# Impact of Training and Development on the Profitability of the Banking Sector: A Study on the Leading Banks of Pakistan

Rabiya Siddiqui,Tahir Ali

Karachi University Business School (KUBS), Karachi – Pakistan

sidrabiya98@gmail.com

## Abstract

This study aims to examine the impact of Training and Development (T&D) of employees on the profitability of banks in Pakistan. This research employed multiple sources for data collection. The primary sources included an online questionnaire and interview whereas financial reports of banks were used for secondary data collection. The questionnaire was sent to employees of five selected banks and the respondents were asked to rate the impact of Training on different factors of their performance A total of 100 responses were received and analysed. In addition, data regarding the investment of banks on training and its profitability from 2012 – 2021 was also gathered for analyses. Lastly, the Joint Director of SBP was interviewed to gain additional insights on the topic that were not otherwise reflected in the primary or secondary data. The data from all three sources revealed that T&D plays an important role in enhancing the profitability of bank. However, it was also found out that financial performance of banks is closely linked to the economic conditions of the country so investments on training may not always result in greater profitability but its positive impact on the performance or profitability of banks is more likely to be realized in the long run.

**Keywords:** Employees, Training and Development, Profitability, Banking sector

## Introduction

Investment in the training and development of employees is widely recognized as a crucial factor for the success and competitiveness of organizations in today's business world. The banking sector is no exception, as the profitability and performance of banks is heavily dependent on its employees. Given the rapidly changing business landscape and the growing competition in the banking sector, banks rely on their employees to provide high-quality customer service, manage risk effectively, and drive innovation. To meet these demands, banks must invest in the training and development of their employees to ensure they have the necessary skills and knowledge to succeed in their roles. Studies have shown that investment in employee training and development can have a significant impact on the performance of organizations. This has been documented by various authors such as Benson (1998), Huselid (1995), and Ndubisi (2007). These studies have demonstrated the positive relationship between investment in human capital and organizational performance, including increased profitability and competitiveness. The purpose of this study is to examine the impact of investment in employee training and development in the context of the profitability of the banking sector of Pakistan. The findings of this study will be of interest to a variety of stakeholders, including policymakers, bank managers, and employees. By exploring the relationship between investment in employee training and development and the profitability of banks in Pakistan, this study will provide valuable insights into the importance of investing in human capital for the success of the banking sector.

## History of the Banking Sector of Pakistan

The financial sector plays an important role in the smooth functioning of the economy of any country. Similarly, the banking sector of Pakistan also makes major contributions toward its GDP, however, it has gone through many ups and down since its establishment of Pakistan. This section of the article focuses on the different phases the banking sector of Pakistan has witnessed.

The period from 1947 to 1970 was significant for Pakistan's banking sector, as it only had two banks and was heavily dependent on India's Reserve Bank. To encourage private investment in banking and to get rid of the challenges posed by the India’s Reserve Bank, the government established the State Bank of Pakistan in 1949, leading to an increase in the number of branches from 19 to 2,369 by 1969. In the 1970s, issues in the banking sector led to reforms and the nationalization of all thirteen private banks under the Nationalization Act. resulting in increased bank branches and account holders. However, excessive government control and political influence hindered the sector's development, leading to the initiation of a financial sector liberalization act in 1989.

In the 1990s, the Pakistani government initiated a period of liberalization to improve the damaged banking sector after nationalization. The main aim was to privatize banks, restore competition, and enhance the management role of the State Bank of Pakistan. The government granted full authority to SBP and restricted its own involvement, which reduced political influence. In the first decade of deregulation, the establishment of new private and foreign banks took place. In the early 2000s, more banks were privatized and merger and acquisition policies were introduced for banks with low capital. Other reforms included liberalization of interest rates, reduction of non-performing loans, and transition to consumer and universal banking. In 2008, the SBP introduced Branchless Banking Regulations to promote delivery of services through unconventional ways. The total number of branches reached 6,671 in 2010, which boosted the private sector's faith in the financial sector. The State Bank of Pakistan is currently trying to develop the newest banking and payment-related services in order to promote innovation in the banking industry, taking into account the new wave of advancements, including Artificial Intelligence, Big Data Analytics, and Cloud Computing.

## Research Methodology

This chapter of research defines the aim of this study, the development of a hypothesis in light of previous literature, and the primary and secondary sources of data that were utilized to conduct the research.

### Problem Statement

The banking sector in Pakistan is highly competitive and dynamic, with constant changes in regulatory requirements and advancements in technology. To remain competitive and profitable, it is crucial for banks to invest in the human resources of their employees as good quality human resources are considered as the most important intellectual asset for a firm. In previous literature, practices like investment in training and development have been proposed as a strategy for achieving greater performance and organizational profitability. However, the impact of such investment on profitability has not been thoroughly studied in the context of the Pakistani banking sector. Hence, the focus of this research is to determine the relationship between the training and development of employees in the banking sector of Pakistan and the sector's profitability.

### Literature Review

Numerous researches have been conducted in the past to understand the importance of HRM practices on the financial performance of banks. In 2020, Naba Raj Afhikari conducted research to study the impact of training and development costs on operational profitability. The author collected data of a total of six Nepalese commercial banks and the results indicated that training and development cost was higher in the private commercial banks and had a positive and significant impact on the operational profits of the private banks. Similarly, Furgeson & Reio Jr in 2010 investigated the contribution of human resource practices (training and profit sharing) and human resource inputs (motivation and employee skills) towards organizational outcomes i.e., job performance and firm performance Midwestern US professional organizations. The results implied that the variables had a statistically significant relationship and firms that employ human resource practices like training and profit-sharing experience a better level of firm performance. Other studies (Solkhe & Chaudhary, 2011; J. Rajashekharaiah, 2014; I. H. S. Chow, 2005) have also shown similar findings, indicating that training and development can help acquire a diverse set of skills within a workforce, leading to improved company performance.

In light of the above discussion, our study aims to investigate the impact of training and development of employees on the profitability of banks in Pakistan and proposes the following hypothesis.

H1: High investment on training and development results in greater profitability of banks in Pakistan.

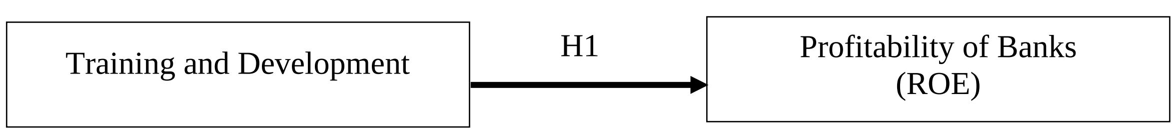


**Figure 1: Research Model**

**Sources of Data**

This research utilizes primary as well as secondary sources of data collection. One of the primary sources are the employees working in the banking sector of Pakistan. An online questionnaire consisting of 12 close-ended items will be sent to the employees. The respondents will be asked to rate the impact of training and development on different factors on a Five-point Likert scale (1=Very Low, 2=Low, 3=Moderate, 4=High, 5=Very High). With the help of convenience sampling, a total of 100 responses will be obtained for analysis in this study. Another source of primary data that will be the State Bank of Pakistan (SBP). A director of SBP will be approached to share his insights regarding the training and development of bank employees and its impact on profitability. A formal interview comprising of a set of direct and unstructured questions will be conducted to collect the required information Apart from this, the study will also collect data from a secondary sources i.e., the financial reports of banks listed in the Pakistan Stock Exchange. Data of five banks namely Habib Bank Limited, Soneri Bank, JS Bank, Askari Bank and MCB, for the period of ten years starting from 2012 till 2021 will be used for analysis in the study.

## Training & Development and Profitability of Banks

Training is a planned and structured change of behaviour through learning activities and programs which results in the participants achieving new level of knowledge, skills and competencies required to carry out their work more effectively (Gravan, 1997; Berge at al 2002). Goldenstein (1980) and Latham (1988) define training as a systemic acquisition and development of knowledge, skills and attitudes by employees to effectively perform a task or job or to improve performance.

### Impact on Performance and Profitability of Organization

In the banking sector, profitability refers to the ability of a bank to generate a profit from its operations and investments. According to previous research, profitability can be defined in a number of ways, including return on assets (ROA) (Berger & DeYoung, 1997), return on equity (ROE) (Marginson & Montgomery, 2004), and net income (NI) (Khwaja & Mian, 2005). Though the impact of training is mostly felt on the personal learning and behavior of individuals, many scholars have found out that training not just influences the individual and group outcomes but has a strong impact on the outcomes of the organization as well like organizational profits etc (Haccoun & Saks, 1998; Ramlall, 2003, Ndubisi, 2007).

## Findings And Analysis

### Investment of banks on the training and development of Employees

The study analyzes the impact of training and development expense on the profitability of five commercial banks of Pakistan.

#### *Habib Bank Ltd.*

The figure 2 shows a relationship between employee training and development expenses and profitability of HBL from 2012 to 2021. The expenses on training and development generally result in an increase in profitability, except for 2015 and 2020 where a decrease in profitability was observed despite the increase in training and development. The reduced profitability in 2020 can be attributed to COVID-19. The employee training and development expenses increased by more than 200% from 2012 to 2019, indicating that HBL values quality human resources. The decrease in expenses in 2020 and beyond was due to COVID-19 restrictions causing a shift to virtual training, reducing costs. Overall, the figure suggests a positive impact of employee training and development on HBL's profitability.

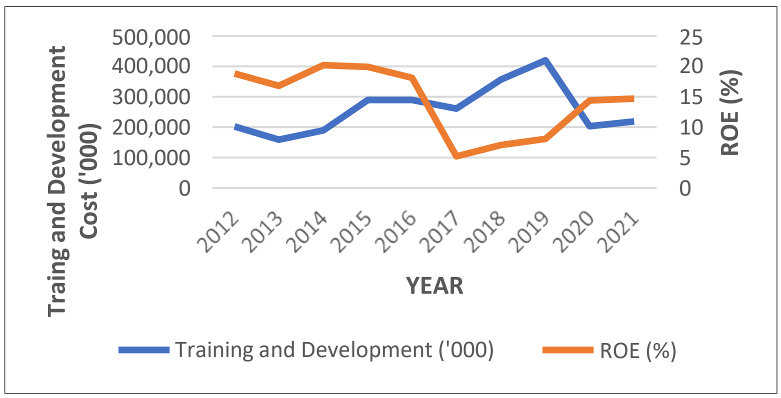


**Figure 2: T&D Expense of Habib Bank Ltd.**

#### JS Bank

Figure 3 shows the relationship between the amount spent by JS Bank on employee training and development and the Return on Equity (ROE) from 2012 to 2021. Major investments were made in employee training and development in 2017 and 2021. The investment in 2016 led to the creation of a Learning Academy and 28,000 man-hours of training. In 2021, the bank invested in both

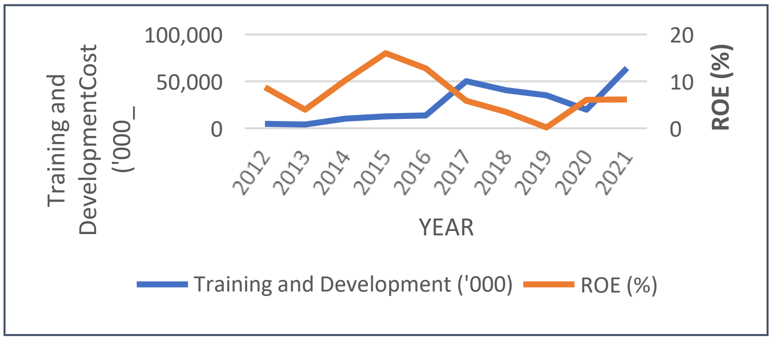


**Figure 3: T&D Expense of JS Bank**

external trainers and the in-house academy. However, these investments did not result in a significant change in ROE, with a drop in 2017 and only a small increase in 2021. The relationship between employee training and development expenses and ROE is mixed, with some positive correlation and some negative correlation. Based on the two major investments in employee training and development and the resulting ROE, it can be concluded that the relationship between the two is not positive for JS Bank.

***Soneri Bank***

Figure 4 shows the relationship between employees' training and development expenses and the Return on Equity (ROE) of Soneri Bank from

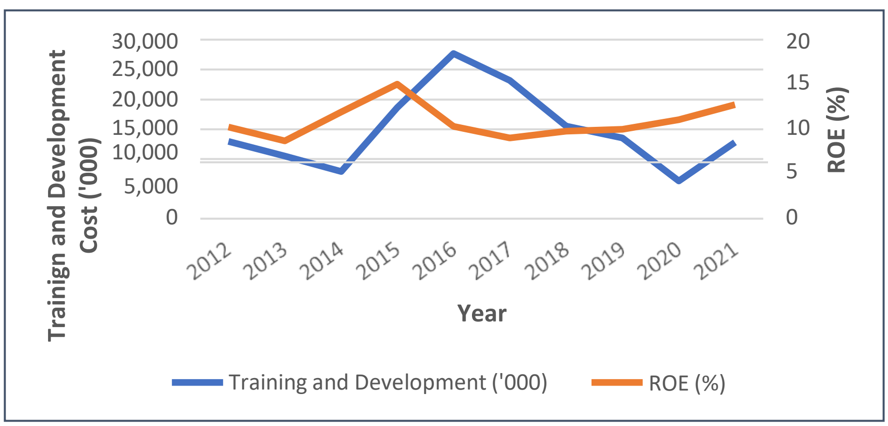


**Figure 4: T&D Expense of Soneri Bank**

2012 to 2021. The highest investment in employee training and development was made in 2016, but it did not result in an improvement in ROE, which actually dropped by 5% that year. In 2021, the investment in employee training and development was less than it was a decade earlier, which contradicts previous literature about the increasing investment in employee training over time.

From 2017 onwards, the ROE of Soneri Bank increased regardless of changes in investment in employee training and development, indicating a lack of correlation between the two.

***MCB***

Figure 5 presents the correlation between the employee training and development expenditure made by MCB and its profitability measured by ROE from 2012 to 2021. MCB offers various training programsincluding in-house training, external training through specialized consultants, certificate programs, and overseas training. It was noted that from 2014 to 2017, the expenditure on employee trainingand development increased steadily and reached PKR 73,194,000 in 2019. Despite the focused efforts made by MCB to improve its human capital through training and development programs, the graph shows that the investment in training did not have a positive impact on the bank's profitability. The trend of the two variables shows that they mostly move in opposite directions, indicating that an increase in training and development expense did not result in an increase in MCB's profitability. Hence, it can be concluded that high investment in employee training and development does not necessarily lead to better profitability in the case of MCB.

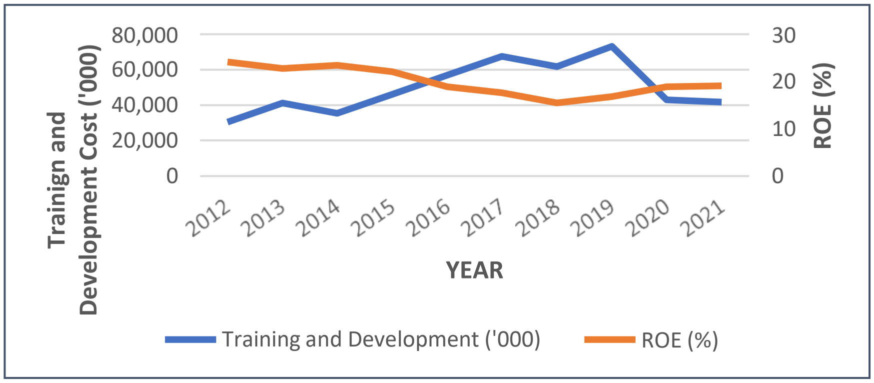


**Figure 5: T&D Expense of MCB**

**Askari Bank**

The graph in Figure 6 shows the correlation between the training investment made by Askari Bank and its ROE from 2012 to 2021. The bank had a significant drop in ROE in 2013 but recovered and remained high with some minor fluctuations. The bank prioritized sales and customer service training and conducted various in-house courses and workshops, as well as investing in computerbased training programs and virtual training programs due to COVID-19. Despite the bank's emphasis on employee training, only a low to moderate impact on ROE was observed, and in some years, the ROE improved even with a decrease in training costs. This suggests that training and development has a weak but positive impact on the profitability of the bank.

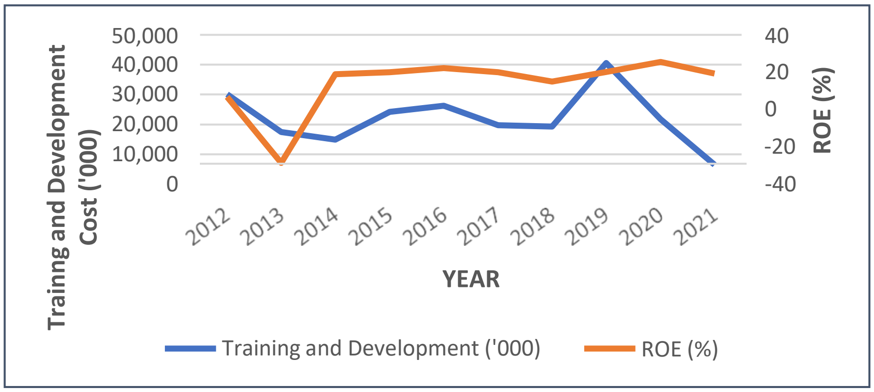


**Figure 6: T&D Expense of Askari Bank**

## Opinion of Bank Employees

An online questionnaire was shared with a total of 100 bank employees among which male were 57% and females were 43%. Majority of the employees i.e., 57% of the total respondents lie between the age range of 26-30 years. A total of 20 responses were collected from different banks each which included Askari Bank, Soneri Bank, JS Bank, Habib Bank Limited and MCB. In terms of tenure, about 50% of the employees had been with their organization for 1-3 years.

**Descriptive Statistics**

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Better understanding of job responsibilities | 100 | -1 | 2 | .39 | .680 |
| Enhanced job performance | 100 | -2 | 2 | .48 | .810 |
| Ease in meeting targets | 99 | -2 | 2 | .30 | .826 |
| Improved Work Quailty | 99 | -2 | 2 | .60 | .914 |
| Less work related errors | 100 | -2 | 2 | .30 | .823 |
| Enhanced skills and job knowledge | 100 | -2 | 2 | .71 | .902 |
| Improved loyalty towards organization | 100 | -1 | 2 | .78 | .960 |
| Increased motivation to work | 100 | -2 | 2 | .76 | .996 |
| I am satisfied with the overall training programs in the organization. | 100 | -2 | 2 | .59 | .753 |
| My bank values employee skill development. | 100 | -2 | 2 | .75 | .845 |
| Employee training and development programs help my bank ensure its success with increased client satisfaction and better services. | 99 | -2 | 2 | .78 | .852 |
| Valid N (listwise) | 97 | | | | |

**Figure 7: Descriptive Statistics**

The impact of T&D programs on the performance of bank employees was evaluated using a questionnaire. The employees rated the impact of training on eight factors using a Five-point Likert scale (i.e., -2= Very Low, -1 = Low, 0=Moderate, 1=High, 2=Very High). The results in Figure 7 shows that the majority of the respondents felt that the training and development programs had a high impact on their loyalty to the organization, motivation, skills and job knowledge, and work quality as they achieved the highest means of 0.78, 0.76, 0.71 and 0.60 respectively. However, they felt that the training had only a moderate impact on factors such as job performance, understanding of job responsibilities, meeting targets, and reducing work-related errors as the means were relatively low. The respondents were also asked to rate the extent to which they agree to the statements related to the effectiveness of the training and development programs conducted by their employers. The mean scores of all three statements were between 0.50 and 1.00, indicating that most people felt that the training programs improves the performance of the bank and increases its profitability through enhanced employee skills and better services.

The overall results show that majority of respondents believe that training and development programs have a moderate to strong impact on the performance and profitability of their organization. The collective mean of all the factors and statements was 0.5855 as shown in Figure 8, leading to the acceptance of the research hypothesis that a high investment in the training and development of employees leads to greater profitability of banks in Pakistan.

**Descriptive Statistics**

| | N | Mean |
|---|---|---|
| Average_Mean | 11 | .5855 |
| Valid N (listwise) | 11 | |

**Figure 8: Combined Descriptive Statistics**

**Opinion of Joint Director of SBP**

With the purpose to develop a better understanding of the link between T&D of employees and the profitability of banks in Pakistan, Joint Director of the State Bank of Pakistan was interviewed.

The meeting was conducted online, and direct and unstructured questions focusing on the importance of training and development in the banking sector were asked.

The Joint Director emphasized the critical role of training and development in ensuring the profitability of banks. This is because the complexity of the banking model, which involves handling a large number of customers, a primary product of money, and a variety of complex transactions, increases the need for well-trained employees to manage operational risk. The interviewee believed that training helps employees identify and mitigate risks, maintain the security and integrity of customer assets, and execute complex transactions successfully, making it an essential component of a successful banking business. He revealed that the State Bank of Pakistan (SBP) has a hands-off approach to the minimum budget allocation for employee training and development, allowing banks to choose between using external training institutes or conducting in-house training programs to meet their specific needs and goals. The only exception to this is the training course on Islamic Banking offered by NIBAF, which the SBP has mandated for employees of all banks offering Islamic Banking services. The Joint Director opined that there is a correlation between training and development (T&D) and the profitability of banks, but the extent of this correlation may vary depending on several factors, including the broader economic conditions of the country and the size and nature of the bank's business operations. According to him, the profitability of banks is significantly impacted by broader economic conditions and that in times of economic downturn, training may not necessarily result in profitability. However, if the impact of T&D on profitability is not immediate, the returns from training investments can be realized over time.

## Conclusion

The study aimed to explore the impact of Training and Development (T&D) on the profitability of banks in Pakistan. It employed a quantitative research design, combining both primary and secondary data sources for data collection. The analysis of the data led to mixed results as in some cases a only a moderate degree of relationship was found between the two variable whereas in the other cases a strong link was also seen. However, the data from all three sources indicated that T&D plays a crucial role and positively contributes in enhancing the performance and profitability of banks in Pakistan. Furthermore, the insights gathered from the interview revealed that the financial performance of banks is highly influenced by the overall economic conditions of the country. As a result, the impact of T&D on the profitability of banks may not always be immediate, but its positive effects can be seen in the long term and this explained the mixed results that we observed during our data analysis. To sum up, the study highlights the importance of T&D in improving the performance and profitability of banks in Pakistan. Despite the challenges posed by the economic conditions of the country, investments in employee training can lead to long-term benefits for banks and should not be overlooked.

## Recommendations and Limitations

In light of the complex nature of banking and the significant role that training of employees can play to ensure a smooth and risk-free executions of its operations, this study recommends all banks to invest in employee T&D to help employees improve their current performance and acquire new skills and knowledge needed to meet the changing demands of the industry. Banks should allocate sufficient budget and invest in effective training programs that meet the specific needs of their employees and support the goals and objectives of the bank as a whole.

The major limitation of this study was time constraint due to which responses were collected from a limited number of people only, so a larger sample size could be used for a more accurate result. This study focused on only two variables i.e., training and development and profitability of banks, whereas the impact that training has on business results can depend on many other internal as well as external factors. Hence, more variables must also be taken into account in future studies to better examine the impact of training on banks' performance in Pakistan.

## References

Adhikari, N. R. (2020). Training and Development Costs, Staff Costs and Operational Profitabilityin Nepalese Commercial Banks. *Management Dynamics, 23*(2), 109-118.

Benson, J. (1998). The impact of training on organizational productivity. New York, NY: *Garland Publishing.*

Berge, Z., de Verneil, M., Berge, N., Davis, L., & Smith, D. (2002). The increasing scope of training and development competency. *Benchmarking: An International Journal*

Berger, A. N., & DeYoung, R. (1997). Problem loans and cost efficiency in commercial banks. *Journal of banking & finance*, *21*(6), 849-870.

Chow, I. H. S. (2005). High-performance work systems in Asian companies. *Thunderbird International Business Review*, *47*(5), 575-599

Ferguson, K. L., & Reio Jr, T. G. (2010). Human resource management systems and firm performance. *Journal of Management Development*, *29*(5), 471-494

Haccoun, R. R., & Saks, A. M. (1998). Training in the 21st century: Some lessons from the last one. *Canadian Psychology/Psychologie canadienne*, *39*(1-2), 33

Huselid, M. A. (1995). The impact of human resource management practices on turnover, productivity, and corporate financial performance. *Academy of management journal*, *38*(3), 635- 672

Jagadeesh, R. (2014). Emphasis on human resource management in quality improvement–A case study of quality awards' criteria. *International Journal of Economics, Commerce and Management*, *1*(2), 1-12

Khwaja, A. I., & Mian, A. (2005). Do lenders favor politically connected firms? Rent provision inan emerging financial market. *The Quarterly Journal of Economics*, 120(4), 1371-1411.

Marginson, D., & Montgomery, J. (2004). The structure of banking in Australia: An applicationof principal components analysis. *Pacific-Basin Finance Journal*, 12(1), 57-77.

Ndubisi, N. O. (2007). The impact of training and development on organizational performance. *International Journal of Training and Development*, 11(2), 113-124.

Ramlall, J. (2003). Impact of training and development on organizational performance. *International Journal of Training and Development*, 7(2), 104-115.

Solkhe, A., & Chaudhary, N. (2011). HRD climate and job satisfaction: An empirical investigation. *International Journal of Computing and Business Research*, *2*(2), 1-20

## APPENDIX: Interview Questions

Q1. What in your opinion is the reason behind the relative importance of employee trainings in banks?

Q2. Do you think that there is a link between the T&D of employees and the profitability of banks?

Q3. Do you think there is a lagged effect of employee training on profitability of banks?

Q4. Is there any minimum budget requirement set by the State bank of Pakistan that every bank is bound to spend on employees' training and development?

Q5. Are the training and development programs in banks conducted mainly with respect to a future perspective and to enhance the capabilities of the employees or due to gaps in performance of employees?

Q6. Is it mandatory for every bank that the training and development programs for employees must be conducted by IBP & NIBAF or the banks are also allowed to conduct in-house training as well?