ALIGNMENT OF HUMAN RESOURCES MANAGEMENT TO BUSINESS STRATEGY IN THE RUSSIAN BANKING SECTOR

ELENA PROSVIRKINA

PhD DBA student, SBS Swiss Business School

Abstract- In this article alignment of human resources management (HRM) to business strategy in the Russian banking sector is considered. Conclusions of the study are based on the analysis of HR policies and sixty-seven questionnaires of HR directors of banks. HR experts of the Russian banking sector evaluated four statements regarding HR alignment to a bank's strategy using 7-point Likert scale. Analysis of the average scores for each statement allowed to identify the differences in HRM for different banks depending on type of business and ownership (state/ private, international/ local). Kruskal-Wallis test and Kendall rank correlation analysis between the indicator of HRM alignment to a bank's strategy and organizational characteristics of banks demonstrated that the level of alignment of HRM to business strategy statistically differs for banks depending on its type of business. Other organizational characteristics of banks do not influence on SHRM in the Russian banking sector.

Keywords- human resources management, strategic HR management, banking sector, Russia.

I. INTRODUCTION

Human resources management (HRM) is crucial for any organization as it helps to manage the most difficult asset of the company – human capital. First research in HRM were devoted to analysis of different human resource practices, including HR administration, recruitment, learning and development, compensation and benefits, etc. These studies concluded that good HR practices help to manage employees effectively. Later research demonstrated that though high level of HR practices development is positive for an organization, it is more important to tailor human resources management to strategic goals of an organization. Strategic human resources management (SHRM) helps executives to achieve corporate goals by determining long-term goals, employee development needs and finding the right approach to employee motivation.

There are a lot of research in SHRM in the USA and European countries. Nevertheless, this topic is not well studied in Russia. The current research is devoted to the analysis of alignment of HRM to business strategy in the Russian banking sector. The objective of the current study is not only analysis of the level of SHRM, but also investigating if SHRM depends on the type of banks, including its ownership, level of capital concentration, type of business and other organizational characteristics of banks.

II. LITERATURE REVIEW

Russian Banking Sector

Though, there are many banks in Russia as in the USA, Germany, Austria, and France, the banking concentration indicator is high. "The top 200 credit institutions accounted for 96.5% of banking sector total capital as of 1 January 2015 (93.4% as of 1 January 2014), with the five largest banks accounting for 51.6% (49.7% as of 1 January 2014)" (Banking Supervision Report, 2015, p. 14). According to Mamonov (2012, p.12) the large number of banks and high concentration indicator makes the Russian banking sector unique. Russia is one of the countries with hundreds of banks, but low level of real competition as in Makedonia, Slovakia, Oman, and Greece. The main reason of the low level of competition is the power of state-owned banks in Russia. Currently, the structure of the Russian banking sector total assets is the following: state-controlled banks (58.5% of the banking sector total assets), large private banks (28.3%), foreign-controlled banks (9.8%), and small and medium-sized banks based in the Moscow Region as well as in other regions (3.1%). According to the Center of Economic Research of the Moscow Financial and Industrial Academy (2007, p.30) there are only three big economies, where state-controlled banks continues to play the main role in the banking sector: China, India, and Russia. Banking sector in Russia still faces the structural changes, large multi-branch banks continues to optimize their regional units. The total number of internal structural units of credit institutions decreased by 1,582 to 41,794 in 2014. "The number of additional offices went down from 24,486 to 23,301, cash and credit offices – from 2,463 to 2,289, external cash desks – from 7,845 to 6,735" (Banking Supervision Report, 2015, p. 12). The majority of credit institutions in Russia is local, and only 27% of them are foreign. In other developing countries this indicator is higher, for example in East Europe around 70% of banks are controlled by foreign capital, in Latin America – 40% (Center of Economic Research of the Moscow Financial and Industrial Academy, 2007, p.31). According to the CBR data the number of foreign credit institutions has decreased on 12 entities during 2015.

Strategic Human Resources Management

Following the development of strategic management, leadership of organization began to align human

resources practices to business strategy (Wright & McMahan, 1992). According to Jiang (2011) strategic human resources management became crucial in reaching business success nowadays. It is believed that SHRM influences organizational performance. According to Orlando and Nancy (2011), alignment of HRM to strategic goals of an organization allows achieving competitive advantage. Several empirical studies also proved the linkage between SHRM and human resources effectiveness and organizational performance. (Youndt, Snell, and others, 1996)

The level of alignment of HRM to business strategy increases if the head of HRM department is great professional and senior leaders can rely on HR director and his team in any personnel related activities (Buller, McEvoy, 2012). According to Boselie (2005) SHRM requires all HR operational day-to-day activity to be in line with strategic goals of an organization. In addition, employee motivation system should be aligned with business strategy as well as a company needs to have effective communication channels. It means that senior leadership cascades information regarding strategic goals to employees and remuneration system motivates employees to follow the determined objectives.

Based on the theoretical approach of SHRM the current research is aimed to study an alignment of HRM to business strategy in the Russian banking sector.

III. MATERIALS AND METHODS

The research is based on the data collected from HR policies and questionnaires of HR directors of banks in Russia about strategic HR management. The questionnaire was sent to HR representatives of banks and covered the following statements:

1) HR Director is actively involved in the development of a corporate strategy of the bank;
2) HR operational activity is based on the bank's corporate strategy;
3) Employee motivation on achievement of strategic goals of the bank;
4) HR department provides line managers with strategic guidance.

HR experts had to evaluate each statement of strategic HR characteristic on the Likert scale from 0 (Absolutely disagree) to 6 (Absolutely agree).

The sample included banks with different organizational characteristics: local and international banks, state and private banks, banks with different types of business strategy, etc.. Official websites of banks were analyzed in order to collect data on organizational characteristics of banks. The questionnaire was sent electronically to HR Directors of two hundred banks, operated in Russia. The response rate was too low. Thus, the questionnaire was sent once more time and this was followed by a phone call to HR Directors of banks to provide with more details of the research and evidence of confidentiality of shared information. Finally, sixty-seven questionnaires were collected.

Data analysis was conducted in SPSS program. Calculation of average value for each SHRM characteristic helped to compare the development of all SHRM characteristics in different types of banks. In addition, correlation analysis between SHRM characteristics and organizational characteristics of banks allowed determining if there is a statistically significant difference in SHRM characteristics of different types of banks.

IV. RESULTS OF THE RESEARCH AND DISCUSSION

The sample of the research consists of 67 banks (10% of all banks), operated in Russia. It includes banks with different organizational characteristics such as type of business, headcount, and type of ownership. At the first stage of the research the websites of the selected banks were studied. It allowed to collect data about HR strategy of banks from HR polices. Only 9% of banks publishe HR policies on its websites, and most often these banks are large local or well-known international banks, for example Raiffesenbank and HSBC. The rest of banks in Russia do not publish data regarding HR practices and procedures, but indicate information about vacancies on their official websites.

Analysis of HR policies demonstrated that banks have similar priorities in HRM and one of them is alignment of HRM to business strategy, for example such banks as BFA, HSBC, Soyuz, and NBD Bank. In HR policies of these banks it is declared that high qualified personnel is crucial in achieving strategic goals and that HRM should be in line with corporate strategy. These banks consider human capital as a most important key to success of business, and employee expenses as long-term investment in strategic development. The current research demonstrated that alignment of HRM to strategic goals is higher in private banks than in state banks. Average values of each SHRM characteristic are indicated in the below table.

Table 1
Alignment of HRM to Business Strategy in State and Private Banks

SHRM Characteristics	*Banks*	
	State (9 banks)	*Private (58 banks)*
HR Head is actively involved in the development of corporate strategy	4,00	4,53
HR operational activity is based on corporate strategy	4,57	4,32
Employee motivation in achievement of strategic goals	4,14	4,42
HR department provides line managers with strategic guidance	3,57	4,53
Sum	***16,29***	***17,80***

Source: Author

HR department provides with more support and strategic advice to line managers in private banks. The average value of this statement in state banks

equals 3,57 and in private banks – 4,32. In addition, in state banks HR head has less influence on the development of corporate strategy as well as employee motivation in the achievement of corporate goals is less effective, than in private banks. Calculation results of average values of each SHRM characteristic in international and local banks in Russia are presented below.

Table 2
Alignment of HRM to Business Strategy in Local and International Banks

SHRM Characteristics	*Banks*	
	International (14 banks)	*Local (53 banks)*
HR Head is actively involved in the development of corporate strategy	4,57	4,45
HR operational activity is based on corporate strategy	4,79	4,23
Employee motivation in achievement of strategic goals	4,71	4,30
HR department provides line managers with strategic guidance	4,93	4,30
Sum	***18,60***	***17,28***

Source: Author

Average value for all SHRM characteristics is higher in international banks. This can be explained by the fact that SHRM appeared in the developed countries much earlier than in Russia and international banks has longer expertise in HRM. The research has also demonstrated that alignment of HRM to business strategy in investment banks are higher than in corporate, retail or universal banks. Average value for all SHRM characteristics in investment banks equals 5.6 or 6.0. Data on alignment of HRM to strategic goals in different types of banks in Russia is presented in the table 3.

Table 3
Alignment of HRM to Business Strategy in Banks Depending on the Type of Business

SHRM Characteristics	*Banks*			
	Corporate (7 banks)	*Retail (11 banks)*	*Universal (44 banks)*	*Investment (5 banks)*
HR Head is actively involved in the development of corporate strategy	4,50	5,00	4,35	5,60
HR operational activity is based on corporate strategy	4,50	5,00	4,15	6,00
Employee motivation in achievement of strategic goals	4,50	5,00	4,20	6,00
HR department provides line managers with strategic guidance	4,50	3,67	4,33	6,00
Sum	***18,00***	***18,67***	***17,02***	***23,60***

Source: Author

The above results show that average score for alignment of HRM to business strategy differs for banks with different organizational characteristics. Nevertheless, in order to determine if this is a statistically significant difference, it is necessary to conduct correlation analysis (Kruskal-Wallis test for nominal measures and Kendall rank correlation for quantitative measures). Results of the Kruskal-Wallis test analysis is presented in the table 4.

Table 4
Kruskal-Wallis Test Results

	Type of Ownership (private/state)	*Local/ International*	*Headquarter Location*	*Type of Business*
χ^2	15,141	20,459	27,445	32,00
p	*0,441*	*0,155*	*0,25*	*0,006*

Source: Author

If the probability (p) in the Kruskal-Wallis test analysis is less than 0,05 the hypothesis of statistical difference between alignment of HRM to business strategy and organizational characteristic can be accepted. The results of the Kruskal-Wallis test show that the level of HRM alignment to strategic goals is not statistically different for private and state banks, local and international banks. The analysed HRM indicator also doesn't depend on the location of the bank's headquarter. The level of alignment of HRM to business strategy statistically differs only for banks with different types of business. This indicator is higher in investment and retail banks and lower in universal and corporate banks.

In order to study the difference between the level of HRM alignment to business strategy and quantitative organizational characteristics of banks (total assets, number of years of operation in Russia, and headcount) it is necessary to use the Kendall rank correlation analysis. Results of this analysis are indicated in the below table.

Table 5
Kendall Rank Correlation Results

	τ	*p*
Total assets	0,050	0,564
Number of years of operation in Russia	(-0,16)	0,874
Number of branches	0,033	0,736
Headcount	0,052	0,546

Source: Author

The results of the analysis demonstrate that probability is more than 0,05, which means that the research did not find statistically significant differences between alignment of HRM to business strategy and total assets, number of years of operation in Russia, and headcount of banks.

CONCLUSION

Strategic human resources management is important for adding value in reaching strategic goals of any organization, including banks. The level of alignment of HRM to business strategy differs for different banks and depends on such factors as involvement of HR director in the development of corporate strategy, professionalism of HR team, the role of HR department in a company, etc. Based on the questionnaires of HR directors of banks in Russia the level of alignment of HRM to business strategy for different banks was determined by calculating the average score for each SHRM characteristic. Calculations of the research demonstrated that alignment of HRM to business strategy varies for local and international banks; state and private banks; investment, retail, corporate, and universal banks. Nevertheless, the deeper analysis confirmed that statistically significant difference in HRM alignment to business strategy is observed only in banks with different types of business. It is higher in investment and retail banks and lower in universal and corporate banks. Other organizational characteristics of banks do not influence SHRM in the Russian banking sector.

REFERENCES

[1]. Banking Supervision Report. Bank of Russia, 2015. pp. 1-100.

[2]. Boselie, P., Dietz, G. and Boon, C. Commonalities and contradictions in HRM and performance research. Human Resource Management Journal, 2005, Vol. 15(3), pp. 67–94.

[3]. Buller P.F., McEvoy G. M. Strategy, human resource management and performance: Sharpening line of sight. Human Resources Management review, Vol. 22, No 1 (January 2012) 43–56.

[4]. Jiang K. Clarifying the construct of human resource systems: Relating human resource management to employee performance. Human Resource Management Review, 2011, Vol. 1, p. 3.

[5]. Mamonov M. Assessment of the Competiveness in the Russian Banking Sector and Analysis of its Influence on the Stability of the Sector [Electronic Resources] / Center of the Macroeconomic Analysis and Short-term Forecast, 2012. - 2015. – Mode of access: http://www.forecast.ru/_ARCHIVE/Analitics/Mamonov/BD11-011210.pdf

[6]. Orlando C.R., Nancy B.J. (2001) Strategic Human Resources Management Effectiveness and Firm Performance, International Journal of Human Resources Management, Vol. 12 (2), pp. 299-310.

[7]. Wright P.M., McMahan G.C., Snell S.A., Gerhart B. Comparing Line and HR Executives' Perceptions of HR Effectiveness: Services, Roles, and Contributions. Human Resources Management, 2001, Vol. 40(2), pp. 111-123.

[8]. Youndt M.A., Snell S.A., Dean J.W., Lepak D.P. (1996) Human Resources Management, Manufacturing Strategy, and Firm Performance. Academy of Management Journal, Vol. 39, pp. 836-866.

★★★