

# **The Impact Of Human Resource Practices On Bank's Financial Performance: The Mediating Role Of Work Engagement**

**By**

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## **Abstract**

Pakistan is a nation that holds significant value compared to other South Asian countries, owing to its advantageous human capital and geographical location. This study has investigated the impact of human resource (HR) practices, specifically financial compensation, career adaptability on the financial performance of banks. These variables were analyzed as independent factors. The study delves into the latent mediating employee work engagement. The study's participants consisted of individuals employed in the banking industry. The survey questionnaire was used to gather data from a sample of 300 banks in Pakistan's Punjab, and Sindh, regions. The statistical software employed for data analysis was SPSS Smart PLS 3.0, and the study revealed that all associations were statistically significant. The findings of a study conducted on banks in Pakistan indicate that the provision of financial compensation, career adaptability is positively associated with financial performance and work engagement also strengthen the relationship between them. The study's recommendations aim to assist investors in making informed decisions by selecting banks that prioritize conscientious practices and foster internal motivation among their employees to enhance performance. Finally, the forthcoming suggestions and constraints of the investigation are thoroughly.

**Keywords:** financial compensation, career adaptability, financial performance

## **Introduction**

The support of certain financial institutions makes up economies worldwide as they support industrialization and the economy through the best use of resources, channeling of funds and other investment and financial systems (Raza,& Farhan,2023), banks are one of them. Certain macroeconomic factors affect all financial institutions' performance, which might be categorized as external triggers. However, they impact the economy and the financial industry, including banks. Such factors include; foreign exchange rate, GDP, the supply of money, and inflation (José & Lampreia, 2022). This study focuses solely on the banking sector as they are the key fund provider in any economy. Banks are vital for economic growth as they aid in financial stability by providing funds to industries, aiding investors, and even supporting the common people through mortgages and lending loans. Financial compensation is a core HR function that normally consists of financially rewarding employees for their hard work in achieving performance goals (Mustafa et al;2022). Worldwide, organizations reward their employees with financial (bonuses, overtime) as well as non-financial rewards (like recognition, flexible hours, and appreciation) to their employees ( Gupta, 2019). As the name suggests, financial rewards include monetary benefits, further divided into indirect and direct financial rewards. The indirect rewards can include fringe benefits and health insurance, and

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direct rewards can be in the shape of variable and fixed pay, commission etc (Khan et al 2020) Together, financial and non-financial rewards exist in the compensation practice of HR, and they provide employees with a sense of job security and can lead to promotion and recognition (Santos & Oliveira, 2023). Now employees are interested in devising the kind of career that would provide them with a fulfilling life, and on this notion, most people choose their career pathways (M. Savickas, 2012). However, an important thing to remember regarding career and life is adaptability. Career adaptability is a buzzing topic and is needed in the global market as organizations are interested in the kind of employees who are accepting of change and have the ability to deal with a series of organizational changes that comes with adapting to the new trends and market demand. Moreover, it has been previously established that HR practices (Afzal, C. M et al., 2023) and their effects on employees, considering their performance and engagement levels, are under investigation (Ybema, van Vuuren, & van Dam, 2020). This study has investigated the impact of human resource (HR) practices, specifically financial compensation, career adaptability on the financial performance of banks and the mediating role of Work engagement.

## **Literature Review**

### ***Financial Performance.***

All businesses survive on profitability and need revenues to keep operating therefore, organizational performance is a topic of grave importance. Organizational performance signals how all departments synergically work, leading to the achievement of organizational goals (Yesil & Kaya, 2013).

### ***Financial compensation and financial performance.***

HR practices serve as the backbone of all organizations despite their sector and for keeping the human capital motivated, one of the most essential HR practices happens to be compensation. As it is a type of total payment that employees receive as a reward for their hard work investigation (Ybema, van Vuuren, & van Dam, 2020). In low-income countries like Pakistan, financial compensation has even more value due to high inflation and lack of general facilities available to the mass public. Hence, in the given scenario, compensation is something that employees not only expect from the company but also look forward to and as already known, employees are compensated on basis of the effort they put in to achieve their required performance goals and on basis of their evaluation. According to investigation Ybema et al 2020 insertion has a positive relationship with the performance of the organizations.

H1: Financial Compensation has a positive relationship with financial performance.

### ***Career adaptability and financial performance.***

Career adaptability from an individual's perspective is about accepting and adapting to the change in terms of any present career barriers through planning, exploring the viable options and choosing the best according to the changing circumstances (Savickas, 2012). Studies have highlighted that CA can be promoted by engaging work related activities with high performance like; performance pay dependent on group performance outcome, employee training etc (Safavi & Karatepe, 2018).

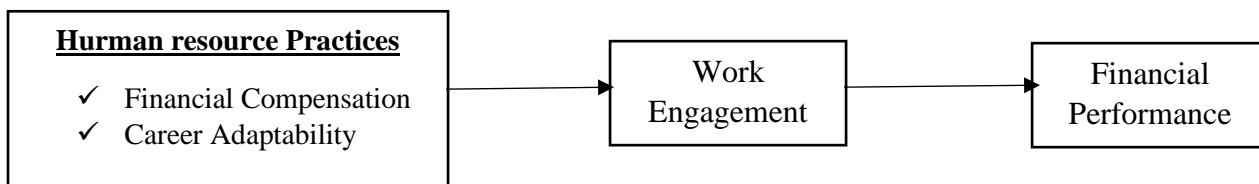
H2: Career Adaptability has a positive relationship with financial performance.

***Work Engagement as mediation***

Work engagement acts as a mediator in the relationship between financial compensation and career adaptability (Yusop, Y. B. 2022). Higher financial compensation may lead to improved career adaptability, which in turn leads to greater work engagement and improves financial performance (Latham, G. P. 2016) This mediation effect suggests that career adaptability helps channel the impact of financial compensation on work engagement and increase financial performance (Wang, Q., Khan, S. N., 2023: Arshad, S., Iqbal,2022).Organizations that provide competitive compensation and support career development can foster higher work engagement among employees, leading to improved performance, job satisfaction, and overall organizational success.

H3; Work engagement mediates between financial compensation and financial performance.  
 H4 career adaptability mediates between financial compensation and financial performance.

***Framework***



**Methodology**

***Research Design***

This study opted for a quantitative methodology representing the study topic, in numbers (Hair Jr., Black, Babin, & Anderson, 2011). Whereas the research design of this study is “survey method.” The motivation for opting for a survey design is that it is cost-effective, it gathers first-hand information hence it is efficient and provides proper information regarding the population of the study (Zikmund, Babin, Carr, & Griffin, 2013).

***Population of the Study and Sample size***

The population of the current research is Pakistan’s banking industry. However, it is humanly impossible to collect and consider every population units. like Habib Bank (HBL), United Bank (UBL), National Bank (NBP). The sample size was increased from 300 banks to 327 to address concerns related to sample size error and outliers (Wilcox et al., 2018).

***Measurement***

This study has investigated the impact of human resource (HR) practices, specifically financial compensation, career adaptability on the financial performance of banks and the mediating role of Work engagement. Current study use four items of career adaptability and financial compensation adopted four items scale(Lin & Shih, 2008). According Voorde, Veld, and Veldhoven, (2016) three items were adopted work engagement and Financial performance also adopted seven items scale. Therefore, in this research FP is measured by \_\_ items using seven- point Likert scale.

## Results And Analysis

### *Measurement Model Assessment*

The measurement model represents the quality of constructs given in the study framework

### *Factor Loadings*

Factor loadings indicate the extent of association between the various items of the study variables and the main construct.

### *Reliability, AVE, Loadings, VIF*

Constructs	items	loadings	VIF	Cronbach's Alpha	Composite Reliability	AVE
Career Adaptability	CA1	0.734	1.444	0.836	0.869	0.617
	CA2	0.639	1.353			
	CA3	0.639	1.362			
	CA4	0.805	1.249			
Work engament	WE1	0.654	1.226	0.723	0.829	0.549
	WE2	0.665	1.640			
	WE3	0.704	1.282			
	WE4	0.892	1.833			
Financial Compensation	FC1	0.799	3.048	0.801	0.931	0.781
	FC2	0.884	2.519			
	FC3	0.887	2.107			
	FC4	0.791	2.928			
Financial Performance	FP1	0.740	1.579	0.758	0.831	0.507
	FP2	0.848	2.168			
	FP3	0.653	2.095			
	FP4	0.699	2.894			
	FP5	0.560	2.487			

### *Discriminant Validity*

Discriminant validity pertains to the extent of distinctiveness among the study measures, indicating that their correlation is minimal when variables are distinct and unrelated (Bagozzi et al.,1991).

### *Discriminant Validity*

	CA	FC	FP	WE
Career Adaptability	0.719			
Financial Compensation	0.148	0.878		
Financial Performance	0.542	0.256	0.712	
Work engagement	0.371	0.369	0.543	0.724

### *Structural Model*

In the current research, three structural model assessments have been performed: (1) Direct Relationship Model, and (2) Mediation Analysis Model

<b>Direct Hypotheses Testing</b>	<b>Beta</b>	<b>SD</b>	<b>T Stats</b>	<b>P Values</b>	<b>Decision</b>
Career Adaptability -> Financial Performance	1.023	0.059	2.498	0.000	Significant
Career Adaptability -> Work engagement	0.468	0.047	3.357	0.000	Significant
Financial Compensation -> Financial Performance	0.122	0.042	2.134	0.001	Significant
Financial Compensation -> Work engagement	0.175	0.041	4.565	0.000	Significant
Work engagement -> Financial Performance	0.178	0.078	2.156	0.026	Significant

## Discussion

The following hypothesis reveals a significant and positive connection between Financial Compensation and Work Engagement and results in a beta coefficient of 0.175 ( $p < 0.001$ ). These findings are similar to previous studies (G. Dessler, Daya, 2010, Khan et al, 2023). The results specify a significant positive correlation between Financial Compensation and Financial Performance with a beta coefficient of 0.122 ( $p < 0.001$ ). These findings are similar to previous studies (Savick, 2018; Khan et al, 2023). The analysis reveals a significant and positive relationship between Career Adaptability and Work Engagement. Similarly, the beta coefficient of 1.023 ( $p < 0.001$ ) indicates a strong positive relationship between Career Adaptability and Financial Performance (Ybema, van Vuuren, & van Dam, 2020).

## Conclusion

This current study investigated the involved connection between Human Resource Practices, Work Engagement and a bank's Financial Performance with a specific attention on the mediating role of work engagement. The outcomes of this research shed light on the involved connections between these serious elements and offer valuable insights into their collective influence on organizational accomplishment. The results highlight the grave nature of active and deliberate Human Resource Practices as trainers of Work Engagement, which in turn explains enhanced Financial Performance for banks. This study's perceptions have applied inferences for HR professionals, leaders, and decision-makers in banking institutions, urging them to select HRPs to foster employee engagement and subsequently fuel financial success. Ultimately, the synergy between effective HR practices, engaged employees, and financial outcomes stands as a compelling narrative for the strategic integration of these components within the realm of organizational management.

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