

Human Resources Effectiveness in the Russian Banking Industry

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Abstract: The current research is devoted to an analysis of human resources effectiveness in the Russian banking industry and its influence on organizational performance of banks. The sample of the research consists of one hundred ninety seven banks both local and international operated in Russia. Based on the data available in financial statements of banks, published by the Central Bank of the Russian Federation, several indicators were calculated, including return on investment in human capital (HCROI), return on assets (ROA), return on equity (ROE) and productivity. The research has found statistically significant correlation between HCROI and all selected organizational performance indicators of banks in Russia. This empirical finding demonstrates that HR effectiveness influences the performance of banks in Russia.

Key words: Human resources effectiveness • Banking industry • Russia

INTRODUCTION

Nowadays human resources are considered as the main source of competitive advantage of any organization. This means that the importance of HR function is increasing continuously as well as requirements to this function are also growing quickly.

In order to meet high quality of human resources management (HRM) in an organization it is necessary to assess HR effectiveness. Regular analysis of HR effectiveness provides organizations with valuable information on strengths and weaknesses of HR system [1].

Human resources effectiveness is an actual topic for the research not only in academic society, but also in business environment. Large international consulting companies, including PwC, Wattson&Wyatt, Hewitt, Tower&Perrin arrange HR benchmarking surveys, which allow to assess HR effectiveness of companies and compare the results with competitors. Though, many authors devoted their research to HR effectiveness, still there are debates on the methods to be used for measurement. It is also not well researched in the developing countries, including Russia.

MATERIALS AND METHODS

Human resources effectiveness in the Russian banking industry is evaluated based on the analysis of human capital return on investment. In order to calculate this indicator, data on banks' revenue, expenses and salary and benefits costs was collected in the financial reports of two hundred banks. This data is published on the website of the Central Bank of the Russian Federation.

Finally, correlation analysis is used to investigate if there is a statistically significant correlation between human capital return on investment and organizational results of banks, including net profit, return on assets and return on equity.

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RESULTS AND DISCUSSION

Human resources effectiveness was considered in research of different countries. First research on HR effectiveness appeared several decades ago in the developed countries, but this topic is still of current interest both for academic researchers and practitioners. HRM refers to management of intangible assets and its influence on organizational results is difficult to assess. There are several research conducted in the USA, Canada, Europe and some developing countries, which proved a positive correlation between HR effectiveness and performance of business organizations [2, 3, 4]. Nevertheless, there is a lack research on this topic in Russia, especially devoted to a specific industry. The current research is aimed to analyze human resources effectiveness in the Russian banking industry, one of the crucial sectors of the economy.

The research is an attempt to answer the following questions:

- Are banks in Russia effective in terms of human resources management?
- Does HR effectiveness positively correlates with organizational performance of banks in Russia?

This paper consists of several parts. In the first part an overview of existing approaches to measuring HR effectiveness and description of the Russian banking industry are presented. In the next sections methodology of the research, as well as the main findings are outlined. Finally, the conclusion on the relationship between HR effectiveness and performance of banks in Russia is made.

Literature Review

Measuring Human Resources Effectiveness: There are different approaches to measurement of HR effectiveness. Historically HR system was assessed based on the analysis of personnel expenses [5]. Later researches and business representatives developed human resources accounting (HRA). According to Bullen and Eyler [6], first research on HRA appeared at the University of Michigan, USA in 1960s. Following this first research different metrics of HR effectiveness appeared. One of the key metrics commonly used in business environment is human capital return on investment (HC ROI). The survey of Watson Wyatt Company, arranged in 2001 among 750 business organizations in the USA, Canada and Europe demonstrated that the majority of survey participants calculate HCROI [1]. This indicator demonstrates how much money an organization gets if it invests 1\$ in human capital [7]. In order to calculate HCROI it is necessary to collect data on revenue, total corporate expenses and pay and benefits expenses. Usually this data is available in financial statements of organizations. The formula of human capital return on investment is the following:

$$HCROI = \frac{Revenue - (Expenses - Pay\ and\ Benefits)}{Pay\ and\ Benefits}$$

Another research, completed in 2010 showed that many organizations assess HR effectiveness based on the analysis of absence management data (85% of organizations) and staff turnover data (83%) [8]. If a company is interested in comparison of its HR metrics with other organizations, HR Benchmarking survey will be the most appropriate tool for that. The biggest HR benchmarking capability has PricewaterhouseCoopers and its survey is globally recognized. HR Benchmarking survey covers a broad spectrum including country, workforce size and sector [9].

In addition to analysis of different metrics, HR effectiveness can be assessed by using of stakeholder model, when employees, line managers, top managers or shareholders evaluate HR system [10]. Some companies evaluate HR system based on the strategic approach. This means that assessment of HR effectiveness includes an analysis of how HR results impact organizational performance [11].

Human Resources Effectiveness in the Banking Industry: A literature review shows that there are several research devoted to HR effectiveness in the banking industry of different countries. The most frequently used approach for analysis of HR effectiveness in banks is based on the stakeholder model. Several research use employee surveys to assess satisfaction of personnel with HR practices and procedures. Such approach to assessment of HR effectiveness was applied in banking industry of both developed and developing countries, including Canada [3], India [4], Pakistan [12], the USA [13] and others.

Though calculation of human capital return on investment is used often in many organizations in different industries, it is not commonly applied for the banking sphere. The reason can be in the difficulty of data collection on pay and benefits. Banks publish data on total personnel expenses, pay and benefits of key personnel, but very seldom data is available for pay and benefits of all employees. Research of HR effectiveness in Nigeria, for example, demonstrated that data for HCROI calculation is available for four banks [14].

Research conducted in the USA and Spain assessed HR effectiveness based on the strategic approach. The USA research demonstrated that effectiveness of HR strategy decreases personnel turnover and improves organizational performance of banks [2]. The Spanish research proved that effective strategic HR management positively influences human capital of banks and organizational performance [15].

Organizational Performance of Banks: Banking industry consists of different types of banks, including investment banks, corporate banks, retail and universal banks. Each type of banks has its specificity and there can be different approaches to analysis of organizational performance of all types of banks. Organizational results of commercial banks, for example, can be assessed based on the amount of deposits, credits and profitability [16]. Other indicators in banking industry are net profit, market value, share price and earnings per share [17]. The mostly common used organizational performance indicators are the following:

- Return on equity [2, 18];

$$ROE = \frac{Net\ Income}{Shareholder\ Equity}$$

- Return on assets [15];

$$ROA = \frac{Net\ Income}{Total\ assets}$$

- Productivity or profit per employee [19, 4].

$$Profit\ per\ Employee = \frac{Net\ Profit}{Headcount}$$

According to Fethi and Pasiouras [20] there are lots of different organizational performance indicators, having reviewed 196 studies they found out too many approaches. Each of the indicators should be used depending on the purpose of the research. A literature review demonstrates that research devoted to the analysis of HR effectiveness apply to ROA, ROE and productivity as organizational performance indicators of banks. These indicators are used for diagnostics of HR impact on organizational results of banks.

Russian Banking Industry: Russian banking industry consists of many banks. According to the report of the Central Bank of the Russian Federation (CBR), there were 897 banks as of January 1, 2013. Banking is one of the main industries in Russia, the ratio of the total banking system assets to GDP equaled 79.1% in 2012. This indicator increased from 74.6% in 2011. The biggest share of the total banking system assets belongs to state-owned, international and large private banks.

Table 1: Credit Organizations in Russia

Credit Organizations	The number of credit organizations	The share of the total banking system assets
State – owned banks	25	50.4%
International banks	112	17.8%
Large private banks	128	26.6%
Medium and small banks of the Moscow region	291	2.4%
Regional medium and small banks	341	2.4%
Non-banking credit organizations	59	0.3%
Total	956	100%

Table 2: HR Effectiveness and Performance Indicators

Indicator	Data collected
Human Capital Return on Investment (HCROI)	Revenue, total expenses, pay and benefits expenses
Return on Assets (ROA)	Net income, total assets
Return on Equity (ROE)	Net income, shareholder equity
Productivity	Net profit, headcount

Detailed information on the types of credit organizations and its share of the total banking system assets is presented in the Table 1.

Based on the literature review indicators of the current research were selected. Methodology of the research is described in the next section of this paper.

Methodology: The sample of the research consists of 197 banks, operated in Russia. It includes banks with different organizational characteristics, including type of business, headcount, structure of incorporated capital and type of ownership. In order to calculate the selected indicators of the research, financial statements of banks were analyzed. According to the Russian legislation, all banks have to submit their financial reports to the Central Bank of the Russian Federation. This simplified the data collection as all financial statements are published on the CBR website. In addition it was necessary to refer to websites of banks to collect information on headcount. Data collected for the calculation of each indicator is outlined in the Table 2 and is dated as of January, 2012.

All of the calculated indicators were entered into SPSS program. This program is useful for doing a correlation analysis between HCROI and performance indicators of banks, including ROA, ROE and productivity. The main hypothesis of the research is that more HR effective banks have better organizational results. In order to check this assumption, several hypotheses are tested.

Hypothesis 1: Banks with the higher value of human capital return on investment have higher return on assets.

Hypothesis 2: There is a positive correlation between human capital return on investment and return on equity.

Hypothesis 3: Banks with the higher value of human capital return on investment are more productive.

The research findings are described in the next section of this paper.

Findings

Human Capital Return on Investment: Calculation of human capital return on investment in the Russian banking industry demonstrates that an average value of this indicator equals 1.56. This means that one invested Rouble in human capital in banking returns in average 1.56 Roubles, which is a good indicator of human resources effectiveness. According to the PwC global HR benchmarking survey, an average HCROI in the European banking industry equals 1.62 and an

Table 3: Human Capital Return on Investment in the Russia Banking Industry

Minimum	Maximum	Average	Standrd Deviation
-17.48	7.25	1.56	1.846

Table 4: Distribution of Banks by Human Capital Return on Investment

HCROI	Number of Banks	Percentage of the sample	Cumulative percentage
Less than 0	9	4.8	4.8
From 0 to 0.99	31	15.1	19.9
From 1 to 1.49	53	27.4	47.3
From 1.5 to 1.99	42	21.5	68.8
From 2 to 2.499	25	12.4	81.2
From 2.5 to 3	22	10.8	91.9
More than 3	16	8.1	100
	197	100	

Table 5: Correlation between Human Capital Return on Investment and Performance Indicators of Banks in Russia

		ROA	ROE	Productivity
Human Capital	Pearson Correlation	.275**	.267**	.291**
Return on	Sig.(2-tailored)	.000	.000	.000
Investment	Number of banks	197	197	197
	Number of banks	197	197	197

**. Correlation is significant at the 0.01 level (2-tailored).

average HCROI among all industries in Russia is 1.5 [9]. Data on the minimum, maximum and standard deviation of the sample is outlined in the below table.

The research shows that 19.9% of banks in Russia are not effective in human resources management as HCROI equals less than 1.0. The minimum value of this indicator equals (-17.48), totally 9 banks have negative HCROI. Among these banks are both local and international credit organizations. For the majority of banks in Russia (48.9% of the sample) human capital return on investment belongs to the interval from 1 to 2. Around 31% of the sample has human return on investment above 2. The maximum value of HCROI in the Russian banking industry is 7.25 and this is a great example of high effectiveness in human resources management. Detailed information on the distribution of banks by HCROI is presented in the Table 4.

Human Capital Return on Investment allows identifying more and less effective banks in terms of human resources management. It is also important to investigate if banks with the higher value of HCROI have better organizational results.

HR Effectiveness and Performance of Banks in Russia: In order to test the hypotheses of the research, correlation analysis was conducted in SPSS program. Results of the correlation analysis are presented in the Table 5.

According to the results, all of the correlations are statistically significant. This means that there is a positive relationship between HCROI and performance indicators, including ROA, ROE and productivity. Thus, all the hypotheses of the research should be accepted. Pearson correlation for all indicators is less than 0.3. It shows that less than 30% of value of the performance indicators can be explained by HCROI influence. This research finding proves that effective human resources management positively impacts organizational results of banks in Russia, but it cannot fully explain organizational effectiveness as there are other influencing factors, except.

CONCLUSION

There are many research devoted to human resources effectiveness in different countries, but lack of them investigated HR effectiveness in Russia. The current research analyzed HR effectiveness in the Russian banking industry based on the calculation of human capital return on investment of 197 banks. The research demonstrated that almost 20 percent of banks

are not effective in terms of human resources management. A value of human capital return on investment varies from (-17.48) to 7.25 in most effective banks. An average value of HCROI in the Russian banking industry equals 1.56 and it is quite similar to an average value of the same indicator in the European banking sector (1.62) and in other industries in Russia (1.5). The research also found a statistically significant correlation between human capital return on investment and selected performance indicators, including return on assets, return on equity and productivity. Though, the level of Pearson correlation is not high it shows that human resources effectiveness impacts the performance of banks in Russia. These research findings are the evidence of importance of developing successful HRM practices and procedures in all banks, operated in Russia.

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