The Factors Influence Employee Engagement and their Impact on Financial Performance in Public Sector Banks of Pakistan

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Abstract  
This research aimed to examine the factors influence employee engagement and their impact on financial performance in public sector banks in Pakistan. The study investigated how employee engagement takes place in public sector banks in Pakistan and those working in India. The results indicate that the National Bank of Pakistan has the highest employee engagement while The Bank of Punjab (BoP) has lowest employee engagement. The research concluded that in order to foster growth and productivity, all banks in Pakistan including private and public need to prioritize employee engagement. They need to motivate disengaged employees so that more productivity can be achieved as desired by the banks working in Pakistan.  

Keywords: Employee Engagement, Bank of Punjab (BoP), National Bank of Pakistan (NBP)

BACKGROUND

What is Engagement and Why Engagement?

Engagement has clear overlaps with the more exhaustively researched concepts of commitment and organizational Citizenship behavior, but there are also differences. In particular, engagement is two-way; organizations must work to engage the employee, who in turn has a choice about the level of engagement to offer the employer. Engagement has a positive attitude held by the employee towards the organization and its values. An engaged employee is aware of business context and works with colleagues to improve performance within the job for the benefit of the organization. The organization must work to develop and nurture engagement, which requires a two-way relationship between employer and employee, (Hayday et al., 2004). Employee engagement is the level of commitment and involvement an employee has towards his organization and its values. An engaged employee is aware of business context and works with colleagues to improve performance within the job for the benefit of the organization. It is a positive attitude held by the employees towards the organization and its values, (Hayday et al., 2004).

In today’s highly competitive structure, organizations can achieve unexceptionable levels of performance only when workforce reveals tenacious commitment towards their errands. Higher productivity, reliability, higher self motivation, confidence to express new ideas, loyalty towards the organization, reduced employee turnover, and lower absenteeism are some of the attributes of a wholly engaged employee, who in turn act as valuable assets of an organization. Nowadays banks being at competitive situation, employee engagement is very much crucial for longer sustainability. This study arises from the need to manage the human resources of the banks more effectively. Having an engaged workforce, it is important because it helps banks to reap the benefits of sustainability, productivity and increased efficacy, Gowri and Mariammal (2012).

BANKING INDUSTRY IN PAKISTAN

The Pakistan banking industry constitutes a total of around 31 banks, of which five are public-sector, and four are foreign, while there are 22 local private banks. The majority of the banking business is concentrated in a select few in the industry. Six banks are the largest competitors in the economy and hold a major stake in the banking assets in Pakistan. To be more specific, these banks collectively make up more than 57 percent of deposits and 53 percent of advances in the economy.

1. Habib Bank Limited (HBL)  
2. National Bank Limited (NBL)  
3. United Bank Limited (UBL)  
4. MCB Bank Limited  
5. Allied Bank Limited (ABL) and
6. Bank Alfalah Limited

**Five Major Public Sector banks in Pakistan**

1. National Bank of Pakistan  
2. First Women Bank  
3. The Bank of Punjab  
4. Sindh Bank  
5. Zarai Taraqiati Bank Limited (ZTBL)

Employee engagement has become one of the great challenges for Senior Executives in the banking industry, especially in public sector banks in Pakistan. The business leaders think that high performance workforce is essential for financial institution growth & survival (*Harvard Business Review* – 2013). The engaged workforce can increase innovation, productivity, and performance. According to *Harvard Business Review, 2013*, 24% employees are highly engaged in their organizations.

According to the Harvard Business Review Analytic Report, most of the employees in the organization are not highly engaged and resultantly, it affects on business performance of the organization.

**The Objectives of the Research**

- To examine the factors influence employee engagement in Public Sector Banks of Pakistan.  
- To measure engagement and tie its impact on financial performance in the context of public sector banks in Pakistan.

Customers are only the source for the banks to earn a profit and grow. When employees are not highly engaged in the banks, they will not ultimately spare time to serve the customers and customers will remain unsatisfied. This is a reputational risk for the banks one way or another. Similarly, unsatisfied customers will not provide business to the banks for example depositors will not give deposits to the banks and they will not avail loan facility also. Deposits and advances both are the core functions of all commercial banks around the world. When the banks do not properly achieve these core functions, they might face losses.

Therefore, it is very important to explore how employee engagement takes place in public sector banks in Pakistan and its impact on financial performance.

**METHODOLOGY & STRUCTURE OF THE RESEARCH**

The current research focuses on and examines employee engagement in public sector banks in Pakistan. The study evaluates how employee engagement takes place in public sector banks and what are the factors which influence employee engagement and their ultimate impact on the financial performance of public sector banks in Pakistan.

The study also explores the employee engagement in the banking industry in Pakistan and India.

**FACTORS INFLUENCE EMPLOYEE ENGAGEMENT**

To accomplish their goals and objectives, organizations need employees who are highly engaged in their work. Therefore, organizations must create conducive working conditions which motivate the employees and keep them engaged to give their best in order to attain maximum output and to think out of the box without any fear of being criticized (*Bakker and Schaufeli, 2008*). According to *Schaufeli and Bakker (2004)*, work engagement
is a positive, optimistic, fulfilling, achieving and work-related state of mind. It can only be achieved through an intrinsic and extrinsic reward system, (Bakker et al., 2008).

Employees are one of the most important assets for any organization. When they come up with innovative, creative and productive ideas, organizations use it to gain a competitive edge. It is important to consider that what organizations can do to increase their employees’ dedication and Commitment. Instead of traditional ways of management control which includes cost reduction techniques and focus on increased efficiency, modern management techniques focus on managing human capital (Bakker and Schaufeli, 2008).

**Employee Engagement and Satisfaction Model**

Employee engagement and satisfaction are key elements for organization growth. They needed to be measured repeatedly over time and interpreted in liaison with the current and future required culture in the organization along with business performance measures, Sean Graber (2016). Towers & Perrin (2013), defined engagement in four degrees, actively engaged, engaged, engaged but leaving & disengaged.

**HOW EMPLOYEE ENGAGEMENT DRIVES GROWTH**

In recent times, measuring employee engagement is a common practice in the business world. According to Gallup Survey (2013), meta-analysis once again verified that employee engagement relates to each of the nine performance outcomes studied. Additionally, Gallup continues to find that the strong correlations between engagement and the nine outcomes studied are highly consistent across different organizations from diverse industries and regions of the world. Higher employee engagement can increase company’s financial outcomes, such as earning per share (EPS), Return on Equity (ROE), Return on Assets (ROA) and Net Profit Margin (NPM). The various studies have shown remarkable financial performances of different organizations in which employee engagement is highly active.

According to the Gallup Survey (2013), the research has found that companies with an actively engaged workforce have better EPS. The Gallup took 49 publicly traded companies with EPS data and found that organizations with a critical mass of engaged employees outperformed their competition compared with those that did not increase their employee’s potential. Conversely, those organizations with average engagement levels reflected no increase over their competitors in the economic recovery.

Engaged Employees are motivated to contribute 100% of their knowledge, skills, and abilities to help their organization succeed. Employee engagement enhances the growth of the companies and performs as an effective retention strategy. Employee engagement not only gives benefits to the organization but also to employees as well, Kumar (2015). The various studies have examined that employee engagement not actively found in public sector banks as compared to private banks, the reason behind might be the security of the jobs offered in public sector banks, Kumar (2015).

**EMPLOYEE ENGAGEMENT IN BANKS AROUND THE WORLD**

Employee engagement is a collection of attributes carried by the employees in the form of developing emotional relations with dedications and devotion to the bank. It is a form of voluntary efforts made by employees in a related profession. Employee engagement is a proactive effort which employee makes in the banks. Employees show their potential in shape of devoting his/her time to the organization for the achievement of desired goals. This is only a way to examine how much employees are engaged in the banks, John and Michael (2015). Employee engagement consists of vigor, dedication, and absorption. Vigorous employees powerfully perform their jobs in the banks and their related organization. When job assignments are meaningful and challenging, more benefits are offered to the employees in order to motivate them to express vigor, Abbasi, and Alvi, (2012). Employee empowerment is required in order to enhance the progress of the banking sector. Employee empowerment means how much employees are involved in the job their superiors have assigned them. In the banking sector around the globe, employee empowerment plays a very vital role in fulfilling the desired goals of an organization, (Akhtar et al., 2016). Empowered employees always provide quick feedback to the organization. An employee who is actively engaged may be described as proactive, energetic, motivated and
enthusiastic and passionate towards his/her assigned jobs. Similarly, the disengaged employee is like a robot, depersonalized and estranged and attempt to keep himself away from work, (Akhtar et al., 2016).

According to Gallup Survey (2013), only 13% of employees are engaged in the organizations. Just 6% of employees are engaged in China, one of the lowest figures in the world. This Gallup survey was taken from 142 countries around the globe including Pakistan. There are three approaches through which organizations can accelerate employee engagement, select the right people, develop employee strength, enhance employee well being, Gallup Survey (2013). Actively disengaged workers are more dangerous for organizations as compared to disengaged workers. Actively disengaged workers are those who are negative and potentially hostile to their organizations. Highly engaged workers are the lifeblood of the organization. They can produce the highest possible results, Gallup Survey (2013).

In Australia and New Zealand, 24% of employees are engaged, while 60% are not engaged and 16% are actively disengaged. Gallup found the highest levels of active disengagement in the world in the Middle East and North Africa (MENA) region, particularly in Tunisia (54%), Algeria (53%), and Syria (45%). The region’s high unemployment rates may be a factor in these results, causing many disengaged workers to remain in their jobs despite their unhappiness at work, Gallup Survey (2013).

Overall, among the 142 countries included in the current Gallup study, 13% of employees are engaged in their jobs, while 63% are not engaged and 24% are actively disengaged. However, these results vary substantially among different global regions. East Asia has the lowest proportion of engaged employees in the world, at 6%, which is less than half of the global mean of 13%, Gallup Survey (2013).

The direction of the company and the confidence employees have in the leadership ability of senior leaders are important areas for future success. Thirty-five percent of banking employees believe that their leadership is moving their companies in the right direction, and nearly two-thirds of these people are engaged, whereas only one in five of those that disagree are engaged. Boosting the numbers who believe that senior leadership is moving the organization in the right direction will boost employee engagement. People who feel that their immediate supervisors set a good example are engaged. Unfortunately, only 32% of banking employees report that their immediate supervisor sets a good example for them to follow. Ensuring that more supervisors set a good example would boost Engagement, White Paper. The primary resource in a bank is the employees and the relationships that they develop. People are primarily influenced by their immediate supervisor and how he or she makes them feel. Comparing banking to a larger cross industry study conducted last year, we see four major deficiencies in how banking employees view their immediate supervisor’s treatment of associates.

EMPLOYEE ENGAGEMENT IN INDIAN BANKS

Employee engagement has been a subject of extensive research in recent years. With its initiation in practitioner literature and consulting firms (the most notable being the Gallup Organization), the concept of employee engagement has gradually gained grounds in academic literature. The very first contribution to the academic literature on engagement is the seminal work on personal engagement by Kahn (1990, 1992), who is regarded as the “academic parent of the employee engagement work.” The employees become disengaged in the banking sector of India because employees are not satisfied. They are not provided a competitive compensation package and best culture based on International best practices, (Sinha et al., 2014). The research found high employee engagement in some private banks working in India. Due to active employee engagement in private banks, the financial performance of those banks stood high in 2014 as compared to 2012 and 2013, (Sinha et al., 2014).

EMPLOYEE ENGAGEMENT IN BANKS IN PAKISTAN

Employee engagement is still a gigantic challenge for public sector banks in Pakistan, even though public sector banks in Pakistan are investing a large chunk of the amount in the form of training to their employees, Gowri and Mariammal (2012). Employee engagement affects significantly to the financial performance of banks. When employees are not actively engaged, they may not satisfy the customers, since the customers are the core source of revenue generation for the banks. Similarly, when the customers are not satisfied, it will directly impact the bank’s profitability, deposits and advances also.

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Junaidi (2015) stated that Pakistani organizations are undergoing a transitional period, witnessing a continuous change in systems, management cultures and philosophy due to global alignment, they are also facing the same human resources challenges as others countries and organizations are facing, such as employee retention, employee turnover, organization development, salary issues, an increase in job mobility, recruiting, training and development, and compensation issues. Thus, the national and international organizations are facing some macro, and micro challenges and these challenges have directly or indirectly affected many businesses. Pakistani banks have to keep up with the pace of changes and face human resource issues. Currently, challenges have brought many changes to the economy and work settings in all industries, including public and private banks in Pakistan (Ahmad, Tariq & Hussain, 2015; Hanif, Naqvi & Hussain, 2015). The banking sector is considered the backbone of every economy as it plays an important role in leading the country in the economic world (Hanif, Naqvi & Hussain, 2015). The banking sector in Pakistan has been contributing to the Pakistani economy and the global financial crises (Batool, 2013). Considering the importance of the banking sector and its contribution to the development of Pakistan, a response to the various challenges and human resource issues several necessary steps have been taken. However, Pakistan as a developing country has expanded its banking network. State Bank of Pakistan (2015) stated there are five public sector commercial banks, four specialized scheduled banks, 21 private local banks, and five foreign banks. A meticulous look at the Pakistani banking sector makes it quite evident that the banks have been confronted with human resource problems such as employee retention, employee loyalty (Khan, Rehman, Rehman, Safwan, & Ahmad, 2011), low job satisfaction, lack of organizational commitment and low employee engagement (Hanif, Naqvi & Hussain, 2015), increased employee turnover (Rashidi & Rahman, 2013; Alvi & Abbasi, 2012; Hunjra, Ali, Chani, Khan & Rehmen, 2010). Hence employee engagement seems to be an issue for the banking sector in Pakistan. Employee engagement is considered a key indicator for the success of the Pakistani banks and other organizations because engaged employees lead to significant outcomes in Pakistani banks (Rasheed, Khan & Ramzan, 2013). Gowri and Mariammal (2012) specified that in order to help banks to reap the benefits of sustainability, productivity and increased efficacy; the banks essentially require an engaged workforce.

In order to respond the problems of low engagement and its aspect; faced by the banking sector in Pakistan, several research has been done in the area of employee engagement in the Pakistani private, public and foreign banks such as (Ajaz & Mehmood, 2015).

Reward management is one of the major parts of an organization through which employees could be motivated. It is the best approach in which various bonuses and incentives are provided to employees in order to enhance employee engagement towards their assigned jobs, (Shahid et al., 2014). Employee attitudes can be explored by his/her engagement towards job responsibilities he/she has been assigned, Abassi and Alvi (2012). Employee engagement is an important variable need to be considered by the organizations, Kahn (1990). Employee engagement contains physical, cognitive and emotional stages. According to Kahn (1990), people reflect themselves physically, cognitively and emotionally when they perform. Employee engagement is a great tool where employee passion towards his/her job can be measured. Employee engagement is a concept getting importance in the banking industry in Pakistan. A satisfied and committed employee would be more engaged towards his/her given assignment. Similarly, unsatisfied employees are found disengaged and will always intend to switch to another organization, Shafique and Imam (2014).

Shafique and Imam (2014), defined employee engagement in a way that how hard employees work and how long they stay to their organizations with commitment. According to Gallup Survey (2013), there are 15% employees engaged in Pakistan, 68% not engaged and 16% are actively disengaged. Leadership role and supervisor behavior can play a major role in increasing employee engagement. When the right people are placed in the right place, and the right time, they will be engaged actively towards their assigned work responsibilities. Similarly, when supervisor behavior is professional with employees, they will be less engaged in their work responsibilities, Abassi, and Alvi (2012).
How Immediate Supervisors treat and speak to their people has an emotional impact. Reaction to the Immediate Supervisor explains 79% of how employees feel about their organization. A good supervisor makes people feel valued and assured, but a great supervisor generates a feeling of enthusiasm. These three emotions are the primary drivers of Employee Engagement among banking employees, *White Paper*.

While a good Supervisor makes people feel valued and confident, a bad Supervisor irritates people and makes them feel intimidated and manipulated. 35% of employees in banking feel a negative emotion as a result of their interaction with their immediate supervisor. Of these, more people were disengaged (25%), than fully engaged (19%). Irritation is the predominant negative feeling followed by being uncomfortable and disinterested. Avoiding generating negative feelings among their immediate staff is something that supervisors can be trained to achieve. Negative emotions lead to disengagement, higher staff turnover, and poorer customer service. Positive emotions lead to higher engagement and improved customer satisfaction and loyalty, *White Paper*.

**Employee Engagement in National Bank of Pakistan (NBP)**

According to the National Bank of Pakistan (NBP) employee code of conduct and employee engagement policy – 2017, the bank has established itself as the leading bank for both customers and employees. They proudly accept that they have achieved their various milestones because of their employee's great engagement towards their assigned jobs. NBP owe this accolade to the blessings of God and the unwavering dedication and commitment of entire NBP Team.

Human Resources Group at NBP wants to provide the best employee culture to their dedicated team. They believe that job satisfaction, world class culture and attractive benefits always motivate employees. These factors are most important for employee engagement in NBP.

Recently, the bank has surveyed on employee engagement and found that employees are 20% more engaged as compared to last year. Resultantly the bank has achieved recorded Earning Per Share (EPS) of Rs. 10.83. The employees went one step ahead and brought total deposits of Rs. 1657 Billion in 2016. Also, total assets reached at Rs. 1981 billion in 2016.

National Bank of Pakistan has invested Rs. 3.2 Billion on employee training programs in 2016. Most of the training was imparted on employee satisfaction, employee motivation, Job Satisfaction, and employee engagement.

The bank must make conscious efforts towards becoming a truly customer-centric bank that strives to provide a WOW experience to every customer. Moreover, this experience must be consistent across the National Bank entire network.

Delivering superior customer service is not just the responsibility of the customer-facing staff. Superior customer service at the Bank’s counters is simply the culmination of a chain of superior service handshakes across the organization and unless we focus on giving a WOW experience to our internal customers, delivering a WOW experience to the external customer would always be a challenge. It, therefore, goes without saying that it is the responsibility of every individual at National Bank of Pakistan to make their customers happy.

**Employee Engagement in the Bank of Punjab (BoP)**

According to the Bank of Punjab (BoP) employee engagement survey – 2016, 40% of employees are engaged, 30% are highly engaged, and the remaining 30% are not engaged in BoP.

The survey also indicated that 30% of unengaged employees could reduce customer satisfaction and may impact on financial performance of BOP in the next two years.

The survey further highlighted that BoP had achieved remarkable achievement in Recovery of Nonperforming loans of Rs. 2.7 billion in 2016 and achieved the target of advances of Rs — twenty-three billion due to 30% of highly engaged employees.

Executives who highly prioritize the impact of employee engagement on organizational success use metrics that range from net promoter score (38%), revenue growth (19%), increased market share (17%), percentage of new business referred from existing customers (11%), etc. to quantify the impact of employee engagement
measures. Among the respondents, 83% of the high-prioritizes rate the direct impact of employee engagement on customer satisfaction as considerable, whereas 62% of moderate prioritizes and only 42% of low-prioritizes experience considerable impact. The survey concluded that the following are the key factors in Bank of Punjab which make employee disengaged.

1. Low Salary and Benefits
2. Political Influence
3. Supervisor’s Behavior
4. Lack of Appreciation and reward
5. The culture of the Bank

Employee Engagement in Sindh Bank

According to Sindh Bank HR Policy – 2016, Employee engagement is the level of commitment of an employee towards his organization and its core values. Employee engagement is very important especially in the banking industry for achieving high profitability and customer satisfaction. Sindh Bank has been arranging various training programs on employee engagement since the beginning. Our yearly training budget is Rs. 0.64 billion. Do we keep focusing on why employees are disengaged? What are the major factors keeping employees disengaged from their assigned jobs? At this stage, we believe our employees are highly engaged towards their assigned responsibilities. We achieved high profitability, better Earning per Share (EPS) and received 23% more deposits as compared to last year. We also achieved major target of advances 33% more than last year. The credit of all our achievement goes to our dedicated team for achieving these milestones. Our number of customers also increased from 20% to 44% in just 12 months which is a moment of joy for Sindh Bank.

The Bank provides handsome and market based competitive salary packages to our employees. Also, we also provide them Car finance facility and house building finance facilities to our employees at 4% markup rate only. They are also provided the best medical facilities for self and family. We understand that employee engagement can only be increased by motivating and letting employees know that we care about them. We firmly believe that the principal source of our strength as an organization is our human resource base. Managerial attention at the Bank has therefore been focused on the need to continuously invest in people, provide them with the right incentives to perform better and to make merit and performance the criteria for professional and career development. At Sindh Bank, we strive to develop and sustain a work environment in which each employee is empowered, is provided with opportunities for professional growth and is recognized and rewarded for the contribution made towards achievement of organizational objectives. We value diversity regarding the unique characteristics that each member of our team brings to the organization as reflected in diverse educational and professional backgrounds, cultural and gender perspectives. This mix positively impacts institutional approach and decision processes by providing a broader horizon, helping along the way the institution to be a more aware and responsive organization.

HR policy of Sindh Bank involves the use of processes through which the employees of an organization are prepared to give their best for corporate objectives. It involves setting up of a system through which human capabilities and potentials can be tapped resulting in mutual satisfaction of the individuals and organizations. It is a process by which employees of an organization are continuously helped in a planned way to meet the objectives of an organization. It helps to acquire or sharpen capabilities and improve organizational culture where superior-subordinate relationships, teamwork, and collaboration among different subunits are improved for better organizational health, dynamism, and pride of employees. The Advisor provided a new strategic outlook on all aspects of human resource management. After a detailed study of existing systems, policies and procedures and assisted by a small, but the efficient team that was assigned for the task, the Advisor prepared a range of policies that included:
1. Restructuring of HR function and organization
2. New Performance Management System
3. Dual Career Path and broad banding
4. Succession Planning
5. Reward and Recognition Systems

These new policies were aimed at creating an enabling environment for the professional development of staff by rooting them in merit-based, performance oriented and transparent procedures and processes. However keep in mind the absorption capacity of the institution for change and also to ensure effective implementation, the rollout of these policies was prioritized. In the first instance, implementation of the new HR Structure and Performance Management System was initiated. The remaining policy initiatives are being introduced gradually.

CONCLUSION

Employee engagement plays a very key role in the enhancement of profitability of a firm. Keeping in view the existing employee engagement policies and HR policies of National Bank of Pakistan, The Bank of Punjab and Sindh Bank, it seems that actively engaged employees accelerate bank’s financial performance. It also increases the bank’s asset and liability side products which are core parts of the overall banking industry.

Similarly, when employees are disengaged towards their assigned jobs, they will not produce the desired results as required by the organization.

In this research, we have examined how employee engagement is evolved around the world and Pakistan. We have also found how employee engagement is empowered and applicable in public sector banks in Pakistan at this stage.

In order to foster growth and productivity, all banks in Pakistan including private and public need to prioritize employee engagement. They need to motivate disengaged employees so that more productivity can be achieved as desired by the banks in Pakistan.

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