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Unfolding the Myths of
Customer Satisfaction

IMPACT OF HRM PRACTICES
On Employees Satisfaction

IMPACT OF EMPLOYEE MOTIVATION AND SATISFACTION
On Customer Satisfaction and Organizational Performance

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editorial

"An organization is only as good as its people." This adage has undergone much verbal wear and tear and only in recent times has the corporate world truly come to appreciate the truth behind these words.

In the past, organizations looked towards the mobilization of new business and curtailment of costs for boosting the bottom line; however, increasing evidence of the correlation of employee motivation/satisfaction and organizational productivity/financial performance is promoting cognizance of the financial fruits of a satisfied staff.

Recent studies present findings that factors such as work environment, compensation, benefits, managerial competence and organizational vision drive employee satisfaction, which in turn yields customer satisfaction, heightened productivity, optimized performance and improved financial performance. In fact, it is not only the motivation of employees who directly interact with customers that translates into customer satisfaction; even employees who do not deal with customers directly contribute to overall customer satisfaction by enhancing the output quality and efficacy of the organization's offering to the customer.

Products and services are becoming increasingly replicative, with their shelf-life becoming shorter than ever before. Organizations are faced with the challenge of generating sustainable competitive advantage in the long-term, as they come to accept that they cannot continue to rely on innovation alone to deliver lasting value.

Organizations are starting to focus on retaining customers, and this mindset is now competing with the previously all-consuming focus on acquiring 'new' customers. It is becoming increasingly apparent that the loyalty of existing customers who stay with the organization continues to pay off over a more profitable long term and generates exceptional value - "lifetime value of a customer" can be exceedingly profitable.

There are several ways in which organizations can generate employee satisfaction that impacts customer satisfaction and yields more profitable returns. Firstly, the management of organizations should make a long-term commitment to employee engagement, along with clearly defined goals, as a core objective of the organization, in addition to consistent use of open and frequent lines of communication that invite the input of employees and demonstrate the value of the same by making changes based on it. Moreover, employee and organizational goals should be clearly defined and communicated, with well-designed and motivating reward & recognition systems.

Organizations should also dedicatedly focus upon training and development of employees at all levels so that they have the necessary skills to effectively and efficiently deliver upon their goals. The employees should be included in integrated marketing programs that are as directed towards channelizing energy of employees towards organizational goals internally, as they are towards broadcasting external brand communications.

This paradigm shift in the HR landscape not only heralds changes in interrelated functions such as corporate communication, business planning and rewards & recognition, but also calls for the introduction of specialized and targeted motivational programs.

Going forward, in order to augment profitability, organizations will enhance investment in their human resource base to further strengthen and motivate their employees into delivering upon superior customer service. This will, without doubt, be an interesting change in organizational management and should be one that the more pre-emptive and dynamic organizations can cash upon by embracing the concept at the earliest.

Sirajuddin Aziz
Editor-in-Chief

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Ali Basharat is a business journalist

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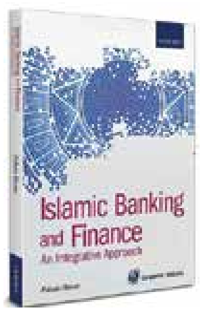

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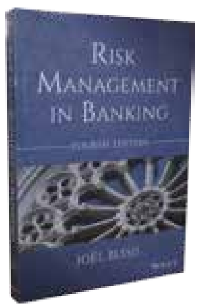

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Focus Group

The Institute of Bankers Pakistan (IBP) organized an HR Focus Group interactive session on 25th November 2015 at the Institute. Leading HR gurus from the banking and financial sector of Pakistan participated in the event. The HR Focus Group session was themed at “Empower”. The participants appreciated the contribution of IBP in holding such an informative and valuable platform.

Unfolding the Myths of
Customer Satisfaction

Employees play a vital role in achieving the organizational goals successfully. It has been observed that motivated employees walk an extra mile to retain the customers ensuring satisfaction at all levels.

Impact of Employee Motivation and Satisfaction on Customer Satisfaction and Organizational Performance

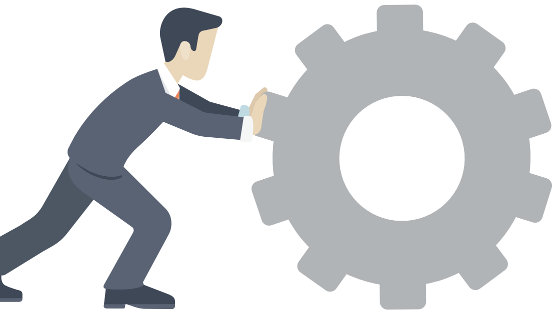
By M. Nadir Hussain

The purpose of this research is to establish whether there exists a relationship between employees' satisfaction and customers' satisfaction and how customer satisfaction does then impact the organizational performance of banks and other organizations.

There are no two opinions on the importance of customers for any organization. Customers are a key to success for any organization. Organizations go great distances to create customers and then to retain them as long as possible. Satisfied customers become loyal customers thereby generating lifetime value (a total sum of series of purchases that a customer is expected to make from a business over its lifetime) for the business organizations. Both theoretical as well practical studies have revealed that customer retention and relationship maintenance exert positive impact on organizational performance (Dovaliene, Gadeikiene and Piligrimmiene, 2007). A satisfied customer is a positive advertisement for the products and services of an organization, whereas a dissatisfied customer spreads negative word-of-mouth about the organization and causes loss to the organization. This is an established fact that a dissatisfied customer tells more people about his experiences than a satisfied customer does. Organizations, therefore, conduct regular customer satisfaction surveys to assess the customers' satisfaction level in order to develop such procedures, products and service to attain maximum satisfaction amongst customers in order to retain existing customers and attract new ones, which results in organization's enhanced performance.

Employees of the organization are very important as these are the employees who create good or bad impression about the organization (Ahmad, Wasay and Malik, 2012). What if they are not satisfied and motivated? Will they be able to provide customers the desired level of services? Love begets love; we can so easily assume that only a satisfied employee can give satisfactory services to the customers and only a motivated employee can give delight to the customers (Daniel, Ashar and Ihsan-ur-Rehman, ND), because a person can give only what he possesses. Employees are the most strategic and valuable asset for organizations to develop competitive advantage over its rivals, because rivals copy each other's products, technologies and processes, but employees and their expertise, skills and commitment can't copied (Ahmad, Wasay and Malik, 2012).

Organization's success very heavily relies on the satisfaction level of its employees, because customer satisfaction is the natural



and normal outcome of employee satisfaction. Customer satisfaction solely depends on whom the customer interacts with to satisfy its need and wants. It is virtually impossible to obtain customer loyalty without first developing the loyalty amongst employees (Naseem, Sheikh and Malik, 2011).

Problem Identification

While we have maintained in preceding discussion that employees and customer are equally important for organization's performance. Rather, employees have some superiority over customers, as customer satisfaction and the resultant organizational performance single-handedly depend on employees of an organization. Problem arises when organizations in their blind pursuit of customer satisfaction overlook the importance of employees. Organizations spend heavily on the programs of customer loyalty and happen to ignore the importance of employee motivation, in accomplishing their organizational goals and objectives (Ahmad, Wasay and Malik, 2012). Banking practices globally are more overly customer-oriented. One research conducted in UK concluded that employee satisfaction in Banking Sector was the lowest amongst all sectors of UK economy. Banks in Pakistan are certainly no exception to it. It is an observable fact that banks' employees are amongst the most burdened employees in our country, who spend hours after hours working under stress over and above their specified and paid time.

Problem Statement

Research study conducted in Services Sector of Pakistan, especially banking proved a positive relationship between employee satisfaction and customer satisfaction (Daniel, Ashar and Ihsan-ur-Rehman, ND). The researchers however concluded that sample size was not large and therefore the results may not have generalization in them. Therefore, it is pertinent to explore whether what they concluded stands in agreement with the existing knowledge and understanding on the subject or not. In this way, generalization of their results can be assessed.

Research Questions

- Does employee motivation enhance employee satisfaction?
- Does employee satisfaction positively influence customer satisfaction?
- Is there a relationship between employee motivation and customer satisfaction?
- Does customer satisfaction increase organizational performance?

Research Objectives

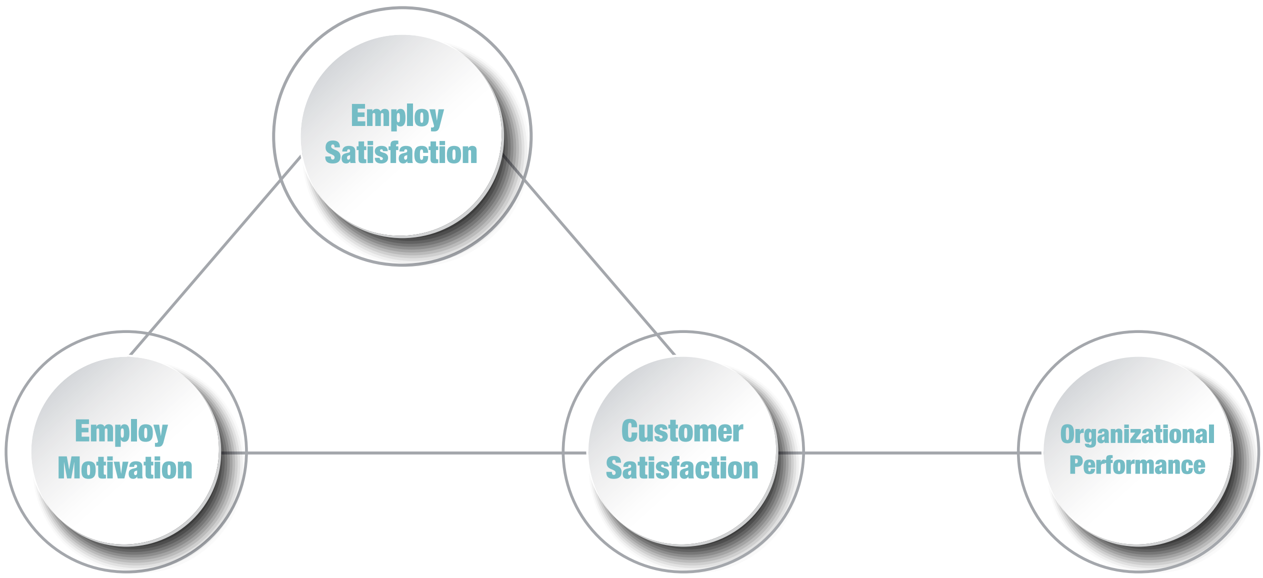
- Does employee motivation enhance employee satisfaction?
- Does employee satisfaction positively influence customer satisfaction?
- Is there a relationship between employee motivation and customer satisfaction?
- Does customer satisfaction increase organizational performance?

Scope

The topic is of fundamental importance for managers across all sectors of economy and we see organizations placed on different points of a wider spectrum with employee satisfaction and customer satisfaction on extremes. Too much tilt towards either of two may lead to worse effects on organizational performance. Success of organizations very heavily depends on seeking the right balance between the two. Therefore, this study can be very important for managers in the proposed Banking Sector, who have to play a mediating role between ever-and-extra demanding customers and employees who often feels themselves as over-worked, disrespected and deprived of work-life balance. The results are likely to have significant bearing on the management practices in the Banking and other Sectors, because if it is proved and generalized that employee satisfaction is necessary to accomplish customer satisfaction, which in turn results in higher organizational performance, the management practices would then need to be employees-oriented to achieve employee satisfaction in order to attain higher customer satisfaction and better organizational performance. That will be a paradigm shift that will take employee motivation and satisfaction to centre of organizational strategic planning in Banking and other Sectors of Pakistan.

LITERATURE REVIEW

Studies already conducted in this field show a positive impact of employees' satisfaction on customers' satisfaction. (Daniel, Ashar and Ihsan-ur-Rehman, ND). A research conducted in USA concluded that employees' satisfaction had positive influence on hospital patients' experiences (Peltier and Dahl, 2009). A positive relation of employees' motivation has been established on customers' satisfaction in airline industry of in Pakistan (Ahmad, Wasay and Malik, 2012). Still, the banking sector of Pakistan seems to have adopted the advice of Mr. Stew Leonard whose rule no. 1 is that



customer is always right and rule no. 2 is that even if the is customer is wrong, reread rule no. 1 (Kotler, Armstrong, Agnihotri and Ehsan-ul-Haq, 2010). Organizations worldwide have been following these rules and banks in Pakistan are no exception to it. The significance of employee motivation, employee satisfaction, employee loyalty and their influence on organizational performance have largely been ignored in the Operations Management literature (Boudreau, 2004). An account of turn-around of once failing HCL Technologies Ltd. India into one of the IT giants in the World today proved that putting employees ahead of customers yields better results for organizations (Nayar, 2010). CEO of Southwest Airlines, Herb Kelleher, always puts employees first, not customers. He says, "If they are happy, satisfied, dedicated and energetic, they will take good care of customers. When the customers are happy, they come back, and that makes shareholders happy" (Kotler, Armstrong, Agnihotri and Ehsan-ul-Haq, 2010). Employee satisfaction results in customer satisfaction; because when internal customers (employees) are happy, they treat external customers well thus creating loyalty amongst the customers (Linking Employee Satisfaction with Productivity, 2003 & Kotler, Armstrong, Agnihotri and Ehsan-ul-Haq, 2010).

Employee Motivation

"Motivation refers to process by which a person's efforts are energized, directed and sustained towards attaining a goal", (Robbins, Coulter and Vohra, 2010). Therefore, employee motivation may very simply be defined level of energy, commitment and creativity that company's workers employ in performing their jobs and duties in order to achieve organization's goals and objectives. "It is common sense that when people feel great about the place where they work, they provide better customer services", says Dick Clark, Group Leader of Financial Services at Monsanto (Linking Employee Satisfaction with Productivity, 2003). Employee motivation is always a challenging task for organization, because it is not precisely known what motivates the employees. A Gallop poll indicates that as high as 73 % of the US employees don't feel excited and motivated about their work (Robbins, Coulter and Vohra, 2010). A factor may be motivating for some employees and may not be motivating for others. It is for this reason that both managers and academics are still making their attempts to understand and explain employee motivation (Robbins, Coulter and Vohra, 2010). However, as the global best practices are, organizations try to achieve employee motivation by aligning employees' personal interests along with organization's interests and providing them with conducive work environment, empowerment and support, excellent appraisal & rewards system and good leadership etc.

Only a motivated employee brings out it best efforts and abilities while at work, others only work in a mechanical way-sleepwalking through their workday, putting time but not energy or effort into their work (Robbins, Coulter and Vohra, 2010) Motivated employees exhibit better results as compared with those employees who are unsatisfied (Ahmad, Wasay and Malik, 2012). Employee empowerment is one effective way of employee motivation and, employee motivation leads to both employee satisfaction as well as customer satisfaction (Naseem, Sheikh and Malik, 2011). Employee motivation can be used as a tool to achieve customer satisfaction, because those who directly deal customers highly influence customers' satisfaction (Ahmad, Wasay and Malik, 2012).

Employee Satisfaction

Employee satisfaction is quite simply how content or happy employees are with their jobs. It is a feeling of having achieved personal desires. Research conducted in the area of consumer psychology is indicative of the fact that when a customer interacts with happy and satisfied employee, he develops a favorable image towards the

> **"A satisfied customer is an advertisement of the business."**

product (Howard and Gengler 2001). Research indicates that employee satisfaction increases shareholders' wealth (Linking Employee Satisfaction with Productivity, 2003). Like employee motivation, employee satisfaction, often referred to as job satisfaction, is different for different employees. Some employees may derive satisfaction from their pay-checks and others from challenging work (Robbins, Coulter and Vohra, 2010). Good organizations often conduct employee satisfaction surveys to measure their employees' satisfaction level in order to keep them satisfied to reduce employees' turnover. Satisfied employees are more hard-working, provide better services and get more involved in their organization. (Yoon and Suh, 2003).

Only satisfied employees can satisfy and retain the customers. Organizations should chalk out such strategies to make employees happy and satisfied with their jobs, because happy employees make customer happy (Daniel, Ashar and Ihsan-ur-Rehman, ND). Employee satisfaction results in productivity as well as quality and, it are virtually impossible to develop customer satisfaction without first developing satisfaction amongst employees, because customer service is finally dependant on those who provide it-the employees (Naseem, Sheikh and Malik, 2011).

Customer Satisfaction

Customer Satisfaction is defined as "The extent to which a product's perceived performance matches a buyer's expectations" (Kotler, Armstrong, Agnihotri and Ehsan-ul-Haq, 2010). It is lifeblood for any organization. Organizations spend heavily in these modern times to utilize latest technology for Customer Relationship Management. It includes creating, retaining and increasing the number of customers of the organizations. If an organization's products' performance falls short of customer's expectations, the customer will be dissatisfied. If that performance matches customer's expectations, the customer will be satisfied. And if it exceeds customer's expectations, the customer will be in a more desirable state of delight. (Kotler, Armstrong, Agnihotri and Ehsan-ul-Haq, 2010). Word-of-mouth of a satisfied customer brings positive impact on organizations and attracts new customers, where word-of-moth from a dissatisfied customer works the other way. (Fornell, 1992). Customer satisfaction leaves a long-term impact on financial performance of an organization (Nagar and Rajan, 2005).

Customer Satisfaction results in enhancing organizational performance in number of ways. First, Customers become loyal and they spend more in future (Verhoef, 2003) and this increases profitability (Mittal and Kamakura, 2001). Secondly, loyal customers are willing to pay premium prices and are less price sensitive (Anderson, Fornell and Lehmann, 1994). Lastly, customer satisfaction enhances market reputation of the organizations allowing it to establish and maintain beneficial relationship with its key suppliers and distributors (Anderson, Fornell and Lehmann, 1994).

Organizational Performance

Performance is end result of an activity and Organizational performance is therefore defined as the accumulated results of all work activities of an organization (Robbins, Coulter and Vohra, 2010). It is measured by efficiency, effectiveness and rankings. Efficiency refers to doing right things and effectiveness to doing right things. Efficiency is means and effectiveness is ends. And, ends justify means. Effectiveness is simply defined as how appropriate an organization's goals are and the extent to which the organization has achieved its goals (Robbins, Coulter and Vohra, 2010). Business's objectives include financial objectives such as profitability and non-financial objectives such as pursuing management interest (Agency Problem) and survival in down-turn etc. (Harris, 2001).

It is proved in number of studies that a connection amongst employee satisfaction, customer satisfaction, productivity and financial performance exists (Linking Employee Satisfaction with Productivity, 2003). Satisfied customers become loyal customers (Daniel, Ashar and Ihsan-ur-Rehman, ND. Oliver, 1980) thus securing future revenues (Fornell, 1992). A satisfied customer is an advertisement of the business. Research has proved that customer satisfaction leads to enhanced organizational performance (Ahmad, Wasay and Malik, 2012). Business organizations worldwide tend to enhance their performance as much as possible and only way to achieve this is through customer satisfaction.

Integration of Variables

All these variables namely employee motivation, employee satisfaction, customer satisfaction and organizational performance are very closely related. Employee motivation leads to employee satisfaction. This creates loyalty amongst employees thereby decreasing organization's induction, training and retention costs. A satisfied employee is more productive one (Yoon and Suh, 2003). Thus more customers are served in less variable cost as employ-

> "Motivation refers to process by which a person's efforts are energized, directed and sustained towards attaining a goal"

ees work efficiently and make fewer mistakes (Peltier and Dahl, 2009). Then satisfied customers become loyal ones and they come again and again (Verhoef, 2003). Lower employee recruitment, training and retention costs, higher customer loyalty and lower costs of delivery of services to customers yield better financial results. (Peltier and Dahl, 2009).

Services understand the service-profit-chain, which links employee satisfaction with customer satisfaction and customer satisfaction with organizational performance (Kotler, Armstrong, Agnihotri and Ehsan-ul-Haq, 2010). Conducive work environment and strong support of those employees who interact with customers produces motivation, satisfaction, loyalty and hard-work amongst employees, who in turn provide superior customer services to make customers happy and loyal who not only repeat their purchase, but also bring new-to-the-organization customers and end result of this entire chain is more profits and growth- superior organizational performance (Kotler, Armstrong, Agnihotri and Ehsan-ul-Haq, 2010). Employees treat the customers the way organization treats them (Kotler, Armstrong, Agnihotri and Ehsan-ul-Haq, 2010). Organizational performance rests on external customers and they on internal customers- the employees (Kotler, Armstrong, Agnihotri and Ehsan-ul-Haq, 2010).

Hypothesis

H1: There is positive influence of employee motivation on employee satisfaction.

H2: There is positive influence of employee motivation on customer satisfaction

H3: There is positive influence of employee satisfaction on customer satisfaction

H4: There is positive influence of customer satisfaction on organizational performance.

DISCUSSION

People can be the most invaluable and unrivaled resource for the organization. Because, competing organizations copy each other's products, process and strategies, but what remains unique for an organization is its employees' level of skills, commitment, attitude and sincerity. Therefore, People are the most strategic asset of an organization and Human Resources Management practices play a central role in organization's success. If an organization succeeds in having the right number of efficient and effective people placed at right positions at right time, the organization is certainly success-bound. Organizations rest in the hands of its people for every aspect right from strategic planning to customer services.

The hard task that lies before organization is to determine what motivates employees and what results in employee satisfaction, which then produces positive impact on organizational performance. (Saleem, Mahmood and Mahmood, 2010). Humans are different in their needs and psychology. What may be motivating for one individual may not be motivating factor the other. However, factors like Work Environment, Pay & Benefits, Management Systems and Organizational Vision are proved to have positive effect on employee motivation, which in turn affects customer satisfaction positively (Ahmad, Wasay and Malik, 2012).

Services understand the service-profit-chain, which explains how employee motivation and satisfaction results in customer satisfaction, which ultimately lifts organizational performance. Encouraging work environment and strong support of those employees who are in direct connection with customers generates motivation, satisfaction, loyalty and hard-work amongst employees, who then provide excellent customer services to make customers delighted, happy and loyal who not only come again and again for their purchase, but also spread positive word-of-mouth amongst their circles of influence and thus bring new-to-the-organization customers. The end result of this entire chain is more profits and growth-superior organizational performance (Kotler, Armstrong, Agnihotri and Ehsan-ul-Haq, 2010).

Employee performance comes from ability and motivation level of employees. Organizations must motivate their employees so that they perform to the best of their abilities. The only competitive advantage that commercials banks in Pakistan have is their motivated employees who extend high quality services to their customers, which results in customer satisfaction. Conclusions drawn from the results of a study suggest that work motivation yields job satisfaction and resultantly, employees are more productive and committed. (Ayub and Rafif, 2011). There is a very strong degree of association between motivation and job satisfaction. (Singh and Tiwari, 2011).

Only satisfied employees can satisfy and retain the customers. Organizations should chalk out such strategies to make employees happy and satisfied with their jobs, because happy employees make customer happy (Daniel, Ashar and Ihsan-ur-Rehman, ND). Employee satisfaction results in productivity as well as quality. It is virtually impossible to develop customer satisfaction without first developing satisfaction amongst employees, because customer service is finally dependant on those who provide it- the employees (Naseem, Sheikh and Malik, 2011).

A very recent research conducted in UK with reference to customer satisfaction and business performance of a particular bank revealed that results are only addition to already existing body of knowledge and understanding that customer satisfaction and organizational performance have positive relationship and association (Neupane, 2014).

CONCLUSION AND RECOMMENDATIONS

While this as evident as a broad day-light from our preceding discussion and literature review that employee motivation results in both employee satisfaction and customer satisfaction. Employee satisfaction also positively fosters customer satisfaction and customer satisfaction positively influences organizational performance. The conclusions drawn are in perfect agreement with existing body of knowledge and understanding on the subject and variables. Therefore, recommendations for banks and other organizations operating in Pakistan from the study are that they must take paradigm shift in their strategic planning. While chalking out strategic plans for improving their organizational performance, their starting, central and focal point must be employee motivation and satisfaction instead of traditional one-customer satisfaction. The study has its limitations too. Due to constraints of time and resources, we could not undertake quantitative research into our model and have left it out for future studies.

This article was first published in "The IJBM Journal"

Impact of HRM Practices Practices on Employees Satisfaction

By Aysha Noor

The emergency of globalization, technological breakthrough in information technology and current dynamic organization structures creates number of challenges for the organizations. The globalization, advent of information technology and new web of knowledge makes mobility of human resource much faster than ever in the past. These challenges makes the strategies formulation and implementation much dynamic than ever (Majumder; 2012). To cope with strategic challenges efficiently and effectively strategically managed satisfied human resource is an important factor in today's hypercompetitive banking industry in Pakistan. The impact of human resource management practices popularly known as HRM practices on organizational performance has been the leading area of research in different areas of world. Such as researches of Ismail and et al (2010) carried out conceptual study to explore the relationship of strategic human resource management practices and firm performance behaving in resource based view approach in the firm. Ayanda and Sani (2010) found evidence from public sector of Niger state on strategic human resource practices and organizational effectiveness and Siddique (2007) found evidence for the influence of strategic human resource practices on emotional competencies. The impact of human resource practices on employee satisfaction still has the room to research especially with perspective to Pakistan. The service sector of Pakistan is flourishing day by day and the growth in service sector is much faster than the real sector specially the growth in the banking sector where number of new banks enter in the banking industry (Economic survey of Pakistan, 2005).The banking sector is facing stiff competition among the public sector and private sector banks. Therefore this research is conducted to fill the existing research gap and to explore the impact of human resource practices on employee satisfaction in the context of public sector and private sector commercial banks of Pakistan. The objective is to find out how far the human resource practices such as career planning, training and development, job security, compensation and rewards & recognition effects employee satisfaction. It is also beneficial for the HRM policy makers in the banking sector.

REVIEW OF LITERATURE

The review of literature provides the insight of this study for development of hypothesis. The employee satisfaction has been considered as key factor for the employees' loyalty towards organization which is possible through implementation of career counseling (Abraham, 2011). While in study Adekola (2011) suggests that such outcome can only be possible through career planning and management. The human resource practices of the organizations which most effect the employees' satisfaction are career development, job clarity, participatory management approach and family friendly policies (Saibou, 2002).

The employee perceives that their satisfaction towards job is enhanced through training and development and also enhance their loyalty towards organization. The research suggests that the HRM practices that enhance motivation and commitment are significantly related to employee satisfaction (Costen and Salazer, 2011). The HRM practices that enhance the motivation and commitment towards job include performance appraisal, participatory decision making, need based training, compensation enhances job satisfaction (Ray and Ray, 2011). Another research carried out to empirically investigate the HRM practices that contributes towards employee satisfaction are procedural justice and training (Halepota and Irani, 2010). The work environment, company values, job responsibilities equipped with comprehensive training contributes towards the job satisfaction (Choo and Bowley, 2007).

The research findings of the Jandaghi and et al (2011) suggest that there is the significant difference of organizational commitment between the contractual employees and the permanent employees. But the findings do not significantly explain this difference in the job satisfaction level of the employees. The two private and public sector job satisfaction contributors are measure and results suggest that the employees in the private banks are more satisfied with the pay, recognition and working hour. However the public sector bank employees are more satisfied with the job security than the other factors (Khalid and Irshad, 2010). Nikolaou and et al (2002) research results showed that permanent workers in jobs derive higher utility from work compared to the workers in insecure jobs.

Rustagi and Dua (2012) findings suggests that insufficient compensation and extensive work load leads to decline in employee's performance. Ghazanfar (2011) suggested that the flexible pay system does not contribute towards the employee satisfaction and fixed compensation creates satisfaction and a motivational factor for the employees. Tooksoon (2011) results indicate that HRM practices include supervision, job training and pay practices significant positive correlation with employee satisfaction and negatively associated with turnover.

Tausif (2012) carried out the empirical investigation in the service sector and suggested that the task autonomy, task significance, task involvement, opportunities to learn new things and recognition are contributing factors towards employee satisfaction. The practitioners' satisfaction is significantly associated with the superior support and client recognition. Danish and Usman, A. (2010) statistically showed that different dimensions of work motivation and job satisfaction are significantly correlated and rewards and recognition have great impact on motivation of the employees. Ali and Ahmed (2009) results indicates that the immense support for the positive relationship between reward and employee satisfaction. Allen and et al (2003) suggested that participation in decision making, fairness of reward and growth opportunities contribute to the development of perceived organizational support and this mediates their relationship with organizational commitment and job satisfaction.

HYPOTHESIS

The review of literature provides the basic framework for the development of the hypothesis for the further study.

Hypothesis:

H1: Career Planning has a positive impact on employee satisfaction.

H2: Employee satisfaction is a positive outcome of training and development.

H3: The employee satisfaction enhanced through job security.

H4: The employees' compensation has a positive impact on employee satisfaction.

H5: Employee satisfaction is a positive consequence of rewards and recognition.

4. RESEARCH METHODOLOGY

Sample size and sampling technique

Population for this study is the employees of a public sector and private sector Banks. The convenient sampling approach is adopted for selection of sample as suggested by Zkimund (2003). For data collection 135 Branches of public and private sector banks from Rawalpindi and Islamabad are selected. The 1300 number of questionnaires are distributed among the selected sample from the population out of which 1022 received in complete filled in all respects.

Research Instrument

The data is collected through the questionnaire suggested by Atteya (2012) for employee satisfaction, career planning by Kayalar and Ozmutaf (2009), compensation, job security, training and development by Lee and et al (2010), and Jurgly (2008) for rewards and recognition. The questionnaire comprises of 25 questions and three questions pertain to demographic of the respondent. The respondents are provided five point like scale to respond each question in the questionnaire. The career planning, employee satisfaction, training and development is measured through five questions, four items are utilized to measure the job security and compensation and three items for rewards and recognition.

Tausif (2012) carried out the empirical investigation in the service sector and suggested that the task autonomy, task significance, task involvement, opportunities to learn new things and recognition are contributing factors towards employee satisfaction. The practitioners' satisfaction is significantly associated with the superior support and client recognition.

Table I. Correlation

	Career Planning	Training & Development	Job Security	Compensation	Rewards & Recognition	Employee Satisfaction
Career Planning	1					
	0.230	1				
Training &	0.341					
Development	1022					
	-0.088	.359**	1			
	0.567	0.003				
Job Security	1022	1022				
	0.387	.410*	.674**	1		
	0.047	0.065	0.000			
Compensation	1022	1022	1022			
	-0.090	(.324)*	(.397)*	(.410)**	1	
Rewards &	0.297	0.026	0.037	0.000		
Recognition	1022	1022	1022	1022		
	.348**	0.025	.177*	.228**	.219*	1
Employee	0.000	0.772	0.040	0.008	0.011	
Satisfaction	1022	1022	1022	1022	1022	

* Correlation is significant at the 0.05 (2 tailed) and **0.01 level (2-tailed)

Table II. Regression Analysis

	R	T Value	Co efficient	F Value	P Value
Career Planning	0.782	4.667	0.361 (0.180)*	7.876	0.000
Training & Development	0.782	-0.489	-0.039 (0.055)*	7.876	0.839
Job Security	0.782	2.267	0.192 (0.213)*	7.876	0.025
Compensation	0.782	2.293	0.199 (0.090)*	7.876	0.023
	0.782	4.276	0.340 (0.336)*	7.876	0.000

* UN standardized Beta Coefficient in parenthesis

Data Analysis

The total number of 1022 questionnaires received in complete filled and are entered in the SPSS 17 one by one each questionnaire is entered in each row and each variable is entered in the column. The internal reliability of the instrument is tested through Cronbach's Alpha. The data mean of each variable is found out through SPSS 17. The data mean for each variable is further used for data analysis through correlation and multiple regressions to empirically investigate the study hypothesis.

DATA ANALYSIS AND RESULTS

Cronbach's Alpha

Cronbach's Alpha is utilized to test the internal reliability of the instrument. The value of the Cronbach's Alpha is 0.720 which is above the standard on Numally (1978) that is 0.70 for acceptance of the scale. Therefore the instrument used for the study has strong internal reliability and it could be used with confidence for further statistical analysis.

Descriptive Analysis

The collected data is further analyzed by taking mean of each variable response through SPSS 17. After taking mean responses of each variable the Pearson correlation found for each variable showed in Table I. The Pearson correlation shows that employee satisfaction has positive and significant relationship with career planning, job security, compensation, rewards and recognition. However employee satisfaction relationship with training and development showed insignificant results.

Regression Analysis

The multiple regression model is used to find out the Impact of Human resource practices variables on employee satisfaction (shown in Table II).The Regression results are significantly supported by the multiple regression analysis as 78.2% variation in job satisfaction is explained by the career planning. The multiple regressions supported the null hypothesis that variation in employee satisfaction cannot be significantly explained by training and development. The variation in employee satisfaction is significantly explained by job security. The result statistically explained that the employees' compensation has a positive impact on employee satisfaction. The rewards and recognition has significant positive impact and correlation with employee satisfaction.

CONCLUSION

The Pakistani banking sector is confronting number of challenges such as, new technology breakthrough in banking sector, fulfillment of regulatory requirements, high mobility of employees within the industry and tough competition among public and private sector banks. To cope with these challenges there is the need competent workforce and their retention is the main issue of the banking sector of Pakistan. The organization can retain the satisfied employees for the long period of time than the non-satisfied employees (Abraham, 2011). Therefore this research is carried out on the impact of human resource practices on employee satisfaction. The review of literature suggests that the HRM practices can be measured through career planning, Job Security, Compensation, training and development, rewards and recognition. The convenient sampling approach is applied in this research as suggested by Zikmund (2003). The sample includes 135 branches of public and private sector banks operating in Rawalpindi and Islamabad region. The data is collected by 1300 questionnaires distributed among the selected branches out of which 1022 received in completely filled. The internal reliability of the instrument is tested through Cronbach's Alpha. The relationship between HRM practices and employee's satisfaction is determined through correlation and impact of HRM practices on employee satisfaction determined through multiple regressions. The results indicates that hypothesis that the Career planning, job security, compensation, rewards and recognition has positive impact on the employee satisfaction and variation in employees' satisfaction significantly explained by these human resource management practices is accepted. However the study found no statistical evidence for the positive impact of training and development on employees' satisfaction. Therefore it may be concluded that the objective of employee satisfaction in public and private sectors banks in Pakistan can be attained by career planning, job security, compensation, rewards and recognition.

Pakistan faces huge risks of money laundering & even worse, that of terrorist financing whereas, the country has made fair strides in its combat but it is still not out of the woods yet – in fact far from it. Besides widespread awareness, what is needed is compliance to anti-money laundering / combating financing of terrorism laws & regulations in letter & spirit and also concerted efforts at the right touch points of the state machinery to tackle these twin evils and for this drive to pick up momentum.

Anti-Money Laundering *& Combating* Financing of Terrorism - II

By Sehba Ehsan

Global pressures to do with Anti-Money Laundering AML and Combating Financing of Terrorism CFT have been rising and this seems to continue throughout 2015 and coming years. Compliance to AML/CFT Know Your Customer KYC & Sanction requirement is a key focus for entities as they need to ensure appropriate compliance procedures to meet the growing regulatory demands. Firms operating globally need to demonstrate a robust compliance framework ensuring territories have sufficient oversight that AML / CFT requirements are being adhered to both locally and globally.

First, just to get the perspective right, let's recap: In 1996, Harvard educated Franklin Jurado pleaded guilty to laundering $ 36 million on behalf of Columbian drug lord Jose Santancruz -Londono. Using his economic smarts, Jurado moved cocaine profits far and wide to make them appear like legitimate earnings. After being funneled through various banks and companies the funds would eventually make their way to back to Santacruz – Londono's businesses in Columbia. Eventually, a bank collapse in Monaco highlighted Jurado's connection to several accounts. An extremely noisy bank notes machine in Luxembourg did not help his cause either. He was sentenced to seven and a half years in jail.

Typical money laundering (ML) case is when ill gotten wealth is whisked off to be integrated into the system to make it appear legitimate whereas the financing of terrorism is decidedly a simpler concept. It is actually the financial

The Heat is on and Global Pressures are Mounting

> **"**Typical money laundering (ML) case is when ill gotten wealth is whisked off to be integrated into the system to make it appear legitimate whereas the financing of terrorism is decidedly a simpler concept.**"**

support in any form of terrorism, or of those who encourage, plan or engage in.

Various Regulatory and Government authorities issue estimates each year for the amount of money laundered worldwide or within national economies. In 1996, the IMF estimated that 2% to 5% of the global economy involved laundered money. The Financial Action Task Force FATF does not publish any figures in this regard as reliable estimates are difficult to come by.

Regardless of these issues in measurement, the amount of money laundered each year runs in billions of dollars and poses a significant risk for governments international efforts to prevent and apprehend terrorist financiers and money launderers. In fact, Governments have come down hard on financial institutions to prevent and detect transactions involving dirty money so as to avoid the reputational risk involved.

In 1996, the UN in its declarations against money laundering urged regions to establish a legislative framework to criminalize money laundering and to set up an effective financial and regulatory regime. Subsequently other instruments as UN convention against illicit traffic in Narcotics, Psychotropic Substance and also UN convention on the Suppression of Terrorist Financing (TF) have added further obligations on states. The FATF, its 'FATF Style Regional Bodies' FSRBs & other international bodies have also intensified efforts in this direction.

These global initiatives enforce the commitments of member states, Pakistan included, to take measures against transactional organized crime including adoption of sweeping frameworks for extradition, mutual legal assistance and law enforcement co-operation - also for promotion of training and technical assistance.

Jurisdictions subject to an FATF call on its members apply counter measures to protect the international financial system from the ongoing Money Laundering and Terrorist Financing (TF) risks arising in the jurisdictions.

The Pakistan Experience: Pakistan joined the Asia Pacific Group (APG) in 2000 and is a participant in the Vienna and Palermo conventions- since it has made significant progress to improve its AML / CFT regime. Pakistan has made a high level political commitment to combat money laundering and in this regard the Anti-money Laundering Act was passed in 2010 which is now in effect. The country has also criminalized terrorism financing in the Anti Terrorism Act 1997.

By 2014, Pakistan had substantially addressed its action plan including criminalizing money laundering and terrorist financing, setting up procedures to identify, freeze and confiscate terrorist assets, ensuring an effective Financial Intelligence Unit (FIU), establishing regulation of Money Service Providers and improving controls for cross border cash transactions.

The AML / CFT institutional framework in Pakistan included the establishment of an apex body viz. The National Executive Committee (NEC) under the Ministry of Finance whose mandate amongst others, is to develop, co-ordinate and frame a national strategy to fight ML / TF, determine offences that may be considered predicate offences, frame policies, make recommendations to the Government for the effective implementation of AML / CFT Regulations and to issue directions to agencies involved in the implementation and administration of the Act.

The Financial Monitoring Unit (FMU) was set up immediately after the promulgation of the Ordinance & it has the mandate to receive, analyze and disseminate Suspicious Transaction Reports, represent Pakistan at the regional & international AML / CFT forums and frame regulations in consultation with SBP, SECP and also to co-operate with other FIUs. The other regulatory and supervisory authorities include SBP, SECP and the stock exchanges. Relevant Law Enforcement authorities are National Accountability Bureau (NAB), the Federal Investigative Agency (FIA) and the Anti-Narcotics Force (ANF).

So the stage is set with all major players on board to combat money laundering & terrorist financing.

The Central Bank Angle: The State Bank of Pakistan has issued the following Anti-money Laundering and Terrorist Financing Regulations:

Regulation 1: Customer Due Diligence (CDD)

CDD refers to taking into account all those factors that a bank should consider when initiating a relationship.

This regulation covers identification and verification of clients – establishing the nature of business and an ongoing monitoring of bank relationships. The opening of fictitious accounts is forbidden and no banking services are to be provided to proscribed entities. Further Due Diligence Policy to be in place and suitable AML related trainings to be emphasized upon.

Regulation 2: Correspondent Banking

Banks are required to ensure the following when providing for correspondent banking services:

- Establish the suitability of the Respondent Bank by way of a through KYC
- Obtain information on the Respondent Bank's management and ownership, business activities, purpose of accounts, presence in countries of ML/TF concerns, the condition of Bank Regulation in the Respondent's country and overall quality supervision to be exercised.

Regulation 3: Wire Transfer and Fund Transfers

The responsibility of the ordering institution is to identify and verify the originator of funds and also to record the details of the transfer whereas the beneficiary institution is required to adopt risk based policies, procedures and controls for handling incoming wire transfers unaccompanied by originator information.

Banks / Institutions are required to be more vigilant in case of transactions & relationships that do not conform to standard requirements set out for wire transfers.

Regulation 4: Reporting of Transactions - Suspicious Transactions/ Currency Transactions

Banks are required to report Suspicious Transactions (STRs) /Currency Transactions (CTRs) in the context of ML and TF. They are required to focus, amongst other guidelines, on all complex and unusual transactions having no apparent and obvious lawful purpose.

As per this regulation, the number of STRs have to be reported to SBP biannually- all unusual and out of line transactions have to be investigated and reported to the Financial Monitoring Unit (FMU) & records of STRs to be maintained.

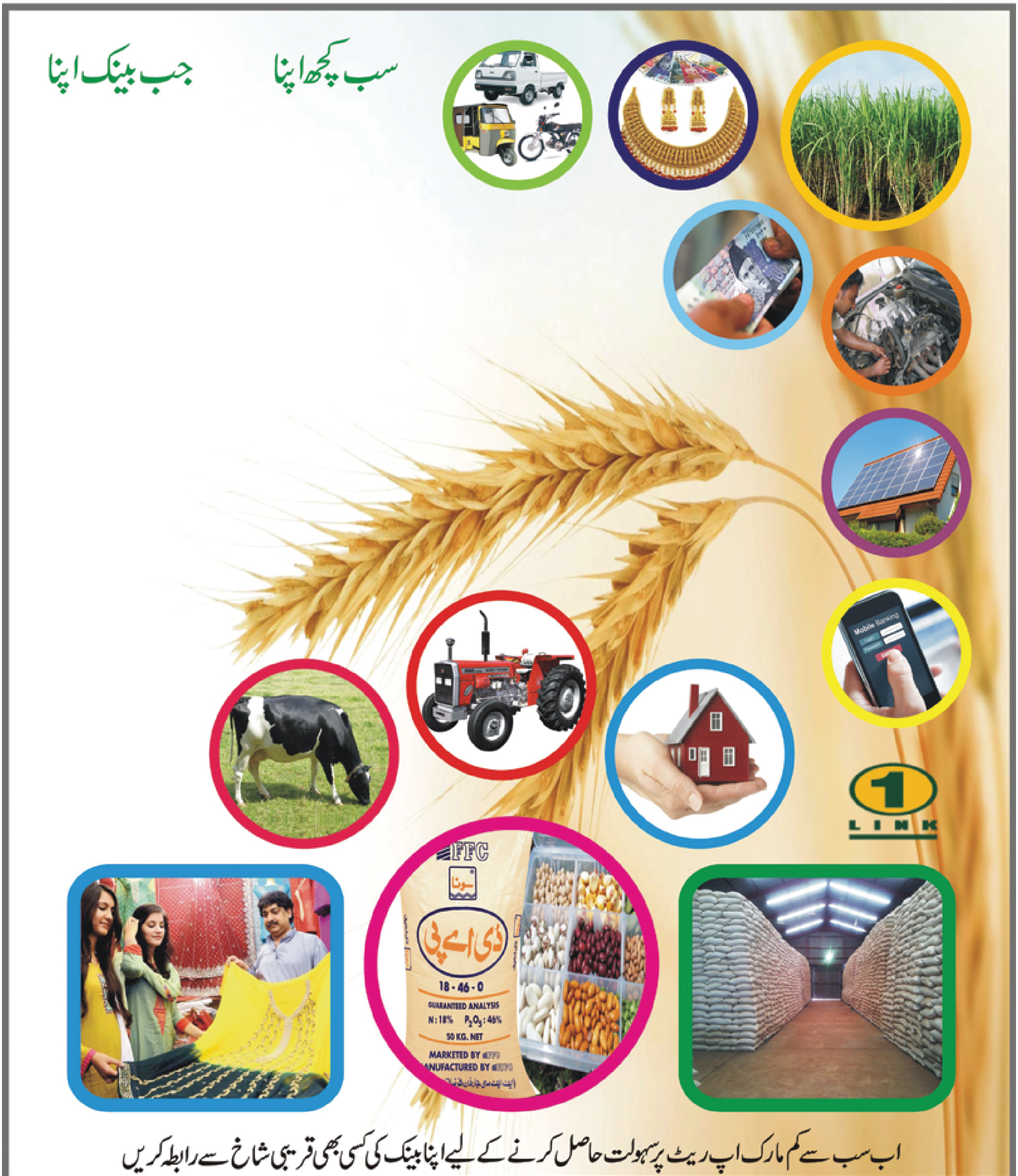
The Currency Transaction Reports to be sent to FMU for analysis & for dissemination on a need basis to investigating agencies. Policies, procedures and controls for meeting STR/CTR related obligations to be implemented.

Regulation 5: Record Keeping

Banks/DFIs are required to maintain records on transactions for at least ten years after the completion of transaction but for longer period if there is litigation involved. Also, information is to be supplied to authorities as in any Law Enforcement Agency (LEA) or to FMU in case of any inquiry.

Regulation 6: Internal Controls, Compliance, Audit and Training

Board approved AML/CFT policies in Banks to be in place – these to be followed by overseas Branches as well. An appropriate Compliance program to be developed and an independent Audit function is to be maintained in line with the Code of Corporate Governance. On the trainings front, suitable training programs for employees are to be implemented.



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The CULTURAL REVOLUTION

In the wake of the financial crisis, regulators are bearing down on banking institutions, while within them a quiet revolution is underway. Risk culture is a key focus of radical cultural reform, and much remains to be done, as Bangor Business School's - Prof Ted Gardener explains.

Major cultural changes are taking place at banks worldwide. This quiet revolution is fundamentally about the development of a new risk culture and embedding it into strategy and operational management. The recent financial crisis has been a strong driver of these moves. In the more challenging post-crisis environment, banks are having to radically rethink their business models and respective corporate cultures.

Two of the major challenges facing the banking industry today are improving risk management governance in general, and specifically changing the kind of risk culture that characterised many banks before the financial crisis. These are necessary conditions for developing a more acceptable bank corporate culture model in the new, post-crisis environment.

REGULATION AND CULTURE

The new Basel rules (Basel 2.5 and 3.0) were immediate and predictable responses to the crisis. But regulators and other key bank stakeholders have to be careful about what they wish for. History has shown that excessively burdensome and restrictive bank regulations can help sow the seeds of the very events they want to avoid or at least mitigate. When bank regulations become overly constraining, they might create perverse incentives for banks to move into shadow banking – business that is unregulated and which may contribute to the build-up of new systemic risk potentials.

Bank regulators have long recognized the importance of governance and risk management culture within the required regulatory regime, and supervisory concern with these areas has intensified. A good example of this new supervisory concern is the strong and much more detailed focus on the required management responsibilities in key areas like liquidity, capital adequacy and stress testing. Top management is exhorted to lead and own the respective systems and decisions.

Nevertheless, regulators alone cannot change banking culture, although they may have a big influence on it. Banks have to assume responsibility for improving their own risk culture and ensuring that their entire corporate culture is consistent with and supportive of these changes. This is neither an easy nor speedy process.

The development of any firm's corporate culture is a complex and evolving concept. The national context (language, habit, geography, etc.) comprises one important set of factors. In the banking industry, regulation is both a national and international driver, and it is particularly important. Even during the modern era of deregulation, banks have experienced a strong re-regulation of supervisory and other rules.

Alongside such external factors, bank corporate culture is shaped by other key drivers, like the firm's (especially its leaders') target systems and management style. Managerial targets have attracted particular scrutiny – especially the

> Aligning the board, the leadership team and the banking business units around a shared understanding of risk culture is especially important."

balance between target profit and the respective risks assumed to achieve profit. As competitive pressures have intensified, a strong ethos of selling and meeting sales targets has often displaced a marketing approach where customer-focused value propositions (and the profitable satisfaction of customers' needs) are more emphasised.

RISK CULTURE

'Risk culture' and 'risk appetite' are key components of a bank's corporate culture. As with most areas of corporate culture, there are continuing debates about what the essential elements of a strong risk culture are, and how these might best be integrated within wider strategic and operational models. Nevertheless, there is a wide consensus that getting the risk culture right is an essential foundation, a necessary condition, for effective risk governance.

Risk culture, then, is a diverse area. Fundamentally, though, it boils down to how managers behave – specifically, their attitudes towards evaluating and managing risks – and how they balance such risks against the respective profit. It is about risk appetite, how much and what kinds of risk the bank is prepared to take, and embedding this risk appetite and the respective risk culture throughout the entire organisation.

In the modern development of bank risk culture, four drivers have been especially important and pervasive. Deregulation has intensified banking competition and innovation, thereby facilitating new profit and risk opportunities. Globalisation has diffused competition and innovation over national boundaries, and across previously segmented markets. The intensifying re-regulation of supervision has also helped to shape the kind of competition and wider business models deployed by banks. Within this maelstrom of change, technology has been a ubiquitous force of change.

The survey report 'Remaking financial services: risk management five years after the crisis' by EY and the Institute of International Finance, published last year, confirms that banks worldwide are now engaged in a kind of risk culture revolution, and this has recently intensified. This survey found that "the largest shift this year is a renewed focus on risk culture". Important stakeholders (like society in general and Basel regulators in particular) have strongly reinforced the need for this risk culture revolution. Bank experiences during the financial crisis confirmed the overriding importance of a disciplined, top-down and risk-orientated management.

Survey evidence confirms that aligning the board, the leadership team and the banking business units around a shared understanding of risk culture is especially important. Risk culture has to be built from the top. Communicating and embedding risk culture throughout the organization are still big challenges.

STRIKING THE BALANCE

There is a widespread view that getting a risk appetite framework established has to be central in constructing a strong risk culture. One of the top challenges in strengthening the risk culture is striking the right balance between a sales-driven front office and a risk-focused culture. Developing the required systems data and forward looking risk metrics are also crucial.

The risk culture revolution is not an easy one, but it is a necessary part of the developing post-crisis banking environment. The new bank business models are inevitably shaped by these developments. Ultimately, the best insurance for the sustainability of free market banking is the quality and professionalism of bank staff, and those who run the organisation.

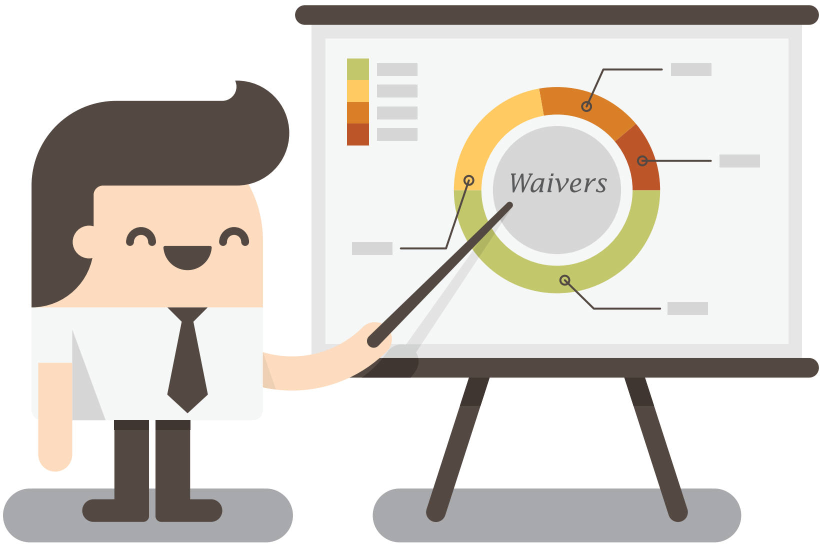
The recent intensification of the risk culture revolution in global banking is a positive development, but the evidence is that more work is still needed on culture and many banks are still struggling to ensure that business decisions are consistent with the bank's risk appetite.

This article was first published in Chartered Banker, the magazine of the Chartered Banker Institute

IMF Grant Waivers to PAKISTAN

By Mohammad Arifeen

The International Monetary Fund extended two waivers to Pakistan on missing performance targets to facilitate the conclusion of the 8th quarterly review, leading to disbursement of $ 502 million. This is indicative of government's commitment in implementing structural reforms in areas of taxation, energy, monetary and financial sectors and public sector enterprises.



Due to declining oil prices in international oil markets and the decrease of commodities prices in the market, the current account position had improved and reduced burden of $ 2.6 billion that also affected the overall economy positively.

Foreign exchange reserves in the country were also recorded at the highest level of economic history of the country and had crossed the $ 18 billion mark. The increasing reserves had enabled the country for re-qualifying for the concessionary fund facility of $ 2 billion from the International Bank for Reconstruction and Development.

Revenue collection recorded 15 percent growth during fiscal year 2014 - 15 as compared to the same period of last year whereas real GDP growth rate was recorded at 4.24 percent in the fiscal year 2014-15, which was the highest in the last 7 years.

IMF had projected a growth rate of 4.5 percent in the fiscal year 2015-16. However, the government retains its goal of achieving growth of 5.5 percent this fiscal year. The macroeconomic situation continues to improve and China-Pakistan Economic Corridor project (CPEC) would further play a significant role in the economic activity.

Inflation is continuing on downward trajectory, the inflation (CPI) fell from 8.6 percent in fiscal year 2013 - 14 to 4.5 percent in fiscal year 2014 - 15 adding that in July 2015 CPI fell to a 12 year low of 1.8 percent as compared to 7.9 percent of the corresponding month of last year.

Regarding balance of payment, the robust growth in workers' remittances and low oil prices continued to help contain the current account deficit. Foreign exchange reserves of SBP stood at US $ 13.8 billion and that of scheduled banks at US $ 5.0 billion as of July 31, 2015.

The performance of the banking sector remained robust on the back of 52 percent surge in earnings and strong solvency as reflected in Capital Adequacy Ratio (CAR) of 17.2 percent. The government reduced the budget deficit of 8.2 percent of GDP in fiscal year 2012-13 to 5.5 percent of GDP in fiscal year 2013 - 14 and with further reduction achieved a fiscal deficit of 5.3 percent of GDP in fiscal year 2014 - 15.

The government is determined to continue on a path of fiscal consolidation to achieve budget deficit target of 4.3 percent of GDP in the fiscal year 2015 - 16. The government was also committed to reducing public debt and laid the foundations for a more sustained growth.

The tax-to-GDP ratio, increased from 9.7 percent of GDP in fiscal year 2012 - 13 to 10.4 percent in fiscal year 2013 - 14, and reached 11.02 percent in fiscal year 2014 - 15 by elimination of SROs, broad-

"Government is committed to supporting the poor and most vulnerable segments of the population through income support programme as of end-June 2015, government has reached 5.0 million beneficiaries and will continue to extend coverage to marginalized sections of the society"

ening of tax base and improved tax administration. The government has managed to lower the number of outstanding GST refund claims by over 75 percent as of end-June 2015.

The FBR is now implementing a comprehensive plan to resolve unpaid GST refund claims, including the introduction of an automated system of pre-verification in addition to the current system of post-verification and exporter's refunds are being fast-tracked. The FBR's administrative reforms are gradually leading to improvement in tax structure and revenue collection adding that in 2013 - 14 the tax revenue increased by 16.5 percent.

Government is committed to supporting the poor and most vulnerable segments of the population through income support programme as of end-June 2015, government has reached 5.0 million beneficiaries and will continue to extend coverage to marginalized sections of the society.

The government continues to diversify financing from both domestic and external sources, lengthen the maturity profile of domestic debt and improve the balance between domestic and external debt. To achieve these objectives government is working to strengthen the Debt Policy Coordination Office (DPCO).

The energy sector reforms are priority agenda of the government and are regularly monitored by the Prime Minister through the Cabinet Committee on Energy. The government is working to reduce energy shortages with special emphasis to ensure sustained supply to the industry with the goal of adding 10,000 MW to the system by the end of the year 2017. It is adding imported Liquefied Natural Gas (LNG) to the system that will help in easing energy supply in the country.

For improving the business climate, the government has undertaken measures to enhance businesses which include the initiative of launching One Stop Shop (OSS) both physical and virtual. As per plan, the government successfully divested government shares in United Bank Limited, Pakistan Petroleum Limited, Allied Bank Limited and Habib Bank Limited.

Borrowing from the central bank is a highly inflationary policy whose negative impact on the rate of inflation have been less in recent months in the face of falling international oil prices and a rise in remittance inflows into Pakistan. If these two factors come to an end to be relevant in the coming months, inflation would again increase in the event if borrowing from SBP continues.

The Finance Minister has assured the IMF mission that the government will be taking additional measures to make up for the revenue loss arising out of reduction in withholding tax rates on banking transactions and build additional allowances in the electricity and gas tariffs over the next two weeks.

There was an acknowledgement in the International Monetary Fund (IMF) press release that "all end-June programme targets related to the monetary policy were met, in some cases with a significant margin."

The Finance Minister's commitment during the press conference in Dubai on completion of the eighth review, that the government would ensure the passage of the bill granting SBP autonomy from parliament is seen to reflect IMF concerns that the government is dragging its feet with respect to meeting this agreed structural benchmark.

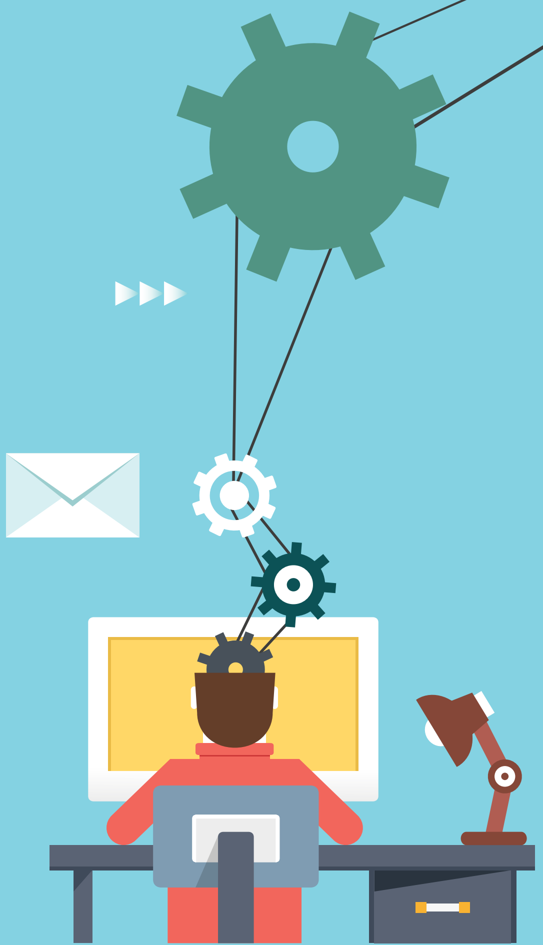
IMF is satisfied that the government has successfully gone on the agreed reform programme. Although there were some delays due to the privatization program, power sector and tax reforms. It urged speeding of efforts to widen the tax net to create space for infrastructure investment and social assistance before it agreed to recommend to its board of directors to approve the release of the next tranche.

Management in Banking: MANAGING THE PEOPLE

By Dr. Sabir Ali Jaffery

By instinct, people are different from each other with respect of physique, intelligence, temperament and in short, in the personality as a whole. This difference is distinctly evident even when they are members of the same working group performing similar tasks.

To manage people means to get the work done by them as desired. Since people are of heterogeneous characteristics, to make them work within the same work-discipline in order to obtain the desired result is called *managing the people*, which of-course is the test of a manager's capabilities. They (managers) are not judged by the work they do themselves. Rather, their performance is assessed by their ability to achieve results through the efforts of others i.e. the members of their team.



An effective manager needs to have excellence in setting objectives, planning, decision making, delegating, motivating, negotiating and above all, influencing and winning people at work. He must be a good communicator, capable to monitor varied activities, quick to respond to change and able to get along smoothly with his subordinates.

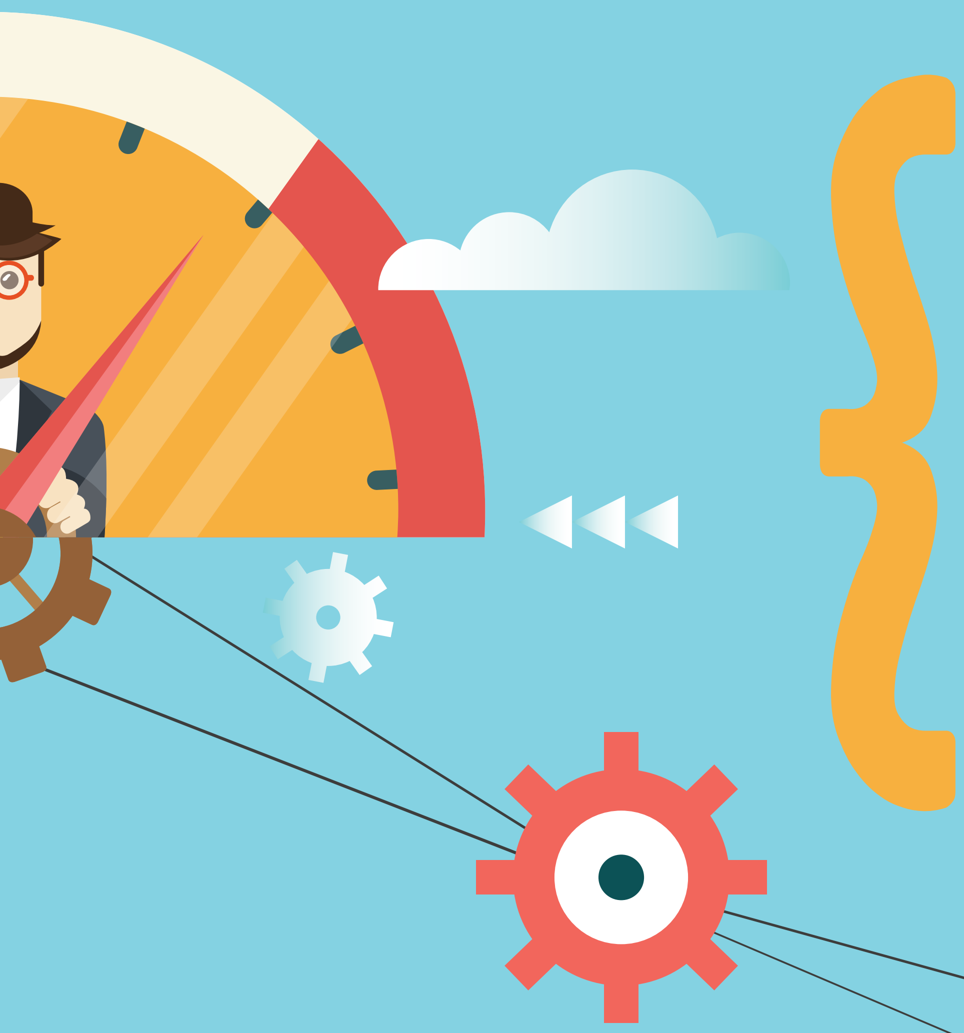
The success of managers in managing people depends on the management style – generally called **leadership style** --- adopted by them i.e. the leadership style that meets the demands of workers in varied situations which has the substantial impact on the morale of the workers to give due impetus to their productivity.

Leadership Styles: Traits Approach

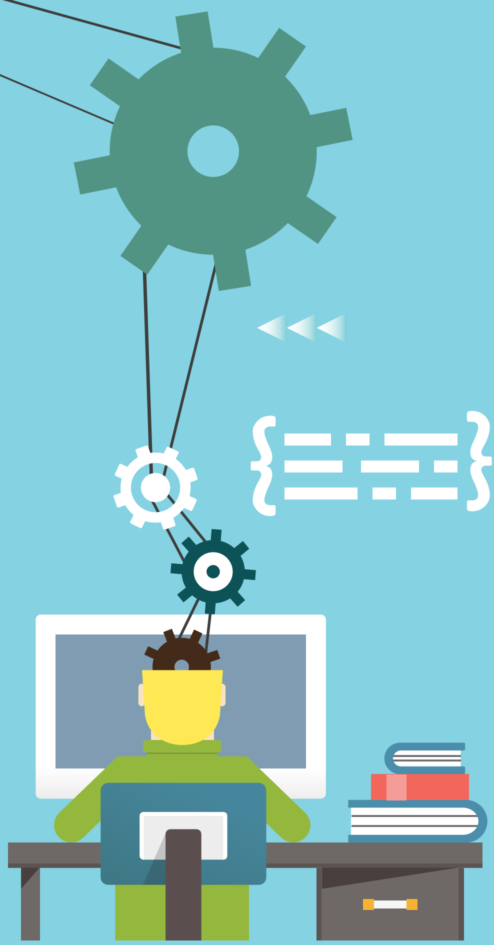
Views of earlier management scholars were based on the philosophy that leaders are born and not made. Thus, a vast range of leadership traits were supposed to exist in effective managers. Later studies, however, proved that all the successful managers did not possess the prescribed attributes. Simultaneously, on the other hand, all those who possessed those qualities were not quite effective as managers. This belied the traits approach to leadership styles.

Blake and Mouton Grid

Blake and Mouton, in what they called a "grid", based their proposed leadership styles on "concern for production" and "concern for people".



> To manage people means to get the work done by them as desired.



They expressed degrees of these concerns in numericals, that is, '1' symbolizing the lowest and '9' representing the highest. Obviously, '5' was at the middle of the road indicating equal emphasis on both the production and the people.

This categorization may be elaborated as under:

1,1 style managers show little concern for production combined with low concern for people. Under this style, staff will tend to be lazy and lethargic and output will be minimal.

1,9 style managers' concern for production (represented by 1) is low while their concern for people (symbolized by 9) is high. It is called 'country club' approach valuing friendly relationships at premium as compared to productivity.

9,1 style managers require high productivity at any cost in human terms. This style may be highly productive in short term but may lead to union / management confrontation in the long run, causing immense loss of output.

9,9 style managers obtain high productivity with, at the same time, great concern for people. It is indeed idealistic position that requires highly skilled and energetic managers to maintain high level of staff morale as a pre-requisite to keep production at the highest level at all times.

5,5 style managers called middle-of-the-road managers, push enough to get acceptable production but yields enough to maintain acceptable level of staff morale. The approach is fair but firm.

Ashridge Model

One more model of leadership styles was developed in Ashridge Management College, London which identified four styles as under:

- Tells – The manager makes the decision and tells his subordinates to abide by that.

- Sells -- In this case, the decision is also made by the manager but instead of directing the subordinates to act accordingly, he sells it to them by persuasion to avert the chances of future resistance.

- Consults – The manager consults his team members to arrive at a decision. By this method an opportunity is provided to staff to contribute in decision making. The decision still remains that of the manager but by contributing their ideas and suggestions the staff feels more involved.

- Joins – The manager joins on equal footing with all the members of the group. To begin with, he defines the problem and mentions the limitations, if any. The group then discusses the problem thread bare. Manager joins the discussion and offers guidance if needed. The decision thus arrived at will normally reflect the majority views.

Action-Centred Leadership Style

According to this, there are three responsibilities of a leader as under:

- To define and achieve the task

- To build up and maintain the team; and

- To satisfy and develop the team members.

These may be abridged as *Task Needs, Team Needs,* and Individual Needs, all of which have to be met.

Situational Approach to Leadership

According to this approach, ability of a leader to influence people depends upon situation which is classified into three critical dimensions as under:

- Leader-Position Power: This is the power that originates from the organization culture and the position held by the leader.

- Leader-Member Relations Power: This power emanates from the level of confidence the members have in their leader and the degree of commitment with which they follow him.

- Task Structure: Different ways in which a task is structured have different degree of impact on the workers and their performing capabilities. For example, tasks which are laid down in greater details so that accountability of workers is precisely identified contribute substantially towards production as against the tasks which are quite vaguely defined so that fixing of responsibility becomes difficult.

Four Systems of Management

There has also been a theory that embodies four systems of management.

- Exploitive / Authoritative

- Benevolent / Authoritative

- Consultative

- Participative

Researchers have generally found that managers who applied participative management system were the most successful leaders. This means that leadership should be based on participation to encourage involvement of workers in order to obtain necessary motivation. System-4 is, therefore, widely applicable although its application may vary from situation to situation. Thus, it comes very near to situational approach to management.

There are many other models and theories of management and leadership styles but those that have been discussed above should be adequate enough for the Management in Banking.

The Other Party

The hypothesis "Managing the People" involves two parties: one, the manager and two, the managed. The role of the manager according to the management style that one adopts has been discussed above. The role of the other party is no less important.

Human Nature

The earlier view of the nature of man was that he was lazy, shirker and avoided responsibility. As research continued, a more promising view emerged. It suggests that, in conducive circumstances, majority of people can become committed to a cause; they will not only accept responsibility but will seek it. This later view of the nature of working men is more relevant to the way they should be treated to get the best performance out of them.

Motivation

The stimulus which encourages and instigates a worker to give his best is called 'motivation' in management terminology. There are several theories of motivation. Any of them that suits the occasion is the best in the given situation.

Maslow's hierarchy of needs offers an appropriate example. According to him, human beings, in order of priority, have

> "An effective manager needs to have excellence in setting objectives, planning, decision making, delegating, motivating, negotiating and above all, influencing and winning people at work"

basic needs, security needs, social needs, ego needs and self-actualization needs. These needs have to be satisfied in the given order and have the motivating force accordingly.

Again, there is hygiene factors theory according to which there are two classes of factors which determine job satisfaction.

Hygiene factors

whose absence is demotivating and therefore reduces job satisfaction.

Motivators

whose presence is motivating and increases job satisfaction.

Expectancy Theory is yet another theory that directly tells upon the subject matter. The theory implies that the effort which an individual puts into trying to satisfy a need will be proportionate to his expectations that the effort will yield a certain desirable outcome. His experience of rewards in comparison with expectations will decide how motivated he will be in similar circumstances in future.

Other Measures

Other measures that go a long way in managing the people are:

- Induction ---- purely merit-based recruitment.
- Training ---- off and on job exhaustive training.
- Career Planning ---- merit-oriented postings, placements and promotions.
- Job rotation.
- Job enrichment.
- Job satisfaction.
- Biased-free performance appraisal.
- Prompt, just, realistic grievances solution procedure.
- Just and realistic incentive award system.

The Seven-Point Plan

The National Institute of Industrial psychology, U.S.A. has suggested that personnel specification and subsequent assessment of candidates should be arranged under seven headings, as under:

- Physical make-up
- Attainments
- Intelligence
- Special aptitudes
- Interests
- Disposition
- Circumstances

Conclusion: The Deciding Factor

All the theories discussed above, in one way or the other, directly or indirectly, include the element of situation which suggests that in all the cases and while applying any motivational theory it is the situation that is the 540 deciding factor.

Green Financing

A Candle to Kindle Sustainable Pakistan

By Subtain Raza

Population explosion, rapid economic growth and need for more output are posing many challenges on earth. The significant challenges are scarcity of resources, poverty, decreased fuel reservoirs and health issues etc. The extreme fuel consumption, soaring energy demands and consequent environmental impacts on livings & non livings are ultimate effects of wild increase in population. Abrupt and towering energy needs, rickety oil prices and motions to curb global warming are few forces which compel the world to invest in clean energy, termed as "green financing".

The term green finance is explained by United Nations Environment Program as "Green finance accounts for the environment and its natural capital and seeks to improve human well-being and social equity while reducing environmental risks and improving ecological integrity". Generally, Green financing is defined as devising the financial products and services for lending purposes in connection to environmental factors and monitoring the phases of the post lending and risk management processes with intents to promote environment friendly investments and kindle low carbon technologies, projects, industries, businesses and economies.

Hohne et al., (2012) defined Green finance as financial investments flowing into sustainable development projects and initiatives, environmental products and policies that encourage the development of a more sustainable economy.

Sources of Green Energy

Following are key sources of green energy:

- Wind, Solar, Hydro, Biomass

International Finance Corporation (IFC), worked on green financing product development and divided the green financing products based on usage level such as:

- **Retail Banking** (Home Mortgage, Green mortgages, Commercial Building Loan, Home Equity Loan, auto loan, fleet loan, credit card).

- **Corporate and Investment Banking** (project finance, Partial Credit Guarantee, securitization, bonds, technology leasing, private equity, carbon finance emission & trade, indices).

- **Asset Management** (Fiscal Green Funds, funds, cat bond funds)

- **Insurance** (auto insurance etc.)

Green Finance Interface

Jin Noh Hee (2010) suggested the strategy that financial industries should develop, finance and manage products for green financing should be for two targets:

- Environmental Betterment
- Economic Growth

PAKISTAN

Pakistan is a developing country, combating various perils e.g. terrorism, political instability, illiteracy and last but not least energy crisis. Pakistan depends mainly on conventional oil to meet its energy needs, which is being imported on fluctuating prices that ultimately troubling the cost of producing energy (i.e electricity) on the higher side as compared other sources.

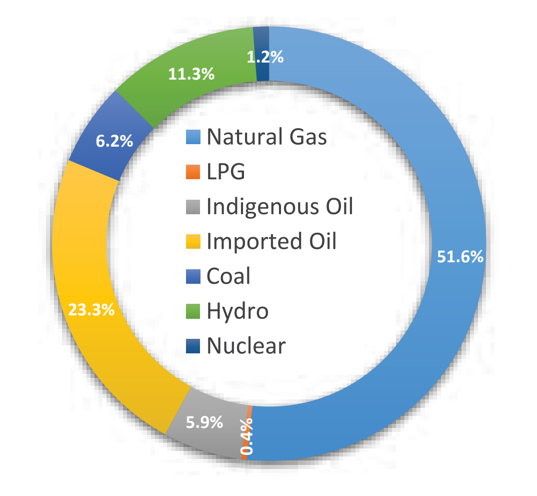


Figure: Energy sources in Pakistan
(Reported by Dr. Muhammad Shahid Khalil)

Source: Jin Noh Hee, Financial Strategy to Accelerate Innovation for Green Growth (2010).

The International Energy Agency (IEA) has forecasted that demand for primary energy will increase by 40% between now and 2030. The mounting energy demand in Pakistan is a huge challenge for development and stability. The subsidy of Rs 2,245 billion have been provisioned for power sector during the last five years but circumstances are far worse than the past. The basket of circular debts is getting heavier day by day.

Green financing is only panacea for all concerns of intensifying global energy demand, of vanishing fossil fuels and exhausted natural resources. Usage of renewable energy sources and other environmental-friendly technologies can only assist in sustainable socio-economic growth over the globe. To curtail the country's energy issues Pakistan has to divert its policies and consequent actions for green financing.

GREEN ENERGY FINANCING IN PAKISTAN

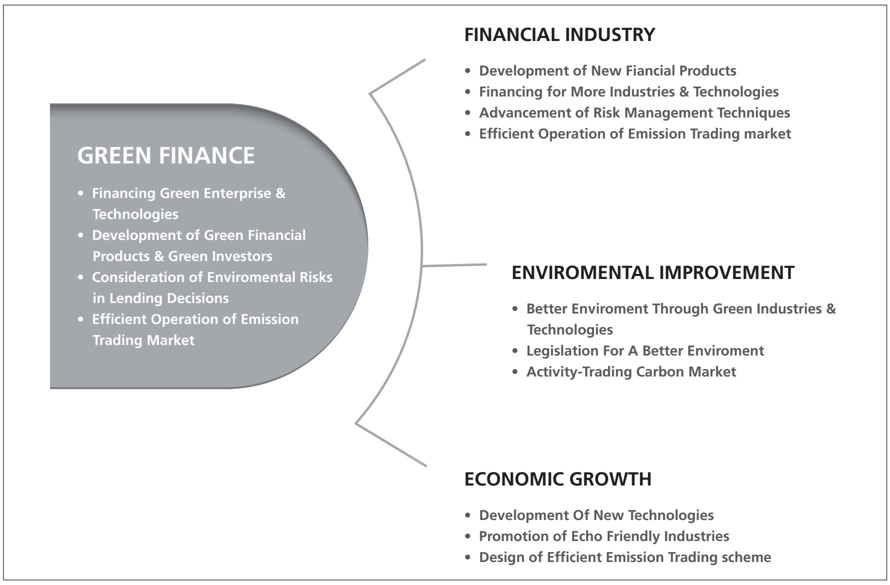
Government of Pakistan has realized the significant contribution of alternative energy in economic growth and sustainability. Establishment of Alternative Energy Development Board (AEDB) in 2003, inauguration of Quaid e Azam Solar Park over an area of 5,000 acres, issuance of licenses to private companies to build tidal power stations and elimination of 32.5 percent tax imposed on imported solar equipment are some efforts which demonstrate that Pakistan is moving towards green energy with solid intents.

Government of Pakistan is encouraging the financing for green energy. Following are a few examples in connection to green financing:

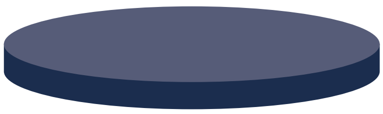
- To promote the trends of alternative energy, Pakistan has approved the use of grid connected solar energy, rooftop solar installations and mortgage financing for home solar panels.
- National Bank of Pakistan introduced novel financing scheme for solar tube wells for the farmer community.
- Bank of Punjab is going to launch its solar financing product.
- Bank Alfalah Limited and Buksh Energy have jointly introduced a product under banner of "Green Financing Partnership".
- German renewable energy company CAE plan to invest €100 million (Rs12.9 billion) in solar panel manufacturing in Pakistan.

As Pakistan is facing severe dearth of energy which is directly limiting the economic growth and affecting the nation. Heavy spending on conventional energy sources causing more circular debts, more borrowings result a fragile economy. Government of Pakistan should coordinate, facilitate, finance and promote renewable energy technologies.

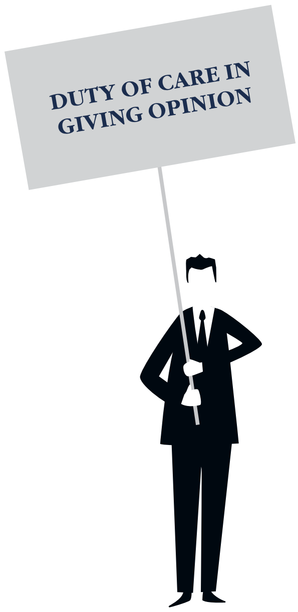
GREEN FINANCE INTERFACE



Legal Decisions
Affecting Bankers



By Dr. Sabir Ali Jaffery



Hedley Byrne & Co. Ltd. v. Heller and Partners Ltd. [1963] 2 All E. R. 575

Facts of the Case:

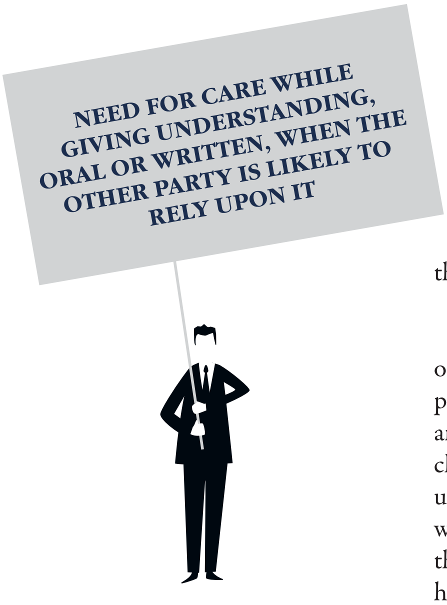
Hedley Byrne & Co. Ltd., an advertising agent, was examining a proposal regarding placing substantial advertising orders for Messrs Easipower Ltd. However, before finally getting through the proposal, they decided to obtain status enquiry on Easipower from its bankers, namely, Heller and Partners Ltd., the defendant's merchant bank.

The report received from the bank was 'satisfactory' although with an express disclaimer of any responsibility on the part of the bank. Relying on this report, advertising space was booked. Nevertheless, Easipower went into liquidation. The plaintiff thus lost over Stg.17,000/-.Since aggrieved, the plaintiff initiated legal action against the defendant bank for damages for negligence.

Hedley Byrne took the plea that if it could be visualized that the other party would act placing reliance on the report, a duty of care arose while answering status enquiries. Hence, bank's action was tantamount to negligence. Even a disclaimer was not a guaranteed protection because the Unfair Contract Terms Act 1977 renders any disclaimer clause ineffective unless it satisfies a test of "reasonableness" in the circumstances. Thus, a disclaimer does not remove the need to exercise reasonable professional skill.

LORD MORRIS adjudged that the bank by the words that it employed effectively disclaimed any assumption of a duty of care. It maintained that it had responded to the inquiry subject to the condition that its reply was sans responsibility. The inquirers while acting upon the report should not have disregarded the definite terms upon which it was given.

HELD: That when information is sought from a party possessing special skills there is a duty of care quite apart from any contract or fiduciary relationship. However, in this case no such duty could be implied as there was an express disclaimer of responsibility and the plaintiff's claim could not succeed.



Availability of 2. Box v. Midland Bank Ltd. [1979] 2 Lloyds Rep. 391

Facts of the Case:

The plaintiff had in hand an export order for Stg.90,000. He approached Mr. 'M', manger of 'W' branch of the defendant bank, to negotiate a credit facility to the tune of Stg.44,500 to help execute this order. Mr. 'M' made him believe that he would be pleased to extend the required facility. However, he added that as the amount was substantial, it would need approval by the Regional Head Office. Mr. 'M' further reiterated that this approval was a mere formality if an ECGD policy could be arranged on the contract.

The manager did not apprise Mr. Box of the difference between an ECGD policy and an ECGD Banker's Guarantee and failed to convey that there was no chance of such a guarantee being issued under the given circumstances. He also withheld the information from Mr. Box that the Regional Head Office of the Bank had already indicated that there was no chance of the advance being sanctioned.

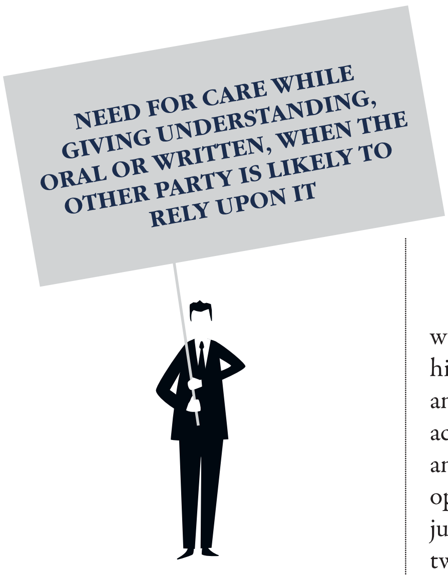
Having failed in obtaining credit facility from the bank, Mr. Box could not meet the order. Resultantly, an interim receiving order was made against him following judgment in favour of a creditor.

Mr. Box proceeded against the bank in tort claiming damages for negligence for the loss arising from the manager's irresponsible statement regarding finance.

LLOYD J: Mr. 'M' was not required to predict the fate of the loan application with the regional head office. Knowing that his prediction would be relied upon, he was under a duty to take reasonable care before making such prediction which he did not take. He gave Mr. Box the impression that granting of the facility would be merely a formality once ECGD policy had been obtained, while there was never the slightest prospect of the facility being granted, which Mr. 'M', being a branch manager, might have known. Mr. Box acted on relying upon the negligent and uncalled for prediction of Mr. 'M', thereby suffering damage. Hence, the bank is liable on the Hedley Byrine principle.

HELD: The Hedley Byrne principle applied and the defendant bank was liable in tort to Mr.Box.

The judgment is of direct relevance to practicing bankers. It clearly shows the need for great care to be taken when a banker refers, orally or in writing, to his future conduct, particularly when the customer is likely to rely upon such conduct.



In Re Beaven, Davies, Banks & Co. Versus Beaven [1912] 1 Ch. 196

J. G. Beaven, a customer of the plaintiff bank, had a paralytic seizure that rendered him of unsound mind. He became incapable of forming rational judgments about his affairs in life. At this stage, with the consent of other members of his family, the bank allowed his eldest son to continue operating his account, who during next two years withdrew several sums of money to maintain the family matching its life style.

Ultimately Beaven died. The account was then overdrawn. Bank claimed from his four executors the amount of overdraft and its commission and the interest accrued thereon till date. The eldest son and one of his brothers were of the opinion that the claim of the bank was just and should be paid, while the other two executors resisted.

NEVILE J maintained that it was an established facet of law that a person maintaining another of unsound mind is entitled to be reimbursed from the latter's estate the amount spent by him (by the bank) on the necessaries of the person of unsound mind matching the standard of life to which he (the man of unsound mind) was accustomed to. The question, however, is what is the right of the person lending the money to the person who is maintaining the lunatic.

"In my opinion", His Lordship continued, "no legal right arises in favour of the lender as a result of his lending. But, I think equity arises and that equity is to stand in the shoes of those creditors who, being creditors for necessaries supplied for the maintenance of the lunatic, have been paid out of the money advanced by the lender. In as much as the equity which is to be applied is merely the right to stand in the shoes of the creditors who are paid off, it is impossible that in addition to that there should be a right to receive the charges which have been paid for obtaining the loan."

HELD: The bank was entitled to recover all amounts paid out for necessaries by virtue of the doctrine of subrogation, but the interest and commission could not be recovered.

Microfinance in Pakistan:
Geared for Growth

By Ali Basharat

Microfinance outreach has experienced double digit growth over the last five years. The outreach has increased to 3.5 million active borrowers from 1.97 million in 2010. GLP (Gross Loan Portfolio) has also significantly increased to PKR 83 billion from PKR 25 billion in the same period. Deposits have grown at a phenomenon rate to PKR 51 billion from PKR 8 billion. Currently, microfinance services are now available in 98 districts across the country extended by 50 small and large microfinance service providers. The industry PAR continues to remain below the 5 percent cutoff point.

Despite the positive trends, the industry penetration rate is 12.8 percent. With a potential market for microfinance estimated to be over 27 million, a lot needs to be done. For the industry to become viable, relevant and permanent feature of the financial landscape needs to grow at an accelerated rate. Moreover, a substantial size would enable the sector to absorb market distortions and external interferences. Keeping this in view, it is aimed that the industry will reach 10 million active borrowers by 2020.

Although, the goal seems to be ambitious but there are promising factors such as the prevailing regulatory environment and robust industry infrastructure, which can adequately support this accelerated growth over the next five years. Pakistan's regulatory environment for microfinance and branchless banking continues to rank among the best in the world. Moreover, with the launch of National Financial Inclusion Strategy (NFIS) earlier this year, a roadmap for financial inclusion in the country is now available. With over 60 percent of population living below USD 2 a day, microfinance industry can play a crucial role in advancing the financial inclusion agenda in the country at the base of the pyramid. Microfinance practitioners, that enjoy excellent rural outreach, have predominantly women borrowers and utilize synergies with branchless banking to reach out to the un-banked in Pakistan. In addition, microfinance providers are ideally placed to tap lower end of SMEs as compared to other financial institutions. As the Microfinance Credit Information Bureau (MF-CIB) has become fully operational, the sector has access to credit histories which can be used as complementary collateral to social and physical ones.

Having said this, challenges still remain in sustaining such high growth over the next five years. The main reason why previous growth sprouts couldn't sustain for a longer period of time is because of natural and man-made disasters. It is imperative that an industry-wide disaster risk fund may be set up. As a first step, government supported crop loan insurance and livestock schemes may be implemented by microfinance banks after tailoring them according to their needs and extending it to the non-bank microfinance providers. Since microfinance industry is labor-intensive, trained manpower is a crucial ingredient for growth and There is a need to set up a training centre to meet the increasing human resource needs of the Microfinance sector. Third key challenge remains funding. There is a need for microfinance providers to diversify their funding sources. In addition, formation of Pakistan Microfinance Investment Company (PMIC) will play a crucial role in meeting the funding needs of the sector. Also, government credit initiatives like interest free loan, youth loan, credit guarantee for small & marginalized farmers and low cost housing schemes can be used to fund the industry growth. A final challenge that needs to be addressed is bringing non-bank microfinance providers under the regulatory umbrella. Non-bank players have witnessed their size shrink and their growth stunted over the years. Regulations will result in mainstreaming of their operations, ability to attract funding and safeguard them from external interference.

These challenges if met can prove to be catalysts of growth for the industry and making way for it to play a crucial and meaningful role in financial inclusion space and reach its ultimate goal of poverty alleviation in Pakistan.

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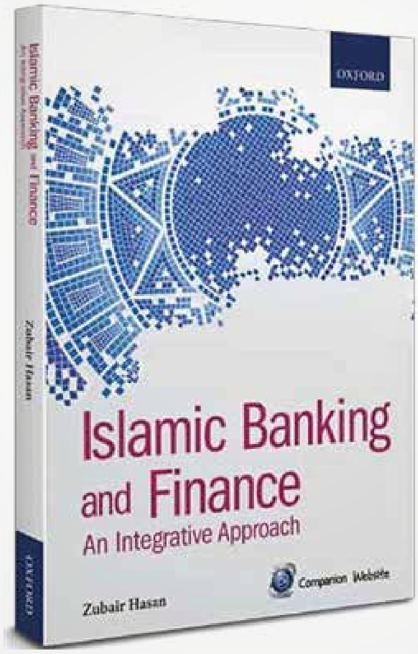

Islamic Banking and Finance is written to meet the needs of scholars studying business and economics, though parts of it may be useful for students further along the learning curve. Apart from students, the book can also be used by practioners & professionals to refresh and update their knowledge and understanding of the subject, to help them carry out their responsibilities more efficiently. In addition, this book provides a comprehensive presentation of topics, including the theoretical foundations, financial instruments, banking operations, risk management, takaful and issues relating to the law, regulation and governance in a dual competitive setting. It integrates mainstream and Islamic perspectives to provide reader with real-world financial structures and examples.

Key Features

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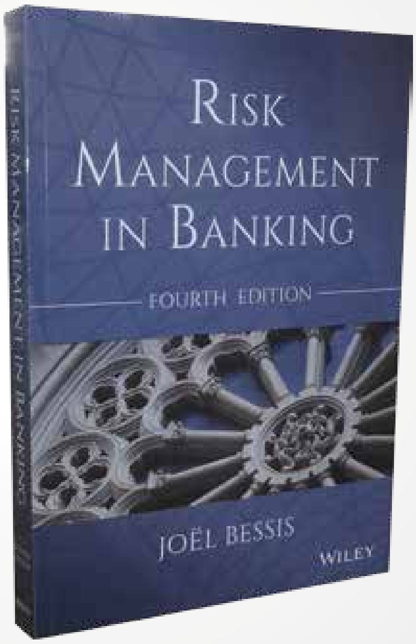
- Occasional poser inserted in the running text to make the reader pause and think about the issue under discussion.

About Author

Prof. Dr. Zubair Hasan is an economist and acclaimed author. He is currently a Professor at the International Centre for Education in Islamic Finance (INCEIF). He has published numerous articles, commentaries and book reviews in academic journals, in addition to authoring several books, including Theory of Profit (Vikas, 1975), Introduction to Microeconomics: An Islamic Perspective (Pearson, 2006), Macroeconomics (Oxford, 2009), and Fundamentals of Microeconomics (Oxford, 2011). In recognition of his numerous contributions, Prof. Dr. Hasan was awarded the prestigious Islamic Development Bank (IDB) prize in Islamic Economics in 2009.

Hasan, Zubair. Islamic Banking and Finance: An Integrative Approach. Oxford: Oxford University Press, 2014. xxvi,348p. ISBN 978-983-47-1045-3

(The book is available in IBP library)



The seminal guide to risk management, streamlined and updated **Risk Management in Banking** is a comprehensive reference for the risk management industry, covering all aspects of the field. Now in its fourth edition, this useful guide has been updated with the latest information on ALM, Basel 3, derivatives, liquidity analysis, market risk, structured products, credit risk, securitizations, and more. The new companion website features slides, worked examples, a solutions manual, and the new streamlined, modular approach allows readers to easily find the information they need. Coverage includes asset liability management, risk-based capital, value at risk, loan portfolio management, capital allocation, and other vital topics, concluding with an examination of the financial crisis through the utilization of new views such as behavioral finance and nonlinearity of risk.

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About Author

JOËL BESSIS is Professor of Finance at HEC Paris, the leading French business school, where he conducts training in risk management throughout Europe, the US, and Asia. Over the course of his career Joël has developed a dual expertise – as an academic and as a practitioner, holding permanent consulting assignments in corporations and later, in banks.

Bessis, Joel. Risk Management in Banking. 4th Edition. West Sussex: John Wiley, 2015. X, 376p. ISBN: 978-1-118-66021-8

(The book is available in IBP library)

Joke

Two Bankers: One Suicidal, One Greedy

Two bankers are talking:

- "How are you?"

- "Very bad. Completely ruined. I wanted to commit suicide, but I couldn't do it."

- "Why don't you book yourself a contract killer?"

- "How do I do that? I went bankrupt. I have no money."

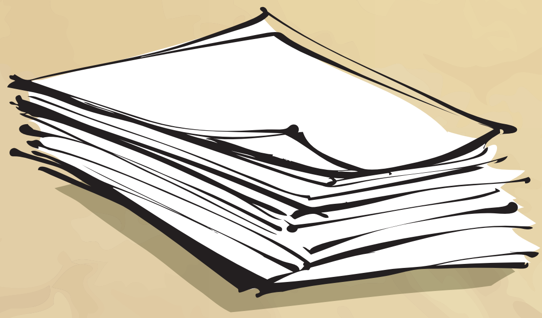
- "Don't worry. I will let you borrow."

View on Bankers

on lighter side

"If you owe the bank $100, that's your problem. If you owe the bank $100 million, that's the bank's problem." **- John Paul Getty**

If all bank loans were paid...there would not be a dollar of coin or currency in circulation. **~Robert Hemphill**



Interesting Quotes

Bankers never die...They just lose interest.

"Each day of our lives we make deposits in the memory banks of our children."
- Charles R. Swindoll

"Everyday is a bank account, and time is our currency. No one is rich, no one is poor, we've got 24 hours each."
- Christopher Rice

IN MEMORY OF SHAHEED MOHTARMA BENAZIR BHUTTO

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