

CHAPTER I

INTRODUCTION

1.1 Background

Human Resource Management (HRM) plays a pivotal role in shaping organizational performance by aligning workforce capabilities, motivation, and engagement with strategic objectives. As articulated by Sekaran & Bougie (2016) HRM encompasses a wide range of practices, including recruitment, training, performance appraisal, and compensation, all of which are crucial to the achievement of organizational success. Robbins & Judge (2018) further emphasize that effective HRM practices foster employee satisfaction and engagement, which directly translate into enhanced organizational outcomes such as profitability, productivity, and competitive advantage. These theoretical perspectives underline the centrality of HRM in driving sustainable growth and resilience in organizations.

The banking industry, in particular, heavily relies on human capital as a primary resource for delivering high-quality services, ensuring customer satisfaction, and navigating a highly competitive and regulated environment. Wright & McMahan (1992) note that industries with a high reliance on intellectual and human capital, such as banking, require strategic HRM practices to maintain operational excellence. In the context of the Indonesian banking industry, key challenges such as regulatory compliance, rapid technological advancements, and evolving customer expectations underscore the importance of an adaptable and well-managed workforce. According to Dessler (2017) technological disruptions, including digital banking platforms and fintech innovations, have reshaped the demands on human resources, necessitating continuous skill development and a strategic focus on employee performance.

Indonesia's banking sector is a key driver of the country's economic growth, playing an essential role in supporting financial stability, investment, and job creation. In 2024, Indonesia's economy grew by 5.03%, slightly slowing from the 5.05% growth in 2023 (BPS, 2025). This growth reflects the resilience of its economic structure despite global uncertainties. Key sectors such as manufacturing, agriculture, and finance continue to lead the economy, with the financial and insurance sector (including banking) contributing significantly to national GDP.



to Sekaran & Bougie (2016) economic growth provides a foundational context for organizational performance and HRM practices. The banking sector, which contributes approximately 10% to Indonesia's GDP in 2024, must adapt to this evolving economic landscape. The financial and insurance sector, with a total value of IDR 922.8 trillion,

highlights the growing importance of financial services, including banking, in the country's overall economic structure.

In this context, it is important to understand the sectoral distribution of GDP, where manufacturing remains the largest contributor at 18.98%, followed by wholesale and retail trade at 13.07%, and agriculture at 12.61% (BPS, 2024). The financial sector's contribution, while smaller than manufacturing, is crucial for economic growth, as it facilitates investments, access to capital, and supports the financial needs of other industries.

Table 1.1 GDP Contributions by Sector

| Sector | GDP Contribution (%) | Total GDP Value (IDR) |
|---------------------------------|----------------------|-----------------------|
| Financial & Insurance (Banking) | 4.17 | 922.8 |
| Manufacturing | 18.98 | 3,956.3 |
| Agriculture | 12.61 | 2,628.5 |
| Mining | 9.15 | 1,906.2 |
| Construction | 10.09 | 2,101.6 |
| Wholesale & Retail Trade | 13.07 | 2,725.4 |
| Transportation & Storage | 6.13 | 1,278.1 |
| Accommodation & Food Services | 2.64 | 550.6 |
| Information & Communication | 4.34 | 904.1 |
| Real Estate Activities | 2.35 | 489.7 |
| Public Administration & Défense | 3.04 | 632.9 |
| Education | 2.81 | 585.1 |
| Human Health & Social Work | 1.26 | 262.7 |
| Other Services | 2.05 | 426.8 |
| Electricity, Gas & Water Supply | 1.03 | 214.7 |
| Other Sectors | 55.09 | 11,485.4 |
| Total GDP (Indonesia) | 100 | 22,139.0 |

Source: BPS (2024), sectoral distributions.

As illustrated in Figure 1.1, the financial sector's contribution is relatively significant compared to other industrie



to Robbins & Judge (2018) HRM practices must be aligned with the strategic try. As the banking sector grows and diversifies, HRM strategies need to focus chnological innovations, such as digital banking and fintech advancements,

which have reshaped the sector. This presents HRM challenges such as developing specialized skills and promoting continuous learning among the workforce.

In terms of employment, the banking sector employed approximately 2.5 million people in 2024 (BPS, 2024). This reflects the sector's critical role in the labor market and its capacity to create skilled job opportunities in an evolving economy. The demand for skilled labor in digital banking, cybersecurity, and customer relations is expected to increase, requiring banks to implement effective HRM strategies for recruitment, training, and retention.

Table 1.1 Employment Distribution by Sector

| Sector | Employment (Million People) |
|---------------------------------|-----------------------------|
| Financial & Insurance (Banking) | 2.5 |
| Manufacturing | 18.7 |
| Agriculture | 38.2 |
| Mining | 1.5 |
| Construction | 7.8 |
| Wholesale & Retail Trade | 19.3 |
| Transportation & Storage | 4.5 |
| Accommodation & Food Services | 5.1 |
| Information & Communication | 1.8 |
| Real Estate Activities | 0.9 |
| Public Administration & defence | 3.2 |
| Education | 4.5 |
| Human Health & Social Work | 1.3 |
| Other Services | 2.1 |
| Electricity, Gas & Water Supply | 0.7 |
| Other Sectors | 22.8 |
| Total Workforce | 152.11 |

Source: BPS (2024), workforce distribution

Furthermore, the financial sector employs approximately 2.5 million people, making it a significant contributor to Indonesia's labor market.

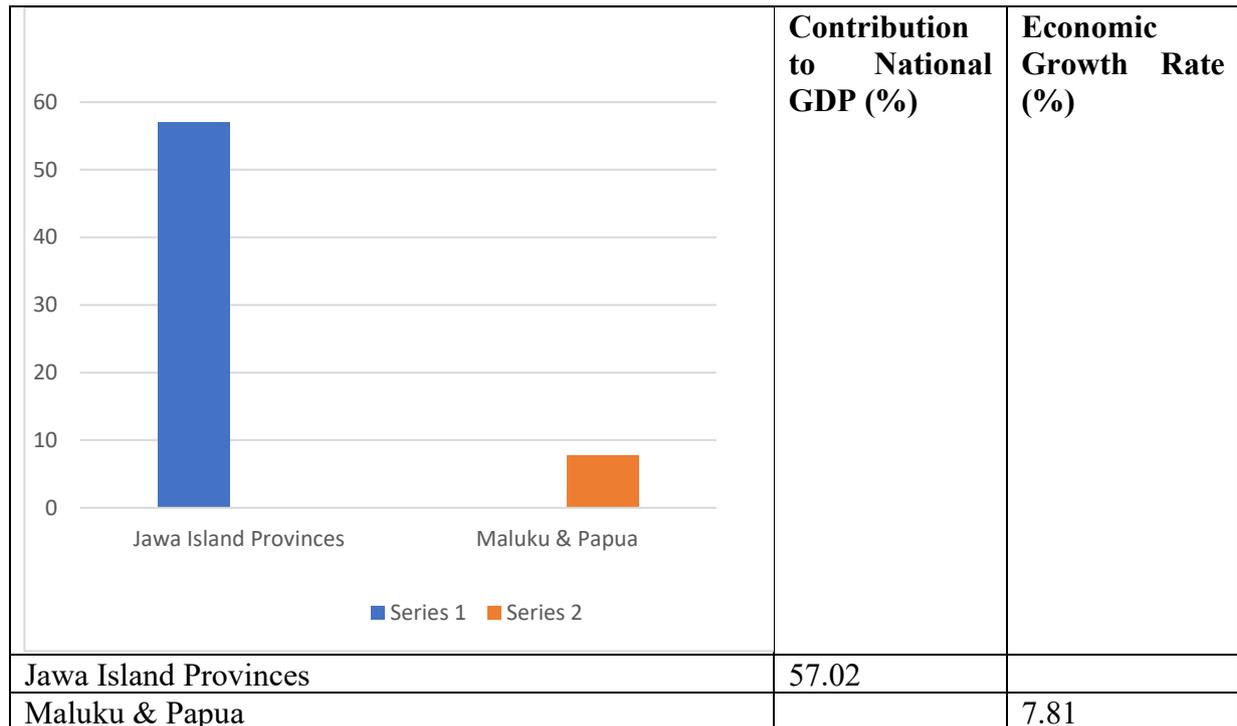
In line with the HRM challenges, the regional economic performance also plays a crucial role in HRM strategies in the banking sector. According to BPS (2024), Jawa Island contributed 57.02% to the national GDP, while the Maluku and Papua regions saw the growth rate at 7.81%. These regional disparities suggest that banks will need



to tailor their HRM strategies to meet the unique needs of each region, particularly in emerging markets like Papua.

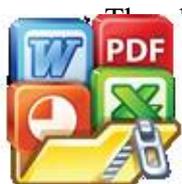
As emphasized by Sekaran & Bougie (2016) HRM must be adaptable to regional economic differences. While urban centers like Jakarta continue to dominate Indonesia’s financial landscape, the rise of regional economies presents both challenges and opportunities for HRM practices. Banks will need to recruit, train, and retain employees in these growing regions, focusing on region-specific HR needs.

Figure 1.1: Pie Chart for Regional Economic Performance in Indonesia



Source: BPS (2024), sectoral distributions.

The integration of economic data and regional performance into the HRM framework is essential for understanding how HR practices in the banking sector must evolve. According to Robbins & Judge (2018), aligning HRM practices with the economic environment and regional market needs is critical for achieving organizational success. As the banking sector continues to grow and evolve, it must adapt its HR strategies to ensure a skilled and adaptable workforce that can respond to both technological shifts and regional economic opportunities.



Challenges and opportunities presented by Indonesia’s banking sector, highlighted and employment data, call for strategic HRM practices that foster employee engagement, and organizational performance. This research seeks to

address the gap in understanding the role of HRM in the banking sector, particularly in relation to Indonesia's unique economic and regional context.

The sector's dynamic environment characterized by increased competition, heightened customer expectations, and stringent regulatory frameworks requires HRM strategies that are both innovative and context-specific Wright & McMahan (1992). According to Huselid (1995), the integration of high-performance work practices, such as selective staffing, comprehensive training programs, and performance-based compensation, is essential for enhancing employee productivity and organizational success. However, as noted by Sekaran & Bougie (2016) existing research often overlooks the contextual nuances of HRM practices in developing economies, particularly in industries such as banking, where workforce dynamics and regulatory conditions differ significantly from those in developed nations.

Despite the growing recognition of HRM's strategic importance, there remains a significant gap in the literature regarding its application and impact within the Indonesian banking sector. While global studies have established the positive relationship between HRM practices and organizational performance Pfeffer (1998); Vermeeren et al. (2014) few have explored this dynamic in Indonesia, a developing economy with its own cultural and regulatory intricacies. As Robbins & Judge (2018) point out, contextual factors such as operational processes, economic conditions, and technological readiness play a crucial role in shaping the effectiveness of HRM practices.

This research aims to address these gaps by investigating the relationship between HRM factors and organizational performance in the Indonesian banking industry. By focusing on key HRM variables, such as investment in employee development, performance management, and workforce engagement, this study seeks to provide actionable insights for both practitioners and policymakers. Ultimately, the findings will contribute to the broader understanding of HRM's role in fostering organizational success in emerging economies, aligning with the academic rigor and practical relevance advocated by Sekaran & Bougie (2016) and Robbins & Judge (2018).

1.2 Research Problem

The Indonesian banking industry faces several pressing challenges that hinder its ability to maximize organizational performance. High employee turnover remains a critical issue, increased recruitment and training costs while disrupting operational continuity. Robbins & Judge (2018), high turnover rates can be attributed to skill mismatches, limited development opportunities, and inadequate engagement strategies, all of which threaten workforce stability. Moreover, the rapid adoption of digital technologies in banking



has exposed skill gaps among employees, highlighting the need for targeted training and development programs to ensure they remain competitive and adaptable Dessler (2017).

Resistance to technological adaptation is another significant challenge within the sector. Wright & McMahan (1992) emphasize that employees often resist change due to fear of the unknown, lack of skills, or inadequate communication about new processes. This resistance not only slows down the implementation of innovative HRM systems but also affects the overall productivity and customer service quality in banks.

Despite the critical role of HRM in addressing these challenges, there is a notable lack of context-specific studies examining HRM practices in Indonesian banks. As Sekaran & Bougie (2016) point out, the effectiveness of HRM practices is deeply influenced by cultural, economic, and regulatory factors, which vary significantly across regions and industries. Existing research has primarily focused on developed economies, leaving a gap in understanding how HRM investments impact employee performance, growth of employee number impacting organizational performance and organizational outcomes in developing economies like Indonesia.

Furthermore, there is a pressing need to explore the ways in which HRM investments, including those aimed at improving individual employee performance, influence broader organizational outcomes. While some theories suggest that high individual productivity may lead to diminishing returns or workforce strain, it is also possible that such productivity reflects efficiency and strategic alignment with organizational goals, especially in performance-driven industries like banking Pfeffer (1998). However, the extent to which these practices are implemented effectively in Indonesian banks remains unclear, as does their impact on key performance indicators such as profitability, productivity, and customer satisfaction.

Addressing these gaps is crucial for providing actionable insights into optimizing HRM strategies within the Indonesian banking sector. By examining the interplay between HRM investments, employee performance, growth of employee number and organizational outcomes, this study seeks to contribute to the broader understanding of HRM's potential to drive sustainable success in emerging economies, as advocated by Sekaran & Bougie (2016) and Robbins & Judge (2018).

1.3 Research Questions



ch questions aim to address the core issues related to HRM practices and their organizational performance within the Indonesian banking sector. According to Bougie (2016), well-formulated research questions guide the investigation by identifying specific aspects of the problem.

1. *How does investment in HRM influence organizational performance in Indonesian banks?*
2. *What is the relationship between individual employee performance and organizational success?*
3. *How does growth of employee number directly affect organizational performance?*

These research questions align with the study's objectives and provide a structured approach to exploring the complex relationships between HRM factors, employee performance, and organizational outcomes.

1.4 Research Objectives

The objective of this research is to:

1. Examine the impact of investment in HRM on organizational performance in the Indonesian banking industry.
2. Evaluate how individual employee performance contributes to achieving organizational goals.
3. Explore the effects of growth of employee number on organizational performance.

1.5 Writing Systematics

This study is structured into six chapters, each designed to address specific aspects of the research objectives and questions while maintaining a logical flow:

- **Chapter 1: Introduction**

This chapter provides an overview of the study, including the background, problem statement, research objectives, research questions, significance, scope, and limitations. It sets the foundation for understanding the critical role of HRM in the Indonesian banking industry.

- **Chapter 2: Theoretical Review**

This chapter reviews relevant literature and theoretical frameworks on HRM and organizational performance. It explores global trends, sector-specific insights, and gaps, as highlighted by Sekaran & Bougie (2016) and Robbins & Judge (2018).



- **Theoretical Framework**

This chapter introduces the conceptual and theoretical models used to examine the relationship between HRM factors and organizational performance. Frameworks such as the resource-based view (RBV) are discussed to provide a comprehensive foundation for the study

Chapter 4: Research Methodology

This chapter outlines the research design, population, sampling methods, data collection techniques, and analytical tools. According to Sekaran & Bougie (2016), a clear methodology ensures the reliability and validity of findings.

- **Chapter 5: Results and Discussion**

This chapter presents the research findings and provides an in-depth analysis of the results in relation to the research questions and objectives. The discussion integrates theoretical perspectives with empirical evidence to derive meaningful insights.

- **Chapter 6: Conclusion and Recommendations**

The final chapter summarizes the study's key findings, highlights its contributions to theory and practice, and provides recommendations for HR practitioners, industry leaders, and policymakers. Limitations and suggestions for future research are also discussed.



CHAPTER II

THEORETICAL REVIEW

2.1 Theoretical Review

The theoretical review focuses on defining and analyzing core concepts central to the study, including HRM practices, employee performance, and organizational outcomes. It highlights the critical role of HRM investment in shaping organizational success, particularly in the banking sector, by drawing on relevant theoretical models and empirical evidence. This section also identifies research gaps and frames the foundation for subsequent sections, ensuring a structured and focused exploration of the topic.

2.1.2 Theoretical Foundations of HRM

Understanding the theoretical foundations of Human Resource Management (HRM) is essential for analysing its impact on organizational success. HRM provides a framework for aligning employee capabilities, motivation, and opportunities with strategic objectives. This section explores key concepts and models that underpin HRM, emphasizing its role in enhancing individual and organizational performance.

2.1.2.1 Definition and Scope of HRM

Human Resource Management (HRM) is a comprehensive approach that focuses on the strategic management of an organization's workforce to enhance both individual and organizational performance. According to Sekaran & Bougie (2016), HRM involves the process of managing people within an organization to ensure that the right talent is attracted, developed, and retained to meet the organization's goals. HRM encompasses a wide range of activities, from recruitment to performance management, designed to maximize the potential of employees while aligning their contributions with organizational objectives. As organizations face increasingly complex challenges, HRM has evolved into a strategic function, where it is no longer viewed merely as an administrative role but as a critical partner in achieving sustainable competitive advantage Sekaran & Bougie (2016).

In the context of organizations, HRM also serves as a mechanism for aligning individual aspirations with the strategic objectives of the business. The scope of HRM extends beyond traditional roles with practices influencing operational processes, employee satisfaction, and performance. As such, HRM functions must continuously adapt to changes in strategy, the external environment, and emerging workforce trends.



2.1.2.2 The Roles of HRM in Organizations

Human Resource Management (HRM) plays a multifaceted role in organizations, acting as a critical driver of strategic objectives and organizational performance. According to Sekaran & Bougie (2016), HRM contributes to the overall success of an organization by aligning human resources with business goals. This alignment ensures that employees are effectively utilized and motivated to achieve optimal outcomes.

One of the primary roles of HRM is to bridge the gap between organizational strategy and employee performance. Robbins & Judge (2018) emphasize that HRM acts as a catalyst for fostering employee engagement, which directly influences productivity and job satisfaction. Engaged employees are more likely to contribute positively to the organization's efficiency and success.

Another key role is to enhance organizational agility. HRM ensures that organizations can adapt to dynamic market conditions by cultivating a flexible and skilled workforce. As noted by Wright & McMahan (1992) HRM strategies that emphasize continuous learning and development empower employees to adapt to changing demands, ensuring the organization remains competitive.

HRM also plays a vital role in conflict resolution and fostering collaboration. Pfeffer (1998) argues that effective HRM practices, such as open communication and team-building initiatives, help to minimize workplace conflicts and promote a harmonious work environment. This collaborative culture enhances teamwork and supports the achievement of organizational objectives.

Furthermore, HRM supports the alignment of operational goals and values. By implementing policies and practices that reflect the organization's mission, HRM helps to shape an environment where employees feel aligned with the company's vision. According to Guest (2011) HRM practices that prioritize transparency, equity, and inclusivity foster a sense of belonging, ultimately driving employee loyalty and retention.

Lastly, HRM is essential in mitigating risks and ensuring compliance. As noted by Sekaran & Bougie (2016), HRM helps organizations navigate complex regulatory environments by ensuring adherence to labor laws, workplace safety regulations, and ethical standards. This reduces the risk of legal repercussions and enhances the organization's reputation.



HRM's roles extend beyond traditional administrative functions, serving as a key in achieving organizational success. By aligning human capital with business goals, fostering a culture of engagement and collaboration, and promoting adaptability,

HRM ensures that organizations can navigate challenges and seize opportunities in a competitive landscape.



Source: Schema based on the book Robbins & Judge (2018) and Sekaran & Bougie (2016)

Figure 2.1: The Roles of HRM in Organizations

2.1.2.3 Key HRM Functions

HRM is integral to managing various functions that contribute to the overall effectiveness of an organization. Robbins & Judge (2018) emphasize the importance of several core HRM functions, including recruitment, training, performance management, employee engagement, compensation, and employee development.

- **Recruitment** is the process of attracting and selecting the best candidates for job openings. According to Robbins & Judge (2018), an effective recruitment strategy ensures that organizations can source individuals whose skills and values align with the company's needs and culture.
- **Training** plays a crucial role in enhancing employee skills, ensuring that the workforce is equipped to meet current and future challenges. Robbins & Judge (2018) argue that continuous training is essential for maintaining competitive advantage, especially in industries like banking, where technological advancements and regulatory changes are frequent.
- **Performance Management** involves assessing and managing employee performance to ensure that organizational objectives are met. Robbins & Judge (2018) assert that a well-structured performance management system provides feedback, sets clear expectations, and supports employees in achieving their full potential.



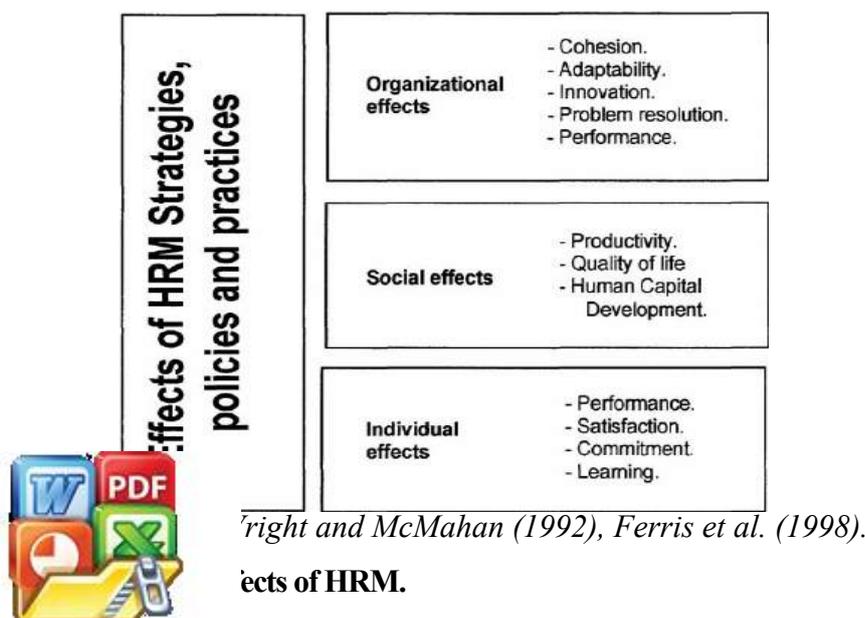
• **Engagement** refers to the level of enthusiasm and commitment employees bring to their work and the organization. According to Robbins & Judge (2018), a high level of engagement leads to increased productivity, job satisfaction, and turnover.

- **Compensation and Rewards** are crucial in motivating employees and retaining top talent. Robbins & Judge (2018) explain that competitive compensation structures, including bonuses and benefits, are essential in recognizing employee efforts and driving organizational success.
- **Employee Development** includes programs and initiatives designed to enhance employees' skills, competencies, and career growth. This function is vital for preparing employees for higher responsibilities, promoting internal mobility, and ensuring the long-term success of the organization Robbins & Judge (2018).

2.1.2.4 HRM Models

In HRM literature, 2 prominent models, the Best-Fit Model and the Best-Practice Model, highlight different perspectives on how organizations should design and implement HR practices to achieve optimal performance. Both models aim to maximize the effectiveness of HR strategies, yet they differ in their approach to aligning HR practices with organizational goals and contexts.

1. **Best-Fit Model:** The Best-Fit Model emphasizes the importance of aligning HR practices with an organization's specific strategy, culture, and external environment. According to Wright & McMahan (2011), HR strategies should be tailored to fit the unique context of the organization, as different strategic goals require distinct HR approaches. This model asserts that there is no one-size-fits-all solution, and success in HR management depends on customizing practices to meet the organization's specific needs. Wright & McMahan (2011) argue that such alignment between HR practices and organizational strategy leads to improved performance by ensuring that human capital directly supports the firm's objectives.



Effects of HRM.



2. **Best-Practice Model:** In contrast, the Best-Practice Model suggests that certain HR practices, regardless of the organization's context, lead to superior performance outcomes. Practices such as comprehensive employee training, performance-based compensation, and participative work environments are considered universally beneficial. Pfeffer (1998) asserts that these high-performance work systems contribute to improved organizational outcomes by fostering a motivated, committed, and high-performing workforce. According to Pfeffer (1998), the implementation of these best practices enhances employee satisfaction and productivity, irrespective of the specific challenges faced by individual organizations.



Source: Pfeffer (1998) Seven practices of successful organizations. *Entrepreneurship Theory and Practice*, 23(5), 83-97.

Figure 2.1: Best-Practice Model

The Best-Fit Model advocates for alignment between HR practices and organizational strategy. At the same time, the Best-Practice Model highlights universally effective HR practices that lead to positive organizational outcomes. Both models provide valuable frameworks for understanding how HRM can influence organizational performance, but they differ in their assumptions about the relationship between HR practices and organizational context.

2.1.3. HRM and Organizational Performance

The relationship between Human Resource Management (HRM) and organizational performance is a central focus of research and practice. Effective HRM practices enhance motivation, and engagement, which directly contribute to achieving organizational goals. This section examines how HRM influences performance outcomes, drawing on theoretical models and empirical evidence, with a particular focus on the banking industry.



2.1.3.1 The Relationship Between HRM and Performance

Human Resource Management (HRM) practices profoundly influence organizational performance, particularly in the banking sector, where human capital plays a critical role in determining service quality and financial outcomes. According to Wright & McMahan (1992), HRM practices serve as a strategic asset, aligning workforce capabilities with organizational goals to achieve sustainable competitive advantage.

In the banking industry, recruitment, training, performance management, and employee engagement are essential HRM practices that directly affect employee productivity and customer satisfaction. As noted by Pfeffer (1998), HRM strategies that focus on enhancing employee commitment and providing a supportive work environment contribute significantly to organizational success. For instance, training programs in banks ensure employees are equipped with the skills to handle complex financial transactions, leading to improved service delivery and customer retention. Similarly, effective performance management systems align employee efforts with organizational objectives, enhancing operational efficiency and profitability Robbins & Judge (2018).

The effect of individual performance on organizational outcomes can vary by context. In service sectors like banking, higher net profit per employee may indicate productivity, efficiency, and strategic alignment with profitability goals. However, some studies caution that overemphasis on individual output may lead to burnout or misaligned incentives. Therefore, while this study initially hypothesizes a negative relationship (H2), the actual effect may depend on how employee performance metrics are interpreted and managed.

2.1.3.2 Impact of HRM Practices

HRM practices influence multiple dimensions of organizational performance, including employee productivity, profitability, and customer satisfaction. According to Pfeffer (1998), adopting best practices in HRM such as selective hiring, training, performance-based rewards, and employee engagement can significantly enhance organizational performance.

In the banking sector, selective recruitment ensures the hiring of skilled professionals capable of meeting industry demands. Training programs tailored to address emerging financial technologies and customer needs enhance employees' technical and interpersonal competencies, contributing to better service quality. According to Robbins & Judge (2018), practical training



employee confidence and reduces turnover, leading to cost savings and improved

performance management systems are equally vital. When aligned with organizational

tools help monitor, evaluate, and improve employee contributions. Wright &

McMahan (1992) note that HRM practices emphasizing continuous feedback and goal alignment foster a culture of accountability and productivity. Furthermore, fair and transparent compensation practices motivate employees to exceed expectations, directly influencing profitability (Sekaran & Bougie, 2016).

Overall, HRM practices serve as a cornerstone for achieving organizational excellence in the banking sector. By fostering a skilled, motivated, and empowered workforce, banks can achieve operational efficiency, customer satisfaction, and financial success.

2.1.3.3 Effectiveness of HRM Practices

The effectiveness of Human Resource Management (HRM) practices is paramount to achieving organizational success, particularly in sectors like banking. Effective HRM practices are those that align with the strategic objectives of the organization, contributing directly to improved employee performance and organizational outcomes. According to Sekaran & Bougie (2016), HRM practices are most effective when they are tailored to the specific needs of the organization and are consistently aligned with its goals. Sekaran & Bougie (2016) further emphasize that the implementation of effective HRM practices results in higher employee engagement, improved job satisfaction, and overall organizational success. In the banking sector, where competition is fierce and regulatory requirements are stringent, effective HRM practices enable banks to maintain a skilled, motivated workforce that can adapt to rapidly changing market conditions.

2.1.4 Models and Frameworks in Existing Literature

There are two widely recognized models

- **Best-Practice Model**

The Best-Practice Model suggests that certain HRM practices are universally applicable and beneficial for organizational performance, regardless of the organizational context. According to Pfeffer (1998), best practices such as comprehensive recruitment, training, employee involvement, performance-based compensation, and career development are considered critical for achieving high performance across all industries. Robbins & Judge (2018) emphasize that when organizations implement these best practices, they are likely to experience improved employee satisfaction, lower turnover, and enhanced organizational performance.

For instance, Huselid (1995) found that organizations implementing best practices in selective staffing and extensive training programs, reported higher levels of financial performance. In the context of banking, these practices are crucial, as constant challenges related to regulatory changes, technological advances, and optional customer service. By implementing best practices, banks can enhance



both employee engagement and customer satisfaction, which, in turn, leads to improved overall performance.

- **Best-Fit Model**

In contrast to the universal application of the Best-Practice Model, The Best-Fit Model emphasizes the importance of aligning HR practices with an organization's specific strategy, operational needs, and external environment. Wright & McMahan (1992) argue that there is no one-size-fits-all approach to HRM, and organizations must tailor their HRM strategies to their unique needs and circumstances. This model posits that alignment between HRM practices and organizational strategy is crucial for achieving optimal performance outcomes.

In banking, for example, the need for adaptability is paramount as the industry faces diverse challenges such as technological innovation and market competition. According to Delery & Doty (1996) firms that align their HRM practices with their strategic goals and external conditions are more likely to succeed. Sekaran & Bougie (2016) assert that tailoring HRM practices to suit the organization's objectives can lead to a competitive advantage, particularly in dynamic sectors like banking.

2.1.5. Key HRM Factors Influencing Organizational Performance

Certain HRM factors play a pivotal role in shaping organizational performance by enhancing employee productivity, satisfaction, and commitment. These factors, including training and development, performance appraisal, motivation, engagement, and compensation, directly impact how effectively organizations achieve their objectives. This section explores these critical HRM factors, emphasizing their importance in driving performance, particularly within the banking sector.

2.1.5.1 Employee Training and Development

Employee training and development play a pivotal role in enhancing organizational effectiveness. According to Wright & McMahan (1992), training equips employees with the necessary skills and knowledge to perform their roles efficiently, leading to increased productivity and innovation. In the banking industry, where customer service and technical precision are critical, regular training programs ensure employees stay updated on financial regulations and emerging technologies.

Pfeffer (1998) highlights that organizations investing in continuous employee training experience improved job performance, better problem-solving capabilities, employee satisfaction. Training also fosters employee confidence, reducing errors and overall service quality. For instance, targeted training programs in customer engagement can directly influence client retention rates and profitability.



2.1.5.2 Performance Appraisal and Management

Performance appraisal and management systems are essential tools for monitoring and enhancing both individual and organizational performance. According to Robbins & Judge (2018), effective performance management involves setting clear goals, providing regular feedback, and aligning individual objectives with organizational strategy.

In the banking sector, performance appraisals help identify high-performing employees and areas requiring improvement. Wright & McMahan (1992) argue that transparent and fair appraisal systems not only improve employee motivation but also foster a culture of accountability. For example, performance-linked incentives encourage employees to meet or exceed targets, contributing to organizational success. Additionally, ongoing performance reviews provide actionable insights for workforce planning and development.

2.1.5.3 Employee Motivation and Engagement

Employee motivation and engagement are key drivers of organizational performance. Maslow's Hierarchy of Needs and Herzberg's Two-Factor Theory, as discussed by Robbins & Judge (2018), offer valuable insights into employee behaviour and performance.

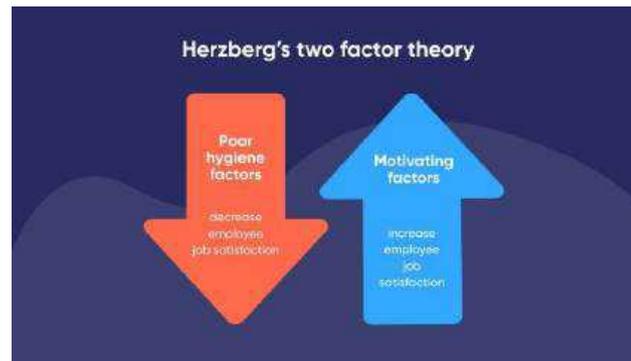
- **Maslow's Hierarchy of Needs:** This theory emphasizes that employees must have their basic physiological and safety needs met before they can focus on higher-order needs, such as belonging, esteem, and self-actualization. In the banking industry, competitive salaries and job security address these basic needs, while recognition programs and career advancement opportunities fulfill higher-order aspirations.



Source: Maslow, A. H. (1954). Motivation and Personality

Figure 2.1: Employee Motivation and Engagement

- **Herzberg's Two-Factor Theory:** Herzberg distinguishes between hygiene factors (e.g., salary, job security) and motivators (e.g., recognition, personal growth). According to Robbins & Judge (2018), motivators actively enhance employee engagement and performance, while hygiene factors prevent dissatisfaction. For instance, implementing mentorship programs and recognizing outstanding achievements can significantly boost morale and productivity.



Source: Herzberg, F., Mausner, B., & Snyderman, B. (1959).

The Motivation to Work.

Figure 2.1: Employee Motivation and Engagement

Pfeffer (1998) adds that highly engaged employees are more likely to exhibit loyalty, creativity, and efficiency, all of which contribute to long-term organizational success.

2.1.5.4 Separation of Functions in HRM

The separation of HRM functions is a critical aspect of ensuring that each component of HRM effectively contributes to the broader goals of the organization. Sekaran & Bougie (2016) argue that clearly defined HRM functions such as recruitment, training, performance management, and compensation enable organizations to address different human resource needs without overlap, thus enhancing operational efficiency. Robbins & Judge (2018) also discuss how separating HRM functions allows for specialized focus on each area, ensuring that HR strategies are more targeted and aligned with the organization's overall business objectives. For example, recruitment efforts can be optimized to find the right talent, while training and development programs can be tailored to enhance employee skills that align with organizational



2.1.5.5 Compensation and Rewards

Compensation and rewards are critical components of HRM, directly influencing employee motivation and performance. According to Sekaran & Bougie (2016), fair and transparent compensation practices foster employee trust and satisfaction, reducing turnover and absenteeism.

In the banking sector, competitive compensation packages, including bonuses, stock options, and non-monetary benefits, are essential for attracting and retaining top talent. Pfeffer (1998) notes that performance-based rewards, such as commissions or profit-sharing plans, incentivize employees to achieve organizational goals. Additionally, non-financial rewards, such as flexible work arrangements and career development opportunities, contribute to a positive work environment and enhanced employee engagement.

Compensation systems that align individual performance with organizational objectives not only motivate employees but also create a culture of excellence. Robbins & Judge (2018) highlight that recognition programs, such as employee-of-the-month awards, reinforce desired behaviours and foster a sense of belonging among staff.

2.1.6 HRM Practices in the Banking Industry

Human Resource Management (HRM) practices are vital to the banking industry's ability to achieve operational efficiency and maintain competitive advantage. The banking sector, as a service-oriented industry, faces unique challenges that influence how HRM practices are structured and executed. In service industries, there is a constant and direct interaction between employees and customers, making the role of HR even more critical. High-quality HRM practices are essential for ensuring that employees possess the necessary skills, motivation, and job satisfaction to meet the demands of customers while contributing to the bank's overall performance.

As a highly competitive sector, the banking industry relies on the efficiency and performance of its human resources to maintain its position in the market. HRM practices, including recruitment, retention, and career development, are designed to ensure that employees align with the bank's goals, capabilities, and values. According to Sekaran & Bougie (2016) the integration of HR practices with business objectives helps improve efficiency, enhance customer service, and secure long-term success. Furthermore, Robbins & Judge (2018) highlight that effective HRM practices contribute significantly to both individual and organizational

ting a foundation for improved service delivery and customer satisfaction.

In the banking sector, HRM practices are not just about meeting immediate operational needs but also about building a strong workforce capable of adapting to evolving market trends and challenges. As discussed by Sekaran & Bougie (2016), an organization's HR



practices have a profound impact on its overall strategy, particularly in aligning human capital with business goals. This section delves into several key HRM practices in the banking sector, including recruitment strategies, employee retention, and career development, illustrating how these practices collectively contribute to enhanced performance and competitive advantage in the banking industry.

2.1.6.1 Recruitment Strategies

Recruitment is a fundamental HRM practice in the banking industry, where identifying and hiring the right talent ensures operational efficiency and customer satisfaction. According to Sekaran & Bougie (2016) recruitment strategies should focus on identifying candidates who possess both technical and interpersonal skills tailored to the demands of the industry.

Many banks use a mix of traditional and digital recruitment strategies. For instance, campus recruitment programs allow banks to attract fresh talent, while digital platforms like LinkedIn expand their reach. As noted by Wright & McMahan (1992), aligning recruitment practices with organizational goals can significantly reduce turnover and ensure that new hires contribute effectively to long-term success.

2.1.6.2 Employee Retention

Retention strategies are crucial in the banking sector, where high employee turnover can lead to increased costs and disrupted operations. According to Robbins & Judge (2018), successful retention programs often combine competitive compensation, a positive work environment, and opportunities for career growth.

Pfeffer (1998) highlights that providing job security, fair rewards, and recognition fosters employee loyalty. For example, banks that prioritize internal promotions and implement mentorship programs create a sense of belonging, reducing turnover rates. Moreover, offering benefits like health insurance, wellness programs, and flexible work arrangements demonstrates an organization's commitment to employee well-being, which further enhances loyalty and engagement.

2.1.6.3 Career Development Programs

Career development programs are essential for equipping banking professionals with the skills and knowledge needed in a constantly evolving industry. According to Robbins & Judge (2018), structured training and development opportunities ensure that employees are prepared to adapt to new technologies and regulatory changes.



z Bougie (2016) argue that clear career pathways motivate employees to est while fostering a culture of continuous learning. For example, leadership rams and workshops on emerging technologies empower employees to take on ies, thereby improving individual and organizational performance. Wright &

McMahan (1992) note that such programs not only enhance employee satisfaction but also strengthen organizational adaptability in competitive markets.

2.1.6.4 Impact on Individual and Organizational Performance

Integrated HRM practices spanning recruitment, retention, and career development play a pivotal role in improving both individual and organizational outcomes. According to Pfeffer (1998), HRM practices that align with employee needs and organizational goals lead to increased productivity, reduced turnover, and greater profitability.

For instance, effective recruitment ensures that employees have the necessary skills to meet job demands. Similarly, retention strategies that focus on employee well-being and satisfaction result in higher engagement levels and lower absenteeism. Career development initiatives, on the other hand, prepare employees to navigate future challenges, enabling banks to maintain their competitive edge. Robbins & Judge (2018) emphasize that when these HRM practices are executed cohesively, they create a high-performance culture, driving both individual and organizational success.

2.1.7 Challenges in Implementing HRM Practices in the Banking Industry

One of the primary challenges in implementing HRM practices in the banking industry is resistance to change. Employees and managers often perceive new HRM initiatives as disruptive, particularly when they involve technological advancements or changes in operational practices. According to Robbins & Judge (2018), resistance to change arises from fear of the unknown, loss of control, or perceived threats to job security. For example, introducing digital HRM systems can lead to push back from employees who are less tech-savvy or fear being replaced by automation. To mitigate resistance, organizations must focus on change management strategies, including clear communication, employee involvement, and training programs. Sekaran & Bougie (2016) emphasize that involving employees in the planning and implementation process reduces resistance and fosters a sense of ownership, thereby increasing the likelihood of successful adoption. The banking sector is heavily regulated, and HRM practices must comply with legal and regulatory frameworks. According to Boxall & Purcell (2016), compliance with labour laws, data protection regulations, and anti-discrimination policies can limit the flexibility of HRM practices. For example, implementing performance appraisal systems or restructuring workforce arrangements may require extensive legal reviews to ensure compliance with labour regulations. Robbins & Judge (2018) argue that regulatory



low down the implementation of HRM practices and increase costs, as it allocates resources to legal compliance and audits. Banks must work closely with legal teams to design HRM practices that align with regulatory requirements while maintaining effectiveness. Cultural diversity within the workforce poses another challenge

for HRM practices in the banking industry. With employees from varied cultural backgrounds, organizations may face difficulties in creating uniform HRM policies that cater to everyone. According to Pfeffer (1998), cultural issues can lead to misunderstandings, conflicts, and misalignment of organizational goals. For instance, differences in communication styles, work ethics, and expectations regarding rewards and recognition can complicate the implementation of standardized HRM practices. Robbins & Judge (2018) emphasize the importance of cultural sensitivity and adaptability in HRM, highlighting the need for tailored strategies that consider cultural nuances. Providing cross-cultural training and fostering an inclusive work environment can help banks address these challenges effectively.

The challenges of resistance to change, regulatory constraints, and cultural issues can significantly affect the relationship between HRM practices and organizational performance. According to Sekaran & Bougie (2016), unresolved challenges can lead to inefficiencies, reduced employee engagement, and compromised organizational outcomes. For instance, resistance to change can delay the adoption of innovative HRM systems, reducing their potential benefits. Similarly, regulatory constraints can limit the scope of HRM initiatives, hindering their ability to improve performance. Cultural issues, if not addressed, can result in lower employee satisfaction and higher turnover rates. Pfeffer (1998) underscores that overcoming these challenges requires a proactive approach, including continuous learning, collaboration, and adaptability. By addressing these barriers effectively, banks can strengthen the link between HRM practices and organizational performance, achieving sustainable success.

2.2 Literature Review

This section critically examines existing empirical studies to provide a comprehensive understanding of HRM and organizational performance in the banking industry, highlighting global trends and sector-specific insights. By synthesizing prior research, this section identifies key research gaps and lays the foundation for the current study.

2.2.1 Overview of Existing Research

Human Resource Management (HRM) has been extensively studied across various industries, including banking, due to its pivotal role in enhancing organizational performance. According to Sekaran & Bougie (2016), reviewing existing literature is essential for understanding established knowledge, identifying gaps, and guiding research objectives. The following overview summarizes key findings from empirical studies on HRM practices and

performance in the banking sector, emphasizing global trends and industry-



2.2.1.1 HRM Practices and Organizational Performance

The link between HRM practices and organizational performance has been firmly established in literature. Wright & McMahan (1992) argue that HRM practices significantly influence employee behavior, motivation, and productivity, which in turn drive organizational success. Specifically, in the banking sector, recruitment strategies, training programs, and performance management systems have been shown to improve service quality, customer satisfaction, and profitability.

For instance, Vermeeren et al. (2014) found that well-implemented HRM practices enhance employee engagement and commitment, leading to better organizational outcomes. Similarly, Pfeffer (1998) identified that adopting high-performance work practices, such as selective hiring and comprehensive training, results in superior organizational performance. These findings align with Robbins & Judge (2018), who highlight the critical role of HRM in fostering employee satisfaction and loyalty, particularly in competitive industries like banking.

2.2.1.2 Global Trends in HRM and Organizational Performance

Global research reveals a growing emphasis on technology-driven HRM practices, such as e-recruitment and online training platforms. Dessler (2017) notes that technological advancements have revolutionized traditional HRM functions, making them more efficient and accessible. In the context of banking, digital tools for employee engagement and performance appraisal are becoming increasingly prevalent, as they help organizations adapt to the rapidly changing financial landscape.

Another trend highlighted by Huselid (1995) is the integration of HR analytics in decision-making. Banks are leveraging data-driven insights to predict employee turnover, optimize recruitment strategies, and assess training effectiveness. These global trends underline the dynamic nature of HRM practices and their evolving role in enhancing organizational performance.

Sector Specific Insights

The banking industry faces unique challenges that influence the implementation of HRM practices. Regulatory compliance, for example, requires banks to invest in specialized training programs to ensure employees are well-versed in legal and ethical standards. Sekaran & Bougie (2016) emphasize that HRM practices must align with sector-specific demands, such as risk customer relationship building.



Shukla & Curtis (2014) and Sürdü et al. (2020) highlight that HRM practices in the banking sector, such as targeted career development initiatives and performance-

based compensation schemes, significantly enhance organizational resilience and adaptability. These practices are critical in addressing high employee turnover rates and ensuring consistent service delivery in an industry where trust and reliability are paramount.

This section underscores the importance of HRM practices in driving organizational performance, particularly in the banking industry. By summarizing key findings and identifying research gaps, this literature review highlights the need for a comprehensive framework that addresses both global trends and sector-specific challenges. The insights gained from this review will guide the subsequent analysis and development of targeted HRM strategies.

2.2.2 HRM Factors and Organizational Performance

Human Resource Management (HRM) practices are widely recognized as key drivers of organizational success. According to Sekaran & Bougie (2016), HRM factors such as training, performance management, and rewards directly influence employee behavior, motivation, and productivity, which in turn impact organizational outcomes. This section reviews empirical studies on the relationship between HRM practices and organizational performance, with a particular focus on the banking industry.

2.2.2.1 Impact of HRM Practices on Organizational Outcomes

Training and Development

Training equips employees with the skills and knowledge necessary to perform their roles effectively. Robbins & Judge (2018) assert that continuous learning and professional development enhance employee productivity and job satisfaction, contributing to overall organizational performance. For example, a study by Huselid (1995) highlights that firms with well-designed training programs exhibit lower turnover rates and higher profitability. In the banking sector, targeted training programs addressing financial regulations and technological advancements are critical for maintaining compliance and operational efficiency Dessler (2017).

1. Performance Management

Performance management systems align individual performance with organizational goals. According to Pfeffer (1998), effective performance appraisals foster accountability, provide constructive feedback, and motivate employees to achieve excellence. Empirical evidence from Vermeeren et al. (2014) indicates that performance management practices in service industries, including banking, improve customer satisfaction and operational outcomes.



gn with Sekaran & Bougie (2016), who emphasize the importance of regular ations in driving employee engagement and organizational success.

ation and Rewards

Compensation structures, including salaries, bonuses, and benefits, play a pivotal role in attracting and retaining talent. As noted by Robbins & Judge (2018), fair and competitive compensation motivates employees and fosters loyalty, leading to reduced turnover and improved organizational outcomes. In the banking industry, performance-based reward systems have been shown to enhance employee morale and drive better customer service outcomes Shukla & Curtis (2014). A study by Sürdü et al. (2020) further highlights the significance of recognizing employee contributions in improving organizational resilience and adaptability.

3. Sectoral Studies in Banking

The banking sector presents a dynamic landscape for Human Resource Management (HRM), with its distinctive challenges and opportunities arising from its heavy reliance on human capital and strict regulatory requirements. Empirical research has explored how sector-specific HRM practices shape both employee performance and organizational outcomes in banking institutions. These studies underscore the critical role that tailored HRM strategies play in improving employee satisfaction, organizational effectiveness, and customer service in the banking sector.

Several empirical studies provide valuable insights into the impact of HRM practices in the banking industry:

- Lee (2010) found that banks with customized HRM practices, including rigorous recruitment and specialized training programs, significantly improve employee productivity and customer satisfaction. His research emphasized that technical and interpersonal skills are essential in banking employees, especially given the sector's high-touch nature.
- Shukla & Curtis (2014) highlighted that bank investing in employee engagement initiatives, such as career development programs and wellness schemes, report higher employee retention and profitability. Their study underscores the long-term value of employee well-being programs in enhancing organizational stability and success.
- Sürdü et al. (2020) emphasized the importance of transparent communication and equitable reward systems in fostering trust and commitment among banking employees. Their study found that when banks implement fair reward structures, it leads to stronger employee engagement and organizational performance.



Kumar et al. (2014) analyzed the relationship between operational dynamics and HRM in banks. They found that a culture of respect, transparency, and collaboration leads to higher employee morale and stronger performance outcomes in service

- Muralidharan et al. (2019) explored how HRM practices influence compliance with regulatory standards in the banking sector, demonstrating that continuous learning and adaptation to regulatory changes positively impact employee behavior and overall organizational performance.
- Kumar & Chaturvedi (2018) explored the connection between HRM practices and job satisfaction, finding that recognition programs and career development opportunities lead to higher employee satisfaction, reduced turnover, and increased engagement.
- Dikshit & Jain (2018) analyzed the effectiveness of training programs in improving employee performance. They found that continuous investment in employee skill development not only enhances job performance but also enables employees to stay competitive in a rapidly changing banking environment.
- Akbar et al. (2011) studied how banks' performance management systems impact employee motivation and commitment. They found that well-structured performance management practices, including regular feedback and goal-setting, lead to higher levels of employee motivation and commitment to organizational goals.
- Muralidharan et al. (2019) focused on the role of HRM in customer satisfaction, showing that banks that invest in employee satisfaction programs tend to have higher customer satisfaction, as engaged employees provide superior service.
- Francis (2014) analyzed the impact of HRM practices on reducing turnover rates in the banking sector. Their research indicated that effective retention strategies, such as career development programs and competitive compensation packages, contribute to lowering turnover and enhancing long-term organizational performance.
- Mungania et al. (2016) investigated the role of HRM in fostering employee well-being in the banking industry. Their study found that implementing wellness programs and providing support for mental health significantly improves employee satisfaction and performance.

These empirical studies provide robust evidence on the critical role of HRM practices in shaping employee performance and organizational outcomes in the banking sector. Each study highlights different aspects of HRM, from recruitment and retention to leadership development and employee well-being, demonstrating that a comprehensive approach to HRM can significantly enhance both employee and organizational success. In a highly competitive industry like banking, these studies suggest that HRM practices are not only essential for operational

for maintaining a sustainable competitive advantage.

Frameworks in Existing Literature

two widely recognized models



- **Best-Practice Model**

The Best-Practice Model suggests that certain HRM practices are universally applicable and beneficial for organizational performance, regardless of the organizational context. According to Pfeffer (1998), best practices such as comprehensive recruitment, training, employee involvement, performance-based compensation, and career development are considered critical for achieving high performance across all industries. Robbins & Judge (2018) emphasize that when organizations implement these best practices, they are likely to experience improved employee satisfaction, lower turnover, and enhanced organizational performance.

For instance, Huselid (1995) found that organizations implementing best practices in HRM, such as selective staffing and extensive training programs, reported higher levels of productivity and financial performance. In the context of banking, these practices are crucial, as the industry faces constant challenges related to regulatory changes, technological advances, and the need for exceptional customer service. By implementing best practices, banks can enhance both employee engagement and customer satisfaction, which, in turn, leads to improved overall performance.

- **Best-Fit Model**

In contrast to the universal application of the Best-Practice Model, the Best-Fit Model emphasizes that HRM practices should align with the specific context of the organization, including its strategy, culture, and external environment. Wright & McMahan (1992) argue that there is no one-size-fits-all approach to HRM, and organizations must tailor their HRM strategies to their unique needs and circumstances. This model posits that alignment between HRM practices and organizational strategy is crucial for achieving optimal performance outcomes.

In banking, for example, the need for adaptability is paramount as the industry faces diverse challenges such as technological innovation and market competition. According to Delery & Doty (1996) firms that align their HRM practices with their strategic goals and external conditions are more likely to succeed. Sekaran & Bougie (2016) assert that tailoring HRM practices to suit the organization's objectives can lead to a competitive advantage, particularly in dynamic sectors like banking.

2.2.4 Research Gaps and Opportunities

Identifying research gaps is an essential part of grounding a study, as it reveals unexplored areas and underscores the necessity of new research. While significant progress in understanding the relationship between Human Resource Management (HRM) and organizational performance, several limitations persist, particularly within the banking industry.



One major gap highlighted by Sekaran & Bougie (2016) is the lack of longitudinal studies that assess the sustained impact of HRM practices on performance outcomes. Many studies focus on short-term results, which may not accurately reflect the long-term effectiveness of HRM strategies, especially in dynamic sectors like banking. This limitation is significant because organizational outcomes often unfold over extended periods, requiring a more comprehensive evaluation.

Another limitation concerns contextual factors. Existing research often overlooks how cultural, economic, and institutional differences influence the effectiveness of HRM practices. According to Robbins & Judge (2018), HRM strategies must be adapted to the unique characteristics of their operating environment to achieve optimal results. For example, studies focused on Western economies may not fully capture the nuances of HRM in emerging economies, where regulatory frameworks, employee expectations, and market conditions differ significantly.

Emerging technologies and their role in HRM also represent a critical research gap. The advent of HR analytics, artificial intelligence, and remote work has transformed traditional HR practices, yet empirical studies on their impact remain scarce. Sekaran & Bougie (2016) emphasize the importance of integrating technological advancements into HRM frameworks to remain relevant in today's fast-evolving business landscape.

Finally, the banking sector in emerging economies receives limited attention in existing literature. As these regions experience rapid economic growth and industrialization, understanding how HRM practices contribute to organizational performance becomes increasingly vital. Filling this gap can offer practical insights for banking institutions operating in similar contexts.

Addressing these research gaps not only validates the need for the current study but also ensures its relevance to both academic and practical domains. By examining the long-term effects of HRM practices, contextualizing them within the banking industry, and incorporating technological advancements, this study aims to contribute meaningful insights to the field of HRM.

2.2.5 Summary and Transition

The literature review has highlighted the critical role of Human Resource Management ; organizational performance, with a specific focus on the banking sector. Key re pivotal impact of HRM practices such as employee training, performance nsation strategies, and engagement initiatives on both employee and comes Robbins & Judge (2018). However, the impact of individual employee



performance on organizational outcomes may vary by context and measurement. In banking, metrics like profit per employee can reflect efficiency and may correlate positively with organizational success, depending on the strategic focus of HRM practice. Theoretical frameworks have underscored the mechanisms through which HRM practices enhance performance, emphasizing the alignment of employee capabilities and motivation with organizational goals Sekaran & Bougie (2016).

Despite the extensive research available, significant gaps remain. These include the need for more longitudinal studies to assess the sustained effects of HRM practices, a deeper exploration of contextual factors like culture and regulation, and a broader focus on HRM in emerging economies. Moreover, much of the existing research does not fully account for the unique dynamics of the banking industry, such as its heavy reliance on regulatory compliance and technological adaptation Pfeffer (1998), Wright & McMahan (1992).

These gaps highlight the necessity of the present study, which seeks to address these limitations by examining the relationship between HRM factors and organizational performance in Indonesian banks. By leveraging comprehensive data on variables such as personnel size, turnover rate, total wage, and profitability, this study aims to provide nuanced insights that contribute to both academic and practical understanding of HRM in the banking sector.

The next chapter outlines the research methodology employed to achieve the study's objectives, detailing the data collection, analysis techniques, and framework design that build upon the findings and gaps identified in the literature.



CHAPTER III

3.1 Theoretical Framework

The theoretical framework serves as the foundation of any research study, linking theoretical insights to empirical investigation. In the context of this study, the framework is particularly significant for understanding HRM practices within the banking sector, where human capital is a critical driver of competitive advantage. The framework integrates various HRM models and theories to explain how practices such as training, performance management, and employee engagement influence organizational performance metrics, including profitability, customer satisfaction, and operational efficiency.

Given the unique demands of the banking industry, HRM practices play an essential role in ensuring that human resources are optimized to meet organizational goals. As Barney (1991) argues, the resource-based view highlights those strategic investments in human capital through HRM practices lead to the development of valuable skills and knowledge, which ultimately build competitive advantage. Similarly, Robbins & Judge (2018) suggest that engaged employees, through their commitment and productivity, contribute to improved organizational outcomes, particularly in sectors where customer service is crucial, such as banking.

Hypotheses on the Relationships Between Variables

In this framework, we hypothesize that HRM practices have a significant impact on organizational performance, driven by independent variables. The relationships between these variables are expected to demonstrate both positive and negative reactions depending on the specific HRM practice and its alignment with organizational goals.

When organizations allocate more resources towards HRM, including training and development, it is hypothesized that employee productivity, customer satisfaction, and profitability will increase. According to Sekaran & Bougie (2016) investment in HRM directly enhances employee skills, motivation, and engagement, which, in turn, improve overall organizational outcomes. It is worth noting that the relationship between individual employee performance and organizational performance may not be universally linear. While some frameworks suggest diminishing returns or burnout in high-output environments, others particularly in banking highlight positive associations through improved service quality, and financial contributions Pfeffer (1998); Huselid (1995). The hypothesis



within the first perspective but remains subject to empirical validation.

hip can be expressed as:

- $Y_t = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$

Where:

- Y_t : *Organizational performance.*
- β_0 : *Constant term*
- X_1 : *investment in HRM.*
- X_2 : *Individual Employee Performance*
- X_3 : *Growth of employee number*

The hypothesis of this study is as follows:

$$\beta_0 > 0$$

$$\beta_1 > 0$$

$$\beta_2 < 0$$

$$\beta_3 > 0$$

If β_1 is statistically greater than 0, any changes in the value of investment in HRM (X_1) will positively impact organizational performance (Y_t).

$$H_2: \beta_2 < 0$$

If β_2 is statistically less than 0, changes in the Individual Employee Performance (X_2) will negatively affect the organizational performance (Y_t).

$$H_3: \beta_3 > 0$$

If β_3 is statistically larger than 0, an increase value of the Growth of employee number (X_3) will have positive influence in the organizational performance (Y_t).

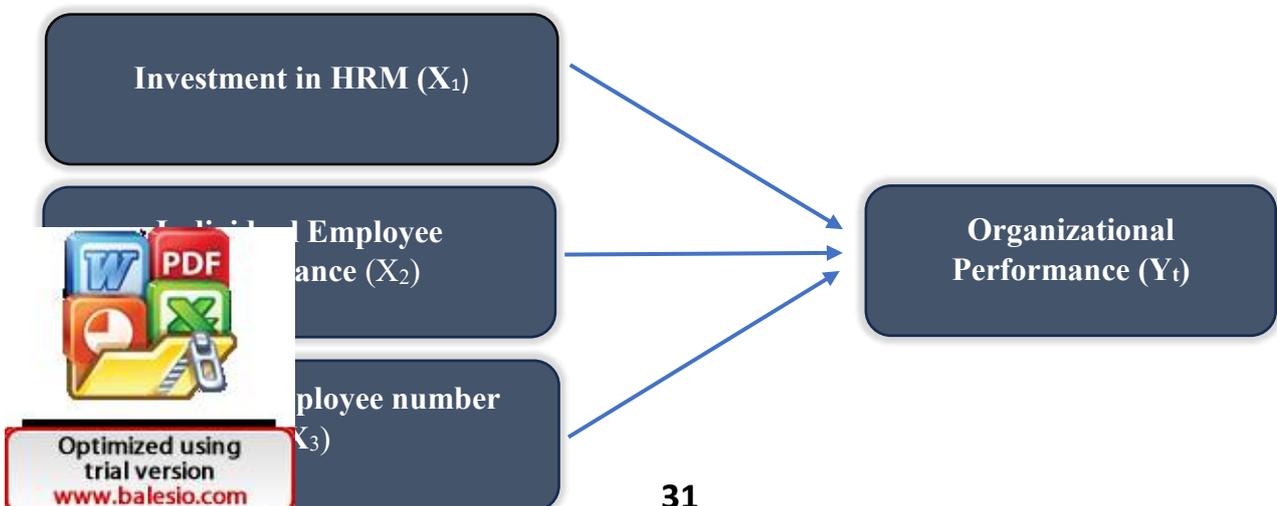


Figure 3.1 Theoretical Framework

1. Dependent Variable:

- **Organizational Performance:** The dependent variable evaluates how effectively the organization achieves its operational and financial objectives. Metrics such as efficiency, productivity, and return on assets (ROA) are commonly used to measure performance. Strategic HRM practices can improve organizational outcomes by developing employee competencies, strengthening commitment, and aligning HR initiatives with operational goals (Barney (1991); Robbins & Judge (2018))

2. Independent Variables:

- **Investment in HRM:** Refers to the organizational expenditure on activities such as training, employee development, and welfare programs. This variable highlight how strategic investments in HRM improve employee skills and motivation. According to Barney (1991), the resource-based view suggests that these investments build a competitive advantage by developing valuable human capital.
- **Individual Employee Performance:** Reflects the productivity, engagement, and overall contributions of employees to organizational goals. Robbins & Judge (2018) emphasize that engaged employees are more likely to exceed expectations, thereby driving improved organizational outcomes.
- **Growth of employee number:** This variable reflects the annual increase in workforce size, which directly affects organizational performance through HRM practices such as recruitment and training. Sekaran & Bougie (2016) suggest that well-structured HRM practices help to bridge the gap between organizational inputs and positive outcomes.

Theoretical Basis

This theoretical framework integrates several HRM theories and models to illustrate the complex relationships between HRM practices and organizational performance in the banking sector. By emphasizing investment in HRM, individual employee performance, HRM practices, and the role of the growth of employee number, the framework proposes a comprehensive view of how strategic HRM decisions influence organizational outcomes. As supported by various HRM scholars such as Sekaran & Bougie (2016); Barney (1991) and Robbins & Judge (2018) well-executed HRM practices are essential in driving both individual employee success and performance.



3.1.1 Connection to Research Objectives

This conceptual framework is closely aligned with the research objective of examining how investment in HRM, individual employee performance and Growth of employee number influence organizational performance within the banking sector. The framework effectively illustrates:

- **The direct impact of HRM investments and employee performance on organizational outcomes:** The relationship between strategic HRM investments, such as training and development, and the resulting improvements in employee performance can drive better organizational results.
- **Growth of employee number:** Growth of Employee Number directly affects organizational performance through HRM practices such as recruitment, training, and performance management.
- **The importance of metrics such as Return on Assets (ROA) in evaluating the effectiveness of HRM strategies and organizational efficiency:** Key performance metrics, like ROA, are vital in assessing the financial health of banking organizations and provide an objective measure of HRM effectiveness.

By integrating theoretical models from the HRM-performance literature, such as those proposed by Sekaran & Bougie (2016) and Robbins & Judge (2018), this framework provides a structured approach to understanding the complex relationships among the key variables. These theoretical underpinnings guide the exploration of HRM's impact on organizational outcomes, ensuring that the research objectives are clearly connected to the variables being studied.

3.1.2 Relevance to the Banking Sector

The conceptual framework presented in this study holds particular relevance to the banking sector, a highly dynamic and highly regulated industry where human capital plays a crucial role in driving operational efficiency, profitability, and innovation. Strategic investments in HRM and their subsequent impact on individual employee performance are essential for achieving organizational success in this complex industry. According to Robbins & Judge (2018), effective HRM practices enhance employee motivation, skills, and adaptability, which enables organizations to navigate both external challenges, such as regulatory changes, and internal challenges, such as technological innovations.



Relevance of the Framework to the Banking Sector

Importance of HRM in HRM: The banking sector is highly dependent on its workforce to deliver quality services and maintain customer satisfaction. As Barney (1991) suggests,

strategic HRM investments, including training and employee development, build valuable human capital that enhances operational efficiency and strengthens a competitive advantage. Sekaran & Bougie (2016) also emphasize that well-targeted HRM investments are critical for equipping employees with the skills necessary to meet organizational objectives and drive performance.

2. **Individual Employee Performance:** Employee performance is a direct driver of service quality and customer satisfaction in the banking sector. Robbins & Judge (2018) note that engaged and high-performing employees contribute to improved decision-making, higher productivity, and increased customer loyalty. This emphasizes the importance of HRM practices that focus on motivation and skill enhancement to align individual performance with organizational objectives.
3. **Organizational Performance:** In the banking sector, key performance metrics, such as Return on Assets (ROA), are used to assess operational efficiency and profitability. Strategic HRM practices that enhance employee competencies and engagement are strongly linked to improved organizational outcomes, including higher Return on Assets (ROA) (Barney (1991); Robbins & Judge (2018)).
4. **Growth of Employee Number:** The relationship between growth of employee number and organizational dynamics is a key consideration in the banking sector Boxall & Purcell (2016). As banks expand their workforce to meet growing demands, such as new branches or digital services, this growth directly influences organizational performance through HRM practices like recruitment, training, and performance management Delery & Doty (1996). As noted by Huselid (1995), organizations experiencing rapid workforce growth often strengthen HRM systems to support strategic objectives, enhancing organizational performance. Further highlight that increased HR efforts tied to employee growth can improve job satisfaction and performance outcomes by meeting the needs of an expanding workforce S. Jiang et al. (2012). Although this variable is referred to as ‘Growth of Employee Number’ for continuity with prior literature, it is measured using the total number of employees reported each year

This revised framework emphasizes how growth of employee number directly impacts the implementation of HRM practices. The increase in workforce size is a key factor in strategies and aligning them with organizational goals in the banking sector. In this dimension, the framework ensures a comprehensive understanding of how these strategies can be effectively translated into organizational performance, taking into account the capacity of the HR department and the direct performance of employees.



3.1.3 Utility in Addressing Challenges and Opportunities

1. Addressing Regulatory and Compliance Challenges

The banking industry operates within a highly regulated environment. According to Wright & McMahan (1992) HRM practices that focus on compliance training are essential to ensure employees are well-versed in legal requirements and industry standards. Such practices reduce the risks of non-compliance and associated penalties, thus safeguarding the organization's reputation and financial standing.

2. Enhancing Customer-Centric Services

Customer trust and satisfaction are the cornerstones of success in the banking industry. By investing in HRM practices that enhance employee performance such as customer service training and the development of soft skills banks can improve service quality. As Herzberg's Two-Factor Theory suggests, motivated employees are more likely to exceed customer expectations, leading to increased customer loyalty. Robbins & Judge (2018) also note that fostering positive relationships with employees directly affects their interactions with customers, contributing to enhanced customer satisfaction.

3. Navigating Technological Advancements

The rise of digital banking presents a challenge for many banking institutions, particularly in terms of ensuring employees can keep pace with technological advancements. Robbins & Judge (2018) argue that continuous learning and development initiatives enable employees to adapt to digital tools, which is crucial for maintaining seamless service delivery in an increasingly digital world. Effective HRM practices focusing on technological training can help employees integrate new technologies into their daily work processes.

4. Improving Employee Well-Being

High performance expectations in the banking sector can lead to stress, burnout, and high turnover rates. HRM practices that incorporate work-life balance strategies such as wellness programs, flexible work arrangements, and mental health support can alleviate these issues. Organizations that prioritize employee well-being tend to experience higher levels of engagement and retention, which positively impacts overall performance Robbins & Judge (2018)

The proposed framework provides a comprehensive tool for banking organizations to M strategies. By aligning investments in HRM with sector-specific needs and oyeer performance, this framework helps address critical challenges such as ance, digital transformation, and employee well-being. As Sekaran & Bougie ins & Judge (2018) argue, HRM is not just a functional department; it is a



central driver of sustainable success in the banking sector, helping organizations achieve long-term profitability, operational efficiency, and innovation. In the context of Indonesia's banking sector, which emphasizes profitability, customer service, and financial metrics, it is plausible that individual-level output metrics such as net income per employee could be closely tied to performance-based HRM strategies. Given the performance-driven culture of Indonesian banks, it is plausible that higher net income per employee may serve as a signal of efficiency and strategic HR alignment supporting a positive relationship with ROA in practice, even if theory sometimes suggests otherwise.

