and turnover intentions mediated by employee perception about organizational support and its human resource. HR practices may increase in Perceived organizational support. An increase in Perceived organizational support can make the employees obligated and they will give extra performance in terms of commitment, which leads to reduced turnover intentions. Soon the basis of literature review, the following research objectives have been set out:

- To identify the impact of discretionary HR practices on organizational commitment and turnover intentions.
- To identify the impact of non-discretionary HR practices on organizational commitment and turnover intentions.
- To identify the relationship of discretionary HR practices with perceived organizational support.
- To identify the relationship of non-discretionary HR practices with perceived organizational support.
- To identify the relationship of perceived organizational support with organizational commitment and turnover intentions.
- To identify the mediating effect of POS on the relation of HR practices with organizational commitment and turnover intentions.

On the basis of literature review this study postulated the followings hypotheses:

- H1:** Discretionary HR practices have significant relationship with Organizational commitment.
- H2:** Non-Discretionary HR practices have significant relationship with Organizational commitment.
- H3:** Discretionary HR practices have significant relationship with Turnover intentions.
- H4:** Non-Discretionary HR practices have significant relationship with Turnover intentions.
- H5:** Discretionary HR practices have significant relationship with Perceived Organizational Support.
- H6:** Non-Discretionary HR practices have significant relationship with POS
- H7:** Perceived Organizational Support have significant relationship with Organizational Commitment.
- H8:** Perceived Organizational Support have significant relationship with Turnover intentions.
- H9:** There is significant impact of POS on the relationships between HR practices and OC.
- H10:** There is significant impact of POS between the relationships of HR practices with turnover intentions.

THEORETICAL FRAMEWORK



METHODOLOGY

Sample: Our Sample for current study was based on the banking sector of Pakistan and bank employees are the respondents, almost 300 questionnaires were used for this study. Returned number of questionnaire was 267 from which 246 questionnaires were declared as appropriate and provided accurate responses yielding a response rate of 82%. The average age of the respondents was between 26 – 32 which almost 49 % of the total sample size (Table 4.2). Present research selected banking sector of

Pakistan. Prior studies which were conducted in Pakistan had only focused on discretionary HR practices. Present study has targeted bank employees of Gujranwala district. Total number of employees working in banks is approximately 2500 and 10% of the population was selected as samples for current study. Stratified random sampling technique was used and each bank was divided into 12 major strata i.e., cash, clearing, Marketing, credit, admin, foreign exchange, accounts, finance, HR, remittances, IT, Business development.

Measures: Training and development, staffing and Selection, performance management, pay for performance, participation and involvement, Benefits enrolment, pay accuracy and timeliness, information by HR, information by new hire adopted measures from Monica Gavino (2005). Cronbach's alpha internal reliability for the scale was .96, .90, .90, .90, .79, .94, .84, .95, .78 respectively. Measures for POS were adopted by Eisenberger (1986) and reliability for the scale was .93. Organizational commitment and turnover intentions measures were adopted by Wayne, Shore and Liden's (1997) and reliability was .90 and .88 respectively. Statistical Package for Social Sciences (SPSS 18 Version) was used to conduct reliability test, correlation analysis and Factor analysis while Analysis of Moment Structures (AMOS 21) was used for structure equation modelling.

Procedure: After screening and cleaning the dataset according to the above mentioned procedures, data from 246 participants were used for all remaining analyses. According to researchers Outliers is a term which represents the exceptional values which are not expected and significantly lower or higher than other values in the current data set. Cases with standardized figures of more than +3 or less than -3 are considered as outliers. Consequently, outliers were present in data set (Tabachnick & Fidell, 2001). Table 4.1 shows the Skewness & Kurtosis value which represents the normality of data.

RESULTS

Reliability analysis is to find out the internal consistency of all scales, Cronbach's alpha reliability co-efficient of each variable was calculated. According to Nunally's (1978) a reliability co-efficient criterion of .6 was established for retaining the scales for further analysis and all scales met the established criteria (Table 4.3). This significance is not only used in conditions of sample investigation but also used for scale construction (Randall, 1993).

Exploratory Factor Analysis: To check the appropriateness of data for factor analysis the KMO (Kaiser-Meyer-Olkin) of sampling adequacy and Bartlett's test were used to check the suitability of data for further analysis. KMO values which is required for factor analysis is 0.6 or above

(Tabachnick & Fidell, 2001). In this study, the KMO statistic for the data was .844, which is good enough for data analysis and as per requirement, and Bartlett's test was significant also (Table 4.5). As part of the analysis exploratory factor analysis was conducted of all items. Exploratory factor analysis used to find suitability of data (Table 4.6).

Correlation Analysis: According to researchers Correlation is a measure which shows the ways on which two or more variables move together. Scale for analysing variables was based on 7 liker scales (Table 4.7). Correlation analysis of organizational commitment and turnover intentions with each HR practice was conducted. Correlation between Discretionary and non-discretionary HR practices and organizational commitment is highly significant and positive, while correlation between discretionary and non-Discretionary HR practices is also highly significant but negative. Correlation between POS and HR practices were significant and with organizational commitment and turnover intention also.

Structural Equation Modeling: While conducting structural equation modelling, various possible indexes can be used to evaluate the statistical model (Byrne 2001, Cheung & Rensvold, 2002).

Measurement Model: The measurement model specifies the link between the observed and latent variables. The latent variables are modelled by specifying measurement model and structural models. It is very convenient to refine measurement model before the model fit to the data, modification indices are sometimes used to refine measurement model. In the measurement model only retained items from individual models are included. Measurement model shown in two parts first discretionary and second is non-discretionary HR practices (Fig 1 & 2) it also shows the comparison of both models (Table 4.8).

DISCUSSION

Nine HR practices were examined in the study 5 discretionary HR practices and 4 non-discretionary. All are significantly correlated with organizational commitment and turnover intentions as well according to the correlation results, out of which only 1 non-discretionary HR pay for performance was not significantly correlated with Organizational commitment and turnover intentions as shown in results. Results are consistent with the previous studies. All discretionary and non-discretionary HR practices are significantly correlated to organizational commitment but training and development and information of new hire are highly significantly correlated with organizational commitment. Pay accuracy, timeliness and information of new hire are highly significantly correlated to turnover intentions. Individuals HR practices have shown significant correlation towards organizational commitment and turnover intentions.

Specially, high involvement practices were found to be linked to low employee turnover rate and help to retain employee (Vandenberg, 1999; Guthrie, 2001; and Batt 2002). These consequences maintain the Rhoades and Eisenberger's (2002) results that beneficial opportunities received by employees would influence POS. The consequences for testing the direct or indirect relationships among 9 HR practices with employee behaviours and POS indicate that there are a number of direct relationships and indirect relationships as well.

The results of this study have shown POS fully mediate the relationship between training and development, staffing and selection, performance management, participation and involvement with organizational commitment and turnover intentions. On the other hand POS also mediate the relationship between benefits enrolment, pay accuracy, information by HR and information by new hire with organizational commitment and turnover intentions. Empirical studies show that high involvement HR practices are connected with firm performance (Bailey *et.al.*, 2000). Although all discretionary and non-discretionary HR practices have effect on POS but benefits enrolment, information by HR and information of new hire have more significant effect on POS. On the other hand POS also have significant relationship with organizational commitment and turnover intentions as well. These findings are supportive to the past researches which have showed the relationship (Allen, 2003 and Wayne, 2002).

CONCLUSION

This study has explored two key contributing factors which derive the employees' commitment towards organization and their intention to stay and serve organization for long time; organizational commitment and turnover intentions. This study has explored that strong organizational commitment derives and shapes organizational culture that promotes a sense of belonging and ownership among employees; essential for being satisfied, productive, and loyal employees. Organizational support towards employees' welfare has proved strong predictor of employees' turnover intention. High level of perceived organizational support develops commitment and ownership among employees towards organization, hence reduces turnover intention. This study has proved a positive effect on organizational commitment and negative effect on turnover intentions of the employees.

Practical Implications: The consequences of this study permit practitioners to check the direct impact of HR practices on organizational commitment and turnover intentions and on POS as well. Such as organizations should notice the training and development requirements and consequences, how it helps to plan organizations objectives setting strategies. Benefits enrolment creates sense of reciprocity to pay back to the

organization. Organizations should continue to encourage employee for participation and involvement at company level.

Future Research is to focus on the role of supervisor support relative to the HR practices on POS because recent studies have found the impact of supervisor support on the POS. One of the recent study have found the impact of contingent rewards with POS. (Wayne, *et.al.*, 2002). Another direction for future research is to add more variables as mediator such as job satisfaction, trust on management etc.

REFERENCES

- Aizzat Mohammad, *et.al.*, 'Does POS Mediate the Relationship of HRM Practices and OC', Asian Academy of Management Journal, 2008.
- Arthur, J., 'Effects of Human Resource Systems on Manufacturing Performance and Turnover', Academy of Management Journal, 1994.
- Becker, B., *et.al.*, 'The Impact of Human Resources Management on Organizational Performance: Progress and Prospects', Academy of Management Journal, 1996.
- Blaikie, N. Approaches to Social Enquiry, (Cambridge: Polity Press, 1993).
- DeMeyer, A., *et.al.*, 'Flexibility: The Next Competitive Battle', Strategic Management Journal, 1989.
- Eisenberger, R., *et.al.*, 'Reciprocation of Perceived Organizational Support', Journal of Applied Psychology, 2001.
- Ferris, G. R., *et.al.*, Accountability in Human Resource Systems. In G. R. Ferris, S. D. Rosen, & D.T. Barnum (eds.), Handbook of Human Resource Management: 175–196. (Oxford, UK: Blackwell Publishers, 1995).
- Fisher, C., 'Current and Recurrent Challenges in HRM'. Journal of Management, 1989.
- Gordon W. *et.al.*, 'Evaluating Goodness of fit Indexes for Testing Measurement Invariance', Structural Equation Modelling, 2002.
- Hatch, M. J. *et.al.*, Organization Theory, (Oxford University Press, 2006).
- Huselid, M., 'The Impact of Human Resource Management Practices on Turnover, Productivity and Corporate Financial Performance', Academy of Management Journal, 1995.
- M. Asher, *et.al.*, 'Impact of Perception of Training on Employee Commitment and Turnover Intentions: Evidence from Pakistan', International Journal of Human Resource Studies, 2013.
- Mahoney, T. A., *et.al.*, 'Evolution of Concept and Practice in Personnel Administration/Human Resource Management', Journal of Management, 1986.
- Marsh, H.W., *et.al.*, (1985). 'Application of Confirmatory Factor Analysis to the Study of Self-Concept: First- and Higher Order Factor Models and Their Invariance Across Groups', Psychological Bulletin, 1985.
- Meyer, J., *et.al.*, 'Institutionalized Organizations: Formal Structure as Myth and Ceremony', American Journal of Sociology, 1977.
- Michel Zaitouni, *et.al.*, 'Impact of HRM Practices on Organizational Commitment in Banking Sector of Kuwait', International Journal of Business and Management, 2011.

Mowday, R. T., *et.al.*, 'The Measurement of Organizational Commitment', Journal of Vocational Behaviour, 1979.

Pfeffer, J., 'Management as Symbolic Action: The Creation and Maintenance of Organizational Paradigms'. In L. L. *et.al.*, (eds.), Research in Organizational Behaviour, 1981.

Robinson, S. L., 'Trust and Breach of the Psychological Contract', Administrative Science Quarterly, 1996.

Wayne, S. J., *et.al.*, 'Perceived Organizational Support and Leader-Member Exchange: A Social Exchange Perspective', Academy of Management Journal, 1997.

Wright, P. M., *et.al.*, 'Theoretical Perspectives for Strategic Human Resource Management', Journal of Management, 1992.
