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Yusuf, Mohammad Abu

School of Business, Independent University,Bangladesh

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Human Resource Management Practices in Private Sector Service Organizations: A Case Study of IDLC Bangladesh Ltd.

Mohammad Abu Yusuf
American International University (AIUB), Bangladesh.

Sarwar Hossain
Bangladesh Bank, Bangladesh

Taptun Nasreen
Police Headquarters, Bangladesh

ABSTRACT

This paper examines the Human Resource Management (HRM) practice of International Development Leasing Company (IDLC). The objective is to highlight the salient HRM features of the firm that makes it different from other organizations (both public sector and private sector firms in Bangladesh) in terms of its improved business performance, employee motivation, and low turnover rate. A qualitative case study research approach has been followed in conducting the study. The study finds that IDLC HRM practices such as the equal employment opportunity, merit-based selection, performance-based pay and promotion largely helped IDLC to be top performer in the financial services sector. The study also reveals that the recruitment, training and salary packages/promotions are competence based in the private sector that is largely non-existent in the public sector in Bangladesh.

Keywords: Human Resource Management, Strategic Human Resource Management, Performance Appraisal, Forced Ranking, Clientelist Contacts

INTRODUCTION

Human resource management is an important job for any of organization, public or private. Mathis & Jackson (1985) define HRM as "the strategic planning and management of human resources for an organization... HRM is more broadly focused and strategic in nature." HRM functions are often divided into two: functional HRM and strategic HRM. Functional HRM is viewed primarily as an

administrative one dealing with responsibilities such as recruiting and selecting personnel or resolving employee grievances. HRM is strategic when it follows closely the corporate objective of the organization. The assumption that HRM is 'derived' from corporate and business strategy leads to what Boxall (1992) calls the 'matching model'. Strategic HRM is different from functional in the sense that in the former case people of the organisation are considered as strategic human resource (Hendry & Pettigrew, 1986) in order to attain competitive advantage.

This article is divided into five main sections: Section one deals with methods of data collection. Section two introduces the case study organization IDLC and all aspects of its HRM practices based on the findings. Section three presents a brief description as to how IDLC HRM policy differs from the HRM policies of other private sector and public sector organizations. Section 4 analyses the findings. Section 5 concludes the paper with policy implications.

METHODS OF DATA COLLECTION

A qualitative Case study research design has been followed to gain deeper understanding of phenomena of interest as supported in Gummesson (2000). It is a case study research because the focus of the study has been the organization (IDLC) and its HRM policies and practices. The data used in this data are not only interview based, but also based on/linked to organizational policy and performance documents. Three in-depth interviews were conducted with selected participants while one interview was conducted over telephone. The participants were nominated by the IDLC authority. Each interview lasted approximately 90 minutes (except one which lasted about 120 minutes) and was based on a semi-structured questionnaire. We translated all interviews verbatim into English to present to a large pool of readers. In line with Yin (1994), the interviews were supplemented with Annual report and company brochures to enhance data triangulation.

INTRODUCTION ABOUT IDLC

IDLC Finance Limited was established in Dhaka in 1985. IDLC Finance is the leading multi-product Non-Banking Financial Institution (leasing company) in Bangladesh with 27 branches and over 800 staff. IDLC offers a wide range of loans, deposit and capital market products and services to Corporate, Consumer and SME client segments (IDLC, 2011).

HRM at IDLC: Findings and Discussion

IDLC follows a dynamic HR process that aims at attracting and retaining the best people and develops a skilled, competitive and motivated workforce. According to a senior official, "IDLC believes that its human resources are its greatest assets. Its main priority is to recruit and retain the best performers in the industry to sustain superior service quality at all times" (Interview, 2012).

The interviews indicate that employees in the IDLC are recruited under two categories: Non-Management Positions and Management Positions. Non-management positions include junior officers/Assistant Officers. Of the non-management staff, few may be promoted to the management positions depending on their performance.

Use of Head-Hunters for Recruitment

IDLC as a relatively small service provider do not do much head hunting and have no head hunting contract. Strategically important senior positions are filled in through lateral entry where people usually come through referee (Head of HR Ms Bilquis Jahan, 06 Dec, 2012). In the process of recruiting through lateral entry, a number of issues are considered with utmost importance: the profile of the person and how far this profile matches with the profile of the official (s)he will replace, the size of the portfolio he/she (under consideration for lateral entry) managed and its similarity with the IDLC portfolio, leadership skills/attitudes and academic backgrounds. (Head of HR, 6 Dec, 2012).

Recruitment in Public Sector

Recruitment in cadre service and other public organizations are partially merit-based and 55% posts are reserved for different quotas. The process of recruitment is plagued with nepotism and corruption often done mostly on political and geographic consideration. Postings and promotions after recruitment are also blamed largely to be made on political and vested interest considerations. A recent newspaper report claims that among more than 600 recruits, most of the recruits in the Bangladesh Inland Water Transport Corporation under the ministry of shipping has been done on political and other considerations (place of birth consideration) instead of merit. And they were recruited from the recommended lists of high officials/others (Jabel, 2012).

Training and Development

At IDLC a wide range of training programs and workshops are offered to its employees and the training needs are identified mainly through Performance Appraisal process. In 2011, 1293 officials were sent on training in different programs including customized and foreign trainings (www.idlc.com/annual_report).

Performance Appraisal

Performance appraisal is vital to retain the talented employees. Otherwise, the loss of key employees may negatively impact the quality and innovation of services delivered (Ashraf & Joarder, 2010). A merit and performance-based system is followed at IDLC (IDLC annual report, 2011) where a 70% weightage is given to the personal performance and 30% to the financial performance of the respective division/department/unit.

Personal Achievement/Performance

In IDLC, a 1-4 point rating scale (from excellent, good, ok, and average) is used to measure the individual performance. Unit head/Head of the department discuss with the respective employee (whose performance is under review) the grade/rating (s)he expects for each criterion and then award him/her a rating score (on the scale) indicating the performance. Some of the indicators that are used to measure employee performance include leadership quality, volume and accuracy of work, professional knowledge, time management, office discipline, judgment, leave taking behaviour, ability to work in a team, decision making ability and negotiation skills. Once the rating is completed, the final rating scores are written on the evaluation form and jointly signed by the employee and the supervisor. In appraising the performance of the employees, if any disagreement with regard to the performance score occurs between the supervisor and the official being supervised, the matter is referred to the respective MANCOM Member for reconciliation. MANCOM member serves as the umpire in the evaluation process.

Evaluation for Senior Managers

For senior managers and above positions, two evaluations are conducted: (a) Self Evaluation Approach (b) Supervisor's Evaluation. These two evaluations are cumulative. Of the two evaluations, some may consider self-reporting to be biased. But Dess and Robinson (as cited in Chang & Huang, 2005) suggested that

the absence of objective data, self-reporting measures constitute an acceptable bstitute and are equally reliable.

:nchmarking

After the completion of self-evaluation and evaluation by the supervisors, aluations are benchmarked. The benchmarking of evaluations is conducted by : HR & Compensation Committee. This committee consists of: (a) CEO & the anaging Director (b) Deputy Managing Director & Chief Financial Officer FO); (c) Head of HR and (d) Rest of the MANCOM members, representing ıployees across the company. The human resource department usually convenes neeting for 'benchmarking' of employee performance. The benching (i.e. forced ıking of officials) is premised on social science theory that human phenomena ıd to distribute normally, and their performance is assumed to follow a Bell rve (Cook, 2012; Molle, 2006).

The benchmarking of evaluation grades by the benchmarking committee is ne on a scale of 1-4 where 4 indicate the best/excellent performers while licator below 2 on the scale indicates non-performers. After the adjustment (i.e. nchmarking) of grades, usually the performance evaluation of officials takes a ll curve shape where the distribution of officials take the following form:

ble I: Ranking of Officials and Their Grades

% of the officials	Achieved grade	Ranking
%	4	Best/ Excellent performers
)-15%	3.5-3.75	Good performers
bout 45-50%	2.5-3	OK
bout 10%	2-2.5	Average
)% perform but no bonus	Below 2	Non-performers

urce: Interview findings, 2012

This benchmarking of grades is a good way to build a high-performance ganization by identifying both the high-performers and the bottom performers. rced rankings are consistent with the strategic approach of HRM because it ps differentiating employees by performance level and investing more ources in human assets to attain competitive advantage. Many renowned ltinational companies such as General Electric under the leadership of Jack lch, Cisco Systems, Hewlett-Packard and Pepsico also use forced ranking stems to sort employees into three groups: 'top performers' (20%), 'high

performers' (70%-80%) and 'bottom ones' (5-10%). The forced distribution of rankings, however, can be arbitrary, unfair and may expose an organization to law suits (Mello, 2006). It often creates stress because managers must make comparisons among employees and rate them against each other; this may create negative competition (Cook, 2012).

IDLC groups its staff into four categories based on their performance. The classification of officials into four different categories makes a difference in their motivation levels. It is to be noted here that although staff are categorized into four categories, another group of staff practically exists (who are at times downgraded to some extent forcefully to be termed as 'non-performers' to make the bell curve work.). This group does not get any bonus. But this does not indicate their ineligibility to work. They are pushed at the bottom in terms of performance to make them work hard for future growth. Table II highlights the features of each category of staff members.

Table II: The Features of Each Staff Category

Staff Category	Features and Examples
1. High potential- HIPO (around 5% employee)	➢ These people are future leaders. ➢ Company invests in their education. ➢ They get higher salary and bonus ➢ Privileged in getting foreign training. ➢ Increased attachment with senior management
2. Key resources (based on key dependency) around 10-15%	➢ They are provided with more technical training. ➢ Enjoy authority within the division. ➢ Get good bonus; even their bonus in some cases could be more than the HIPOs. This is because the organization largely depends on them (e.g.IT/Accounts).
3. Critical Resource	➢ These employees work for a temporary period. For example, a 25-member team to implement world's most reliable and renowned core banking software (FlexCube). They are critical resources for the project implementation period. ➢ When a HYPO or Key dependency's second line quit his/her job, third line of the HYPO would be treated as critical resource for the

	time being. Another example could be that a Deputy General Manager's promotion is due but for some reasons he could not be promoted. In such a situation, his second line will be treated as a critical resource because in case the DGM quits the job, the second line would be vital to carry on his job temporarily.
4. Core contributor 60-65% staff.	➢ Do routine jobs. ➢ Gets bonus according to their performance.

Source: Interview findings, 2012

Modern organizations do not owe their success solely to the decision making and dynamism of the top management. Successful companies are those that follow strategic HRM policies, value human resources and consider them as the most important asset (Hussain, 2012). IDLC is found to value its human resources as a strategic asset to gain competitive advantage. It also makes all possible effort to evaluate employee objectively.

Work Atmosphere

IDLC offers a pleasant working environment for its employees. Employees are provided with necessary facilities, valued at IDLC and their feedback is encouraged through various means including group discussion and employee surveys. Relationship with coworkers is easy and there exists low power distance between junior and very senior officials as voiced by one interviewee:

> In the IDLC, we believe in productivity. Unlike many public offices, juniors have free and easy access to seniors. Use of terms such as 'my subordinate' is considered derogatory. It is the culture of the IDLC to address seniors as 'bhai' (means 'brother')" instead of 'sir'.

Motivation for Retention of Employees

IDLC believes in attracting and retaining the best people to ensure business success. IDLC management offers a number of opportunities/good HRM practices that help its employees to be motivated. Good peer group relationship, scope to express opinion and encouragement to do so, professional relationship, authority to make decisions and career advancement are some of the good

practices that helps IDLC employees to be motivated. In this regard, a senior official observes, Probationary officers can do credit analysis and recommend who should be given credit, may be on a relatively small sized products. At IDLC we give them the opportunity to provide independent opinion no matter how many years they are with us. There are many organizations, where probationary (new recruit) officers do not get this scope to give independent opinions. (Bilquis Jahan, Head of HR, 6 Dec, 2012). Another official say, "I think, our strategic selection of staff, performance based rewards, scope for career advancement and pleasant work atmosphere keeps our employees loyal and motivated. We offer all sorts of training and career advancement supports if the attitude of the employee is that (s)he can take role" (Interview, 2012).

HRM Policies of Other Private and Public Sector Organizations

IDLC policy does not match with the HRM practices of public sector organizations. In the public sector, there is a lack of merit-based selection and posting. Recruitment (in particular at non-cadre levels) and foreign posting are often based on clientelist contacts, unfair means political leanings, TADBIR and bribery violating the principles of impartiality, equality and fairness (Alam & Teicher, 2012; Jahangir, 2013). Similarly, promotion and other incentives in the public sector are based on seniority, not on the basis of performance. Zafarullah and Siddiquee (2001) observe that there are no measurable performance standards in public service. These practices are in stark contrast to the HRM practices of the private sector. IDLC HRM practices are also quite contrast to the HRM policies followed in a majority of the labour-intensive industries such as readymade garments (RMG), textiles, and real estate etc. These industries lack safe working environments (recent fire in Tazrin and other garments factories, collapse of Rana Plaza and death of many garment workers are the glaring examples of unsafe working environment). Many of these factories still treat their labour force as commodities and can fire them as and when they wish (Hussain, 2012).

ANALYSIS

The interview findings suggest that IDLC follows best practices in its HRM to make it as one of the Employers of Choice of the country. Comfortable work atmosphere, workplace safety, opportunity to maintain work-life balance through flexible working hours, maternity benefits, equal opportunity, leave facilities,

various benefit schemes such as profit sharing scheme, education support scheme, annual recognition scheme, personal loan made IDLC an employer of choice for many. Promising and bright graduates of the country line up for IDLC jobs in the IDLC recruitment fair. In recent years, IDLC has been able to attract officials from renowned private sector organizations and foreign banks including Standard Chartered Bank. In the IDLC, HRM is seen as a strategic business partner and involved in the strategic decision making. For example, Head of HR is the member of the Management Committee, the apex committee to make key management and operational decisions. IDLC HRM department head is involved in each critical HR issues that have strategic implications He is also a member on the HR & Compensation Committee and Compliance Committee. The committee membership offers HR department unique opportunity to contribute to the formulation of company's key strategic planning and their implementation.

Vroom's expectancy theory (as cited in Joseph & Dai, 2010) explains that an employee tends to act in a certain way based on the expectation that the act will be followed by a given outcome and on the attractiveness of that outcome to the employee. Since employees' effort lead to performance and performance lead to rewards at IDLC, it (the positive reward) makes the employees motivated. The gradual reduction in employee turnover rate since 2009 (Figure - I) reflects IDLC employees' satisfaction. This tendency of human being not to quit the organization when they are satisfied is found in previous research of McMurtrey, Grover, Tenge, and Lightner (2002). They find that job satisfaction is negatively correlated with turnover intention. Younger workers with low incomes in non-supervisory positions are more concerned with money (Meudell & Rodham, 1998) while responsibility, recognition, need for achievement and scope for advancement are more attractive to the senior managers for their motivation (Analoui, 2000). Drawing on McMurtrey, Grover, Tenge, and Lightner (2002) and interview evidence we infer that job satisfaction, professional work atmosphere, recognition and scope for career advancement help IDLC to have a loyal and motivated workforce who brings success for the company. However, the forced ranking of evaluations may be considered unfair, may reduce teamwork and affect morale of the affected employees. People working at IDLC switch to other firms in two situations: when they get a big lift in their career or when someone cannot cope with the performance standards of IDLC.

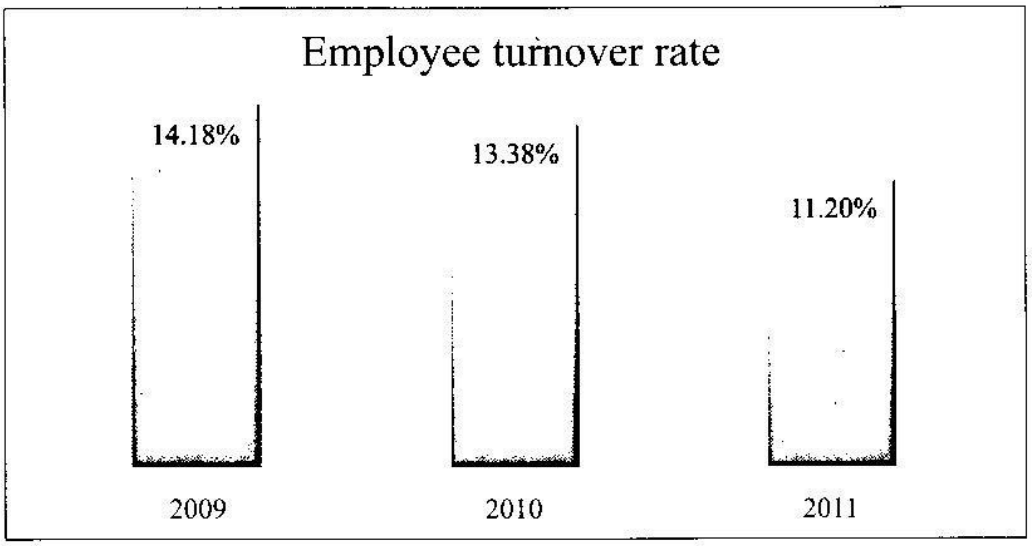


Figure - I: Employee Turnover Rate

Although there is no hard evidence with regard to the correlations between HRM and performance linkages at IDLC, performance-based rewards and strategic selection by IDLC can be attributed to its considerable profitability. IDLC registered a continual growth in its return on total assets (e.g. 2.37%, 2.5%, 4.11%, and 5.35% in 2007, 2008, 2009 and 2010 respectively). Similarly, Earning per Share (EPS) has shown a considerable growth each year than the previous year (Tk. 3.06, 4.10, 8.30 and Tk.13.41 in 2007, 2008, 2009 and 2010 respectively except in 2011 (2011 is considered an abnormal year due to stock market volatility). It has also a committee to take investment decisions in the stock market. IDLC Finance saw a year-on-year rise by 66.9 percent -- in profits in the last nine months of the year 2012 when most non-bank financial institutions (NBFIs) experienced a fall in profits (The Daily Star, 2012). This has been possible, among others, due to its efficient strategic management of funding mix and investment. Compared to its rivals, IDLC performed well in managing its Cost of Fund (CoF), through a number of policy measures including creation of highest deposit bases among all the NBFIs.

CONCLUSIONS AND POLICY IMPLICATIONS

IDLC's merit based competitive recruitment, performance-based reward strategy, and growth opportunity (training and exposure) helps IDLC not only to improve its business performance, but also to attract and retain its talented

employees. Easy access to managers, their encouragement for collaboration among staff and appreciation for development of new ideas are found to have significantly contributed to business performance and continuous improvement.

IDLC's winning of different national awards for its published accounts is also a manifestation of its strong corporate culture of performance-based selection, transparency, accountability and good corporate governance. These achievements have been possible due to its competent and motivated pool of people. IDLC set an example of high standard for others in the financial services sector to be transparent in financial reporting with adequate disclosures and application of internationally accepted accounting and auditing standards.

The implication of the findings from IDLC is that HRM is important for service firms' success and growth in the globalised world. Most organizations need to pay closer attention to their human resource policies as there is a severe shortage of talents, labor market become tighter and employees' expectations and aspirations become heightened. Competition for relatively low paid hourly labour is low in service firms because it is the quality and not cost minimization that matters for the success of service firms. Instead of traditional bureaucratic hierarchical structure, new generation talented employees feel more comfort to work in an organization where the hierarchy is relatively flat, supervisor has expertise in his/her area of work, can play mentoring role and possesses friendly attitude. As such they have a natural tendency to switch jobs in pursuit of growth opportunity and pleasant workplace. Employers therefore, may revisit the management techniques and range of reward options available to them to make the management techniques and rewards more acceptable to the new generation employees. Growth prospect for employees is also important to retain the vital workforce and be competitive. The study has important implications for policy makers; policy makers need to appreciate that strategic management of HRM is the differentiator between firms.

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