Changes in the pay structures and systems in the banking sector of Pakistan: Implications for a differentiated workforce and the employee psychological contract.

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Title: Changes in the pay structures and systems in the banking sector of Pakistan: Implications for a differentiated workforce and the employee psychological contract.

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Abstract

This thesis analyses the changes in pay structures and systems in the banking sector of Pakistan within a wider organisational setting of changes in multiple HR practices. It examines the outcome of these changes as perceived by different employee workgroups in the milieu of their new set of expectations. The existing literature on pay and its influence on the employee psychological contract is mostly limited to studies in the Anglo-Saxon countries. It fails to adequately highlight the ensuing conflicts of institutionalizing HRM practices which may be considered socially legitimate in western societies, in a South Asian country. While the importance of employee involvement in the design and implementation of pay practices is established in the literature there have been few studies which link the implications of its absence with employee perceptions. Moreover, the limited emphasis on the implications and consequences of applying a differentiated HR architecture within organisations fails to recognize the complex and at times conflicting relationship between different HR practices and the associated impact on multiple employee workgroups. To address these gaps in literature a qualitative case study approach was employed and interviews were conducted with 94 employees and HR managers in six domestic banks in Pakistan. The analysis reveals the policies of deregulation and privatization as the key driver for changes in the pay practice which include a partial shift from seniority to performance based pay systems, adoption of broadband pay structures and discontinuation of defined pension benefits. The other HR practices varied only slightly in design features and were applied inconsistently across the differentiated employee workgroups indicating more investment in some than others and resulting in pronounced conflicts between them. The results suggest that interrogation of outcomes of changes in bundles of HR practices, framed by an organisation's HR architecture requires a multi-level study which incorporates the perspectives of both the employers and the employees.

Declaration

No portion of the work referred to in the thesis has been submitted in support of an application for another degree or qualification of this or any other university or other institute of learning.

Copyright Statement

Dedication

This thesis is dedicated to my parents for their untiring efforts, to my siblings for their unrelenting support and to my nephews for their charming company which kept me motivated throughout these years.

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Chapter 1: Introduction

1.0. Introduction

An organisation's approach towards the management of pay has been researched from multiple angles because of its centrality in the practise of human resource management and the management of the employment relationship. Researchers have investigated it in the context of the best practise (Pfeffer, 1994) best fit (Gomez-Mejia, 1992) and best process (Cox, 2000) approaches in order to assess its influence and impact on the performance of organisations and employees, as well as its effects on the efficiency and effectiveness of the HRM system as a whole. The literature has also highlighted its role in the HR bundle and to varying degrees, has indicated its importance in the set of HR practises. Further, the multi-dimensionality of pay (Milkovich and Newman 2004; Heneman and Judge 2000) and the multiple functions for an organisation (employers and employees) that are potentially served by pay (Rubery 1997; Kessler and Purcell 1992) increases its significance as an object of research. Similar to other HR practises, pay and changes in pay practises have been found to influence the perceptions of employees and hence it is considered to influence their psychological contract (Guest 2004; Willems et al. 2004; Rousseau 1997). The linking of pay with changes in the external environment, its implications for achieving a strategic fit and its influence on the perceptions of employees who comprise the differentiated HR architecture suggest that it is a valuable topic for research. Against this background of wide-ranging and interconnected issues of investigation, the objective of this thesis is to interrogate the changes in pay structures and systems within a wider organisational setting of changes in other HR practises and to examine the implications for a differentiated workforce and the employee's psychological contract.

1.1. Rationale for the study and research questions

The rationale for this thesis is grounded in both the need to investigate the context of a an emerging economy, namely Pakistan, and to address the gap of studying HRM practises in local South Asian companies, in their own national environment (see Khilji 2012; Khilji and Wang 2007). Gulati (2010) states that scholars are now showing interest in studying local companies in South Asian countries to examine how they are leveraging their potential and resources which is a shift away from the previous research focus on how global multinationals are tapping into the opportunities in these markets. The recent interest in conducting studies in South Asia was sparked by a surge of foreign direct investment in these economies, their growing economies and changes in managerial practises (Khilji 2010; Khilji and Wang 2007; Wang et al. 2006). While there have been numerous studies on pay and its implications for the employee's psychological contract in western settings there have been none carried out in Pakistan's context. In an attempt to redress this gap, this study in Pakistan's context will offer valuable insights into understanding the implications of changes in pay and HR practises on the employers and employees. Also the conflicts emerging in organisations in Asian countries due to the transition from traditional employment models (seniority based) to HRM practises considered socially legitimate in western countries (Boxall and Purcell, 2003) will highlight the mechanisms that can be adopted to achieve greater acceptance. The focus in this study on employers and the previously under represented voice of employees in literature (Marchington and Grugulis, 2000) will provide insights for practitioners to understand the embedded implications of the design and implementation of performance related pay schemes and other HR practises on a newly emerging HR architecture within the banking sector in Pakistan.

The rationale for selecting the banking sector was based on multiple factors. Firstly, this dynamic and fast paced sector was experiencing substantial growth since the early 2000s which made it lucrative for employment. Also, it underwent major structural and managerial reforms resulting in the modernization of the HR practises and management style and philosophy which made it attractive for investigation. Secondly, these reforms received much attention and appreciation in the print media and it seems that the banks wanted to share their 'success story' which was peculiar as the research culture has yet to take roots in the Pakistani academia (Khilji, 2012) and industry. Thirdly, this sector was relatively more formalized than others so it was expected that records would be maintained and evidence in the form of documents would be available for establishing the findings of this study through triangulation of data.

Keeping in view the changing social, economic and political dynamics of the sector and the fact that it experienced a rapid phase of privatization and deregulation in the late 1990s and early 2000s, the following questions were formulated in response to my eclectic interpretation of theories of pay and in an attempt to address the emerging empirical issues observed in the Pakistani banking sector:

- What changes occurred in the pay structures and systems of Pakistani banks in the last decade? Which drivers led to these changes and which objectives did management expect to achieve from the modified pay practises?
- Which other HR practises in the bundle were modified in tandem and why? Did this result in any conflicts or complementarities between the different HR practises?
- How did changes in pay and other HR practises in the bundle relate to the new set of employee expectations and what implications does the differentiated implementation of these HR practises have for the employee psychological contract?

1.2. Organization of the thesis

The thesis is sub-divided into eight chapters. Chapter one introduces the research, provides the rationale for the research and outlines the sequence of the thesis. Chapter two presents a systematic and critical review of the relevant literature from different disciplinary areas including human resource management, industrial relations and psychology of work to link and address the key themes of pay such as knowledge about its objectives and functions (both from the employer and employee perspectives), the drivers leading to changes (both internal and external to the organisation) and the link between pressures for change and the resulting designs of pay structures and systems. In so doing, the features of different pay structures and systems are explored and questions are raised concerning the degree to which they can be explained by the on-going debates in HRM related to the best-fit and best-practise approaches, the multiple versus uniform pay systems and the role of employees in the changes in pay practises. The chapter also addresses the concept of strategic alignment in pay practises, the implications of a differentiated HR architecture in designing and implementing HR practises and the influences of changes in HR practises on the employee psychological contract.

Chapter three describes the country and sector context for the study through a review of the literature on HRM in Pakistan and the role of the banking sector in the economy tracing back to its historical background and major milestones such as the eras of nationalization, privatization and deregulation and reforms. Chapter four outlines the various rationales for the adoption of a single sector, multiple case study method as most suited for the research questions of this thesis.

Chapters five to seven analyse the findings of this study. Chapter five explores the drivers for change in pay practises, the objectives to be achieved from the new pay practises and the differences in features and principles between the new and old pay structures and systems. Chapter six discusses the link between the pay practise and the wider HR bundle and focuses on highlighting the conflicts and complementarities in the design and implementation of the new HR bundle (recruitment and retention, performance management, training and career development and employee involvement and participation) in the context of the HR architecture of the case-study banks. Chapter seven elaborates on the new set of employee expectations and their role in shaping employee perceptions related to the outcomes of changes in pay structures and systems and the wider HR bundle. The concluding chapter discusses the key findings of the thesis, its limitations, theoretical contributions and the implications for academics and practitioners to provide direction for future research.

Chapter 2: Literature review

2.0. Introduction

This research attempts to explore the outcomes of changes in pay structures and systems through the perspective of both HR managers and employees and in relation to the changes in the broader HR bundle which occurred in tandem. Where appropriate, dissimilarities in the design and the extent of implementation of the new HR practises are also highlighted. The dissimilarities identified on the basis of the ownership structures of the case-study banks (public, private and privatized). Further, the influence of the changes in the HR bundle and its differentiated implementation on the employee psychological contract is also examined. The objective is to present an integrated qualitative assessment of the strategic, behavioural and administrative outcomes of the new pay structures and systems. This chapter is developed keeping in view the central role of pay in organisational reward strategy (Judge, 2000) and the changing trends which necessitate a re-exploration of research in the area, especially in the Asian context (Pakistan), where it is limited.

The major global trends in pay structures and systems include an increase in the contingency of pay enhancement on the ability, performance, and skills of individuals, the transfer of living wage allowances into base pay, the split of bonuses previously paid semi-annually into flexible components, the linking of benefits to employee performance and the conversion of pension into contributory pension plans (Conrad, 2009). Also, the usage of contingent pay schemes has undergone a significant change during the last quarter century with a greater likelihood of collective forms of pay systems which means that there are a number of combinations for applying these schemes (Bryson et al., 2008). In a broader context this is attributed to the changing nature of the work and employment relationships, the new set of expectations of the stakeholders, technological shifts and increase in globalization. In the Asian context as well, similar changes are evident, for example in Pakistan, in the private sector there is a prevalence of broadband pay structures and pay secrecy is maintained (Irfan, 2008; Aslam, 2008; Husain, 2005). However, in the public sector which continues to play a significant role as an employer, pay is determined by the government rather than market forces and there is pay openness with narrow pay bands. In the case of

India, some of the changes that have taken place include the replacement of a life time employment contract, the introduction of performance based pay systems and a structured approach to HRM (Budhwar and Khatri, 2001). Budhwar (2003) found that for the white collar workers pay and bonuses were determined on an individual basis; workers received performance related pay and individual bonus / commission. For the blue collar workers group bonuses were allocated which were governed by pay / bonus acts. Although there is a subtle transition in pay systems which reflects a shift from traditional based seniority systems to PRP systems in India (Bordia & Blau, 1998: Budhwar & Boyne, 2004) the trend is more visible in the private sector organisations (Balaji et al. 1998). Ownership structures were found to influence HR practises in India (Yadapadithaya 2000, Amba-Rao et al., 2000, Bordia and Blau 1998) where state owned enterprises compensated employees on the basis of seniority while private sector organisations preferred pay systems based on skills and competencies (Budhwar and Boyne 2004). Additionally, HR strategies pursued by organisations varied with the level of employees with managerial staff compensated on the basis of their performance appraisal (in 41.3% firms) and incentive schemes like profit sharing.

This chapter is divided into six sections which lay the foundation for and inform the objectives of this research that include an examination of the functions and drivers for the changes in pay structures and systems in the Pakistani banks as elaborated in section one, two and three. The remaining three sections of this chapter guide our analysis of the alignment and link between pay structures and systems and the broader HR bundle (section 4), the reasons and implications for the differentiated design and implementation of the HR practises (section 5) and the perceptions of employees related to these changes which influence the shaping of the employee psychological contract (section 6).

2.1. Objectives / functions of pay

This section studies the literature pertaining to the multiple and competing objectives of pay and informs our primary research interest related to the objectives to be achieved by the case-study banks, through the changes in the pay structures and systems. The sub-sections in this section include recruitment and retention, motivation and change in organisational culture and performance enhancement. The multiplicity of pay functions renders it an interesting HR practise to explore despite the disagreement in extant literature on the relative importance of each function. Rubery (1997) states that literature on pay focuses mostly on coherence and functionality, underplaying the conflicts which emerge due to random decisions tainted with discretion and opportunism but this research and review of literature aims to focus on both. The traditional functions of pay systems highlight the need to attract and motivate and retain talent (Armstrong and Brown, 2001; Schuster and Zingheim, 1992). In his research, Lawler (1990) coined the term ‘new pay’ and defined it as a reflection of organisational goals, values and culture. The challenge then is to develop pay programmes that support and reinforce the business objectives of organisations and the kind of culture, climate and behaviour that are needed for organisations to be effective. Pay systems can be utilized as essential integrating mechanisms through which the efforts of various sub-units and individuals are directed towards the achievement of an organisation’s strategic objectives, subject to internal and external constraints (Gomez-Mejia and Balkin, 1992).

2.1.1. Employee recruitment and retention as a function of pay

Strategically, pay is a key element of the organisation’s ability to attract, retain and mobilize its valuable source of sustainable competitive advantage – its people (Bergman and Scarpello, 2002; Cable and Judge, 1994; Kang and Yanadori, 2011; Tekleab et al., 2005) for which different pay components are utilized. For example, pay level is likely to be quite important both in attracting employees (Rynes et al., 1983; Armstrong, 1999) and retaining them (Delery et al., 2000; Guthrie, 2000; Towers Perrin, 2003) and performance-based increases are used to pay more to workers who are more difficult to recruit and to promote performance driven employees (Kessler and Purcell, 1992; 1993; Rubery et al., 2007). Low pay levels may be considered inadequate by the top applicants for a job who may reject the employment offer while the top performing current employees may choose to separate from the organisation (Mathis and Jackson, 2006). Also, flexibility in pay determination has been linked with managerial discretion in pay determination at the point of entry or recruitment (Rubery, 1997).

Umphress et al. (2007), Taber and Hendricks (2003), Rau and Hyland (2003) and Avery (2003) define selection as the process where candidates choose their employers. The reasons employees cite to join an organisation range from organisational characteristics like rank, work environment, and status (Taber and Hendricks, 2003) to monetary rewards, like performance-based salaries, benefits, and bonuses (Pfeffer, 1998; Kim and Gelfan, 2003; Arthur, 2001). The latter studies add that a potential concern with the use of monetary rewards is that an extrinsically motivated employee can always be lured away by the next highest bidder. The solution then is to use monetary rewards as a temporary strategy since they are not sustainable in the long run and to supplement this with non-monetary rewards. Taber and Hendricks (2003) elaborate that candidates with low social dominance who value teamwork are likely to forego monetary compensation.

Employee retention is of similar importance to organisations not just because of the need to reduce turnover costs (Ramlall, 2003) but also to retain the valuable pool of talent for long-term organisational success. This is because of the loss of company information as those who leave may take with them valuable information about the organisation, the customers, the current projects and also the past history of the company to its competitors (Sandhya and Kumar, 2011). Also, the time and money spent on an employee's training and development is lost. On the contrary, different factors identified which lead to retention in organisations include job satisfaction, organisational commitment, extrinsic rewards, attachments, and prestige (Hausknecht et al., 2008), personal growth opportunities, organisational direction, corporate culture and recognition of an employee's need for work life balance (Stum, 1998). Other factors that have the same impact include training opportunities, improved selection processes, pension schemes, transportation and profit sharing (Carroll et al., 1999). Also payment that is above the going rate, good team spirit, hands on management style and a good work atmosphere have a positive influence on retention. For the high performers organisational prestige and advancement opportunities were the most common reasons identified by Hausknecht et al. (2008) for staying in the organisation. On the other hand, low performers considered extrinsic rewards highly important for staying. Motivation through rewards and recognition has also been empirically proven to aid in employee retention (Mohanty, 2009).

2.1.2. Employee motivation as a function of pay

In this section we discuss the literature on theories of motivation, the function of pay as a motivator and the different factors in pay design and implementation which can lead to motivation and / or de-motivation. The significance of pay as a motivator is much contested in literature and is studied here to gauge whether pay acted as a motivator (which was one of the objectives of the new pay structures and systems) or otherwise, in the organisations studied. Theories of motivation underpin the manager's actions to control and predict the behaviour of the subordinates (Beardwell et al., 2004), hence the related literature will help in analyzing why (the reason) and for what (the objective) certain choices in the design and implementation of the new pay structures and systems were made. As early as 1911 Taylor formulated the instrumentality theory which forms the basis of all the motivation theories and suggests that it is impossible to get workers to work harder than the average worker around them unless they are assured of a large and permanent increase in their pay. Key theories for this study include the theories of expectancy, reinforcement, equity and goal.

Vroom (1964) formulated the expectancy theory on the basis of three factors – valence, instrumentality and expectancy (VIE). Valence stands for value, instrumentality is the belief that if we do one thing it will lead to another and expectancy is the probability that action or effort will lead to an outcome. However, good performance may not always be recognized and good performance ratings may not necessarily lead to rewards for employees (Judge and Robbins, 2007). Also, the strength of the expectations can be based on past experiences (reinforcements). Perry et al. (2009) reflect that when performance-related pay is implemented in an organisation, employees who are motivated by and value monetary rewards will work harder which will result in increased efforts. In the reinforcement theory, there is a direct relationship between desired target behaviour and the consequences. In this instance, performance is the behaviour and the consequence is pay. Further, research based on the equity theory proposes that people will be better motivated if, in their own perception, they are treated equitably compared with others and de-motivated if they are treated inequitably (Adam, 1965). The goal theory proposed by Latham and Locke (1979) suggests that motivation and performance are higher when individuals are set specific goals, when the goals are difficult but accepted, and when there is feedback on performance. However, the limitations of the goal theory include the narrow focus on non-goal areas, increased unethical behaviour, reduction in intrinsic motivation, and corrosion of organisational culture which can lead to systemic harm according to Ordóñez et al. (2009).

Extant research postulates that pay is an important motivator despite employee self-reports and persistent articles in practitioner journals that suggest otherwise (Gerhart and Rynes, 2003; Bevan and Thompson, 1991; Kauhanen and Piekkola, 2006). The varying amount of incentive can serve both as a punishment and as a motivator and thus enhances risk sharing among the management and employees; the employees see their incentives as being linked to their performance (Sherstyuk, 2000; Shaw et al., 2002). However, pay for performance may result in motivating employees in a dysfunctional manner to over focus on tasks that yield individual financial rewards, even at the cost of other similarly significant tasks (Jensen, 2003; Cadsby et al., 2006). In the case of group-based pay-for-performance plans employees are motivated to achieve group outcomes with individual pay-outs (Gerhart & Rynes., 2003). These plans rely upon greater employee empowerment which means increased task motivation (Kirkman et al., 2004). However, if this is not granted, employees may be less motivated to perform. Moreover, awarding and paying collective bonuses through profit-sharing schemes binds together the teams (Kruse, 2003).

Further, studies identify various factors in the design and implementation of the pay structures and systems, the presence of which can lead to motivation. For example, an employee’s perception that they can contribute towards an outcome, the extent of the reward and its frequency (Kauhanen and Piekkola, 2006), employee participation in pay design (Kauhanen and Piekkola, 2006; Cox, 2000), clear link between effort and reward, presence of a formalized system which measures specified criteria or targets (Kessler and Purcell, 1992), the level of cooperation between employees and their perceptions of better and clearer targets (French et al., 2001). In addition, the perception of fairness of the appraisal is another important factor in the positive incentive effect for motivation. Whether employees are committed to the organisation because of the goal-commitment or emotionally, there is likelihood that PRP will be intrinsically motivating for them as their work becomes interesting.

However, research points to the dichotomous nature of pay, specifically PRP, in that it may undermine motivation in employees who are intrinsically motivated to perform due to their internalized sense of duty, enjoyment or loyalty (Perry, 2000; Vandenabeele, 2007) by limiting their scope of activities to pre-defined objectives. Also, motivation may not always result in a sustained increase in performance because employees sometimes enhance it temporarily to earn rewards and conversely highly motivated individuals may at times perform badly due to other impediments like inadequate training or equipment (Marsden and Richardson, 1992). Motivation, then, is something that can lead to better performance but only when other conditions are met.

Unlike arguments presented in the preceding paragraphs, researchers like Kessler (2003) point to the individual and organisational factors which lead to de-motivation instead. Kessler (2003) states that pay and incentives may not prove valuable if some employees inherently lack the motivation to work and if they seek development opportunities and challenging jobs. A body of literature (Marsden and French, 1998; Pendleton et al., 1998; Marsden, 1994; 1998; 2001; 2004; Belfield and Marsden, 2003; Marsden and Richardson, 1992; 2004; Marsden et al., 2001; Kessler and Purcell, 1992) found pay to have limited motivational effects to the extent that it was stated to be a likely de-motivator (Brown and Nolan, 1988). For example, only 12% of nearly 2500 respondents experienced increased motivation after the introduction of PRP in the Inland Revenue Service (Marsden and Richardson, 1992) and a large number of employees felt that despite its positive motivational effects, PRP had a negative effect on work place relations (Marsden et al., 2001). In their later research (Marsden and Richardson, 2004) in the Inland Revenue Service, where performance pay was awarded only when staff received a sufficiently high overall score, relatively few staff members felt that performance pay motivated them to change their behaviour at work significantly but the costs of finding an alternative method and worthwhile jobs acted as deterrent to poor performance.

Additionally, factors identified in studies which more specifically refer to PRP schemes include lower organisational trust and dearth of transparency in the systems, faith in the performance-rating structures and the credibility in leadership (Ratner, 2009). Another factor is too much reliance on line managers who are pressurized and expected to exercise skills in setting the objectives, in providing feedback, in reviewing performance and reporting upward revisions in ratings with justifications (Armstrong, 2009; 2006; 1999). Kessler and Purcell (1992) identify other factors like easy options, subjectivity and labels. Easy options describe the tendency for central ratings to avoid marking people too low or too high and the descriptive labels attached with these ratings often send demoralizing messages to the employees. Also, line managers are often considered to be subjective in their criteria of assessing employees which makes the performance assessment process inconsistent.

2.1.3. Change in organisational culture as a function of pay

In this section the literature on the issues related to the purpose and use of performance related pay schemes for cultural change and performance enhancement, the associated positive and negative behavioural outcomes and the techniques to enhance the link between pay and performance management systems is studied. The shift to a performance based culture was one of the primary outcomes envisioned from the changes in pay structures and systems and the broader HR bundles; hence the literature on both these inter-linked objectives (performance enhancement and organisational change) is reviewed to assess its influence in shaping the organisation culture. Performance based pay systems bring about flexibility and cultural change in organisations through aligning organisational and employee goals to symbolize what the organisation values (Pfeffer, 1998). Appraisal systems lead the process for this change (Hendry, 2006) and can decrease issues of favouritism, nepotism and politics, where they exist (Grote, 2005).

The norms and values practised in an organisation form part of its corporate culture in general and designed carefully, pay structures and systems can either reinforce or modify the organisational culture (Kerr and Slocum, 2005; Kessler and Purcell, 1992; Lawler, 1995). The same is concluded in the case of PRP as well by Schedler (2003) and Bradley and Parker (2006). In private sector organisations PRP reflects a cultural shift towards systems which advocate flexible results, entrepreneurial spirit and individual initiative (Rudge, 2011) and in the public sector organisations the objective is to bring cultural change which encourages performance improvement and efficiency.

An example of the objectives in the public sector is research by Kessler and Purcell (1992) at UTco, a public utility company where prior to privatization PRP was implemented for senior managers to introduce a performance oriented culture considered appropriate for a private organisation. It has been contended that performance related pay is not just an incentive system but it also plays a significant role in renegotiating the performance norms in an organisation and instilling in it a performance culture (Marsden, 2004; Perry et al., 2006). In his survey of the British public services Marsden (2004) examined the impact of implementation of a performance based pay system on the culture and the behaviour of the medical staff. There was considerable improvement not just in the degree of smartness of work but also in the intensity of the effort. Hence, the primary function here was redefining performance norms through the use of appraisal and goal setting rather than motivation. From a renegotiating perspective, the net improvement in performance may not necessarily be because of the new work norms and pay incentive. It could also be a result of the positive employee perceptions of the changed norms and the greater attention of management towards performance appraisal and goal setting, especially for employees who experience a decrease in their motivation and performance levels. Marsden and Belfield (2005) found that the objective of improving employee performance in British schools led to a changed management culture which emphasized improvement in goal-setting, alignment between classroom teaching and school objectives and learning through performance reviews.

Conversely, the use of PRP for changing organisational culture has also resulted in negative influences on some cultural aspects due to resistance by managers (pivotal actors), their lack of technical knowledge (in defining and measuring criteria), competence to implement PRP and the subjective, speculative nature of judgments (Grote 2005; Rubery et al. 1997) which lead to potential discrimination / favouritism (Marsden and Richardson, 1994). According to Rubery et al. (1997), the last aspect – discrimination – can occur regardless of the type of pay system in place as one system or any of its particular features may have beneficial outcomes for one group and negative for another. This finding is based on an examination of the gender pay implications of payment structures and payment systems in three European countries, the UK, Italy and Germany. The payment systems resulted in different levels and forms of gender pay equality that were indicative of the general wage determination system rather than the specific gender pay equity policies. The cultural aspects include undermining of teamwork and work relations due to excessive competition, rise in organisational politics, jealousies and lack of trust between employees and management (Bohlander and Snell, 2004 p.435; Noe et al., 2006; Shaw et al., 2002; Marsden and Richardson, 1994; Armstrong, 2009; Thompson, 1998; Milkovich and Widgor, 1991).

Further, firm productivity has also been linked with performance related pay (Kerkhofs and Ours, 2010; Morgan and Poulsen, 2001; Stajkovic and Luthans, 1997) and is found to have influenced people to work harder to improve enterprise performance (Tepp and Poomann, 2006; Shearer, 2004; Jenkins et al., 1998). The link between pay and performance appraisals is evident in the move of organisation's to encourage performance by distributing annual pay increases (added cumulatively to the basic pay) and cash bonuses for an individual's sustained level of high performance and special achievements and for organisational performance (profit sharing, share-ownership). Thus, efforts of high performers are rewarded to retain talent which is instrumental in enhancing the organisation's performance. It has been found that productive workers are more inclined to select pay for performance schemes while less productive workers prefer fixed-salary schemes (Jensen et al., 2003). Also individual pay-for-performance schemes (merit pay, individual incentives and bonuses) are most beneficial for increasing the performance and productivity of high academic achievers, high-performing employees, and individuals with high self-efficacy and high needs for achievement (Harrison et al., 1996; Trank et al., 2002). This leads PRP to be contested by researchers like Kessler and Purcell (1992), Rubery (1997) and Rubery et al. (1997) because it is seen as a mechanism to redistribute greater income amongst particular groups like managers, high fliers and the already advantaged / higher paid. Also, it is seen to be an overinvestment in training and education in these groups and an underinvestment in others. In part, this imbalance is attributed to the increasing risk of job loss from downsizing and de-layering. This has created an oversupply of labour in certain professions, especially deregulated sectors which have adopted flexible and performance related cultures (Rubery, 1997).

To summarize, this section re-emphasized the established multiplicity of pay functions in literature. The function of pay in assisting organisations to recruit and retain employees is discussed first, followed by how pay may act to motivate employees. The use of pay in bringing cultural change and renegotiating the effort-performance-reward link is also discussed as a function of pay but in this case findings in literature appear to overlap and hence they have been bracketed together. Also within this section factors other than pay are identified as contributors in achieving these objectives to indicate the interlinked nature of HR practises and the employment policies. Greater focus is kept on PRP in the discussion as this pay system was introduced in the case-study organisations (completely or partially) investigated in this research.

2.2. Drivers of changes in pay structures and systems

Apart from exploring the objectives management aimed to realize from the changes in pay and other HR practises, this research also attempts to identify the drivers which pressurized for these changes to take place. For this purpose, a review of the related literature is conducted to identify the reasons driving the changes in pay structures and systems. Changes in pay practises are primarily driven by three key factors at the macro level that include economic, social and political factors according to Oliver (1992), John (2000) and Kang and Yanadori (2011) and deregulation and changing opportunities in the external environment (Rubery, 1997).

The first of these drivers - economic drivers - can lead to changes in pay due to increased competition for limited resources and the non-viable continuation of existing institutionalized practises for example, seniority-based pay in Korean firms (Kang and Yanadori, 2011). Specifically, PRP may be adopted by firms that are poorly performing to gain legitimacy (Perry et al., 2006; 2009) and pursue management reforms but there may be resistance from employees when and if this translates into lower pay for them (Parks, 2009; Kim and Kim, 2003). However, there is as yet no clarity on whether this resistance is more evident among the higher paid employees or the lower paid ones. Apart from poor firm performance, the risks associated with the new pay system (Ahmadjian and Robinson, 2001; Kruse, 1996) and organisational pay level (Dunford et al., 2005; Kang and Yanadori, 2011) may also drive the decision to implement the proposed changes. In the case of pay levels, seniority-based pay systems which are more costly because pay levels increase without any guarantee of greater productivity / performance returns are likely to drive the change. Further, the pressure from competitors, the media and the public opinion also strengthen this driver.

Research on social drivers – second driver - pressurizing for changes mostly focuses on the status of the firm (Spell and Blum, 2005) and the level of adoption / diffusion of a practise within an industry (DiMaggio and Powell, 1983). In general, organisations attempt to legitimize pay changes and other changes based on the principles used in identifying various groups in society; at the organisational level (work organisation) this is done to avoid conflicts due to pay disparity (Rubery, 1997). For example, PRP and individual performance rewards have long been accepted as socially legitimate in the US but in the East Asian and European countries they are seen as a radical change in the pay practises (Boxall and Purcell, 2003; Rowley and Benson, 2000) and a departure from the traditional employment models (seniority based) (Kang and Yanadori, 2011) which creates resistance. The latter identify high status (larger) organisations which are in focus of the media and other state agencies to feel the pressure to change first, since they have greater resources to expend and experiment and a greater need to establish legitimacy amongst the international business community. At an aggregate level, mimetic isomorphic pressure (DiMaggio and Powell, 1983; Kostova and Roth, 2002) to conform to socially acceptable industry standards and practises (global and national) also drives changes which at times are not required within an organisational context or may not be well understood. None-the-less, its legitimacy alone encourages other organisations to adopt the practise and relieves any pressure occurring due to perceptions of deviant behaviour. Further, in such cases, organisations tend to adapt different models in terms of coverage of employees, to evade pressures and issues of resistance.

The third type of driver leading to change in organisations – political drivers – emerges in the form of workforce composition, labour-management relations and union pressure (Kang and Yanadori, 2011). While investigating the distinct effects of economic, social, and political factors on the adoption of performance-related pay practices and their coverage based on an empirical analysis performed on a sample of Korean firms that experienced the East Asian financial crisis of 1997, the authors found that while performance-related pay adoption was influenced by economic and social factors, performance-related pay coverage was related to political factors. Further, shifts in the balance of power due to changing numbers of employees in particular groups was predicted to either drive the change or present resistance, in the case of our research the transition from seniority to performance based pay systems. Organisations dominated by work requiring idiosyncratic expertise (knowledge-based, non-manual work) were envisaged to drive the transition to the performance based pay. Conversely, the presence of unions (especially in older organisations) which form a power base in organisations may hinder interventions to change in employment practises such as the introduction of PRP (Kruse, 1996; Long and Shields, 2005) or extending its coverage on a larger group of employees because the inherent widening of pay differential conflicts with their egalitarian philosophy.

The following two examples elaborate and highlight how employees who constitute the different power bases in an organisation can hinder the implementation of new pay structures and systems through demonstrating resistance. An example of changes in pay structures and systems and systems that created employee resistance in the Asian context is that of the state owned Chinese firms which had egalitarian pay systems (before reforms) that was very centralized, inflexible and provided the basic necessities to the people via allocating these limited resources equally and discouraging materialism. Wang et al. (2009) report that the old pay system (seniority and education level based) featured low pay differentials between high and low paid workers with extensive benefits in the form of subsidies (housing, education, medicine, transportation). The criteria for evaluating performance was compliance to established norms, helpful conduct in meetings and dealings with leaders on a daily basis which caused low performance and high discontent amongst employees. However, the new performance based pay system faced resistance, a lot of integration problems and conflicts regarding employee attitudes (between management and employees and even amongst employees). This pay system linked individual wages to enterprise and/or individual performance with pay level differences according to the level of employee skills; it distributed bonuses to employees on their achievement of the pre-determined organisational objectives. Another example of changes in pay structures and systems in the Asian context that highlights the use of mixed approaches to the design and implementation of pay structures and systems in an attempt to minimize resistance is that of India. This is because of an emphasis on cultural values in India which dictate that age and experience (Budhwar, 2000) should be given importance and also because of the division in society on caste basis. This example relates to our research because of the similar cultural values Pakistan holds with India and also provides an anchor for comparison since there is a lack of relevant empirical research in Pakistan.

The economic, social and political drivers were found to be active especially in times of institutional change, a performance crisis and an increase in the number of employees challenging the status quo. For example, the IMF exerted pressure on East Asian nations hit by the Asian financial crisis to adopt the Anglo-American employment model (PRP in place of seniority) (Kim and Kim, 2003). A fourth driver pertinent for this study is privatization which drives changes in pay and other HR practises as a response to changing opportunities in the external environment. This is important for understanding the challenges indicative of pay changes in organisations which are privatized. Little research on the evolution of wage differential during the transition period (from public to private) has been done. However, in studying this phenomenon in the context of Estonia over the transition period, Olari (2006) showed through a quantile regression analysis of a dataset from the Estonian Labour Force Surveys from 1989 to 2004 that major restructuring such as privatization can have a huge impact on the public and private sector wage levels. When transition occurs in a sector, most of the state owned industries are privatized and new private businesses also emerge subsequently. As a result there are low rates of employment / hiring in the public sector in the sector as more employees prefer to find employment in the private organisations in the sector. Further, the private organisations are more productive in the early transition era and they pay higher wages to their employees compared to the public sector organisations. As time passes and the transition phase reaches maturity the differences between wages in both the public and private sector organisations in the sector decreases because the first mover advantage of the private organisation diminishes. Also, if the growth in the transition phase comes from small private sector organisations there are fewer chances of unions existing and hence employees cannot bargain. Irfan (2008) posits that during the transition period of 1999-2003, the Pakistani state ceased to be the employer of the last resort and assumed the role of the auctioneer wherein a number of the public sector units were disinvested and sold to the private sector. This privatization wave resulted in adverse implications for employment generation and complications in assessing wage levels in the country. As a result of the privatization waves contract employees were hired in the public, privatized and private sector with higher pay than the regular employees but with the loss of job security and pension.

In sum, economic, social and political drivers to change at an aggregate level influence changes in pay structures and systems and the broader HR bundles. A driver unique to the public sector is privatization and deregulation which occurs at a time of organisational change in response to the changing external opportunities and this creates imbalances in the labour markets of both sectors. This brings to the fore concepts like legitimacy, isomorphism and mimetic pressures and factors like the changes in workforce composition and resistance mechanisms which bear consequences for the adoption of change.

2.3. Linking pay functions / objectives, pay structures and pay systems

This section studies the literature related to pay structures and systems which will provide the foundation for the subsequent analysis (in chapters five and eight) of the link between the objectives sought and the corresponding selection of pay structures and systems in the Pakistani banks. Pay structures enable organisations to establish fairness and equity according to the socially and organisationally accepted norms. Their significance lies in reflecting internal and external relativities (Armstrong, 1999; Milkovich and Newman, 2008) and in defining opportunities for pay progression (Armstrong and Brown, 2001) based on performance, skills, competencies, contribution or service (Bryson and Forth, 2006; Rubery et al., 1997).

For example, grade-based[1] structures are inclined to focus on internal relativities due to their implementation in hierarchical / bureaucratic organisations which do not require much scope for pay progression but their narrow pay ranches result in pressures from employees for upgrading which causes grade drift. On the other hand, broadband pay structures[2] cater for greater external relativities (market competitive pay) and provide the flexibility for pay progression through means other than seniority and promotion like performance and skills. However, broadband pay structures may be challenging to adopt in organisations that traditionally practised and promoted egalitarian structures because of the difficulty in understanding the band architecture and explaining the reasons for pay differential (Armstrong, 1999) to the employees. Also other types of pay structures like the job family structure support the alignment with market pay in different job occupations and progress is flexibly associated with skills, idiosyncratic knowledge and competence in the relevant area.

In the next few paragraphs a description of the narrow grade, broad grade and broadband pay structures is presented. Traditional graded pay structures place jobs with similar values within a grade and attach a pay range with each grade. Armstrong (2001) defines a conventional graded pay structure as a sequence of job grades created by slotting jobs with equivalent values together and assigning a pay range to them. However, this structure does not allow for recognizing varying levels of performance or contribution and provides reduced flexibility. In a single pay structure there may be ten or more grades depending on the size and degree of hierarchy existing in an organization. There is a pay range attached to each job grade and the range represents the minimum and maximum rates that are payable for any job. It is the pay range that also offers the scope for progression to the jobholders. Percentages are mostly used for defining the pay range between the lowest and highest points of the pay range. Organizations with flatter structures require fewer grades and those with extended hierarchies need more grades. The need for implementing a graded pay structure may arise when there is a major change in the organizational structure or business environment or if there are deficiencies in the existing structure. This structure is ideal for use in organizations that have well-defined hierarchies, are bureaucratic in nature and require close control. Here there is

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[1] Defined as a hierarchical pay structure, based on classification of similar jobs in a grade, with minimum and maximum ranges attached (Armstrong 2001; Milkovich and Newman 2008)

[2] Defined as a compressed hierarchy of pay grades in fewer, wider bands (Armstrong, 2009)

a need for slight but not too much scope for pay progression. In the case of performance related pay the scope for progression is defined in terms of a range / band width or span. This type of pay structure allows for a less hierarchical approach in managing relativities with the use of pay progression. It is also used when there is an incremental increase in responsibility which is insufficient for up-gradation but needs to be recognized.

Outlining the benefits of graded pay structures, Armstrong and Brown (2001) identify the clear indication graded pay structures offer for establishing pay relativities as one of the most important benefits. Other benefits include the possibility of management to have more control over pay fixation and progression which can achieve the objective of cost control and the ease of explaining pay decisions to employees. However, when organizations have too many grades there exist pressures for up-gradation which may lead to grade drift that escalates costs. In process-based organizations and in instances where a new team requires flexibility, graded pay structures can bring and maintain hierarchical rigidity and can hence hinder the achievement of the objective of attaining greater pay flexibility in de-layered organizations.

Armstrong (2009) explains broadband pay structures as the compressed hierarchy of pay grades into fewer but wider bands; typically four to five bands. Hence a single band covers pay opportunities that were previously covered by several different pay ranges. The band architecture (structure) is more flexible in both placing roles in bands and also in progressing pay within and between the bands. Armstrong and Brown (2001) propose that a broadband reduces hierarchy and replaces rigidity with operational and role flexibility creating a favourable environment for teamwork. The new-style, de-layered, organizations are thus believed to be ideal for the use of broadband pay structures. The potential advantages of the broadband pay structure include the attainment of the objective of greater flexibility that aids in rewarding lateral development and growth in competencies, the lesser time spent in job evaluation and more attention towards the growth of employees. Conversely, Armstrong (1999) suggests that the disadvantages include decreased promotion opportunities and heightened reservations of previously hired employees related to placement in the same band as employees in the lower grades which can negatively influence the objective of enhancing motivation. Also, the lack of structure and precision in the bands may lead to difficulty in understanding of this pay structure by employees which can cause de-motivation. Moreover, a broadband will require greater monitoring by HR managers in pay decisions and the training of line managers which can add to costs and the laxity available in managing the structure can also lead to increased payroll costs.

Further, a pay spine is defined as a series of incremental points that extend from the lowest paid to the highest paid jobs and where increments may either be standardized or even wider at higher levels (Armstrong and Brown, 2001). The use of pay spines is most common in the public sector organizations and non-profit organizations which have adopted a public sector reward management approach. In a pay spine performance can be rewarded through accelerated increments. The benefits include lesser discretion for management thereby reduced subjectivity and clear career paths and the disadvantages are greater costs as employees drift up the spine and no flexibility for differentiating rewards based on performance which provides no incentive or motivation to employees.

A job family pay structure is used where separate groups or job families are to be identified in the pay structure. Armstrong and Brown (2001) state that each job family has its own structure of levels which are designed based on competence, accountability and skill and have their own finite pay range. This structure is more apt for organizations with a high proportion of professional and knowledge workers and with a clear distinction between the groups of jobs in a family. Job families clarify career paths and facilitate pay differentiation between various market groups which provides flexibility in aligning pay with the market pay levels for each job family. Two significant drawbacks include restrictions for lateral career development and difficulty in maintaining internal equity between job families which can affect the objective of enhancing employee motivation.

2.3.1. Features of different pay systems

Embedded in the selection of pay structures is the organisation's philosophy of how pay progress is to occur (seniority, performance, skill and others) and the objectives to be achieved (recruitment, retention, performance, cultural change, motivation and flexibility). Pay structures constitute the basis for pay systems which reflect pay progression based on factors other than the job and the individual / person characteristics like adjusting for internal and external rates (Rubery et al., 1997) and the latter the functions of pay. According to Chenhall (2003) there are organisational characteristics which affect the efficiency of different pay systems and also influence the selection process. These characteristics include the culture, business strategy, type of employees (Armstrong, 2000) and pay design factors like performance measures, payout formula, amount of payout, type and frequency of payout and leverage[3] (Miceli and Heneman, 2000).

Traditional pay systems which are largely grade-based have greater reliance on seniority and promotion as the basis for pay progress / reward which is in contrast with the more modern, performance driven reward systems (Heneman and Dixon, 2002), designed as broadbands. Seniority based pay systems pay for the attainment of skills over time, provide certainty of increase in pay with tenure and are more transparent / objective but careers outside the organisation or temporary work may not add to seniority within an organisation (Rubery et al., 1997). This translates into low wages initially that are compensated later by enhancing pay so that it exceeds the level of productivity (Zwick, 2009). While pay that increases with tenure length tends to motivate employees and encourages retention, it may well result in over-payment at later stages, if the skills attained do not result in enhanced performance. The impact of changes in pay structures varies for different employees and mainly depends on the nature of the change. For example, non-exempt employees (eligible for overtime pay) prefer seniority based pay plans and exempted employees especially those in managerial positions prefer performance based plans (Heneman and Gresham, 1998). If there are any changes in pay structures which indicate a shift from these plans the reference group in each case has difficulty in accepting the change.

In contrast to the seniority-based pay systems, pay for performance is implemented to reward performance which is generally achieved through the continuous attainment of skills and enhancement of competencies and contribution. For this purpose, the broadband structures explained above provide the easiest and most flexible way to

[3] Leverage is defined in relative terms and is obtained through the ratio of variable pay to total pay.

disburse rewards with the aim to motivate and retain talent and to induce a performance driven culture. Performance based pay systems are defined as pay increases directly tied to an employee's success in accomplishing certain performance goals that are established between the management and the employees (Mcintyre, 2009; Armstrong, 1999); PRP systems are expected to encourage performance by promising pay increases that are either reduced or limited when performance is below par (Ingraham, 2000) and to increase employee participation through a consultative process (Lewis, 1998). Participation is suggested to be the most beneficial aspect of PRP ahead of its link with rewards and is discussed in detail later in this section.

Studies evaluating the outcomes of PRP schemes report mixed results. For example, in their study of merit pay in the Inland Revenue Service in Britain, Marsden and Richardson (1994) found a marginally positive effect of PRP on employee performance. Also Kessler and Purcell (1992), found the link between PRP and organisation / individual performance as being obscure. Issues related to the ineffective management of performance management systems like the reliability of measuring employee output (Railey, 1992) which starts from the objective setting stage are the probable causes of inconsistencies between assumptions and expectations of various managers in the same organisation. Also the pay differentials it creates between grades by disbursing higher bonuses or increments at senior levels (Rubery et al., 1997) leads to internal conflicts.

Other types of pay systems that are facilitated through pay structures that conform to the broadband technique are competence / skill (person based) pay systems which carry the objective of rewarding employee competencies and behaviours **(**Brown, 1998). However, like the seniority-based pay structure the broadband may pay for competencies that are either irrelevant in a job role or unrelated or unused thereby escalating the costs. Similarly Bierman (2002) points to higher pay rates for individuals under skill-based pay systems which makes them expensive and renders the skills irrelevant if they are not used on the job.

2.3.2. Debates in the selection of pay structures and systems

Literature on the selection of pay systems guides our research on the underlying theoretical basis which resulted in the choices made by the different case-study banks in changing their previous / old pay structures and systems and the other HR practises in the bundle. Four issues discussed in this section are: (i) best-practise versus best-fit approach; (ii) multiple versus uniform pay systems; (iii) employee role in the selection of pay structures / systems and; (iv) pay differential between the public and private sector.

In the first case, as discussed above, organisations can are socially driven to adopt practises to conform to changing social expectations or trends in which case the best practise approach may be theoretically guiding their choice for adopting particular practises. This follows findings by researchers like Huselid and Pfeffer who prescribe the adoption of HR practises benchmarked as best practises. On the contrary, economic compulsions may drive organisations to consciously choose one type of practise over another to attain better organisational efficiency and performance. This aligns with the contingency or best-fit approach which advocates the adoption of those HR practises that align with the organisation's business strategies so the organisation's performance and efficiency can increase with the synergetic effect thus produced. The best-fit approach has been extensively acknowledged by various researchers like Bloom and Milkovich (1998), Gomez-Mejia (1992), Boyd and Salamin (2001) and Blasi and Kruse (1996) who conclude that such alignment results in positive financial gains for the organisation. Apart from the economic benefits to be realized this approach can guide the selection of pay systems based on the organisation structure. As early as 1992, Gomez-Mejia prescribed that pay systems are contingent on two organisation types - Mechanistic and Organic. For the mechanistic organisation, job-based grading structures and pay rates above the market average with increments based upon length of service were found to be suitable and for the organic type organisation, variable pay based on individual contribution and multiple bonuses was found to be more appropriate. The drawback of the best-fit approach is its neglect of all other factors which have a bearing on the organisational performance other than business strategy and its failure to address the issue of multiplicity of objectives. In the case of pay, research indicates that a move away from the best practise and the best-fit approach to the best process approach needs to be adopted because it links employee involvement with pay system effectiveness which according to Cox (2000) is a better alternative for assessment.

In the second case, we discuss choices in the context of the adoption of new pay systems or managing multiple pay systems (Hoffman, 1987; Corby et al., 2007; Stredwick, 2000). Multiple pay systems are not necessarily job family pay structures, they represent separate pay levels and ranges for employees hired on different entry tracks or at different periods of time (Hoffman, 1987). The pay systems can be a consequence of political drivers which necessitate the implementation of two or more parallel pay systems. Multiple pay systems are capable of providing flexibility while controlling for costs and are successful in meeting the expectations of different employee groups as a consequence of changes occurring in the labour market and the social expectations but studying the implications, Hoffman contends otherwise. His contention is based on the complexities in managing multiple pay systems which include negative internal competition between segregated employee workgroups, limited opportunities for lateral movement and internal transfers and the indirect effects of multiple pay structures on employee satisfaction (perceptions of fairness). A uniform pay system promotes equitable treatment for all employee workgroups across hierarchical levels and provides employees stable income in all economic conditions.

The role of the employee (third case) and the consultation between the employer and the employee in the selection of pay systems is considered significant in determining pay system effectiveness (Bowey et al., 1996). Also, while research has still to clarify the link between pay systems and the broader HR bundles, the link between different forms of employee participation and pay systems is more conclusive (Cox, 2000). Pay systems designed and implemented through employee consultation are considered more effective than those designed by managers alone or with less involvement of employees (Cox, 2000; Kessler and Purcell, 1996) because employees provide 'a fuller perspective on the problems in the implementation and design of the existing pay systems which helps in eliminating them in the new system' (Cox, 2000; p.363). Employee participation also provides information on the employees who may adversely be affected by a new pay component and the preference of employees for the kind and timing of rewards they desire which increases the chances of the acceptance of the new pay structures and systems and removes the irritants which may result in resistance and non-compliance.

The significance of communication as a process for eliciting employee acceptance and satisfaction with organisational policies and practises has been researched by Cox et al. (2007; 2006; 2009), Marchington et al. (1994) and Ackers et al. (2003) in recent years. Employee involvement and participation (EIP) is an umbrella term used to define the techniques associated with informing and consulting employees in the workplace and is often included as part of 'bundles' of high performance work practices which are thought to improve organisational performance (Cox et al., 2007, p.5); this is managed through better communication and understanding between managers and employees. EIP is generally not applied uniformly across hierarchical levels and exists in various forms which include downward communication from managers to employees through newsletters, email and notice boards, direct two way communication between management and employees in meetings and briefings, direct upward feedback from employees through surveys and problem solving groups and indirect participation through committees. An increase in the use of direct communication forms like work group briefings, systematic use of the management chain for cascading information, suggestion schemes and regular meetings with the entire workforce is reported in recent research by Cox et al. (2006).

The fourth case relates specifically to the issue of pay differential between the public and private sector which is also true in the context of Pakistan (Nasir, 2000; Hyder and Reily 2005) and influences the choice of pay structures and systems by the public sector banks. Pay differentials can affect the objectives of recruiting and retaining in particular as well as productivity and efficiency. The economic imbalances between employee workgroups can cause resentment, political disillusionment and can threaten to slow down the reforms (Vera and Adamchik, 1998; Hyder and Reily, 2005). The differential is attributed to the different rules governing both the public and private sectors and their differing goals; profit maximization in the private sector and social goals in the public sector. An example of the different rules is that of establishing of a pay ceiling and floor in the public sector which inhibits higher pay for workers and the absence of such rules in the private sector which enables profit sharing with the employees (Papapetroua, 2006). The profit motive is found to create an incentive to set pay linked with worker productivity (PRP) in the private sector. However, the absence of the potential for employees to earn more from growing organisational profits in the public sector is off-set by providing job security and seniority based emoluments like retirement benefits and fixed annual increments (Burgess and Ratto, 2003; Frant, 1996), for which the employees build a preference. The preceding pay components overcome the low pay effect in the public sector (Olari, 2006) and make retention possible but they can result in lower performance and efficiency in this sector.

To summarize, organisations tend to make changes in pay structures and systems to achieve certain objectives which keep evolving / shifting with changes in the environment. While pay structures present a means of balancing internal and external relativities and define how pay progress occurs, pay systems provide the basis (seniority, performance, contribution, skills, and competencies) contingent upon which pay increases occur. The merits and demerits of various pay structures and systems highlight the circumstances under which each is more appropriate to be implemented. Further, the approaches underlying the selection of new pay practises (best-fit and best practise) are linked with the drivers for change, the implications of adopting uniform or multiple pay systems are elaborated upon and the role of the employee in the process is discussed.

2.4. Strategic alignment of pay and other HR practises

An objective of this research is to explore the changes in the broader HR bundle, the link between different HR practises in the HR bundle and any conflicts or complementarities emerging as a consequence in the Pakistani banks. For this purpose, a review of the literature on the alignment between the HR practises and debates on the selection of a set of practises is conducted. Research in both the European and Asian context (specifically Pakistan) indicates that in the recent years the focus of the public sector to deliver high quality services has resulted in changes in the HR practises like performance management systems, compensation, recruitment, promotions and the rules governing employment conditions, emulating those in the private sector (Willems et al., 2004; Hyder and Reily, 2005).

The emergence of strategic HRM led to research focusing on the vertical and horizontal alignment between HR and business strategy and different practises within the HR bundle. Torrington et al. (2004) contend that the benefits to the firm are maximized when both horizontal and vertical integration is achieved. The vertical fit refers to the alignment of HRM with business strategy and the horizontal fit advocates the lateral alignment between the HR practises in the bundle so they may pursue similar or complementary goals (Guest, 1997; Schuler & Jackson, 1987; Wright & Snell, 1998). The contingency / best-fit approach facilitates the achievement of the vertical fit in which the contextual factors (internal and external) like industry / sector, firm size, strategy and structure, lead to differences in the construction of the HR systems (Lengnick-Hall & Lengnick-Hall, 1988; Delery and Doty, 1996; Bowen & Ostroff, 2004). Different combinations of HR practises have been empirically found to work better with different business strategies as opposed to a one formula fits all (Guest and Hoque, 1994; Arthur, 1994).

The universal or best practise approach assumes that a set of best HR practises exists which is capable of generating positive organisational gains regardless of the specific organisational context (Bae and Lawler, 2000; Pfeffer, 1994, 1998; Collings and Mellahi, 2009). And that business strategies and HRM policies are mutually independent in determining organisational performance. With specific reference to the positive influence of variable pay systems in the HR bundle, studies by MacDuffie (1995) and Ichniowski et al. (1996) report that a combination of HR practises has a greater influence on the organisational outcomes than the HR practises implemented in isolation. Extant research has also pointed out the need for integration and consistency within and between HR practises and the organisational goals which are equally important for influencing the organisational performance as a whole (Bowen and Ostroff, 2004; Colbert, 2004; Fiss, 2007; MacDuffe, 1995). In this respect certain bundles of HR practises are considered to lead to better internal consistency and alignment with the organisational goals (Ridder et al., 2012) and are hence believed to be ideal (Delery and Doty, 1996).

This leads to a focus on the HR practises as a bundle or package rather than the impact of each practise (in isolation) on the firm's performance, employee productivity and the organisational profitability. However, studies investigating this aspect come with their share of contradictions and conflicts and research continues to explore the link between the combinations of HR practises and business performance

(Cox, 2000). Studies by Huselid (1995), Pfeffer (1994; 1998), Becker & Gerhart (1996), Ichniowski et al. (1996), MacDuffie (1995), Marchington & Grugulis (2000), Katou & Budhwar (2006) explored the link between different HR practises from diverse perspectives but none particularly focused on the role of pay in the HR bundle.

2.4.1. The debate on a single set of HR practises

Literature on strategic HRM points to the lack of a coherent set of HR practises which is evident in the conflicts and contradiction highlighted in studies that attempt to define the practises as a bundle (Arthur, 1992, 1994; Delery & Doty, 1996; MacDuffie, 1995). Varying foci of these studies like high involvement practises, flexible work, work-family and production systems could be probable reasons for this. For example, MacDuffie (1995) examined HRM practises which differentiate mass production from flexible production with limited generalizability across the sectors and Guerrero and Barraud-Didier (2004) analyzed HR bundles in 180 firms in France through the lens of high-involvement HR practises. They include empowerment, compensation, communication and training and skill development. Other examples include the definition of a set of HR practises related to work-family (Perry –Smith et al., 2000) and flexible work organisations (Stravrou, 2005). However, the most widely cited HR-bundle in this body of literature is given by Pfeffer (1998) and includes the following seven practises: selective hiring, job security, team-work, continuous development, information sharing (employee involvement, communication), status differential and the use of pay contingent on some measure of performance.

Apart from these conflicting findings which relate to the practises that form the HR bundle, other issues like the level of alignment between the different HR practises also demand attention from the researcher. In the case of compensation, it was found that conflicts existed between practises, especially if compensation was kept at a relatively high level and was linked with performance. For example, the entire concept behind teamwork is negated as variation in pay between team members can spark controversies and create jealousies between teams (Marchington and Grugulis, 2000). Further, the objectives of employment security and contingent pay also conflict with each other. If the contingent pay constitutes a large portion of the employees' pay it can result in undermining efforts for retaining the employment security, especially in times of economic decline (ibid, 2000). Similarly, higher amounts of rewards for CEOs and senior managers with lesser incentives for others negates the practise of no status differential, external hiring with higher pay levels for new entrants can create issues of internal equity and hiring freeze in one department and recruitment in another (Truss et al., 1997) also illustrate conflicts. A study by Guerrero and Barraud-Didier (2004), based on a survey carried out on 180 HR managers in large French companies found that basic pay equal to or less than the market could not enhance employee involvement but collective rewards, non-monetary benefits and PRP were able to enhance employee involvement in the UK and USA. Examples of alignment between the HR practises include extensive training for self-directed teams, premium pay for better performers and job security for talented individuals hired through selective practises.

Consequently a possible future direction for research could be (i) to include employee perceptions at work (Marchington and Grugulis, 2000) and; (ii) to focus on a wider set of HR architecture (different sets of HR practises for different organisations) (ibid, 2000), especially the role and type of pay for different employee groups, a weak area in theories of the HR bundle (Cox, 2000). Our research attempts to do both, to narrow this gap in literature but its focus is on the link between one HR practise and the other HR practises rather than on defining which HR practises can be bundled together.

In sum, the emergence of the field of strategic HRM has introduced the concept of strategic alignment within the HR practises (horizontal) and between them and the organisational strategy (vertical). Consequently studies point to the need for exploring the HR bundles as a whole rather than establishing the efficacy of single HR practises to arrive at holistic conclusions. However, the disagreement between researchers on a single set of HR practises to form a bundle, which needs to be examined for alignment between the HR practises, continues to present a challenge.

2.5. HR architecture and differentiated HR practises

A review of the HR architecture will inform our study on the differentiated design and implementation of the HR practises and our objective to explore the consequent differences in the employee perceptions associated with the changes in the pay structures and systems and the broader HR bundles. The traditional approach to managing employees encompassed a single configuration of HR practises for all employees (Huselid, 1995; Jackson & Schuler, 1995) relying on equality, engagement, employers of choice and entitlement (Becker et al., 2009). In this approach, compensation was contingent on the company's performance (Pfeffer, 1994) and the compensation systems were job based with employees paid according to the jobs they performed (Mitra et al., 2011). So the job itself was a reward in traditional pay structures (Milkovich and Newman, 2008). As a result firms managed all the employees in the same way regardless of their value or uniqueness (Chew, 2004).

The HR architecture is a framework which assists the organisation in differentiating employees through designing differentiated HR processes and practises; this indicates the existence of different HR configurations within an organisation. The HR architecture advocates different levels of investment for separate categories of employees (Chew, 2004) and identifies these categories according to their strategic value for the organisation (Wright and Snell, 1998; Kang et al., 2003). However, this makes achieving consistency among employees difficult (Guthridge et al., 2008) as segmented / differentiated practises send a signal of inequitable employee treatment hamper efforts to achieve fairness. The concept of the HR architecture is used in strategic HR planning (Curson et al., 2010), workforce differentiation (Huselid et al., 2005), talent management and workforce management (Becker et al., 2009). The basic idea is to manage the differentiated workforce through identifying strategic positions (A positions) that focus on the *A players* who have the ability to contribute more in executing the organisations strategy (Huselid et al., 2005). Thus, organisations that follow this strategy place the top performing employees in strategic positions, good performers in support positions and eliminate non-performers. The differentiated HR architecture relies on equity instead of equality, focuses on engaging the right employees, emphasizes on hiring choice employees and advocates an earned increase rather than an entitled one.

This strategy is used to differentiate various employee groups like temporary workers (Koene & Riemsdjk, 2005), knowledge workers (Elmes & Kasouf, 1995) and mature workers (Armstrong-Stassen, 2008). Organisations engage mature workers (older workforce) through different HR practises tailored to their needs but empirically tested, its extent is limited. Two findings from the study Armstrong-Stassen (2008) that are relevant for our research include: (i) there exist perceptual differences between the *'career job and bridge job'* groups with the former comprising of the strategic contributors who are usually younger and believe that the organisation provides career growth opportunities. The bridge job group expects the organisation to focus on challenging assignments, recognition and respect but does not prioritise training and development despite its importance in refreshing their skills, knowledge, and abilities to bring them at par with career job workers who receive more training; (ii) the most important reason behind organisations not investing in mature employees was the mis-fit with these employees' priority agenda and their lack of interest in and demand for these practises. The research by Armstrong-Stassen was based on two studies that were conducted in Canada to assess the extent to which organizations were engaging in HR practices targeting mature workers and the reasons why organizations may not be engaging in these practices. The participants of the first study included 284 mature workers (171 in career jobs and 113 in bridge jobs) while those in the second study included 426 HR Executives. The HR executives represented a wide-range of industries in both the private (finance and insurance, high tech, manufacturing, retail) and the public (education, healthcare, public administration, social services) sectors.

The foundation of the HR architecture was first laid down by Lepak and Snell (1999); it aligns the different employment modes and employment relationships and segments employees into four quadrants based on the value and uniqueness of their skills for the organisation (see figure 2.1.). Uniqueness is defined as a firm specific skill and value as the strategic importance of an employee's skills. Uniqueness is defined on the basis of rarity of skills, level of specialization and specificity to the organisation (Barney, 1991). Jobs with high uniqueness and high strategic value are placed in the internal development mode which is described by Seyyedjavadin and Zadeh (2005) as a framework of all elements that make the HR structure and enable it to function. It represents the core employees in which the company invests through training and development, compensation and benefits and other self enhancement HR programmes (Entrekin & Court, 2004). In the acquisition mode, the work is job focused and the core capabilities and skills are not unique to the firm so the organisation focuses on acquiring valuable employees from the market. The skills here are transferable (Lepak and Snell, 2002).

The contracting mode is stated to be adopted when the strategic value and uniqueness of the employees is low but a recent study by Chew (2004) on Australian organisations added high level professionals who move between different firms to get higher pay and opportunities for self-development in this mode. The results of the study are based on the Delphi-results of 13 external experts, in-depth interviews of 12 HR managers and a quantitative analysis of the responses of 800 employees in nine Australian organisations. Hence the contract workforce now includes semi or highly skilled individuals who perform complicated tasks. While Lepak and Snell (1999) view employment modes from the organisation's perspective, Chew (2004) incorporates the employee perspective; the factors individuals look for in an organisation before becoming permanent. These include HR practises like remuneration, recognition, training and career development and organisational factors like culture, structure and work environment. Despite the different perspectives, both researchers suggest that contract employees are a commodity and can be acquired when needed so organisations do not invest in their training and development unless it is critical for their performance. The alliance mode defines skills to be high in uniqueness but low in value; these are less transferable than generic skills and are not firm specific which gives rise to a hybrid model (Lepak and Snell, 1999).

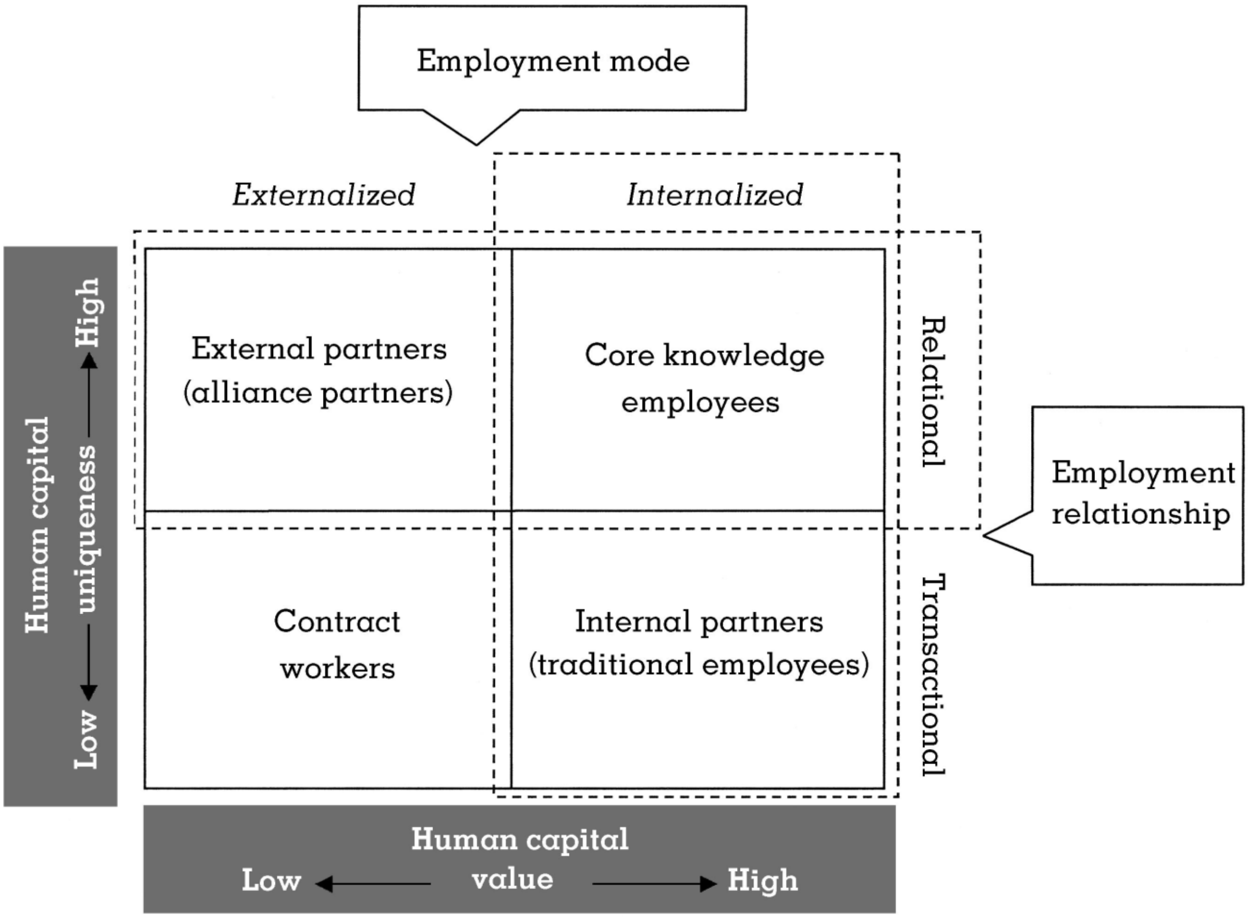


Figure 2.1. Adopted from Lepak and Snell (1999; 2002)

Beyond the employment modes, research on the HR architecture also focuses on the employment relationships which underpin the psychological contract; these relationships are defined as the trust and reciprocity between the employer and the employee which flows from transactional to relational.

2.5.1. The interaction of pay and the HR architecture

Studies have shown that a well-implemented rewards programme assists in talent management through the HR architecture (Towers Perrin, 2003). According to Boyd and Salamin (2001), compensation practises reflect the contract or employment model of the individual employee, focusing on what it will take to attract and retain the employee. While coordinated work among various employee groups is essential, some groups are regarded as strategically important because they contribute more to organisational competitiveness (Yanadori & Marler, 2006). As a result organisations may choose to develop compensation systems which distinguish the strategic contribution of important employee groups.

Pay has been found to interact with the HR architecture in three major ways; as a part of pay variation, as a part of the employment relationship and as a part of the employment configurations. The HR architecture reveals that each employment mode carries an inherently different form of employment relationship (Chew, 2004). These employment relationships are described as the psychological contract of individual beliefs shaped by the organisation which influence the terms of an exchange agreement between individuals and their organisations (Rousseau, 1995). The employment relationship is of two types - transactional and relational - where transactional relates to specific monetary exchanges over a limited period of time and includes rapid advancement, high pay, and merit pay (Ko, 2003). The relational type refers to long-term job security, career development, training and development opportunities and support with personal problems.

Pay interacts with the HR architecture as a transactional contract that partly influences the individual's belief as pay alone cannot ensure retention for which elements of the relational contract which lead to pay satisfaction are required (Parker and Wright, 2001). Pay variations are partly attributed to the differentiated HR architecture and are defined as the difference in pay between the highest-and-lowest-paid organisational members (Siegel & Hambrick, 2005). There are two types of variations; vertical and horizontal variation. Vertical pay variation concerns pay variation across jobs and occurs due to differences in the job content and its strategic value (Gupta et al., 2011) whereas horizontal pay variation within jobs usually occurs due to individual differences. Further, pay variations are affected by the organisational strategy, philosophy, and structure and determine the number of levels in the organisation, its treatment of employees and its HR architecture.

The importance of the compensation practise within the HR bundle is reflected in the employment configuration to show the relative importance and investment in different employee groups (Huselid and Becker, 2011). Different compensation levels and elements are used for different employment modes. For example, in an internal development employment mode, firms might structure pay systems to focus on employee learning (skill-based pay) and information sharing (team-based pay) to encourage employee development, mastery of firm-specific competencies and to emphasize a long-term perspective among the employees (Yanadori & Marler, 2006). For the acquisition employment mode, firms are likely to include externally equitable wages to focus attention on productivity concerns and to attract the individuals in the labour market and for the contracting employment mode performance appraisal and rewards are likely to be job based, focusing on prescribed procedures or specified results or both (Lepak and Snell, 1999). In the case of the alliance mode organisations use group-based rewards and appraisal to encourage employees from both organisations / parties to share and transfer information. Thus, organisations consider many factors while creating their HR architecture such as the workforce, the financial resources available, the structure, culture and the benefits / costs of each choice.

To summarize, the HR architecture is a non-traditional framework to manage the employment relationship through various HR practises. It identifies strategic contributors and defines HR practises according to the different employment modes (contract, core, alliance and traditional) and relationships (transactional, relational). Also, an extension of this framework identifies two archetypes based on the relationship of the other workgroups with core employees. With specific reference to pay, the use of the HR architecture is empirically tested to result in pay variation, the use of different pay components depending on the type of employment relationship and suggests the use of different HR configurations for varying employee workgroups. This differentiated design and implementation of the HR bundle can lead to varying employee perceptions and can influence the psychological contract of multiple employee workgroups differently.

2.6. Psychological Contract

This section discusses the significance, constituents, types and parties to the psychological contract along with debates surrounding the new versus old psychological contract and reasons for and outcomes related to a breach in the contract. This body of literature will guide our research in three ways. First, it will shed light on how and why employee and employer expectations are redefined;

second, it will enlighten the role of multiple stakeholders in the process of building and renegotiating the psychological contract and; third, it will identify the reasons for breach in the psychological contract. The psychological contract is important because it recognizes individual positions and hence the perceptions of both parties (employer and employee) in the employment relationship. It allows for factoring in the subjective perceptions of employees related to the contextual factors such as ownership structure, company policies, organisational climate, role of unions, cultural norms, HR practises that shape / influence employee perceptions. The concept of the psychological contract first emerged through the work of Argyris in 1960 and has evolved ever since. More recently, significant contributions in the area were made by Rousseau (1990, 1995), Rousseau and Parks (1993), Herriot and Pemberton (1995), Guest (2004) and Rene & Roe (2007).

2.6.1. The psychological contract: Significance and constituents

The significance of the psychological contract in the literature on HRM and employment relations cannot be denied. Sharpe (2002) states that the mental model of an individual that interprets their experiences, virtually consists of their belief structure regarding what is expected to happen in the organisation and what is expected of them. This gives them a feeling that they have some influence in the organisation which reduces uncertainty and provides security and continuity. Wright and Boswell (2002) posit that employee behaviours and beliefs are embedded in the psychological contract which is rooted in the HR systems of an organisation and studies examining the link between HRM practises and performance largely cite the psychological contact as being of importance in the process (Westwood et al., 2001; Aggarwal and Bhargava, 2009; Suazo et al., 2009; Guest and Conway, 2002). For example, Guest and Conway (2002) took a sample of 1,306 UK Employment Relations Managers which showed that 36% of the managers agreed that the psychological contract helped them in managing relationships with employees. Many more were willing to consider it as being useful in the process of employee relations and some managers even went to the extent of stating that the psychological contract was slightly tilted in favour of the employers. Further, Guest and Conway (2000) and Willems et al., (2003a) found human resource practises and direct participation to have a significant impact on the state of the psychological contract (fairness, trust and delivery of the deal).

Further, there exists no universal definition for the psychological contract (Anderson Schalk, 1998) because it goes beyond the legal realm (employment contract) to enter the perceptual domain (subjective and normative elements) associated with people management (Arnold, 1996), to identify the implicit components of the contract. The implicit component is based on employee perceptions of employers and vice versa, which emanate from their past experiences, those shared by their friends or colleagues and the expectations they build while in employment. In our knowledge there exists no comprehensive list of elements constituting the implicit component of the contract. However, a compilation of elements from various studies show job design, work roles, work conditions and practises, employee effort and commitment, previous experiences, personal disposition and wage effort relation to be some of the constituents. Thus, it can be said that everything which forms part of the employment relationship but is not covered under the formal legal contract of employment forms the implicit component of the psychological contract. This will then include employee expectations of involvement in organisational decisions, especially those affecting them directly (like changes in the pay systems or performance appraisal), expectations associated with the amount of investment employers are willing to make in their training and development and those relating to the extent and manner in which the information is communicated to them. On the part of management the implicit component may comprise of expectations for greater employee effort and commitment in achieving organisational objectives, their willingness to adjust with changing work designs and work roles and the readiness of employees to adhere to workplace norms and values. According to Sharpe (2002) employer expectations now include empowering managers to perform multiple functions in a job which requires acquisition of diverse skills. Further, it is expected that the employees possess knowledge about the company's products and services in addition to problem solving and analytical and communication skills.

A slightly different view is that presented by Guest (2004) in a paper based on an analysis of different studies that have adopted the psychological contract to investigate different aspects of the employment relations. The psychological contract is defined by the author as primarily having a greater focus on the explicit components of the employment relationship at the individual level between the employer and the employee. This relationship is subject to modification over time and is influenced by various contextual factors. Even so, the significance of the implicit component cannot be denied as roles and responsibilities stipulated explicitly in the contract are fulfilled alongside the implicit understanding existing in the mind of both parties.

2.6.2. Definition and types of psychological contract

Rousseau & Tijoriwala (1998) define the contract as an individual's belief in mutual obligations between that person and another party such as an employer; Willem et al., (2004) and Van den Brande (2002) refer to these promises as expectations. More recently Rousseau (2005) explains that the psychological contract does not exist on two ends rather it is an intra-individual perception of the reciprocal obligations of the employer and employee as they exist in the employee's perception. Previously, Guzzo et al. (1994) stated that the employer only provides the context in which the psychological contract exists but is not a party to the contract. Viewed strictly in light of Rousseau's definitions and explanation one would tend to assume that the psychological contract is simply based on employee perceptions, but if this were the case then the role of the employer would be non-existent in the relationship. However, seeing that once employees enter an organisation their roles, responsibilities and obligations are defined by the employer, it is difficult to believe that this is simply a one way contract.

Multiple typologies of the psychological contract emerge in literature based on the level of investment the employer is willing to make (Tsui et al., 1997; 1995)[4], the duration of the contract (Parks et al., 1998; Rousseau, 1995; Rousseau and Parks, 1993) and the sector (public / private) which forms the context (Janssens et al., 2002; Guest & Conway, 2000; Willems et al., 2004). Each of these typologies is important to review because of the understanding needed to interpret and analyze employee responses to changes in the HR practises within this research.

[4] They identified four types of psychological contracts – quasi-spot, over-investment, mutual investment and under investment.

Using the first classification as the basis for their analysis, in the context of pay, Heneman et al., (2000) state that the quasi-spot contracts appear where the employer gives short-term rewards for specific employee contributions for which piece-rate and sales commission are appropriate. In a mutual contract, both the parties have broad, unspecified and open contributions / inducements. For this purpose skill-based pay, stocks and long-term benefits are appropriate. Under-investment contract is defined as an unbalanced relationship between the employer and employee where the latter has open-ended obligations but the employer offers short-term rewards, for example to the sales force and the reverse is true for over-investment contracts. In this case the employee performs specific tasks while the employer provides broad ranging rewards like training and career growth. Tsui et al. (1997) conducted a study using the survey method which targeted both employees and supervisors in ten companies in five industries; the sample consisted of 976 employees who occupied 85 different jobs. Their results found that mutual investment resulted in the highest level of performance while under-investment resulted in the worst results. Also perceptions of commitment, trust and fairness were highest for overinvestment and mutual investment and long-term rewards were considered beneficial where employers wanted to shift from quasi-spot to mutual investment contracts.

Another typology used - relational / transactional – is important in this context because it influences the employment relationship based on which an employee may associate greater importance with one HR practise rather than another. For example, long-term (relational) contracts would appeal to employees if they had features like company-specific skills, long-term career development and extensive training, while short-term (transactional) contracts would meet employee expectations if the focus was on financial relationships rather than emotional commitment. Further, Rousseau (2001) makes the distinction between standard contracts (those which apply across the board to all employees), positional contracts (those offering specific features for a select group) and idiosyncratic contracts (based on deals with individuals at the point of entry).

In the following paragraph we review the public sector contracts because four of our case-study banks are or were at some point part of the public sector. Key studies conducted in the area are by Janssens et al. (2003) and Guest & Conway (2000).

Willems et al. (2003b) in their paper based on a comparison of the evidence from several empirical studies on private and public sector psychological contracts attempted to assess whether the nature of the psychological contract in the public sector was different from that in the private sector, whether the public sector employees held different expectations compared to private sector employees and whether they experience a psychological contract breach more often than private sector workers? Findings indicate that there is significant variation in contracts within the public sector which makes it difficult to ascertain whether a public sector contract actually exists but the presence of certain patterns and characteristics unique to the public sector were observed. Earlier, Coyle-Shapiro and Kessler (2003) found that the implicit contents of the contract such as interesting work, job conditions and practises and involvement in decision making differed in their extent and execution in the public and private organisations. Hence, they impact employees in different ways, giving rise to psychological contracts with different features.

Janssens et al. (2003) studied a population of all Belgian employees working in private, public, profit and non-profit organizations with at least 10 employees to present six different psychological contracts (strong, loyal, unattached, instrumental, investing and weak) which were applicable to different work groups in the public and private sector organisations. The study was based on a sample of 1106 employees of which 36 percent were from the public sector, education and public utilities, 23.2 percent were from the manufacturing, 7.5 percent were from the construction industry, 10.7 percent were from the retail, hotel and catering sectors, and 22.6 percent were from other commercial service sectors. The data were collected using a standardized questionnaire for which 60 interviewers were used and it was analysed using the cluster method.

The findings showed that the strong psychological contract is associated with older, middle management, high salaried civil servants whose expectations are immense but they felt obligated to do more. However, it was identified that the expectations were only indirectly linked with the sector and were more a consequence of the number of HR practises. The loyal contract is also mostly associated with civil servants and in return for high expectations from the employer, employees (blue-collar, poorly educated or civil servants with few external employment opportunities) return loyalty to the employer. The remaining four contracts mostly apply to the private sector. The unattached contract relates more to the commercial sector, white collar, highly paid executives who have low expectations of long-term involvement and are slightly loyal to the employer. The instrumental contract relates to the employees in the industrial sector who have high expectations from the employer but don't feel obligated to the same extent. The profile of employees in the weak contract is not clearly defined but investing contracts are associated with highly educated executives in small companies. Janssens et al. (2003) conclude that private sector employees are more likely to build unattached or instrumental contracts whereas public sector employees are more likely to build strong or loyal contracts. The public sector employees perceive that promises by management include long-term involvement, job security, fair and quality treatment and sharing of information about changes affecting employees. These findings conform to those made by Guest and Conway (2000) who identified a gap in the level of involvement and consultation on changes in the HR bundles, between employees in the public and private sector. They identified a lack of a public sector ethos, tighter performance requirements and the lack of customized promises for different workgroups as reasons for the lack of employee trust in senior management in the public sector.

2.6.3. Expectations of parties to the contract and the debate on old versus new contract

Employer beliefs of their obligations in a psychological contract are based on the management philosophy and business policies which largely relate to the human resources as well as labour market conditions that are subject to change (Truong and Quang, 2007). However, analyzing the psychological contract from an employee's perspective is more complex because it looks at multiple dimensions: how employees think, what they value and what motivates them (Aichinger and Barnes, 2010). Research indicates that attitudes or perceptions towards HR practises can be affected by an employee's stage in their career but most evidence is based on studies carried out on the sales force. However, based on a sample of 288 employee attitude surveys in three Irish financial service companies in a variety of positions including managerial/supervisory, clerical, and administrative, Conway (2004) examined whether the relationship between attitudes toward HR practices and commitment was moderated by career stage. The research was conducted in 1999 during a period of unprecedented economic growth in Ireland which led to record employment levels and in which the Irish financial services industry also experienced exponential growth. The findings highlighted that job security was important for mid-tenure employees and unlike previous research it revealed that expectations for rewards did not decrease in later career stages. Also quicker promotions in early stages were likely to increase the feelings of obligations towards the employer (Sharpe 2002, p.19) and high fliers were identified to have a greater need for career advancement (Carlson & Rotando, 2001; ibid, 2002). In the case of employee involvement it was found that employees in early and late career stages were excited about this and it induced obligation towards the employer. Training was found to be important in the early career stages when the emphasis is on learning and exploration and mature employees were thought to be more receptive to intrinsic rewards through promotion (Lincoln and Kalleberg, 1990) compared with employees in early careers who perceived that challenge, decision making authority and job involvement were important (Cron and Slocum, 1986). Al-Waqfi (2003) state that what the employees expect from the relationship with their employers will impact their perceptions and consequently their actions.

Studies in the area highlight the demographic dimensions such as age (Arthur and Kram, 1989; Smithson and Lewis, 2000; Baruch, 2004), length of service in the organisation (Meyer & Allen, 1984) and education (Netz and Raviv, 2004) as determinants in the framing of employee perceptions. More recently Bellou (2009) studied the content of the psychological contract with gender, age and education as the key variables. Their findings reveal that employees with more education generally have higher expectations from the employers because they are confident of what they have to offer but may overestimate their contribution (Netz and Raviv, 2004). Also, based on Baruch's categorization, they suggest that employees who have experienced the previous contract become more demanding and expect greater advancement and development opportunities, participation, job security, support and commitment. Further, Pettigrew et al., 1997) in their longitudinal study on the British Film Institute found that the new generation (younger employees) appeared to accept the new contract because they had limited options for employment elsewhere. The older generation which was mostly in the managerial ranks was indifferent in general because they had either accepted reality, were waiting to retire or were intimidated by the new environment. These findings are based on data collected in 1994 by questionnaires, diary and interviews from a panel of 500 creative production workers in UK television, which investigated the effect on individuals and their careers, of the structural, organisational and technological changes of recent years.

Literature indicates that the psychological contract remains under constant tension as it has to create a balance between employee demands for flexible work arrangements and employer concerns for cost reduction in the backdrop of changing organisational environments. Guest (2004), posit that the shift from unionized organisations to a smaller workforce that which expects equitable treatment based on their contribution to the organisation and flexibility and the changing nature of the workforce (different work groups, contracted, sub-contracted, core /strategic workers) (Millward & Brewerton, 2001) leads to changes in the framework of the psychological contract. Some other reasons include the pace and magnitude of change (technological and gender mix) , the focus on seeking commitment from employees who are high contributors, economic pressures resulting in outsourcing and contracting and changes in the management style and culture (Anderson and Schalk, 1998; Sharpe, 2002).

This conjecture is based on an analysis of the changes which took place in the 1980's and 1990's and resulted in the reshaping of the psychological contract. Sparrow (1997) compiled a table (see appendix A) illustrating the characteristics of the old and the new psychological contract based on studies by numerous researchers (Morrison and Robinson (1997), Rajan (1997), Herriot and Pemberton (1997) and Sparrow (1997). Research conducted in the U.K. offers reasonable evidence that due to the dynamic changes taking place in the human capital architecture (Lepak & Snell, 1999) and forms of employment (Rubery et al., 2004; Cooke et al., 2004) which are driven by changing work environments and global competitive pressures, the nature of the contract has seen a shift from relational (old) to transactional (new). Many of the traditional career-oriented employers – IBM, Hewlett Packard and Ciba Geigy – are increasingly hiring managerial and professional talent and making continued employment explicitly contingent on the fit between people's competencies and business needs. This trend reaches its logical conclusion in Jack Welch (CEO of

General Electric), who contends that GE offers its people a one day contract (Mirvis and Hall, 1994). Also, Sharpe (2002, p.1) states that,

> *'The new emerging contract emphasizes employability which according to many researchers and practitioners compensates for the loss of traditional rewards.'*

Willems et al. (2004) also concur with the transition from the old to the new contract but state that this is largely based on observations made in the private sector organisations. Hence, the issue for researchers is not one of what the new contract is, what it constitutes or what it aims to achieve but perhaps how successful the transition has been. A body of research (Sharpe, 2002; Rajan, 1997) identified that despite calls for changes in the work practises, cultural values remained unchanged in a large part with a mixed baggage of old and new, which resulted in conflicting signals for employees. In our view, psychological contracts are not static in nature rather they are subject to revisions and modifications with changes in employer / employee preferences, objectives and expectations. The complex nature of the psychological contract adds to further complications in defining and measuring it beyond a specific point in time and according to Sharpe (2002) beyond an individual at times.

2.6.4. Fulfilment of the psychological contract

We note that regardless of the diversity found in the content of the contract the process generally remains unchanged; this is explained by Herriot & Pemberton (1997) through a four stage model. In stage one, the organisation and the individual inform each other of their wants and what they have to offer and in stage two both parties negotiate the terms and conditions of the contract. The third and most crucial stage for the contract to maintain its status quo is that of monitoring where the parties to the contract supervise each other's performance to ensure the responsibilities and obligations are being fulfilled. If there seems to be no deviation between the expected and the actual the contract continues, conversely the contract enters the fourth and final stage of renegotiation or exit.

In the context of this study, literature on the psychological contract fulfilment helps to assess how employers may / could have factored in employee responses in pay decisions such as pay structures, pay raises and pay administration. A key issue in the debate on employee perceptions regarding contract fulfilment is that of attribution which Robinson and Morrison (2000) and Rousseau (1995) found to have influenced the shaping of employee perceptions and their subsequent responses. Attribution is defined as the process through which individuals explain the causes and reasons of behaviours and events. Extending this debate, Rene and Roe (2007) investigated whether employees respond to all breaches in the psychological contract or only those they consider significant. Unmet employee expectation also contribute towards breach in the psychological contract and Morrison and Robinson (1997) identify reneging, incongruence and vigilance as three causes for this, with the comparison and interpretation processes acting as intermediaries. Reneging results from an inability or unwillingness of the employer or their agent to meet the previously agreed promises either due to changes in circumstances or due to the lack of intention. Incongruence is caused due to divergent employee schemata, complexity and ambiguity of the implicit promises and lapses in completion of the promise and communication issues like realistic job previews, and perceived similarity. Also, employee vigilance in monitoring the lack of employer's performance in meeting the transactional exchange and other options for employment, redress and self-esteem highlights unmet expectations to employees. Turnley and Feldman (1999b) broadly categorize these as intentional and unintentional breaches with the latter being caused either by incongruence or disruption (Turnley et al., 2003) and the former occurring due to the deliberate breaking of promises (reneging) and refusal to fulfil obligations by the organisation (Rousseau, 1995). Employee responses in this case are strongly resentful towards the organisation (ibid, 2003; Robinson and Morrison, 2000). Thus it can be concluded that there is an inherent mechanism within the psychological contract which determines that a breach of consequence has occurred that is significant to warrant a response. The mechanism for determining what constitutes a significant breach is better understood by reflecting on the concept of zones of tolerance and zones of acceptance elaborated in the works of Rene and Roe (2007). They posit that limits are placed on the zones which help in constructing the boundaries remaining within which variations may be tolerable and acceptable or they may be perceived as significant enough to elicit a response. This perception is influenced by an individual's value system as opposed to the employers' obligations under the contract (Schalk and Freese, 1997).

Furthermore, it is also important to examine the action in response to the breach in the psychological contract to determine whether the employees take a corrective action in the form of balancing, revision or desertion in response to all breaches or only to some. According to Rene and Roe (2007) employees exercise the option of balancing by responding to positive deviations with positive behaviours and negative deviations with negative responses. When negative deviations either approach or cross the limits of acceptability, employees will withdraw their commitment to the organisation (Sparrow, 1996; Robinson and Morrison, 1995; Rousseau, 1995). The reverse is true for positive deviations. Revisions in contract which result due to clarifications or re-negotiations of terms of the contract increase the commitment of employees as they build a new association with the organisation. Using the example of changes in pay structure, Flood et al. (2008) conclude that when the contract between the employee and employer is redefined in the case of a change from job based to person based grade structures, the employees change their perceptions of the terms of their exchange agreement and expect more involvement in administration of the new pay structure.

Finally, when deviations exceed the limits of tolerance, commitment starts to decline and employees opt for desertion of the psychological contract. The limits / boundaries of tolerance and acceptance in the psychological contract are carved out on the basis of trust between employers and employees. The stronger the trust, the broader will be the boundaries of the limits placed on the zones of acceptability and tolerance (Rene and Roe 2007). Also if the employer breaches the contract, employees adjust their own attitudes and behaviours by reducing trust in their employers.

2.6.5. The role of justice and fairness in the creation of employee perceptions

Trust, fairness and delivery of the deal influences employee behaviours and attitudes in the development and delivery of the psychological contract. A review of the literature on organisational justice will guide our objective to analyze how these notions affect employee perceptions about changes in the HR bundle, especially decisions regarding pay systems 'which is a superb yet under researched field' (Cox, 2000 p. 371). Fairness is a fundamental aspect that drives the psychological contract of employees and they are likely to continue in an organisation if they perceive the pay policies to be fair (Faulk, 2002). Heneman and Judge (2000) suggest that 'fairness, whether in terms of distributive or procedural justice, is central to pay satisfaction' (p. 93) and Morrison and Robinson (1997) state that 'another important input into the sense-making process following a perceived contract breach is an employee's perception of how fairly he or she was treated' (pp. 244-245). Further, Sharpe (2002, p. 16) referring to research by (Folger, 1993; Greenberg, 1990a) posit that 'organisational justice and fairness are substitutable terms that are used to describe the role of fairness as it relates to the workplace.' Earlier Leventhal et al. (1980) identified consistency, bias suppression, accuracy, correctability, representativeness and ethicality as the six rules for identifying fairness procedures.

Achieving pay equity is central to the attainment of pay satisfaction and in case the pay structure is in contradiction it will negatively affect employee satisfaction and commitment (Allen, 2002). Research on pay satisfaction is grounded mostly in theories of discrepancy (comparison of how much is received versus how much should be received) and equity (explained above). The latter is also applicable when comparisons are conducted (within similar jobs) with referent others (Till and Karren, 2010), both in the internal and external environment. While studies have identified a link between individual and external equity and pay satisfaction (Judge, 1993) they are not clear on which of the two has a greater impact on employees (Till and Karren, 2010). For example, Sweeney and McFarlin (2005) found that external equity matched individual equity in pay satisfaction perceptions while Terpstra and Honoree (2003), in the case of university teachers found individual equity to have a lead over external and then internal equity.

Distributive justice is an integral part of the organisational justice theory (Greenberg, 2003) and each pay structure/rate has to be perceived as fair, for it to lead to higher job and pay satisfaction (Tremblay et al., 2000; Folger and Konovsky, 1989) and commitment in the psychological contract. Distributive justice is defined as 'perceived fairness of the amount of compensation that employees receive' (ibid 1989 p.115; Colquitt et al., 2001). In the case of PRP, employees whose expectations of appraisals are either met or exceeded are likely to accept that pay is tied to performance and the reverse is true when appraisal ratings fall below the expected (Ratner, 2009). For example, in job pay structures when pay is adequately distributed based on criteria like seniority, length of service, merit and/or contribution, the employee's perceptions of distributive justice would be based on fairness and they will be obligated to perform their part of the psychological contract (Ismail et al., 2009).

Procedural justice is defined by Colquitt et al. (2001) as the perceived fairness in the processes used to determine fair pay. It is used for making consistent and unbiased decisions based on rules and procedures (Colquitt and Greenberg, 2003) and is identified as a source of pay satisfaction (Folger and Konovsky, 1989; Tremblay et al., 2000) directly linked with benefits. Also, according to (Greenberg, 2003) if the pay structure is based on existing rules and follows all procedures during planning and implementation, it will affect the employee's feelings about procedural justice positively. Consequently, it may lead to higher positive attitudinal and behavioural outcomes. The third kind of justice – interactional – focuses on the interpersonal contact and is defined as the perceived fairness of how decisions are implemented by the employer. Sharpe (2002, p.1) state that 'perceptions of fairness, through involvement and effective communication provide an opportunity for employees to accept and adapt to changes in the psychological contract,' and that interactional justice positively influences employee acceptance and adjustment of complex changes in organisations as it reduces insecurity and uncertainty. Colquitt et al. (2001) introduce the notion of informational justice that emphasizes on employee rights to have an explanation or justification for the treatment they receive; this appears to moderate the relationship with job satisfaction of which pay satisfaction is a significant component. A greater role for interactional justice is envisioned in achieving pay level satisfaction in PRP where pay disparity occurs due to differences in performance, upward adjustments for employees with counter offers and balancing for external equity, (Till and Karren, 2010).

To summarize, the psychological contract is bounded by controversies related to its clear definition due to its implicit nature, the parties involved in the contract and the complexities resulting from the multiple typologies based on varying criteria – duration, employer investment and sector. Despite this, research points to the significance of the psychological contract as a mechanism for linking HRM with employee expectations and attitudes and performance at the individual and organisational level. The review indicates that employee and employer expectations keep shifting due to external and internal changes and in the case of employees, based on career ladder (fresh, mid-career and old), education level and tenure with the organisation as well. Shifts in expectations result in unmet employee expectations and create a breach in the implicit agreement which may be intentional or unintentional. This tends to influence employee perceptions of different HR practises and the employer which are underpinned in notions of justice (distributional, procedural and interactive) based on principles of trust, fairness and delivery of the deal.

2.7. Theoretical framework

The main purpose of this chapter was to recast the literature on compensation, HR architecture, strategic alignment of HR, psychological contract and notions of justice in a systematic and logical manner to bridge the micro-macro gap in HRM research (Wright and Boswell, 2002). This aided us in developing a multi-level comprehensive framework for investigating the drivers for and changes in pay structures and systems and the broader HR bundle designed and implemented differently across a segmented workforce. Also of significance for this study are the perceptions of employees related to the changes and the implications of the differentiated implementation for the employee psychological contract (see figure 2.2).

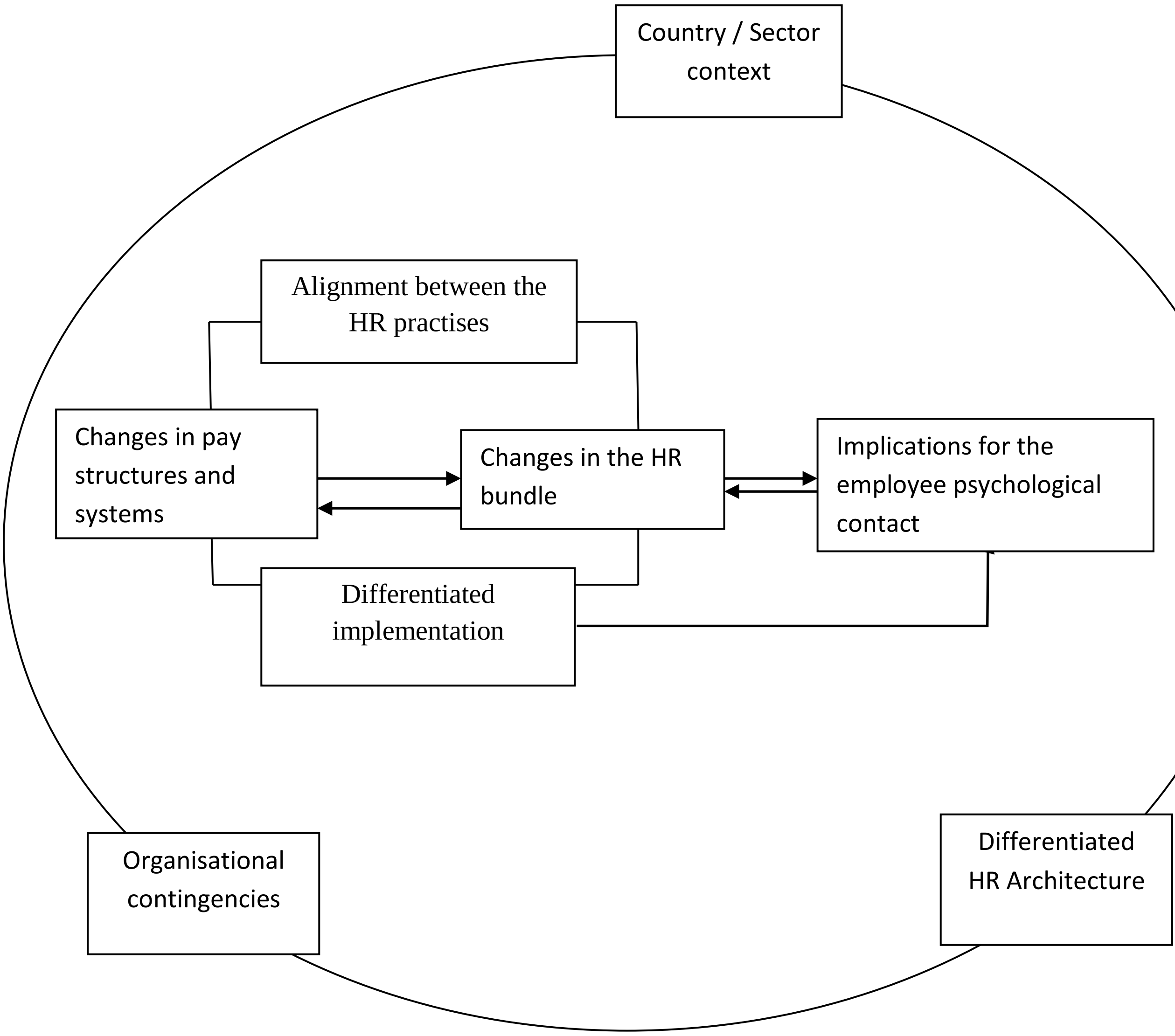
We define the use and operationalise each of the terms in the theoretical framework separately to provide definitional clarity. The drivers for change are those factors (internal and external) to the case-study organisations that created the need and provided the impetus for the changes in the HR bundles. The use of the term pay structures refers to the design elements (type, pay grades / bands, pay ranges / band width overlap / differential) and the components which form the pay structure like base pay, increments, cash awards, allowances, bonuses, spot awards and adjustments. The use of the term pay systems relates to the criteria on which an employee’s pay progress is dependent. Broadly, the criteria signify a paradigmatic shift from seniority to performance based pay systems in the case-study banks with thin evidence of pay progress through skill / competency / qualification enhancement.

Henceforth, the term seniority based pay systems refers to those systems of pay progress which wrest upon an individual's length of service within the organisation which is considered to be synonymous to experience as well, in this context. Additionally, PRP systems here embody the design and implementation of pay systems which increase and reward employee performance in conjunction with any / all / none of the following: unit performance, division performance and organisational performance.

Within this research, the concept of the broader HR bundle can be described as the constitution of a number of HR practises which have distinct links between them and are either changed or influence changes in other HR practises bundled together, in an attempt to maximize the organisational gains. The HR bundle examined in this research includes apart from the pay practise (pay structures and systems), the practises of recruitment and selection, training and development, career management and employee involvement and participation. Further, the terminology psychological contract which has been defined in innumerable ways in extant literature is operationalised in this research to represent the explicit and implicit expectations and promises of the employers and employees. We align with the definition that the psychological contract exists in the minds of both the parties to the contract and that change in the expectations and obligations in the parties tends to result in broken promises which constitute a breach in the psychological contract.

Moreover, highlighted in the theoretical framework is the role of the country / sector specific factors, organisational contingencies and the differentiated workforce in the design and implementation of the new HR bundles. The country and sector (banking) specific factors are examined to study their influence on the changes in the pay structures and systems and the broader HR bundles as the latter are a sub-system of a larger system which is comprised of the economic, social, political and cultural environment of a country. Hence, changes in the economic factors like inflation, GDP and ease of establishing business or cultural factors like corruption and nepotism can and do influence the design and implementation of HR practises. Similarly, sector related factors which in this research include privatization, deregulation, a shift to performance oriented HR practises, employee mobility and a change in the workforce composition are examined as they can also and do influence the design and implementation of the HR bundles.

Fig 2.2 Theoretical Framework



The change in the workforce composition highlighted in the framework is denoted by the term HR architecture which is defined in extant literature as the segmentation of the workforce based on the dimensions of uniqueness and strategic value. Following the same definition, we study the emerging HR architecture because of the influence it can have on the changes in and the design and implementation of the new HR practises because of the new set of expectations of the new employee workgroups.

To meet these new expectations, the changes in the HR bundle were implemented differently across the employee workgroups and this differentiated implementation influenced employee perceptions that led to perceived breaches in the employee psychological contract. The last of the factors which is related to this study because of the influence it can have in decisions of pay and the HR bundle is organisational contingencies. The literature studied includes organisational size, rules, customs, structure, culture and strategy in the list of contingencies. In addition to these, the use of the term organisational contingencies in this research denotes the influence of unions, ownership structures (public, private and privatized) and employee resistance.

2.8. Conclusion

The economic, social and political drivers and major sector level changes like privatization and deregulation were studied to investigate the research question that aimed to identify the drivers which led to changes in the pay structures and systems and the broader HR bundle. The economic drivers include changes resulting from competition for resources and the need for establishing legitimacy where organisations suffer from poor performance but risks associated with changes in the pay level and implementation of the new pay structures and systems are seen to result in resistance. Mimetic and normative isomorphic pressures appear as a lining to the socially driven motives for the adoption of the new pay structures and systems because they influence the extent of adoption of the new HR practises across the case-study banks. Additionally, as a consequence of the changes in the workforce composition a new HR architecture emerged which shifted the power / bargaining structure of the groups. This and the role of trade unions represent the political drivers. In conjunction, the literature on the objectives of pay structures and systems which largely remains unchanged despite the developments in pay trends was examined to identify the objectives management may have sought to achieve from the changes introduced in the pay practises in the case-study banks.

An examination of this literature revealed that organisations continue to strive to achieve traditional pay objectives like recruitment and retention, motivation and re-shaping of organisational culture from changes in pay practises. This last objective is focused on the renegotiation of the effort-performance link which is required for shifting to performance based pay systems. The function of pay as a motivator is widely contested in literature, especially the literature related to PRP but it is as yet not completely negated. Further, the multiplicity of pay functions renders it subject to internal conflicts and contradictions, the latter not being the focus of most studies conducted on pay.

To address the questions related to the link between pay and the broader HR bundle and the differentiated design and implementation of the new HR practises across multiple employee groups, the literature on the strategic alignment of HR practises and the HR architecture was studied. Its examination revealed that the selection of pay structures and systems is governed by the organisation's overall approach towards HRM (best practise or best-fit), the adoption of multiple or uniform pay systems and the role of employees in the process of change. Other factors which appear to impact upon this choice include organisational culture, business strategy, type of employees and pay design factors like performance measures, payout formula, amount of payout, type and frequency of payout and leverage. Also organisations that seek to emphasize seniority as the basis for pay progression as opposed to performance, contribution and skills adopt traditional pay structures (graded) rather than modern broadband pay structures. Between the private and the public sector, which has different goals and is governed by a different set of rules and regulations, differential in pay is seen to present problems for recruiting and retaining employees and for slowing down the reforms process.

Further, this review highlighted that changes in pay and other HR practises are analyzed in context of their vertical integration with the business strategy and the horizontal integration within and between HR practises to achieve strategic alignment. This is significant for our research as it attempts to study the link between pay and the broader HR bundle and the differentiated design and implementation of the new HR practises. This is important with reference to the implications that the differentiated implementation can have on the outcomes of these changes which include organisational performance and employee attitudes / behaviours. The integrated systems approach to the analysis of HR practises (Pfeffer, 1994: Mac Duffie, 1995) is advocated in extant literature but this suffers from a disagreement with respect to the bundle of HR practises to evaluate, an ambiguity in the definitions used for each practise across studies and the level of consistency required to be achieved.

Studies grounded in the framework of the HR architecture which distinguishes groups within an organisation based on their perceived strategic value have thus far focused on knowledge, temporary and mature workers. The purpose of studying this literature was to uncover the implications of the differentiated design and implementation of the HR practises across different employee groups. Each group / mode of employment is linked with an employment relationship which is either transactional or relational in association and determines the nature of the different HR practises implemented. Marchington and Grugulis (2000) and Aggarwal (2009) recommend a wider approach to the study of HR practises, one that focuses on the HR architecture of the organisation and the resultant employee perceptions which give voice to the views of employees (ibid, 2000; Cox, 2000).

Lastly, the logic behind reviewing the literature on the psychological contract was to establish a better understanding of the influence of the social, political, economic and technological changes on the development of employee expectations, the role of expectations in creating a perceived breach in the psychological contract and the consequences of the breach in psychological contract. This literature guided our attempt to study the implications of changes in the employee expectations, pay structures and systems and the broader HR bundle on the psychological contract of multiple employee workgroups forming the HR architecture of the case-study banks. Further, this literature guided our study of the implicit nature of the psychological contract that leads to conflicts and contradictions between the parties involved based on differences in their beliefs, attitudes and behaviours; this increases the complexity of managing the employment relationship at an organisational level. The expectations of parties to the contract – employer and employee – change over a period of time and may vary according to the employee's career stage, age and length of service for example. These expectations are the obligations / promises each party owes and owns over the other; unmet expectations whether intended or unintended lead to a breach in the psychological contract. The unmet expectations are the result of reneging (parties are unwilling, unable to fulfil promise) and incongruence (due to unrealistic job purview, complex and implicit promises and communication and delay in the fulfilment of promises). The typologies of the psychological contract discussed in the context of pay and the public sector provide insights into the concepts of over, under and mutual investment in the employees which shape employee perceptions of justice and fairness (identified as substitutable terms in research). Notions of justice have been unpacked by research into distributive, procedural, interactional and informational justice but their influence on pay decisions is under-researched thus far (Cox, 2000), a gap we addressed through our analysis of the lack of EIP and its implications for the ensuing employee perceptions. While all four types of justice impact perceptions of changes in pay structures and systems, procedural, informational and interactional justice are considered to have a stronger link relative to procedural justice.

Chapter 3: Context of the study

'Banking sector of Pakistan has been transformed within a short period of 5 years (CY2000-05) from a sluggish and government-dominated sector to a much more agile, competitive and profitable industry. Speed and sequencing of banking sector transformation and its role in promoting economic growth is now a leading story of a sector success. Within Pakistan it offers a story of what effective leadership of regulator and change management and corporate governance can achieve and offer. Outside Pakistan it is serving to offer rich lessons in what difference governance of regulator can make and how bank restructuring and privatization can change the landscape of the industry. The banking industry in Pakistan will continue to enjoy these trends and has promising prospects.' (Nawab et al., 2010)

3.0. Introduction

This chapter sets the context of the study which is positioned in the banking sector of Pakistan. No significant academic research has been conducted in the particular area of compensation practises in Pakistan and according to Budhwar (2000) this is especially the case in most developing countries considering the sensitive nature of this topic. However to contextualize this study, the chapter discusses the country profile and identifies some social, cultural and economic factors which created the environment for change. Further, the little available literature in the area of HRM strategies, policies and practises in Pakistan is reviewed in this chapter along with the history, reforms and outcomes of the reforms in the banking sector.

Highlighting the importance of bridging the gap in literature on HRM in South Asia Khilji (2012), states that the emphasis needs to be placed on adapting existing theories to emerging economies in diverse nations rather than just focusing on the context of developed countries, alone. The unexplored phenomena in these rich paradoxical societies where high-performing firms operate alongside the socially driven bureaucratic organisations provide ample reasons for this re-oriented focus. Further the re-conceptualization of work values in the younger generation which has resulted in declined loyalty towards organisations and greater expectations of employers (see also Khilji et al., 2010) has increased the employer's tension to attract and retain the most qualified employees which provides a fertile context for our research. The growing economic power of such nations also makes studies in their context more relevant (Birkinshaw et al., 2011). Hence, in our research we also emphasize on examining why socially driven bureaucratic public sector enterprises are compelled to bring changes in their HR bundles and the implications of these changes in context of a new set of employer-employee expectations which redefines the previous employee psychological contract.

3.1. Country profile of Pakistan

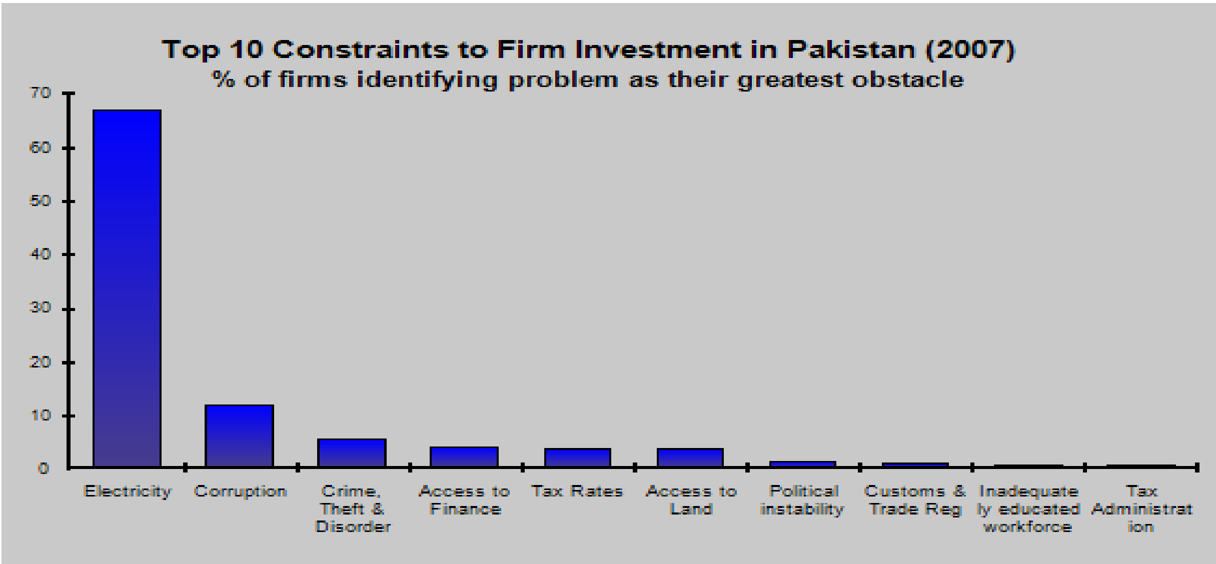
Pakistan is spread over an area of 796 km^2; it has a population of approximately 180 million[5] with a median age of 21 years and 61% of its population lives below the income of $2 per day[6]. The average life expectancy is 65 years of age and the retirement age in at least the public sector organisations is 63. Pakistan is a member of the countries comprising the emerging economies of the world which are stated to have the potential for providing higher returns on lower prices to investors relative to the developed economies[7]. Some other key business and financial indices highlighted in Khilji (2012) include: Pakistan's rank as number one in value for money for developers and number two in customer satisfaction, it is ranked in the top 20 countries of global off-shoring list and it registered a growth rate of 81 percent between 2007 and 2009. The recently introduced Global Innovation Efficiency Index by INSEAD places Pakistan at number four in terms of innovation efficiency[8] and Goldman Sach's list of Next Eleven (N-11) countries declares Pakistan as a high potential state for becoming the world's largest economies in the 21st century. Further, according to a New York based brokerage firm (Auerbach Grayson) Pakistan is comparatively less expensive than China and will continue to grow faster than developed economies (2008). Pakistan's major exporting partners are USA (18%), UAE (10.4%), Afghanistan (8.4%), China (5.2%) and UK (4.7%) and the commodities exported include textiles, rice, leather goods, sports goods and chemicals. The major importing partners are China (16.2%), Saudi Arabia (10.9%),

[5] International Monetary Fund (IMF) - World Economic Outlook October 2010
[6] World Bank - World Development Indicators 2011
[7] Gordon Platt (22 Feb 2008). Emerging Markets: Frontier markets draw value hunters. Global Finance Magazine.
[8] Telenor Pakistan's easy paisa service to make financial transactions via mobile devices and manufacturing of gas fans to shed electricity loads are examples.

UAE (10.1%) and USA (5.7%) and the commodities imported include petroleum, petroleum products, machinery, plastics and transportation equipment[9].

Despite this potential for growth and development Pakistan ranks 98 out of 185 countries on the list of countries favourable for starting a business according to a report[10] by the World Bank. A higher ranking indicates that the government has created an environment which is more conducive to starting a business in that particular country. Compared to economies like India and China, the rank of Pakistan is quite low with major investing companies / parties pulling out investment from Pakistan which the report attributes to a number of reasons that include political unrest, the law and order situation, frequent strikes by professionals like lawyers and doctors, high tariff rates of utilities (electricity) and corruption (see figure 3.1).

Figure 3.1: Constraints to firm investment in Pakistan



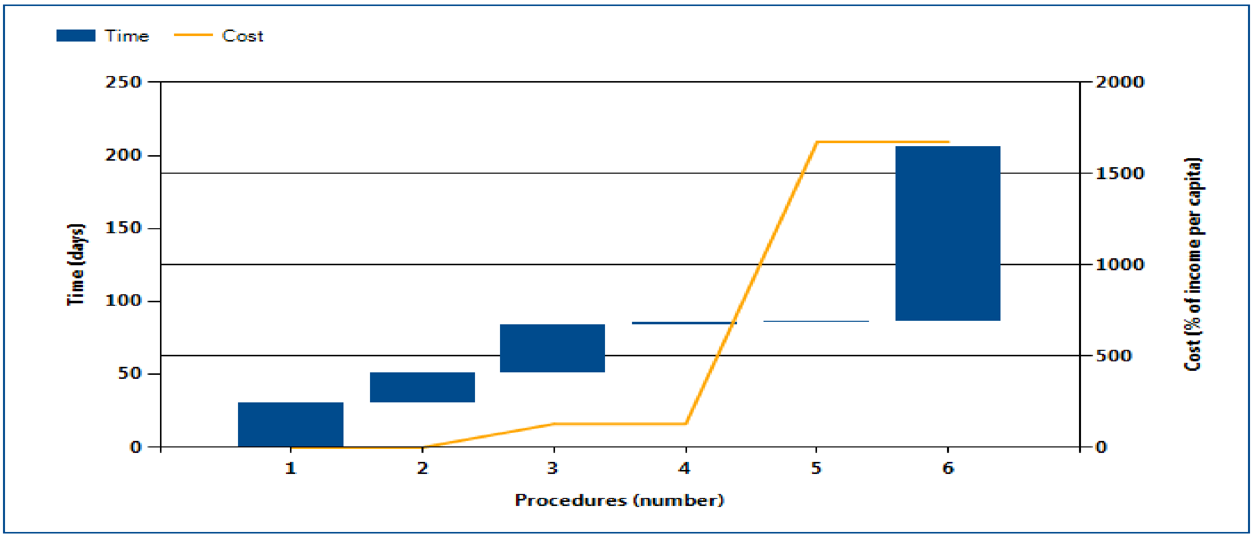
Source: Enterprise Surveys

Additionally, economies around the world encourage entrepreneurs to open up their businesses and companies to make investments in their country by making procedures simpler and by reducing the minimum capital requirements. However, the government of Pakistan has failed to introduce any reforms / improvements to ease the process for establishing a business since the year 2008 till date. The only

[9] CIA World Fact book.
[10] Doing Business Co publication of World Bank and International Finance Corporation

exception to this is the year 2010 when an e-service registration system was introduced to register companies. Further the issue of power outages of around 12 to 16 hours a day in the industrial and commercial areas since 2008 and onwards also made the starting of businesses difficult in Pakistan. Most firms hence rely on self-supply which is extremely costly. This is further exemplified through figure 3.2 which illustrates that the costs incurred to obtain an electricity connection in Pakistan increased manifold by 2010.

Figure 3.2: Costs incurred to obtain an electricity connection in Pakistan



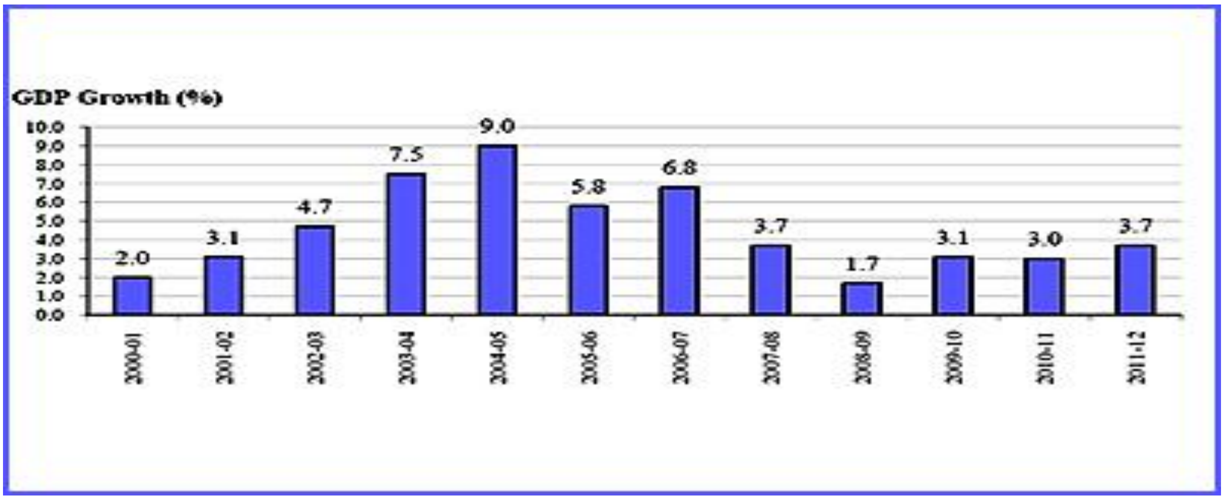
Source: Doing Business database 2010

The economic situation in Pakistan in November 2010 (at the time of data collection) also highlights a less than favourable situation for investing or starting up businesses in Pakistan. The foreign reserves stood at US $ 17.256 billion, a record high since October 2007 but due to the soaring oil import bill and rising inflation which touched the 25% mark they dropped to US $ 6.6 billion within a year, in real terms. In November that year Pakistan re-entered the IMF loan agreement worth US $ 7.6 billion to sustain its expenditures. As a consequence, IMF pressurized the government to further hike the electricity tariff which resulted in manufacturers increasing the commodity prices because of which the inflation kept staggering. The economy continued to deteriorate sharply in the coming years as inflation consistently surged and the current account deficits increased[11]. The figures for inflation (in

[11] World Bank Report 2010.

percentage) from 2009 to 2012 were 20.3, 14.6, 15.4 and 13.7[12]. The on-going and deteriorating political and security situation due to the War on Terror in neighbouring Afghanistan and the global financial crisis also contributed to the downward trend in the economy. The gross domestic product (GDP) was US $ 233.476 billion in 2011 in which the agriculture sector contributed 21.6%, the industrial sector 25.3% and the services sector 53.1%[13]. The major contribution to the services sector figure came from growth in the following sub sectors - social and community services (6.77 percent), finance and insurance (6.53 percent), wholesale and retail trade (3.58 percent) and transport, storage and communication (1.25 percent).[14] The real GDP growth rate of Pakistan for the year 2011-2012 was 3.7 percent as compared to a 3 percent increase in the previous fiscal year. The figure below shows the growth rates from the year 2000 to 2012. The economy grew by 9 percent in the fiscal year 2005 which was by far the most successful year. It unfortunately dropped to a mere 1.7 percent in the year 2008-2009 when the world economy was shaken devastatingly by the great recession. The finance minister of Pakistan Abdul Hafeez Shaikh is reported to have said that the growth rate for a country like Pakistan should at least be five to six percent, a number that has become quite utopian after the year 2007.

Figure 3.3: GDP growth rate of Pakistan from 2000-2012



Source: Economic Survey of Pakistan

12 International Monetary Fund (IMF) - World Economic Outlook April 2012
13 IMF World Economic Outlook 2012 and the CIA World Fact book.
14 Data from Economic Survey of Pakistan 2011-2012

Further, inflation stood at 15.4 percent in the fiscal year 2011-2012 as compared to 14.6 percent in the preceding period. Through tighter monetary policy, improved supply management and regular monitoring of prices the inflation was contained somewhat during this period as compared to the previous years. A summary of the inflation rates from 2000 onwards is illustrated in figure 3.4.

Figure 3.4: Inflation rates as measured by changes in the consumer price indices

2000	5.2	**2006**	**7.9**
2001	4	**2007**	7.6
2002	3.9	**2008**	13.6
2003	4.8	**2009**	20.3
2004	5.5	**2010**	14.6
2005	9.1	**2011**	15.4

Source:* *www.indexmundi.com

3.1.1. The menace of corruption in society

In this section we discuss the issue of corruption in Pakistan's society which in the corporate sector resulted in marginalization of merit in hiring, promoting and rewarding employees. The new performance based HR practises and the shift towards a performance culture in the banking sector was expected to gradually reduce corrupt employment practises and to manage a shift towards reliance on merit and adherence to organisational policies in people management issues. The most prevalent disease that plagues Pakistan and has rotten its moral and social fabric is corruption. In 2012, Pakistan was ranked as the 34th most corrupt nation in the world[15] and Transparency International placed it alongside India, Bangladesh and Sri Lanka in the red zone index of the most corrupt nations in 2010. A report by the World Bank (Doing business 2013) also identifies corruption as the second greatest hurdle to doing

[15] http://en.wikipedia.org/wiki/Corruption_in_Pakistan

business in the country and according to the Global Integrity Report of 2010 the rating of Pakistan continues to remain weak at 68 out of a total of 100 countries. Khilji (2012), states that rampant and wide spread corruption has undermined economic growth and political structures in Pakistan and Amba-Rao et al., 2000) examining changes in the personnel function in India also report that the even the new HR practises were unable to pervade the influence of social factors (including personal relationships and contacts) and politics which is a part of the Indian culture.

Corruption is not a concept novel to Pakistan; administrations such as those of Benazir Bhutto were dismissed many a times on charges of corruption. In 1990, President Ghulam Ishaq Khan dismissed the parliament and the cabinet of Benazir Bhutto and President Farooq Laghari dismissed her government again in January 1997 on the same charges. Corruption is now deeply entrenched at all levels of government (federal, provincial and local) and the extent of it is alarmingly high amongst the masses too. Misuse of power, nepotism, bribery, theft of state assets, evasion of taxes and electoral fraud are all forms of corruption widely spread throughout the country and at all levels. According to the report of Transparency International Pakistan (2010), the most corrupt departments are the power sector, tax and customs, police and law enforcement, judiciary, health and education and land administration. The report cites immense discretionary powers of government servants, low wages and salaries of employees in these departments and a lack of accountability and transparency as reasons that have driven corruption to this high an extent. Also cited as major reasons contributing to corruption are the ill-conceived policies, programs and activities at government and departmental level.

The implications of this corruption are not ephemeral but profound. By-passing the law to expedite processes, use of bribery to get fake degrees and the reliance on nepotism for instance, to seek employment are commonly observed phenomenon in the Pakistani society, public sector organisations and other businesses today. This has led to incapable and incompetent people heading organizations and institutions which negatively impacted the growth, stability and success of initiatives undertaken for reforms at the government and private level. Illiterate teachers and engineers and doctors with fake education degrees employed at high posts have had serious repercussions in the past few years including the loss of valuable lives [16,17.] To secure their positions, these fake degree holders have surrounded themselves with incompetent people who are hired on the references of influential and political personalities by side-lining the organisational hiring policies. Specifically with reference to the public sector banks which have been the most prominent segment of the financial sector since the 1970's (post-nationalization), there occurred deterioration in their loan portfolios because of immense political interference. Amongst the top defaulters are the influential people in Pakistan who misuse power to achieve their ends. Fear of political retribution has forced many honest people to remain silent. Evidence of the extent and type of corruption is visible in the example of the police department which is reflective of the entrenched existence of this plague in other departments and enterprises in the country. In the police force, appointments and promotions are politically motivated and politicians of the area influence the appointment of the DPO's[18] of their choice in their areas. . "*In violation of the rules and the principle of merit, political parties, especially in the 1980s and 1990s, recruited a large number of assistant sub inspectors (ASI) and deputy superintendents of police (DSP), who have by now reached senior ranks and are serving the cause of their benefactors. Similar examples can be quoted from various public sector enterprises which include banks, airlines and telephone companies."*[19] Bribery is exceedingly popular in the police department; officials in lower ranks bribe the clerks of senior officials to get their files moved to the relevant desks in order to get promotions and other benefits. Agencies like the National Accountability Bureau (NAB) which were established to work against, monitor and control corruption have themselves fallen prey to corruption due to the immense political influences exerted on this otherwise autonomous body.

3.1.2. Characteristics of the labour market and changes in the workforce dynamics

The dynamics of the workforce in Pakistan are influenced by multiple factors which according to Khilji (2012) include a poor record of human development (assessed

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[16]www.u4.no/publications/overview-of-corruption-in-pakistan/
[17] http://tribune.com.pk/story/480473/pakistans-corruption-problem/
[18] District Police Officer
[19] http://archives.dawn.com/archives/27398

through literacy rates, uneven income generation and percentage of professionals in the workforce), the duality of values present in the workforce (Khilji, 2004; 2010) and the divide between young and older people in the workforce. The pace of human development around the world was unsatisfactorily low during the 1980s which led to re-evaluation of the existing reforms in the area by the UN General Assembly. All the states comprising the United Nations unanimously adopted a declaration, 'The Millennium Declaration' which had amongst its goals to achieve universal primary education, promote gender equality and ensure women empowerment. However, according to the economic survey of Pakistan (2011-2012) to date, the ratio of literate men is far greater than that of women and overall the literacy rate for the population is 55 percent as compared to 54 percent in the prior year. Punjab is the most literate province (60 percent) followed by Sindh (59 percent), Khyber Pakhtunkhawa (50 percent) and Balochistan 41 percent.

Another one of the important targets set out in the declaration was to "*achieve full and productive employment and decent work for all, including women and young people*".[20] The labour to population ratio has increased over the last decade to 50.4 percent in 2010-2011 from 46.8 percent in 1999-2000, indicating that steps have been taken by the government to some extent to provide employment opportunities to the masses. Yet, labour productivity has been very low in the country over the past decade and people often in need of employment to support their families take on low productivity work which is not aptly compensated. To date, the agriculture sector provides the greatest employment opportunities in the country as 45 percent of the labour force is employed in this sector. The manufacturing sector provides employment to 13.7 percent of the labour force and the share of wholesale and retail trade in the employment is 16.3 percent while 10.8 percent people are employed in the personal service or community service sector. The remaining workforce is employed in the informal sector which is formulated in terms of the size of employment as per statistics provided in the economic survey of 2010-2011. Enterprises that employ less than ten people or the ones that are owned and operated by own-account workers are included in this sector.

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20 www.pbs.gov.pk/sites/default/files/Labour%20Force/publications/Pakistan_Employment_2012.pdf

Related to education, Pakistan ranks 113th amongst 120 countries and the projected literacy rate is expected to reach 60 percent till 2015 (from the existing 55 percent)[21]. According to Khilji (2002) the contextual and economic realities show that the unemployed and less educated labour force is abundant which causes significant economic loss despite a favourable business environment at that time due to deregulation. The Federal Ministry of Education oversees and regulates education up to the intermediate level and the Higher Education Commission of Pakistan (HEC) is responsible for regulating university education in the country. The state of primary and secondary education is highly disappointing and the government run schools are in an appalling state as a majority lack proper infrastructure and buildings while some exist without boundary walls, toilets and playgrounds. In the National Education Policy 2009 it is stated that the poor education system in the country is due to the lack of commitment by the government and poor implementation of policies. Even in this sector corruption is highly prevalent, curricula have not been revised for long, teachers are ill-trained and there is a lack of accountability measures. Consistent pressure from the World Bank and IMF led to reforms in the sector; for example in 2009, the Sindh government claimed to have reopened 1400 schools with appropriate facilities and the Punjab government improved the state of existing public schools. However, lack of follow-up on these reforms and government neglect created a sense of complacency within the people responsible for ensuring progress in the sector which resulted in its continued poor efficiency[22].

Worth mentioning here is the effort and the role of the HEC in enhancing the standard and quality of education at university level. Prime Minister Shaukat Aziz initiated educational reforms in 2002 to provide impetus to the growth and for the first time in Pakistan's history the higher education budget increased 15 fold in two years in an attempt to increase the availability of skilled labour in the market. Pakistan is stated to have undergone the most transformative change (Khilji, 2012) in this area modelled after Malaysia, South Korea and Singapore. These reforms focussed on improving the research and education infrastructure, upgrading the research labs, strengthening the research support and providing lucrative salaries and scholarships for academics to facilitate global faculty exchanges. Approximately 3996 scholarships were awarded

[21] The Business Recorder. 24 Oct 2012

[22] http://www.tcfusa.org/ckfinder/userfiles/files/The-Crisis-of-Education-in-Pakistan_2.pdf

to Pakistanis under different programmes between 2008 and 2012 for higher education (MPhil and PhD) in foreign countries. However, thus far only 1650 scholars who availed these scholarships have returned to Pakistan after completion of their studies[23] while a larger majority remain abroad in pursuit of a better future.

Further, schemes were launched by his government to attract western qualified Pakistani nationals to return and serve in Pakistan because it is assumed that professionals who receive education in western countries bring back with them the knowledge, values and practises learnt from those societies which influence their mindset and perspective (Khilji et al., 2010). This is largely due to the phenomenon of duality of values which is prevalent in the Pakistani society and the nation as a whole (Khiji 2004) which emanates from the influence the British initially and then the Americans at a later stage had on this developing nation. The mindset of Pakistani professionals returning from abroad is clearly evident in their choice of management style and their preference for modern policies and practises. Their inclusion in the workforce after privatization and deregulation of the banking sector influenced both the public and private sectors, in the past two decades, to undertake such modifications in the HR practises (Hussain 2003, Nasir 2000).

In a study conducted by Khilji (2004) which assessed the impact of culture on management and HR practises in Pakistan it was concluded that there was a significant difference in the value system between employees from the old and new generations that create a clear divide in the workforce which makes it important to examine the contextual factors redefining the characteristics of organisations and individuals. The multiple influences on the value systems of individuals and organisations include individual level work related values, traditional values and modern values such as acquired knowledge. The modern values influence the competitive and global environment which influences the organisational level values which also take input from traditional values of the society; this leads to a spiral effect. The study primarily addressed whether a younger group of employees were more influenced by the modern HR practises, what kinds of value systems achieve higher HR satisfaction among employees and whether transformation in the value system of employees reflects adherence to western practises or traditional culture. A

[23] Pakistan Economic Survey 2011-2012

total of six organisations participated in the study out of which three were local and three were multinationals. The data was collected through a mixed method approach involving interviews and questionnaires; the findings were based on 100 interviews and 303 questionnaires administered. The qualitative analysis revealed that the employees perceived western practises to be more effective but most of the sample organisations failed to develop a new culture despite the low satisfaction of employees with the traditional systems. Out of the sample of six only one company had adopted modern management practises and the level of employee satisfaction with HR policies was highest here while the remaining five organisations with traditional management practises had less satisfied employees.

Further, employees below 35 years of age were found to be more comfortable with the modern day practises and to gauge the impact of satisfaction with human resource policies and practises on employee turnover, Khilji & Wang (2007) conducted a study with a sample size of approximately 508 employees in 12 organisations. The purpose of this study was to test whether satisfaction with human resource policies was negatively associated with voluntary turnover intentions and if this was related to the younger employee cohort only. The findings highlighted that 70% of the financial organisations which participated in the study reported that employees who were satisfied with the HR practises showed less intentions to quit. Younger employees (below the age of 42 years) were more likely to be influenced by the HR practises and their decisions to quit depended on their satisfaction with the HR practises (see also Khilji et al., 2010). Organisational performance also factored in the decision to quit because it was found that employees working in high performance organisations were strongly influenced by the level of satisfaction with HR policies as opposed to those employed in low performance organisations.

3.2. Current status of the banking sector in Pakistan

Banks are the back bone of the financial structure of any country because of the important roles they perform in the economy. Firstly, they improve the information problems between investors and borrowers by monitoring the latter and guaranteeing a proper use of the depositor's funds (Khan, 2004). Secondly, they provide smoothing of risk for the time being as well as insurance to depositors against unanticipated consumption shocks. However, banks are subject to the possibility of systemic risk because of the maturity mismatch between their assets and liabilities. Thirdly, banks contribute to the growth of the economy and perform an important role in corporate governance. The relative importance of the different roles played by the banks differs considerably across countries and times but they are always critical to the financial system (Allen and Carletti 2008). Fourthly, the recent economic crisis in the West highlighted the importance of a strong banking system to control the credit and capital crunch which could otherwise arise (Asian Investor Review, 2009).

Today, the banking sector of Pakistan is playing a pivotal role in the growth of the country's economy and according to Wali ur Rehman (2011), the economic development of a country relies not only on the optimal utilization of resources but also on the intelligent restoration of these resources. The banking sector plays a pivotal role in the developmental activities by offering financial resources to the public and private sector for achieving the developmental goals. For this reason and the inefficiency of the previously prevailing policies, new reforms were introduced in a number of different areas. These included privatization of public financial institutions, eliminating restrictions to entry into banking, introducing measures inciting competition in financial markets, lessening of the legal reserve requirements, removal of directed lending, strengthening of prudential regulations and liberalization of the interest rate.

After the financial reforms the banking sector in Pakistan observed positive financial results which led to a significant increase in the economic growth of the country. Before the 1990's public sector banks dominated the financial sector which resulted in slow economic growth because of the interest rate ceiling, requirement of high reserves and restrictions in the allocation of credit. But, after the introduction of the reforms the structure of the banking system changed immensely. Local private banks were established and the government privatized the nationalized banks; the improved performance of the banking sector in Pakistan made it possible to achieve higher growth rates. The reforms had a significant impact on the banking sector and the economic growth because they changed the bureaucratic culture of the banks and overcame the problems of overstaffing and poor customer service.

The banks in Pakistan offer settlement and cash services to individuals and companies (including correspondent-banking), they provide domestic and cross-border remittance services and depository services for the accounting and protection of securities. In recent years banks have started giving considerable attention to the expansion of services provided to households and the improvement of their quality and efficiency including the introduction of new forms and channels of making payments. Also, since late 2007 Pakistan was under considerable pressure from the IMF to undertake the reforms because of the adverse macroeconomic situation which had resulted in the commencement of the macroeconomic stabilization programme in November 2008 with the support of IMF.

According to Pakistan and Gulf Economist (2012), there are 54 banks working in Pakistan which include Islamic banks, private banks, public sector banks, microfinance banks, specialized banks, foreign banks and development financial institutions. The central bank which is the SBP (State Bank of Pakistan) is vested with the authority to monitor the on-going banking activities in the country. Under the established legislative structure, the supervisory and administrative responsibilities in the case of banks, development finance institutions (DFIs), and microfinance banks (MFBs) lies within the legal realm of the State Bank of Pakistan while the rest of the financial institutions are regulated by other authorities such as the Securities and Exchange Commission of Pakistan and the Controller of Insurance (SBP, 2004).

Over the past 15 years Pakistan’s banking sector faced significant changes inclusive of their governance structure due to the privatization and restructuring of the state-owned banks and mergers and acquisitions of the private and foreign banks. This structural change is generally attributed to financial liberalization, deregulation and development in information technology (Burki and Ahmad 2007). The current structure of the financial sector in Pakistan developed as a result of the numerous policy shifts and developments that took place over the last few years. They included (i) consolidation and diversification of the financial markets and institutions in Pakistan. Since 2000, approximately 40 transactions of mergers and acquisitions have been carried out within banks and between banks and non-bank finance companies. (ii) Many banks and development financial institutions have stretched out their operations into new vistas like insurance, asset management, brokerage, leasing and other non-banking finance services because of the newly developed interest in these areas. (iii) Another major change is the advancement of banking technology that was almost unheard of in Pakistan until a few years ago. This change revolutionized customer services, on-line banking and internet banking; also ATMs, mobile phone banking/ branchless banking and other means of delivery were introduced to provide convenience to the customers while reducing the transaction costs to the banks. Credit cards, debit cards and smart cards helped in the expansion of the banking operations and business (Pervez, 2011).

The South Asia Investor Review (2009)[24] highlights that Pakistan's financial system was ranked 34 out of a total 52 countries in the World Economic Forum's first Financial Development Report released in December 2008. This report comprehensively analyses the financial systems and capital markets in 52 countries to explore the drivers of development and economic growth in these countries. The review reports the Chief of the Competitiveness Support Fund to have expressed that the reforms were well implemented and made the banking sector in Pakistan competitive with that of Asia and Europe. According to the statistics the banking sector in Pakistan serves close to 6 million borrowers and 25 million depositors which means that the maximum market penetration is up to 15 percent and falls even below that (10 percent) in terms of micro-finance facilities. Hence only a few low income individuals can benefit from the small loans, micro deposits and insurance services extended by the banks in this segment.

The banking sector experienced accelerated growth during the period of 2002 and 2007 which underpinned the country's overall economic growth. It was rated as the Pakistan's and the region's best performing sector with assets rising to the tune of US $60 billion. Almost 81 percent of the assets were in private hands, the non-performing loans were at an all-time low, the profitability was high and credit was fairly dispersed lowering the systemic risk. One of the largest privatized banks 'Muslim Commercial Bank (MCB)' was ranked as the most profitable bank with an ROE of 32.5% by Asia Money. Two other privatized banks were also ranked in the fourth and sixth position. A pivotal role in the process was played by the then Prime Minister Shaukat Aziz who was himself an ex-banker and realized the importance of a

[24] http://southasiainvestor.blogspot.com/2009/03/pakistans-financial-services-sector.html

strong banking system in promoting financial, investment and commercial activities necessary for the economic growth.

3.2.1. History of the banking sector

At the time of independence in 1947, Pakistan did not have a banking network worth mentioning but within two decades a flourishing banking sector had been established. The banking sector accounts for 95% of the financial sector (Husain, 2005) and consists of a central bank, commercial banks and specialized banks which cater to the needs of specific sectors like Agri-banking and SME. Further, the nationalization of banks in the seventies led to their subservience to the bureaucratic leadership which created problems of governance and changed the ethics of the banking sector (Nawab et al., 2010). The greatest dis-service done to the financial sector due to nationalization was the increase in influence and interference of the political forces (as discussed in the previous section) in lending decisions and appointment of managers (Ibid 2010; Baig 2000). Banks in Pakistan generally catered for loans of government organisations, subsidized government deficits and extended loans to a few large organisations in the pre-reform era.

Prior to independence in 1947 there were 487 branches of scheduled Indian banks in the afterwards newly created territory of Pakistan which reduced to 195 branches by 30 June 1948. This was a result of uncertainty, instability and a sudden decision by the Reserve Bank of Indian (the central bank) to wind up its operations in Pakistan. The latter caused the other banks to pull out from Pakistan which resulted in a sudden collapse of the banking system in Pakistan. The Government of Pakistan took immediate steps to address this situation by constituting a committee of senior government officials and serving bankers which contemplated on the role of the new entity to fill the void created by the departure of the Reserve Bank of India. The proposed legislation for a central bank was masked by questions of inadequate and insufficient availability of qualified, trained and specialized staff to perform the necessary functions. The government ruled out the suggestion for the creation of a currency board as an intermediate solution in view of the greater power and authority the central bank would possess at a time when the banking system was facing serious problems. Hence through an order named ‘The State Bank of Pakistan Order’ the government declared the central bank open on 12 May 1948. The major, initial tasks were to print new currency notes in the denomination of Pak. Rupees 5, 10 and 100, to create a national banking system, to broaden the institutional framework of the financial system and to train individuals.

To create a national banking system, the State Bank of Pakistan established a bank which would serve both as an agent for it and perform commercial activities for the public. The National Bank of Pakistan was established as a consequence in 1949 and contravening traditional norms the Head of its board of directors was the Governor of the State Bank itself. This was done to support the newly developed institution in discharging its responsibilities. 1n 1952 the Governor relinquished his charge after the new bank had started functioning on its own. To broaden the financial system, the State Bank established specialized credit institutions in the fields of agriculture and industry as early as 1949 and to train and provide bankers in adequate numbers it introduced a banking training scheme during the same time period as well[25]. In order to control the operations of the newly created banks an ordinance was promulgated by the State Bank of Pakistan in December 1948 – The Banking Companies Act.

At the end of the first decade of its inception the central bank had raised the number of banking branches to 307 of which 232 were domestic as opposed to the 25 branches in 1948. They held 60% of the total bank deposits and provided 65% of the total bank credit. During the next decade (1960-1970) which was marked by significant economic growth, the need for further expansion of the banking sector emerged due to the liberalization of imports, transfer of business to the private sector and strengthening of the commodity markets as a result of which new banks were established.

Prior to the wave of nationalization in 1972 the newly elected government introduced many reforms in the banking sector to enhance the equitable distribution of bank credit, to improve the soundness of the banking system and to ensure its accountability. It was felt that while the banks achieved their targets in terms of economic growth and credit mobility they had largely been unable to do so with social

[25] www.vuz.net/FIN - Chapter 10

justice because of the narrow and inequitable disbursal of credit across classes. One reason was the lack of distinction between ownership and industrial interests which meant that credit was extended to a few powerful clients in particular sectors in the urban areas due to personal connections. Resultantly the smaller yet emerging businesses in the fields of export, housing and agriculture suffered largely due to this neglect. Some major interventions of these reforms were the provision of wider powers to the State Bank of Pakistan to monitor the hiring of directors and management staff in the banks, to terminate them if needed, to instate a new board of directors if required, to nominate directors on the board of every bank and to limit the service period of every director (maximum five years). The reforms also extended to the ownership structure of these banks and directed that some percent of the shares be sold in the market so that greater accountability could be ensured.

3.2.2. The journey of the banking sector: From nationalization to privatization

In this section we highlight the implications of nationalization of the banks in terms of the political influence in their governing and management which resulted in overstaffing amongst other non-merit based decisions. Within the category of commercial banks in Pakistan, the banks were divided into three tiers according to their size. Tier I includes the top five banks (National Bank of Pakistan, Habib Bank Ltd., United Bank Ltd., Muslim Commercial Bank Ltd., and Bank Alfalah Ltd.). Tier II comprises of the next five banks -- Allied Bank Ltd., Standard Chartered Bank Pak Ltd., Askari Bank Ltd., Bank of Punjab and Habib Metopolitan Bank. The percentage share of Tier I banks reduced from 54% in CY 05 to 52% in CY 06 while that of Tier II banks increased from 18% to 23% during the same period. This signals an increase in competition between Tier I and Tier II banks as the latter increased their efficiency and introduced many new products. The share of banks next to Tier I and Tier II banks decreased further, from 28% - 25% in CY 06. The above demonstrates a distinct and fine segmentation of the banking sector in Pakistan and indicates that the smaller banks in tier III will have to consolidate if they want to survive (SBP: Banking sector review).

The big five banks (Habib Bank Ltd., United Bank Ltd,, Muslim Commercial Bank Ltd., Allied Bank Ltd. and National Bank of Pakistan) were all nationalized under a government order in the 1970’s. They registered growth and progress in the initial years but in many ways this was due to expansion in branch network which resulted from a series of mergers with smaller banks (Baig, 2000). However, later the then regulator of banks -- The Banking Council of Pakistan decided to close all non-profitable branches in far-flung areas. The slow growth rate in the late 70s experienced slight improvement in the early eighties but again from 1985 onwards the growth started to decline due to the rise of banks in the Middle East which was thriving economically as a result of oil exploration. These banks not only attracted experienced bankers from Pakistani banks but their branches in Pakistan also attracted deposits from the local market; they included Bank Al-Mashirq, Emirates Bank and BCCI (ibid, 2000).

The 90’s era did not see much improvement in terms of governance and political interference which continued, except for the privatization initiative of the Nawaz Government (Husain, 2005, Baig 2000). The first nationalized bank to be handed over to the private sector was Muslim Commercial Bank Ltd., followed by Allied Bank Ltd., United Bank Ltd. and Habib Bank Ltd. The deregulation of the banking sector was accompanied by major reforms in 1997 such as appointments of Chief Executives and Boards of Directors on non-political and nonpartisan basis, injection of fresh equity by the government to strengthen the capital base of the nationalized banks, reduction in the influence of labour unions in the decision making of banks and the autonomy of the State Bank of Pakistan (Husain 2005). This strengthened the existence of merit in decisions pertaining to the hiring and promotion of employees.

In 1997, the Nawaz government took critical steps like removing banks from government ownership, injecting Rs 30.7 billion to off-set losses, closure of non-profitable branches and most importantly a reduction in the labour force of the public and privatized banks that were over-staffed. Management of the banks was handed over to professional bankers and members of the Board of Directors were hired from private organisations and were required to bear good reputation. This influenced and in some cases acted as a driver for changes in the culture and work norms in the banks. Also, 1997 saw the dissolution of the Pakistan Banking Council (PBC) which had powers to regulate the activities of the nationalized commercial Banks (NCBs) and SBP staff at all levels was trained in various areas for capacity building, to effectively monitor and regulate banking business (Akhtar, 2007). The World Bank Review 2004 stated that,

'Far reaching reforms have resulted in a more efficient and competitive financial system. In particular, the predominantly state owned banking system has now been transformed into one that is under the control of the private sector. The legislative framework and the State Bank of Pakistan's supervisory capacity have been improved substantially. As a result, the financial sector is sounder and exhibits an increased resilience to shocks.'

According to Khilji and Wang (2007), reforms were undertaken in the public sector organisations in Pakistan similar to those that took place under the Thatcher Administration in the UK. These reforms gained momentum during the decade of the 1990s and continued in the past few years due to massive privatization schemes implemented by the government and the issues of governance raised by foreign donors and development financial institutions (DFIs). The reforms introduced to address these issues took hold in the local / domestic organisations as a result of increased globalization and calls for preparation for the introduction of the WTO regime. As a matter of prime importance organisations started to restructure their HR departments and modify their existing HR practises in light of the most modern being implemented by multi-nationals world over and their subsidiaries in Pakistan as well (Khilji 2004). The results have been mixed thus far as organisations have tried to improve these systems and enhance their effectiveness with the limitation of resources on the one hand and the issues of alignment between the various HR practises implemented within the organisation.

Also, the banking sector of Pakistan largely ignored the interests of the broader middle class with very little attention given to consumer products. Due to the reasons mentioned above and some explained below by the then Governor of the State Bank of Pakistan Dr. Ishrat Husain (2005) there was a need for major structural, operational and cultural reforms. First, the government was facing high fiscal deficits and most bank deposits were loaned to the government and government owned corporations. This was a low risk, high return strategy leaving no incentive for the banks to lend elsewhere. Second, since most banks were government owned, employees worked in a manner typical of government officials - 9:00 am to 5:00 pm but this did not mean that employees were working efficiently all this time. Further, the banks suffered from a high bureaucratic approach, overstaffing, unprofitable branches and poor customer service with rising administrative costs which cut into the profits of the depositors. Third, as loans to private sector were given on the basis of political influence rather than merit, a large percentage - close to 25% remained unpaid and contributed to the poor performance of the banks. Fourth, the rate of taxation in the banking sector was too high (58%) in comparison with that of the corporate sector (35%), this was passed on to the customers in the form of higher lending rates (21% on average) and low deposit rates. Fifth, the banking sector was not attractive for new entrants; this resulted in a lack of competition and an inefficient banking system.

3.2.3. The scope and outcome of reforms

Broadly stated, this section discusses the reforms which occurred in the banking sector, the outcomes of these reforms and the influence of the changing consumer demands and preferences and their level of awareness in driving the reforms. Akhtar (2007), states that reforms in the banking sector were broad-based and all-encompassing. SBP (the state regulator) introduced effective and comprehensive regulations consistent with international standards and best practises. They included privatization of Nationalized Commercial Banks (NCBs) reducing their share from hundred to twenty-four percent in 2004, major changes in regulatory / policy areas (even in HR), shift in business strategy from corporate to consumer financing and restructuring of the banks. Other significant actions taken were: change in the style of management, separation of close to 35000 over-staffed employees in the public sector banks in two phases (24000 in 1997 and 11700 in later periods) and the closure of 2000 non-profitable branches located in far-flung areas with little business. This was an attempt to make these banks viable for privatization.

Husain (2005), states that the only remaining nationalized bank - The National Bank of Pakistan - also divested 26% of its share to small and retail investors. The process of privatization was initiated based on independent and transparent evaluations of banks to be privatized by autonomous and professional teams. In 2007 the top five banks controlled 52.6% of entire banking assets and SBP issued licenses to 28 banks (17 commercial, 16 micro-finance and 5 Islamic). From 2001-2005 SBP also introduced new measures to enhance internal controls of banks and promote organisational change.

Keeping in view the changing environment banks started to automate and attention was paid to e-banking activities especially; the previously nationalized commercial banks made heavy investments to upgrade their technology and put branches online. All the banks were mandated to join one of the two ATM networks resulting in 700 operational online ATMs in 2005. All bank branches are now online and utility bills and remittances can be transacted through ATM kiosks. Khilji (2000) and Budhwar (2003) state that both Pakistan and India have seen massive deregulation of the economy during the 1990s and thereafter with clear implications for the HRM function in general and HR practises in particular. For example, a significant shift in the Human Resource Management practises was witnessed in the private sector banks first, as they started hiring competent professionals on merit rather than recruiting individuals on the basis of nepotism and external influences. They hired employees largely based on competitive examinations and interviews because the aim was to attract professionally competent individuals who could enhance the growth and profitability of their bank in a highly competitive environment.

The ceiling for Minimum Capital Requirement (MCR) was increased to ensure capital adequacy which resulted in mergers and acquisitions (M&A's) of smaller banks and consequently the banking sector witnessed consolidation. This regulation also extended to foreign banks in the country that increased their branches through M&A's resulting in their enhanced presence and market share in Pakistan (Akhtar, 2007). The largest deal was struck by Standard Chartered Bank which acquired Union Bank at a cost of $513 million. Banks improved their asset quality by lowering the percentage of non-performing loans (NPLs) as a proportion of the advances from 22% - 14% for DFI's and as low as five percent for commercial banks. In addition, greater attention was paid to encourage agriculture, consumer and SME financing and SBP formulated new rules to govern these banking activities. Similarly, the government relaxed licensing and regulatory requirements to promote micro-financing institutions and by 2007 two banks - Khushali Bank and First Micro Finance Bank – were operating in the private sector.

The major outcomes from these reforms included an increase in employment, reduction in overstaffing of the banks, an all-time low percentage of non-performing loans and increased competition which changed the work ethics of the banks. Akhtar (2007) and Husain (2005) highlight a few important outcomes of these reforms which are discussed in the following paragraphs and the lessons that can be drawn from them. Addressing a forum in Geneva in (2007) the then Governor SBP, Dr. Shamshad Akhtar stated that the banking sector in Pakistan had made a turnaround and was classified as “Pakistan’s and the region’s best performing sector.” NPLs were at an all-time low, almost 81% of banking assets were in private hands and 47% of the total paid-up capital of financial institutions rested in the hands of foreign stakeholders. Most importantly, the credit was diversified and systemic risks across the banking sector reduced significantly.

The changing preferences of consumers to spend for a comfortable present rather than to save for the future only resulted in the need for and then the success of consumer financing products and services. Husain (2005) states that SPB steadily lowered lending rates form 2000 – 2005 in order to make the purchase of house building mortgages affordable for the poor and middle class and introduced SME and agricultural schemes for financing small entrepreneurs. The middle and poor class resultantly improved their standard of living through forced savings as a consequence of monthly payments of instalments on household and consumer goods purchases. A drop in the lending rate from twenty-one to five percent in five years opened a new market for banks and they introduced products like auto financing loans and small business financing. Microfinance banks which catered for poor customers with nothing to mortgage extended loans to approximately 125,000 people for small businesses between 2003 and 2005 and more than doubled their customer base to two million households which increased employment. In order to reduce the non-performing (defaulting) loan portfolio, a well designed and transparent scheme was launched which benefitted over 51,000 borrowers. The scheme handed back sick units (manufacturing units shut down due to non-payment of loans) to their owners on 75% repayment of the total amount owed which spurned economic growth and generated employment. These initiatives promoted fierce competition amongst banks and transformed the once “seller” market into a “buyer” market where customers had the right to choose banks based on their products and services.

This competition changed the work ethics of employees to some extent and they feared losing jobs if they did not perform as the new private sector banks gave no guarantees for continued employment. Khilji (2002) identified many contextual variables as influencing the new performance oriented management style which included the socio-cultural factors (religion, colonial influence and American influence), organisational characteristics (meritocracy, seniority and relationship influence) and core HRM characteristics (rigid HRM practises, scope of creativity, limited unionization, seniority based remuneration and less competitive salaries). American influence was found to have diluted the prior British influence and impacted the deregulation of the economy. Hence the Pakistani culture appeared to be open to foreign influence and domestic organisations were challenged in their attempt to balance their core culture and also to modernize their HR practises.

The profitability of the banks rose tremendously due to both financial and management reforms but their efficiency did not improve as sharply, primarily because of the poor capacity of larger banks to improve their internal control mechanisms as speedily as the private yet smaller banks (SBP Financial Sector Assessment Report, 2006). The July – September (2008) SBP Quarterly Performance Review showed a decline in the previously registered strong growth of the banking sector due to the developing global financial crisis at the time. Deposits, assets, investment and profitability of the banking sector were signalling a slow down while market risk, credit risk and interest risk along with the NPLs were widening.

3.3. Conclusion

In this chapter we highlighted the context of Pakistan and elaborated thereafter on the dynamics of the banking sector as related to the focus of this research. We identified the opportunities for investment in the country and the potential the nation holds for prospective investors’ along with the issues creating barriers to the entry of new businesses. Widespread corruption, power outages, increased utility tariffs and political instability along with terrorism were some of the issues discouraging investors to invest in Pakistan. Also of significance was the fact that the economic indicators of the country such as the GDP growth rate and inflation which were very positive till 2007 / mid 2008 registered consistent and significant decline and increase (in the case of inflation) subsequently (during the interview period). The rising inflation and declining growth influenced the outcomes of the newly introduced HR practises and in the case of pay carried implications for pay levels and employee satisfaction with pay as discussed in chapters five and seven. Further, we highlighted that the broad based reforms in the banking sector carried implications for the HR departments and the HR practises; the reforms were geared towards instilling a more professional and performance based organisation culture which suited the economic climate at the time and was fast becoming an industry requirement due to the global financial crisis and the deregulation and privatization of the sector which opened the field for smaller yet many private banks to establish. To this end, the discussion in the chapter also included the changing dynamics of the workforce in general but more particularly the inclusion of professionals who were educated in the west and had experience of working in those societies. The influence of this new group of employees on the design and implementation of the new pay structures and systems and the broader HR bundle are pertinent to the analysis presented in chapters five and six and carries implications for shaping the employee psychological contract in the milieu of a new and emerging set of employee expectations discussed in chapter seven.

Chapter 4: Research methods

4.0. Introduction

The broad aim of this research was to study changes in pay and other HR practises and their implications for the employee psychological contract in the banking industry of Pakistan to address the gaps identified through a review of the related literature in chapter two. More specifically we address which changes occurred in the pay structures and systems, the pressures driving these changes and the objectives desired from these changes, whether the other HR practises constituting the HR bundle were modified in tandem and how in the context of the changed employee expectations, the outcomes of differentiated implementation of the HR practises across the emerging HR architecture influenced the employee psychological contract.

A multi-pronged strategy was employed for conducting this research. At the macro-level, data pertaining to external drivers for change was collected to identify the pressures resulting in changes in the HR practises; at the meso level, HR policies, practises and regulations within each case study bank were explored to obtain contextual information. And at the micro-level the perspective of employees as it relates to changes in HR practises was explored.

This chapter discusses the methodology adopted to conduct this research which was largely qualitative, involving the case study design for discussion and 94 qualitative semi-structured interviews for data collection. Data from field investigations was triangulated with company documents, policies and other secondary material to build the credibility of findings from the former. The chapter starts with the rationale for this research and continues to provide details of the research design strategy, research approach, data collection and analysis and in the last section points to ethical considerations and limitations of the study.

4.1. Purpose of the study and research questions

This study was in response to the under-researched effects of multiple HR practises (HR bundle) on the employee psychological contract in the framework of a wider set of HR architecture and the influence of notions of justice on pay and other HR matters (Aggarwal, 2009; Marchington and Grugulis, 2000; Cox, 2000). In the past, most studies of such nature have been carried out in the western context so this research will contribute to academic and practitioner knowledge the unique perspective of a developing country, namely Pakistan to address this empirical gap in literature. The case study approach was adopted to incorporate multiple perspectives (HR Managers and employees) and to examine the drivers leading to changes in the pay practises and their implications on the employee psychological contract. The study attempted to address the following research questions:

- What changes occurred in the pay structures and systems of Pakistani banks in the last decade? Which drivers led to these changes and which objectives did management expect to achieve from the modified pay practises?
- Which other HR practises in the bundle were modified in tandem and why? Did this result in any conflicts or complementarities between the different HR practises?
- How did changes in pay and other HR practises in the bundle relate to the new set of employee expectations and what implications does the differentiated implementation of these HR practises have for the employee psychological contract?

4.2. Rationale for research design strategy

The research design is a guide to the entire research process which is driven by the paradigmatic lens of the researcher (Avramidis and Smith, 1999) and places order in the context researched (Gardner, 2001). The context influences and shapes the perceptions, views and opinions of the subjects about the social reality in which they exist and about which the researcher is interested to investigate. In this research, the perceptions of employees as they relate to changes in the psychological contract subsequent to changes in the HR practises bundled together. Social research is influenced by five factors namely the epistemological and ontological orientation, the link of theory with research, and values and practical considerations (Bryman, 2004). To position this research, this section provides details of the first three while the last two are covered in section 4.7.

This study adopted a qualitative research approach towards investigation, the benefit of which is widely and commonly cited to lie in the rich descriptions produced, in the strength to explore and the potential to generate inductive theorizing (Welch et al., 2011; Bryman and Bell, 2003; Eisenhardt, 1989; Stake, 1995). This approach to research places emphasis on uncovering the underpinned causes, issues, reasons and descriptions to provide elaborate accounts (Bryman, 2004). However, it cannot build more statistically grounded associations highlighting the dependency between two or more social phenomenon which is possible in quantitative studies. The definitions above align with our aim to gain an in-depth understanding of the drivers for change, implications of changes in pay and other HR practises in the HR bundle and the perceptions of employees through the detailed accounts provided by bank management and employees. This becomes even more essential in what seemed to be an absence of previous research positioned in this context (Pakistan). The qualitative approach also fits well with the research questions posed which enquire about changes in multiple practises implemented differently across multiple employee workgroups, *why* they occurred and *how* they influenced the perceptions of employees (Yin, 2003); the operational links (Yin, 2009). Further, the underlying aim here is to develop an understanding of *how* and not just to provide an explanation of *why* changes occurred in the pay systems and structures and other HR practises in the bundle for which the qualitative approach is considered more suitable as has been stated by Stake (1995), Welch et al. (2011) and Lincoln and Guba (1985). In addition, this approach is suitable for uncovering the causes for such changes which are deeply rooted in a context as stated by Tsui (2006; 2007) and Child (2002). In this research, the context of a banking sector which underwent major restructuring and reform in Pakistan. However, the adoption of a quantitative approach in this context could potentially have provided more generalizable findings, more distinct transition patterns and a set of statistically robust associations between the reasons for changes in pay practises, the antecedents of satisfaction / dissatisfaction and the influences of unmet employee expectations on the breach of the psychological contract.

4.3. Philosophical orientation and link with theory

In social sciences research data achieves significance when it is analyzed through a theoretical framework or construct for which understanding the link between theory and research is critical. Data can be collected to either test or build theory – case study researchers using the inductive theorising and natural experimental approach have categorized grounded theory, models and propositions, refinement of theory and a priori propositions as outcomes of their research (Welch et al., 2011, p.753). While these search for providing generalized patterns to conform to or refine existing theory, they ignore conundrums and peculiarities which are essential for *understanding rather than explaining* the issues under study. To cater for the latter we attempt to develop a greater understanding of the reasons changes were implemented and why employees perceived the outcomes as they did.

4.3.1. Epistemological considerations

The research paradigm is a comprehensive system represented in terms of epistemology and ontology (Richards, 2003) and defines for the researcher 'the nature of their enquiry' (Blanch and Durrheim, 2006; p.6). The debate on what constitutes acceptable knowledge in a field or discipline has remained a source of contention for long with many authors propagating the positivist strand. This advocates law like generalizations (Eisenhardt, 1989) and assumes a single universal explanation to reality and views of human beings. However, a change in this tradition is reported to have taken place in the early 1960's when the significance of critical realism and interpretivism / constructionism increased (Bryman, 2004). The nature of research in critical realism is more subjective and attempts to provide explanations through causal links within a limited context, based on contingent generalizations (Bhaskar, 1998; Ragin, 2000; 2009). Interpretivism focuses more on understanding the behaviour of humans as opposed to providing an explanation of it (positivism); behaviour of individuals and institutions differs because each entity is different from the other. This philosophical strand particularly suits our research which aims to identify the different shades of employee and management perspectives and employs the HR architecture in multiple-case organisations for this purpose.

Like critical realism, the nature of research in interpretivism is also subjective but the focus is on understanding the actor's experiences through thick descriptions in particular situations (Welch et al., 2011; Stake, 1995). And while context is important, there lies a danger of exposing the identity of the subjects (interviewees) and objects (organisations) due to the level of detail and information provided. However, we carefully assigned names (A1, A2, B1, AB2 ...), used generic terms for different schemes within the HR practises and avoided the use of jargon / specific terminology to ensure anonymity. The meanings actors ascribe to their own behaviour rests on their interpretation of their experiences (ibid, 1995; 2011) which facilitate the researchers understanding of the former within a particular context. Incorporating the experiences and interpretations of the actors (employees) is a must in our study because we are interested in understanding how they perceived the changes and why they felt the psychological contract was breached (where this occurred). Objectivity[26] in the process of interpretation is contested through positions taken by different authors (Stake, 1995; Watson and Watson, 1999; Dick and Cassell, 2002) but interpretation is necessary for the researcher's *interpretive sensemaking* of the data collected. Those supporting the role of the researcher in social sciences research contend that theirs may just be taken as one possible reading (Chreim, 2005); and that no objective reality can be verified through research (Dick and Cassell, 2002). We also position each finding in this research as one possible alternative to understand the phenomenon under study.

4.3.2 Ontological considerations

The ontological position of research impacts the framing of the research questions and hence the methodology for collection and analysis of data (Hartley, 2004 cfm Cassell and Symon, 2004). The two frequently referred terms used in social sciences to explain ontology are – organization and culture which distinguish between the two positions taken by researchers - objectivism and constructionism (Bryman, 2004). Constructionism according to Charmaz (2000) is the perspective that social reality is given meaning by the interpretations of the actors that make it. On the other hand objectivism stresses that social phenomenon are external to humans who cannot influence them. Hence the organization and culture are both viewed in terms of their existence and reality as being distinct from the influence and interaction of humans. Strauss et al. (1973) argue that the formal elements of an organization (rules, regulations and roles) act as constraining forces on humans but this is not to say that human beings have no role to play in the existence of the organization or how processes are shaped to manage it. They believe that it is the over emphasis on the formal elements which leads to a lesser exploration of the impact human interaction

[26] This will be explained further in the section on values and ethical considerations

has on shaping the organization. A similar view is presented by Becker (1982) who states that culture antedates the participation of people and hence shapes their perceptions but he also emphasizes that culture is in a constant state of change because of people who are a part of it. Hence, by taking a middle path to constructionism Strauss and Becker emphasize that organization and culture have separate objective identities but that these are constructed by people.

This research is closely aligned with the constructionism approach in much the same way as propagated by Strauss and Becker above. The banks and their internal environment were investigated with multiple objectives. First, to extract information on the previous and existing HR practises (specifically pay system and structure), how management viewed these to affect the career of employees and the impact (if any) on their psychological contract. Second, the employee interviews highlighted their perspective on how these changes impacted their pay and career progression and whether they felt the changes were implemented fairly. Thus, a middle path to the constructionism approach was adopted by factoring in the formal elements of the banks (rules and regulation) that shape employee actions (forming part of the social reality under study) and including the influence of employees on changing or modifying the formal elements.

4.4. Research approach: the case study method

The case study approach allows for an intensive exploration of a situation (Bryman and Bell, 2003) which complements with the qualitative nature of our research. It is increasingly used in organisational studies due to the growing confidence in its rigor (Hartley, 2004). This method was adopted because: (i) case studies are specifically suitable to address questions which require detailed data to answer the questions related to why and how (Yin, 1994) and they are suitable where the phenomenon under study is embedded in real life situations (Stake, 2006); (ii) it aligns well with research of exploratory nature which is often conducted when a problem needs clear identification and the scope of the phenomenon is unclear. In this case very little research on HRM in Pakistan previously, makes the nature of this research exploratory to which this approach is favourable. Also in particular, there exists no research exploring changes in pay and the HR bundle and their implications on the employee psychological contract in Pakistan and; (ii) the banking sector in Pakistan faced continuous changes (organisational , institutional and managerial) between the mid 1990s and 2007-2008 and according to Hartley (2004) the case study method is most valuable and suitable for exploring emerging and changing organization realities that are difficult to examine through a survey. For example, in this research, how employees view changes in pay structures and systems along with changes in the HR bundle is an issue which requires deeper understanding of the *'every day practises and their meaning to those involved,'* which is not possible in a brief contact (such as a survey).

This research adopts a multiple case study approach despite the benefits of the single case method for studying a social entity in totality and holistically to establish change over time and to identify causal mechanisms or patterns of transition. The was done to generate greater understanding of the situation by highlighting differences and similarities (Yin, 1994; 2003) across the six case-study banks and employee groups based on hierarchical level and entry track. Also, Hartley (2004) proposes that limiting research to single case studies may only be suitable if gaining access in organisations is difficult, financial issues exist or the phenomenon is unique. In this case, the phenomenon under study – changes in pay structures and systems and the broader HR bundle – was evident on a sector level and gaining access in multiple organisations was not an issue.

The banking sector in Pakistan comprises of a total of 47 banks which according to the main regulator – State Bank of Pakistan- can be categorized in four ways: size, amount of capital, ownership (public, private and privatized) and origin (domestic or foreign). The public sector banks are denoted as A1 and A2, the private banks are denoted as B1 and B2 and the privatized banks are denoted as AB1 and AB2 from here on, in this research. For the purpose of this study the banks were purposefully sampled based on changes in pay structures and systems, the broader HR bundle and they were categorized according to their ownership structure predominantly. The ownership structures resulted in inherent differences like variation in size, organisational structure and culture and certain other organisational factors like the presence of a union and the number of incumbent employees in the sampled banks. For example, the four public and privatized banks were larger in size relative to both the private banks; they had a larger branch network and a history which dated as far back as the independence year of Pakistan. These banks had always operated on seniority based HR systems like pay and promotion practises for instance and had a very large size of incumbent employees that had the potential to resist the changes in the HR bundle. Further, the private banks for example had better communication systems and were considered less bureaucratic than the large sized public and private banks and they faced a significantly reduced intensity of the external pressures from influential and political personalities in decisions related to hiring, promotion and pay. Hence, the private banks were also purposefully included in the sample as comparators to generate a richer understanding and explanation. Within the six case-study banks there were fine distinctions which made each organisation an interesting case to study. For example bank A1 was the only bank with two parallel pay structure, bank A1 was an exception because of the presence of the union, bank B1 was a separate private, commercial entity of a public organisation and bank B2 had a predecessor bank from which the new one emerged. In the case of both privatized banks the transition to the private sector presented its own challenges that included the pursuit for gaining greater legitimacy as a performance oriented organisation and an equally immense pressure for attaining greater cost-efficiency.

Despite the interest in international comparative research foreign banks were not included in the sample due to a priori information that very little changes had occurred in their HR practises as they had evolved progressively over the years. Also their presence was limited to a few branches and the workforce was significantly less in comparison with the larger domestic banks. Therefore, their inclusion had the potential to limit the scope of our investigation. However, their influence on changes in HRM practises in the domestic banks was addressed through interviews with senior managers in these banks who were recruited from the foreign banks. Categorization based on the capital structure of banks was not employed because it may have ignored the domestic private banks which were smaller in size but were gaining market share steadily. The banks vary considerably according to their branch network and number of employees (see table 4-1). One public sector bank (A2) and both privatized banks are large sized banks with a branch network of over 1000 branches while the remaining two private sector banks and one public sector bank are medium sized banks.

The total number of banks in Pakistan is 47 out of which four are in the public sector, four are specialized banks, 20 are private sector banks, five are Islamic banks and seven each are foreign banks and micro-finance banks. The private banks include the four large nationalized banks which were privatized in the late 1990s and thereafter. Two banks from each category – public, private and privatized were selected to study nuances across the public private continuum (see table 4-1). Specialized, microfinance and Islamic banks were excluded since they were few in number, were not involved in similar operations as the mainstream banks and had fewer employees in comparison. Five of the six selected banks were commercial while the sixth (public bank A1) was not and was selected because of a conundrum - two parallel pay structures which can make the findings more revealing and insightful.

While ease of gaining access to data was not the primary criteria for selection of the case study banks, it could not be ignored either because of the under-developed research culture[27] in Pakistan which makes entry into organisations for research purpose very difficult. Initially, the banks were approached through high ranking individuals known to the researcher who contacted the CEO/President of the banks and based on a letter outlining the study (see appendix L) the latter provided access to the primary contact point - critical *gate keepers*[28] (Hartley, 2004). Other reasons included the prevailing economic condition due to which banks would have otherwise shied away from providing information, especially related to pay which is our focus but is of sensitive nature.

[27] Especially in the field of HRM
[28] Country Head HR / HR Group Chiefs

Table 4-1 General comparison of case-study banks

BANKS	A1	A2	B1	B2	AB1	AB2
Ownership Structure	Public sector	Public sector	Private	Private	Privatized	Privatized
No. of years in operations	> 60 years	>60 years	<15 years	>15 years	>50 years	>60 years
No. of branches	<100	>1000	>200	>200	>1000	>1000
No. of Employees	>1000	>10000	>5000	>5000	>10000	>10000

Source: Official websites of the banks and interviews with HR and Senior Managers

Note: The use of distinct ranges is avoided to protect the anonymity of the participating organisations.

4.5. Data collection process

Fieldwork was completed in two phases – January till May 2009 and October 2009 till January 2010 as data was collected from Pakistan. In the first phase data collection from three banks was completed: two public and one private bank to fully understand the context, environment and underlying shifts in behaviour and power structures. The second phase benefitted from the experience of the first through reflexivity which resulted in better focus and time management of the interviews in addition to an improved questioning technique. Prior to the actual data collection a very short pilot study was conducted at two of the six case-study banks with one interview each from an HR Manager and two each from employees. Based on the embedded conflicts and perceptual issues appearing in these interviews, the initial interview guide was refined (Bryman, 2004, King, 2004). In certain cases some questions / sub themes were removed such as *'the role of unions'* because they either did not exist in a majority of the case-study banks or were inactive to a large extent. In other instances, themes were also added to the interview guide like *'employee involvement / participation.'*

4.5.1. Level of data collection

Data was collected at the sector, organization and individual levels. The sector level data was mostly collected from secondary sources such as published sector reports, The Economic Survey of Pakistan and HR and Compensation Surveys conducted in Pakistan by local and foreign organisations. Another source were three interviews conducted with ex-bankers (retired) to gain an insight into the working of banks in Pakistan and how it had changed over the years. Their views are considered impartial as they were no longer employed in any of the banks studied. The sector related reports were important for determining financial performance, evolution and trends in HRM and to some extent the compensation plans and strategies of various banks.

At the second level - the organization - data was collected both through primary as well as secondary sources. Primary data was particularly important for building an understanding of the current pay structures and systems and the HR bundle in all the banks in which information obtained from HR Managers was essential and valuable. Information from bank documents and manuals alone would be insufficient to answer questions like ‘which changes occurred in the pay practises and why?’, ‘which factors acted as drivers to the change?’ and ‘how the changes and differentiated implementation of the HR practises influenced employee perceptions.’ Secondary data collected through multiple sources is discussed below and was deemed important for clarification of ambiguous concepts highlighted in the interviews. The organisational level data is significant for comparing the pay structures and systems across the case-study banks on the basis of ownership as each of the six case-study banks operates in a specific environment and context which needs description and understanding.

The third and last level - the individual employee – focused on data collection to elicit employee perceptions of changes in pay and other HR practises bundled together within the ambit of their new set of employee expectations. This aligns with the suggestion for greater reliance on employee views in HRM studies identified by Marchington and Grugulis (2000) and in particular in pay studies proposed by Cox (2000). Fifteen to sixteen interviews were conducted in each bank, categorized along a differentiated HR architecture, a concept highlighted by Lepak and Snell (1999). In this study stratification of employees was done on hierarchical basis (senior managers, middle managers and Officers) to enrich the study and to increase the validity of the findings by associating them with specific workgroups. The other basis such as age, gender, qualification, department and experience could not be used due to non-availability of a relevant data set across the banks. During the second phase of data collection, through the process of reflexivity, I realized that employee workgroups could have been clearly divided on the basis of incumbent and new employees and MTOs and individual hired and renewable fixed-term contract employees. However, in the first case, one of the six case study-banks (B1) did not have a clearly delineated incumbent group and in the second case, this could have possibly excluded an important group of employees (senior managers) because the MTO scheme was initiated only a few years ago[29] and no employees from this group had yet reached senior management positions. The nature of employment - fixed-term renewable contract or permanent / regular – could have been another basis but in this case some banks were unwilling to share information on the number and hierarchical placement of the contract employees.

4.5.1.1. Secondary data

The use of multiple methods is a feature of the case study research method as identified by Yin (1994) and is significant because a combination of methods aids in collecting intricate data to answer c*omplex phenomenon* and improves the validity of the research according to Hartley (2004). Secondary data was collected through multiple sources for the purpose of triangulation – to supplement, strengthen and substantiate the findings from the interviews. They include published reports available on the official websites of government agencies[30], documents from participating organisations and information from articles and news clippings. The sector specific statistics were gathered through the annual and quarterly reports published by the State Bank of Pakistan available on its official website (www. sbp.org.pk). These reports provide detailed accounts of the major initiatives and

[29] At the time of interviews

[30] (www.statpak.gov.pk, www.pakistanbanks.org, www.lmis.gov.pk)

operations and pertain to the financial performance of the sector and its restructuring (organisational and financial).

The participating banks gave a mixed response on willingness to share documents. Public sector banks were more forthcoming in comparison with private and privatized banks to provide statistics pertaining to hiring, promotion and training courses. Both the private banks were slightly less willing to provide the standardized forms for employee appraisal and in one case (B2) the previous pay structure but overall they shared most of the statistics / policies. However, quite a number of issues were faced in both the privatized banks. First, any document related to the previous pay structure, appraisal or training programme was not shared because it was stated that data was lost during the privatization process as it was maintained manually previously. Second, management stated that due to privatization much historical data became inaccessible because the incumbents were unwilling to share it.

‘A lot of these old guards have the kind of data you are asking for but they simply refuse to share it, even with their colleagues. They think sitting on this information makes them valuable because they have something no one else has; so we manage with approximations.’ AB2HR2

Third, there was a general reluctance to share documents as most HR initiatives were either in their preliminary implementation phase or were changing continuously so their outcomes were unclear. Further, the interviews were conducted at a time when the banking sector had undergone major reforms and was in a period of transition; this was especially true of the public and privatized banks that were under intense pressure to improve their efficiency and performance. In that competitive environment, the banks were not willing to share much documentation and in some cases only provided approximations of required figures / information[31].

Apart from one privatized bank (AB1) all other banks provided their HR Manuals and Employee Handbook which greatly helped in developing the case study of each bank and provided ready reference for consultation in the analysis. The HR Manuals included details of all HR policies which would have been difficult to gather through interviews alone; this triangulation also clarified the conflicting employee and HR /

[31] Like the number of employees on fixed-term contract, the total pay bill or percentage allocated for yearly performance increments and bonuses.

management views in some instances. Prior study of the HR Manuals helped in clarifying doubts during the interviews and in refining the questions to become more context specific. The Employee Handbook provided an insight into the culture of the banks such as the extent to which information was shared with employees recruited which gives a fair view of how open their culture may be. Finally, company websites were browsed for HR specific statistics and figures but without much luck. However, the archived articles and newspaper clippings which were available were quite informative.

4.5.2. The interview process -- selecting and accessing participants

In-depth, semi-structured interviews were conducted in the six case-study banks. This method aligns with our philosophical approach and orientation towards the research as it allows for gathering rich data resulting in thicker descriptions. Its inherent flexibility / adaptability as highlighted by Whipp (1998) and Bell (2005) permits for maintaining a focus on issues considered important by the interviewee according to Kvale (1996). Also according to Bryman and Bell (2003) it helps to retrieve information from the interviewees on issues which they are better informed about and aware of and have a story to tell. Questions in the interview guide were mostly followed but where the interviewee was sharing interesting details or unofficial yet practised versions of certain HR practises they were given more time to speak and questions from the guide were skipped. According to King (2004) semi-structured interviews also facilitate in gathering greater data as the interviewees feel that their views, problems and issues are heard; this was crucial for our research as it aimed to provide evidence on how employees perceived that expectations from the employer remained unmet and resulted in a breach in the psychological contract and how differentiated implementation gave rise to employee perceptions of unfairness. The process of qualitative interviews can be illustrated in four stages – formulating the research questions (see sec 4.1.); creating the interview guide; recruiting participants and carrying out the interviews as explained below (ibid, 2004).

4.5.2.1. Interview guide

No single figure is specified as the ideal number of interviews, deemed sufficient. A figure of 20-30 interviews is proposed by Warren while Gerson and Horowitz contend that fewer than 60 interviews are insufficient (cfm. Bryman, 2004). Too few interviews cannot support convincing conclusions while too many cannot be analyzed effectively. Prior to the pilot interviews two separate interview guides were prepared – one for HR Managers and the other for employees. The questions were developed based on the themes and sub themes identified after a review of the literature. An effort was made to start both the interview guides with broader questions related to the topic to make the interviewee comfortable followed by probing questions to obtain specific information. In both guides the last few questions were informative seeking the interviewee's opinions based on their experiences. In some ways this conforms to the laddered question technique that organizes questions on the basis of different levels of inquiry, employed by Price (2001). The questionnaire was a combination of mostly open ended and some closed ended questions. The former to gain valuable insights of employee accounts on what they found interesting to tell as a story which would answer our questions of why and how they perceived the outcomes of the changes the way they did and the latter to gather specific data pertaining to the exact changes that took place. Examples of closed ended question are: 'what types of training courses are offered by the bank?' 'Are bonuses distributed on the basis of performance only and what is the frequency?' Examples of open ended questions are: 'what conditions in your views created the need to modify pay practises and to what extent do you feel the outcomes match with the objectives you set out to meet?' 'Why do you feel your expectations related to the new pay practises are unmet and what is causing this dissatisfaction?

Using the data from the pilot interviews both the interview guides were refined in conformance with the approach advocated by King (2004) that 'the development of the interview guide does not end at the start of the first interview, it may be modified.' The *Questionnaire Guide for HR Managers (see Appendix B)* was designed with a two-fold purpose - to obtain information on the previous and existing HR practises (especially pay system and structure) and to understand the drivers and objectives for these changes. The questions in the *Employee Interview Guide* were developed to gather information on how the employees perceived these changes to have influenced their psychological contract and the ensuing relationship with the employer (see Appendix C).

4.5.2.2. Research participants

A total of 94 interviews were conducted at two levels – HR Managers and employees – in order to gather data pertaining to the different research levels: macro (drivers), meso (organisational) and micro (individual) level. For obtaining the perspective of employees to changes in pay and other HR practises in the bundle only employees in departments other than HR were interviewed to avoid the entanglement between intended and practised HR policies. Since employees in the HR department were involved in designing and implementing the new practises their views related to outcomes of these changes had the possibility to be biased.

Writers advocating the qualitative research approach recommend the use of purposive sampling technique as it attempts to link the research questions with the sample selected and because it is strategic in nature. In this research, for HR Managers, the purposive sampling technique was adopted with the rationale that they are most informed about the HR policies and practises of the bank and changes made during the last five to six years. This aligns with Maxwell's (1997) definition of a sampling strategy where settings and individuals are deliberately chosen because they possess information which may otherwise be unobtainable. In all banks the Group Chief HR / Country Head HR and their team members were interviewed. The HR Managers in-charge of Rewards and Compensation were interviewed along with two to three other HR managers. The latter included Manager – Recruitment and Selection, Performance management, Training and Development. However, the combination varied in each bank depending on the availability of individuals. In the first two banks investigated (B1and A1) all HR Managers were asked the entire set of questions in the interview guide but a review of the interview transcripts revealed that the information gathered was repetitive to quite an extent with negligible new insights. This is perhaps due to the nature of questions being asked which mainly pertained to the previous and existing HR practises and reasons for change. This information was factual and the responses given were similar. Therefore, in the remaining four banks HR Managers were only asked questions which pertained to the area under their purview in particular. In three banks (A1, B1 and B2) the Group Chief HR / Country Head HR was approached at the end of the data collection process to clarify or seek further information in areas where responses were weak.

In each bank twelve to thirteen employee level interviews were conducted depending on the availability of employees (see table 4-2). The purposive sampling technique was employed to an extent as criteria for selection – more than a year's service, non-HR employees, multiple hierarchical levels and different departments – was pre-specified to the HR personnel who were aiding in arranging the interviews. However, for convenience purposes, the selection of employees limited by the above criteria was left to the HR personnel. They were identified by the latter on the basis of their personal networking[32] but some of the respondents were also identified by those previously interviewed[33].

Table 4-2: Summary of total interviews conducted

Banks	**A1**	**A2**	**B1**	**B2**	**AB1**	**AB2**	**Total**
HR Managers	4	3	4	3	4	2	20
Senior Managers	3	3	3	4	3	3	19
Middle Managers	5	5	5	5	5	5	30
Officers	4	4	4	4	4	5	25
Total	16	15	16	16	16	15	94

Source: Interviews conducted

4.5.2.3. Conduct of interviews

Prior to each interview the participants were given an information sheet (see appendix J) giving a brief of the study, its purpose, objectives, focus and scope. In addition to the initial assurance given for anonymity, a document was given to each participant for signing; it declared that *'they would be allowed to withdraw from the study at anytime and that their name would be kept confidential.'* According to Rubin and Rubin (1995) this is significant in research related to sensitive issues such as pay in this case. The HR Manager coordinating the data collection process was informed about the criteria for interviews ahead of schedule so relevant participants could be

[32] convenience sampling due to availability and access issues
[33] Snow-balling effect (Bryman, 2004)

selected in advance to ‘encompass variations expected to be of theoretical and applied interest.’ This approach was advocated by King (2004).

The interviews were conducted in multiple locations even within a specific case-study bank but only the Head Offices and branches located in the bigger cities were targeted due to limitations of distance and time. Interviews were generally pre-arranged with the consent of the participants and the Branch Manager. Senior managers interviewed were located in the Head Office because their position in the hierarchy and job responsibilities demanded closer proximity with the President / CEO of the bank. However, middle managers and Officers were mostly from branches. HR Managers were mostly located in the Head Office where the HR departments were centrally located as very few HR employees work in branches or regional / zonal offices.

The employee level interviews were conducted in various departments - Operations, Treasury, Investment, Consumer, Audit, IT / MIS and Corporate – in an attempt to diversify the sample of interviewees and to generalize the findings. Diversity in the sample was also required because of the limitation of an adequate number of individuals in one department. Some interviews were conducted in separate rooms while others were conducted at employee work stations (for convenience purposes). However, the latter resulted in interruption at times. The interviews of HR managers lasted for approximately 90 to 120 minutes while those of the employees were completed in approximately 35 to 50 minutes. However, some interviews were shorter in duration as the respondents were hesitant to share information due to concerns of backlash by management. Even in such cases, all the questions in the guide were completed and the participants were reassured of confidentiality of data. The interviews were recorded with the prior permission of the participants.

4.6. Data Analysis and limitations of the study

The data analysis revolved around three major themes within the framework of the HR architecture and the influence of ownership structures (where evident). First, the old and new pay structures and systems; the sub themes included the principles defining the new pay structures and systems, objectives for these changes and drivers resulting in the changes. Second, the changes in other practises in the HR bundle; the sub themes identified were reasons for changes, the differentiated implementation of these practises and consequent conflicts in alignment between the practises. Third, the influence of changes in pay and other practises in the bundle implemented differently across the employee workgroups on the employee psychological contract were examined through sub themes like changed employee expectations, reasons for unmet expectations, perceptions of breach in contract and antecedents of pay satisfaction / dissatisfaction. The last theme was analyzed in the broader context of notions of justice.

Once the interviews were completed, the process of transcribing the recordings was carried out. Most of the interviews were conducted in English with insertions from the national language (Urdu) as the medium of teaching and instruction in higher and professional level education in Pakistan is English. It is because of Pakistan's long colonial history under the British and thereafter its close relationship with the United States that the official language continues to remain English. For this reason, any variations in the actual meanings of what was said were avoided during the process of transcribing and originality of data was maintained.

Since the aim of this research was to understand the multiple realities in terms of employee perceptions to changes in the HR practises, the analysis of interview data emphasized on the content rather than the discourse features. This is in accordance with Halcomb's (2006) position that different methods for transcribing exist but the one selected should be aligned with the objectives of the research. The next step was coding the data for which the *'open-coding'* technique highlighted by Strauss and Corbin (1998) that follows a line-by-line scrutiny of data and allows for its fragmentation to systemize labelling of information was adopted. Subsequently, data was arranged according to the a priori and emerging themes which is labelled as *'axial coding'* (ibid, 1998), for a more precise understanding of the issues and for creating links within and between the themes and sub themes. Hence, elements of both the inductive and deductive approach were incorporated. The process of *'iteration'* highlighted by Bryman (2004) was continuously used in parallel for example, after the initial interviews, transcripts were reviewed and reflecting on the emerging themes and concepts additions and deletions to the interview guide were made. The iterative process is a general strategy which *involves weaving back and forth between data and theory,* is particularly evident in grounded theory (Bryman,

2004) and in our view helps in refining the research data to reflect issues on which richer data is available. Another example of the use of iteration is visible in the constant comparison (Glaser and Strauss, 1967) between data and theory during the coding process to link together the different themes and sub themes.

Originally developed by Glaser and Strauss (1967), the grounded theory holds the potential to offer insights into complex phenomenon to enhance the understanding as the themes emerge from the data rather than conversely. It has widely been used in studies as a technique for data analysis and coding rather than inductive theory building according to Welch et al. (2011 p. 744) and complements other approaches to qualitative data analysis (Charmaz, 2006). It is also used for 'the elaboration of existing theory' rather than untethered "new" theory (Suddaby, 2006 p.635) as a middle ground between theory laden research and *unfettered* empiricism. It is open-ended and flexible to align with different paradigms (Denzin, 2010) and its precepts are considered as guidelines rather than rules which encourages their adoption / adaption according to positioning of the research. In view of the above, we sought the partial application of this theory by constantly weaving back and forth through data, refining coding and analysis themes and sub themes based on information reflected from data and linking substantive theory with findings emerging from our research. This decision was made for multiple reasons: (i) as proposed by Suddaby (2006) the grounded theory has been used as an excuse for not studying extant / substantive literature resulting in 'a random mass of descriptive material waiting for a theory, or a fire' (Coase, 1988: 230). However, this is a mis-conception as in their seminal work Glaser and Strauss (1967) mentioned the importance of substantive theory as a *strategic link* in the formulation of grounded theory.

'We believe that although formal theory can be generated directly from data, it is more desirable, and usually necessary, to start the formal theory from a substantive one. The latter not only provides a stimulus to a "good idea" but it also gives an initial direction in developing relevant categories and properties and in choosing possible modes of integration. Indeed it is difficult to find a grounded formal theory that was not in some way stimulated by substantive theory.' (Glaser & Strauss, 1967: 79)

To avoid such an accumulation of abstract, directionless data, a careful study of extant literature was carried out prior to formulation of the research questions and the questionnaire guides to maintain focus in the research; (ii) this method aligns with our key research assumptions which aim to understand how the interaction between changes in pay and other HR practises in the bundle, designed and implemented differently for select employee workgroups influences their perceptions; (iii) this is in agreement with the purpose of studying the relationship between multiple actors and how their interaction may influence construction of reality which was originally stated in grounded theory as ‘not to make truth statements about reality but rather elicit fresh understanding’ (ibid., 1967); (iv) its use has been deemed appropriate to make knowledge claims about how individuals interpret reality rather than what an objective reality is (Suddaby, 2006 p.634) which is consistent with our aim. In sum, partial application of grounded theory was adopted for this research because as stated by Charmaz (2000) no clear boundaries for what it entails exist. However, it complements with other qualitative analysis techniques as its precepts can be adopted / adapted selectively.

No software for analysis of qualitative data was used essentially because the nature of the investigation was interpretative and loss of data due to the creation of forced categories was being avoided. Separation of the researcher from the actors / objects of the research is predominantly a positivist thought while interpretivists consider the researcher to be an element of the research process which cannot be delegated to an Algorithm. Further, qualitative software programmes can be useful in organizing and coding data, but may not be a substitute for the interpretation of data (Suddaby, 2006 p. 638). Consistent with this logic, the process of analysis which included identifying the different data sets, creating the links between them and interpreting the meaning to be ascribed to the data was managed by me without the aid of any software programmes like NVIVO.

Despite the rigour and systemized research design adopted, some methodological limitations exist in this study which essentially provides avenues for further research. The predominantly qualitative nature of the investigations deprive to some extent findings which could highlight the causal links and historical evolution patterns of changes in pay practises, other HR practises and employee perceptions related to the outcomes of these changes. The use of quantitative data collection techniques like surveys can provide such measureable and quantifiable data which can establish relationships between variables / factors more distinctly. While the multi-case design employed here provides an opportunity to identify similarities and differences between the organisations under study making the findings richer, it cannot holistically and in totality examine each of the case-study organisations to highlight in-depth the effects of internal, external and contextual factors on the phenomenon under study. Further, the exclusion of foreign banks can highlight the nuances related to influences, effects and implications arising from the national level factors but it tends to under emphasize the role of global organisations and factors.

4.7. Ethical issues, values and practical considerations

To prepare the participants and to ensure their level of comfort with the researcher an information sheet and a consent form (pre-approved by the University Ethics Committee; see appendix K) was given to them prior to the interviews. The participants were also explained the need for recording the interviews and permission was taken for this purpose. They were also explained that anonymity of information would be ensured and coded quotes would be reported in the dissertation for this reason. The actual interview was only started after they agreed and consented to the above. In the case of official documents, the bank management was given a written and signed request with a clause of non-disclosure of the material in any shape or form under the name of the bank. They were also guaranteed that the name of the bank or any information which could reveal its identity would not be documented in the exact terms.

The significance of values and practical issues and concerns cannot be under emphasized as they determine to a large extent the organisations selected for the study, the sample size, the method for data collection and the process of data compilation. In case of the former, much effort was put to eliminate any kind of deliberate attempt to bias through self-reflection at every stage of data collection (selecting participants, the time allocated for each interview, the questions asked) and analysis (interpreting and transcribing). Bryman (2004) believes that 'there is a greater awareness today to the limits of objectivity in social research' and a 'growing realization that researchers may let their values influence the research' (p.23).

However, a remedy suggested by Turnbull (1973) is that the reader be made aware of the aims, expectations, hopes and attitudes of the writer which influence how and what they see. This research also started with a discussion of the aims and objectives the researcher aspired to achieve, the gaps in existing studies on pay systems and structures and the motivation for the research. In addition, the practise of self-reflection greatly inhibited the influence of personal values and bias in the research.

4.8. Measures of qualitative research

There is little agreement between researchers on the criteria to measure the quality and rigor of qualitative research; writers like Mason (1996) believe in applying the same criteria of reliability and validity as in quantitative research while others like Le Compte and Goetz (1982) redefine the meaning of the above terms and Guba and Lincoln (1994) argue that qualitative research should be assessed by alternative measures like trustworthiness and authenticity. Each criteria provided by Guba and Lincoln replaces one of similar kind used to measure quantitative research. For example, credibility replaces internal validity, transferability external validity, dependability reliability and confirmability replaces objectivity. This suggests that the criteria of reliability and validity as employed in quantitative approach cannot be used in qualitative research because it supports a single explanation of social reality which contradicts the position taken by social scientists; they believe that there can be several different explanations to a social reality.

The explanation below highlights how this research was designed, in an attempt to meet the criteria laid down for qualitative studies. Credibility of the research was established by tightly following a defined process which included efforts to re-approach some participants for follow-up interviews to enhance data clarity and HR Managers to gain access to documents. The latter were a source for data triangulation which Mackay and Gass (2005) claim enhances credibility of the research. This guided the understanding of the researcher and facilitated in confirming that which was being reported. For example, in bank ‘AB1’ the data from appraisal questions presented ambiguous results as some employees said the appraisal rating was based on numerical values while others stated it was based on a letter grade ‘A, B, ...’ Documents collected from the bank also gave evidence of the presence of both systems but clarification from HR Managers revealed that the numerical values were only to add up the total from different sections of the form and actually pay increase was based on a letter grade.

To increase the possibility of transferability of data, in-depth interviews of HR Managers across the case-study banks were used to generate rich data and similarly interviews with employees provided sufficient detail for thick descriptions. Lincoln and Guba (1985) define this as a means for improving transferability of the research. Thick descriptions elaborate the context of the research, the environment and culture of the organisations studied which subsequent researchers can use to assess if similar findings hold true in their research (which investigates similar issues but in a different context). In other words this can be used for replicating studies. This conforms to the position taken by Hartley (2004) to describe generalizability which she states is the knowledge (processes and context) specific to an organization that helps in identifying the conditions under which the same behaviour can be expected to be repeated. Also, this contextual data provides the reader with details of the population on whom the study was carried out leading the reader to generalize through their experiences and understanding (Stake, 1981). Further, of the total 47 banks in the sector, 24 remain after excluding specialized, Islamic, micro-finance and foreign banks of which we have examined six (25 percent of the entire sample) that carry out the mainstream banking operations – commercial banking, investment banking and corporate banking. While we seek to provide a better understanding of the issues examined rather than an explanation, the percentage of sample size covered and the number of interviews 94 can possibly reduce concerns regarding generalizability.

To present the research as dependable, the researcher maintained all records of the participants through multiple sources like the consent form they signed, the recording of interviews and electronic copies of both transcripts and recordings. Similarly, certain observations during interviews were made on the interview guides and different versions of the interview guides were also saved for referral purposes. Also, efforts were made not to let any theoretical or practical bias enter the research by continuous reflection of the data in an attempt to ensure that only issues and themes emerging from the data were guiding the analysis of the research.

4.9. Brief of the six case-study banks

Bank A1

This bank is the oldest established bank in our sample of six case-study banks. It is a public sector bank that traditionally used to deal with major clients in the public sector in addition to providing services on behalf of the Government of Pakistan. The bank is structured on functional basis with departments established according to the specific nature of activities performed and is divided along hierarchical lines to comprise five employee workgroups which include senior managers, middle managers, Officers, clerical and non-clerical employees. Additionally, there is clear segregation of employees according to their entry track, duration of service and contractual agreements. These workgroups include incumbent employees whom we define as having a service of between 15 and 30 in the same bank, MTOs (batch hired employees with minimum masters qualification), contract employees (mostly senior managers on fixed-term renewable contracts) and individual hired employees.

During 2006-07 major initiatives were undertaken to improve the corporate governance structure at bank A1. The board reconstituted its committees and revised their terms of reference to make the committees more responsive to the changing needs. Apart from this a major reorganization exercise was undertaken at the management level to improve corporate governance and strengthen and modernize bank A1 which was critical in light of the developments which had taken place across Pakistan's financial markets at that time. The HR department was renamed from the personnel department in 2005 and currently operates with five divisions, namely - Recruitment and Career Development, Employee Benefits, General Services and Admin, Reward Management and Performance Management and Information Systems and Employee Relations and Trainings – to perform its activities. A major restructuring of the HR department was undertaken in 2007 with the stated aim to improve service standards, increase consultation with line departments, ensure greater accessibility to and enhance channels for open communication with management. The primary focus of the HR department was the introduction of policies and procedures to instil a performance based culture in the bank. The major achievements included the launch of a new compensation and benefits structure for Officers and above (in 2007), introduction of a Voluntary Separation Scheme (VSS) for employees in clerical and non-clerical positions and re-designing of the performance management systems.

2007 was the second year of implementation of the automated version of the new performance management systems and during this year two training workshops were conducted for newly recruited Officers to prepare them for the online self service module. Further, as an outcome of a salary survey conducted by an internationally renowned consultant, an in-house taskforce was established to review the compensation and benefits structure of bank A1 and based on its recommendations the board approved the new compensation and benefits structure which was launched from June 2007. This was done to align the benefits structure with the market and to shift towards a defined contribution system. Its main features were the revision in salary scales, increments based on performance assessment using the bell curve grade, conversion of future pension benefit into gratuity and the establishment of a contributory provident fund instead of a general provident fund. The previous pay system continued in parallel. The bank offers multiple training programmes such as function specific training, foreign training, internship / attachments, higher education opportunities and international internships / attachment programmes. Bank A1 has also moved towards evaluation of the trainings based on Kirkpatrick's four-level model which management stated is now considered an industry standard across the HR and training communities within Pakistan. The four levels of Kirkpatrick's evaluation model essentially measure, reaction of participants, learning, behaviour and results.

Bank A2

Bank A2 is the largest commercial bank in Pakistan which operates in the public sector with a balance sheet size that surpasses that of any other domestic bank. It has built an extensive branch network with 1000 plus branches and over 10000 employees in Pakistan with the branches categorized into three distinct categories based on the number of employees. To redefine its image as a modern commercial bank it underwent major restructuring in the last 12 years which included the floating of some percent of its shares in the stock market, change in its organisational structure and redesigning of its HR practises. Post reforms it developed a wide range of consumer products to enhance its portfolio and cater to the different segments of society.

A number of initiatives were taken for institutional restructuring which included changes in the organisational structure, HR policies and procedures, internal control systems with special emphasis on corporate governance, adoption of capital adequacy standards under Basel II framework and the upgrade of its IT infrastructure. This includes expansion of its ATM network and connectivity to increase its outreach to customers in addition to automation of various management and operational processes. Further, the bank also introduced a golden handshake scheme twice in the years between 2002 and 2007 to lay-off excess employees who were employed due to political and other influences in the 1980s and 1990s. These initiatives were not undertaken to privatize the bank but were aimed at redefining its image as a responsible, professional bank with modernized processes similar to those in any other private commercial bank in the domestic industry. The restructuring exercise resulted in reduced layers aimed at making its over 1200 branch network more efficient through reorganizing its reporting channels for example. This resulted in the creation of 29 regions and five regional management teams that were headed by Regional Business Chiefs. The regional heads reported to the Regional Business Chiefs with dotted lines of communication along the functional Group Chiefs located at the Head Office.

The stated HR objective of bank A2 is to become an employer of choice and to maintain complete industrial harmony within the institution which they believe is attainable through continuous development of HR processes and hiring of talented employees. The policy of recruiting talent from the market was with the intention to increase the operational effectiveness and to enhance the quality of customer service in all functional areas of banking. The new hiring of Master's qualified Management Trainee Officers (MTOs) in batches was made to induct fresh blood at the entry level management positions and experts for senior management and some middle management positions were hired on fixed-term renewable contracts. The MTOs were expected to develop into the second and third tier leadership lines and were initially placed in General Banking and other specialized areas of Treasury, Risk Management, Compliance, Audit and Human Resources after the rigorous training of

30 weeks. The new performance management system was introduced in 2007 and is not uniformly applied across all employee workgroups (this bank is an exception in our sample). Only senior and middle managers are awarded performance based increments while the management is making efforts to include Officers in this system as well. However, clerical / non-clerical employees refused to make their increments contingent on performance rankings. This is the only bank in our sample case-study banks which has a union and management was of the opinion that the employee union always created resistance to the induction of initiatives especially those which catered to performance improvement. It is also apart from the other banks investigated in that it continues to operate on a narrow, multi-grade pay structure with the number of pay allowances still in double digits. Further, unique to this bank is the introduction of a comprehensive employee engagement plan in 2007 which was aimed at improving the interaction of top and middle level management with the junior management (Officers). However, despite a weekly meeting between the regional management team and the employees (selected randomly in batches) employees had reservations related to the scheme's efficacy. In addition, the bank launched a scheme in 2008 which empowered women by assigning them responsible and challenging assignments based on a 10% quota for them, in pursuance of a government directive.

Bank B1

This bank is a commercial private bank and since its incorporation in the early 1990s it has been in a constant state of expansion. By the end of 2008 the branch network across Pakistan was expected to reach 250 with the number of employees increasing form around 1000 to 5000 plus over the past five years (till 2008). It is listed on the Karachi, Lahore and Islamabad Stock Exchanges and is principally engaged in the business of banking as per the Banking Companies Ordinance 1962. Till mid 2008 the bank had over 200 branches including 15 dedicated to Islamic Banking with an off shore unit as well. It had a shared network of over 2670 online ATM's and catered to a wide range of customers from corporate clients, to SME's, individual savers, households and farmers. The employees are classified hierarchically according to grades but for some HR purposes like training and promotion, classifications are also made based on the nature of work and entry track.

The bank underwent major restructuring between 2006 and 2007 to enhance its efficiency and to align the internal management capacities. This resulted in the creation of some new divisions and realignment of some others. During this period a change management program was also designed with the aid of an external consultant who identified organizational restructuring, re-classifying of business segments, internal operations control, human resource practises and processes, employer branding and service quality as the areas requiring attention. Consequently, the bank's organisational structure was revised and some more divisions were added like the Risk Management Division.

The HR department at the bank was renamed from the personnel department in 2004 and the number of HR employees increased from 10 to around 35 during the last five years. The Country Head HR is a member of the core management committees and is responsible for building the HR strategy of the bank which currently aims to reduce turnover, modernize HR process by acquiring HR software, induct quality human capital and invest in their training and development. New avenues for recruitment such as head hunting firms and on-campus hiring sessions were explored as early as 2005 and in 2007 the process of on-line job applications was introduced. Like the other case-study banks, B1 also has its own training academies and since 2007 the bank started conducting TNA exercises to assess the training needs of employees. The new performance management system was rolled out in 2006 but 2008 was the first year when employees started to receive pay increments based on the performance ratings. However the re-designed pay structure was implemented in 2007.

Bank B2

This case-study bank was established in the private sector as a commercial bank in 1992 under the Companies Ordinance 1984. However, its history predates this time period because it previously operated under a different management and name since 1972. The predecessor bank ceased operations in 1991due to financial and regulatory issues. B2 had a workforce of approximately 5000 employees and a branch network of more than 200 branches in 2012 that were mostly located in the north and central part of the country. Compared to the other banks investigated it has a considerably low percentage of incumbent employees and those that are present are mainly employees from the predecessor bank which was not a public sector bank either. The other categories of employees include MTOs, individual hired employees, and renewable fixed-term contract hired employees. An idiosyncrasy of this bank is the person based employment structure it has implemented since its inception relative to the other five case-study banks which continue to have the new pay structures underpinned in grade based employment structures. In addition, it is unique in our sample banks because of its better communication processes and work environment and also because it did not undergo any massive restructuring organisationally or in terms of its HR practises. In both instances the changes introduced were either gradual or minimal; the latter because its HR practises were not outmoded and had continuously been redesigned during the years.

The bank provides services to multiple client segments through its consumer banking, branch banking, investment and treasury banking and electronic banking operations and it introduced various new products (mostly in consumer banking) between 2004 and 2009. Under directions from the state regulator, like the other banks investigated, this bank also made changes in its regulatory and operational framework, in its HR practises and to some extent in its organisational structure. In the latter case new departments like Risk Management for instance were added. Further, it is the only bank examined that has a separate Training and Learning Department and its Head directly reports to the CEO. Other changes included the induction of banking operations software and the automation of certain HR processes such as performance appraisal and training. In terms of the various HR initiatives taken by the management, a significantly modified performance management system was implemented in 2005-2006 which was also automated in 2009 and the training activities were also automated in 2009. In addition, the bank introduced an online training evaluation module the same year and widened the portfolio related to the types of training available.

Bank AB1

Bank AB1 is a large sized privatized bank that has been in operation since the late 1940's. It was nationalized in the 1970's and after over three decades it was privatized in early 2000. The bank had over 1000 branches and 10000 plus employees at the time of interviews in 2010. The branches are spread over the entire geographical landscape of the country and are categorized according to their size and number of employees. They cater to small accountholders, small and large investors and government and business clients. The bank deals in investment, corporate, commercial, consumer and Islamic banking and penetrates each of these market segments. After privatization, the establishment of new banks and growth in the banking sector bank AB1 introduced many new products and services in an attempt to remain competitive.

The decision to privatize the bank resulted in major reforms of both operational and managerial nature which were aimed at attracting investors, re-defining the bank's image and enhancing its operational efficiency. For this purpose the government of Pakistan invited financial experts in the late 1990s to set the reforms rolling. These reforms included the reorganisation of the organisational structure with the merger of certain divisions and the establishment of new divisions like Islamic Banking, Investment Banking and Risk Management. The operational aspects included adherence to stricter guidelines issued by the state regulator for banking and adherence to international banking standards like Basel II. The focus of the managerial reforms revolved around the formulation of a framework for corporate governance which introduced guidelines for hiring of the CEO and board of directors and functioning of the bank. At this juncture, the HR department was revitalized and it was mobilized to revamp the HR practises and processes for attracting better qualified, experienced and professional employees.

As a consequence the composition of the workforce of the bank changed and in addition to the predominant presence of the incumbent employees (those who had been in the bank for many years and decades) the new employee architecture reflected significant inclusion of experienced bankers in senior positions on renewable fixed-term contracts and MTOs in entry level management positions. Changes in the HR department included the introduction of new HR practises like employee development, the restructuring of certain other HR practises like compensation, training and performance management and the automation of HR records. The changes first appeared in the training practise and were followed by compensation and then performance management. Like the other banks investigated bank AB1 also has training academies for its employees and has introduced mechanisms like the intranet and forums for enhancing the level of communication. However, owing to its history under public ownership it continues to have a bureaucratic culture with significant power distance in departments headed by and / or dominated by incumbents.

Bank AB2

Bank AB2 is a privatized bank with more than 60 years of operational history in Pakistan. It has a large branch network of over 1000 branches and the workforce is more than 10000 in number. The bank was incorporated at the time of independence of Pakistan and still continues to operate. It was initially established in the private sector, was nationalized with the other banks operating in Pakistan in the early 1970s and was privatized two decades later. The bank is headquartered in the north of the country unlike a majority of the banks operating in Pakistan and has an extensive branch network which spreads to the rural and far-flung areas of the country. Hundred percent of the bank’s branches are computerized at the district level and the bank has a large ATM network in Pakistan. It deals in retail and consumer banking, Islamic banking, trade and investment banking as well as corporate banking and focuses on broad market segments stretching from small / individual clients to large corporate clients and the government agencies / bodies.

The bank underwent a wave of reforms prior to privatization which were targeted at making the bank viable for divestment to the private sector; subsequently another exercise on broader reforms was undertaken to revamp the organisational, operational and employee / management related areas. The latter attempt was aimed at re-branding the corporate image of the bank and making its environment more professional and efficient in order to remain competitive in a deregulated banking industry that was growing with the establishment of new private banks. Other aims included adherence to guidelines issued by the state banking regulator for the functioning of banks and the requirement to attract and retain professional bankers from reputed foreign banks and young employees qualified from reputed professional institutions. More specifically, in order to retain its competitive edge the bank re-strategized to deploy quality banking heads, introduced technological developments, hired professionally leading management and established prudent and ethical work methodologies. It redefined its core values to highlight integrity as the trustee for public funds, respect for the expectations of customers, equality of gender and diversity of experience and excellence as a performance driven, result oriented organisation. Further, the bank shifted its focus to becoming customer centric and innovation savvy; the latter in order to encourage and reward employees who implemented new ideas which challenged the status quo.

In terms of the requirement to hire dynamic and forward looking employees, the bank adopted new entry modes which included the induction of young and professionally qualified employees in batches as MTOs and other individuals with experience in foreign banks as senior and sometimes middle management level (renewable fixed-term contracts). Additionally, many employees were hired on contract for the sales and consumer banking divisions in order to cater for the explosion in the products and services offered by the bank. In the context of the workforce, bank AB2 downsized the strength of employees through VSS schemes mostly to remove employees who were nearing the age of retirement or those who had been hired under political influence during the two plus decades of the bank's operations as a privatized bank. The bank was overstaffed at the time of privatization. However, despite these actions the incumbent employees who had reached middle and senior management positions by the time of privatization continued to dominate the workforce, at least in numbers.

The reforms related to HR included at first the renaming of the department from personnel to HR department which was broadly stated, followed by changes in the recruitment and selection, training, compensation and performance management practises. The reorganisation of the HR department included the establishment of new units / divisions / departments like Organisational Development and Strategic Planning. Related to the HR practises, the bank first revised the compensation structure in the late 1990s and then revamped the structure and made it contingent on performance in 2007-8. An extensive restructuring of the performance management systems was completed in 2008 and it was launched in early 2009. The bank also launched a bank-wide communications programme during the second restructuring phase in an attempt to improve the level of interaction between and within hierarchical levels but this was limited to the region in which a branch was located (generally bigger cities) and the individuals heading a particular branch / unit / division / department.

Chapter 5: The changing pay structures and systems

5.0. Introduction

Major changes took place in the pay structures and systems of domestic Pakistani banks (public, private and privatized) in the past decade and a half; they were part of a wider attempt to revamp HR systems. The three main patterns of shift include: transition from seniority to performance based pay systems, adoption of broadband pay structures and discontinuation of pension schemes in the public and privatized banks. Key drivers for change include – privatization and deregulation, economic growth and changes in business strategies which were largely external. Hence, the principles underlining the new pay structures were generally similar across the case-study banks. The primary objective of this chapter is to compare the new and previous pay structures and systems through investigating pay zones, means adopted for transition to the new pay practises and nuances arising in each case-study bank. The secondary objective is to identify the variety of managerial objectives for change and the internal and external pressures driving managerial responses.

This chapter is organized into seven sections. The first section analyses the employee profile and identifies the segmented workgroups which have implications for the new pay structure. The second section describes the new pay structures based on an analysis of pay zones, means adopted for transition and nuances of each bank. An overview of the previous pay structures is also presented for drawing a comparison. The third section explores the principles / methods for pay progress which indicate a transition from seniority to performance based pay systems. Sections four, five and six, investigate performance bonuses, other forms of pay enhancement and pension and benefits, all of which reflect a shift towards the performance pay system. The last section explores the drivers leading to change and the objectives management attempted to achieve from the new pay systems and structures.

5.1. Employee profile

Employee profile aids in an analyses of the changes in objectives for introducing new pay structures and systems. Further, in this research the employee profile aids in identifying the key characteristics which distinguish each group from the other in the banks for whom the HR practises were implemented differently. The employee profile is defined as the composition of the workforce[34] in the case-study banks and is explained with the aid of employment classification systems – grade and job based. The senior management of the public and privatized banks was inducted on renewable fixed-term contracts from foreign banks like Citibank, ABN AMRO and RBS. They later hired their team from the previous employers for better support in implementing the newly introduced changes.

Most domestic banks in Pakistan follow a grade based employment structure for classifying employees[35]. Table 5-1 illustrates the number of grades in each case-study bank according to the hierarchical level – senior and middle managers and Officers - which is used as the unit of analyses here on. Private bank B1 also follows a grade based structure because when it was established some Senior Managers were recruited from the public banks and they replicated the structures prevalent in their previous banks. Private bank B2 with nine pay levels is an exception; it followed a position / job based employment structure which was flexible and aided in classifying employees based on the roles they performed and their competence rather than seniority and job responsibilities as was the case in the other five banks (Appendix D). This has implications for pay structures for which details are provided in section 5.3 which discusses pay progress through job enlargement in bank B2. For example, Branch Managers (according to branch size), Team Leaders (according to size of portfolio) and Heads of Departments of large sized branches and large departments at Head Office were placed in range V-VII. Similarly, Credit Officer and Trade Finance Officer, Officers with more than three years of relevant experience in any department, secretaries with five years relevant experience and MTOs were placed in range III.

[34] and workforce segmentation of employees due to multiple hiring tracks

[35] This was conventional for the public sector and explains its continued presence in four case-banks investigated - the two public banks and the two privatized banks which were in the public sector less than a decade ago.

Table 5-1: Grade-based employee classification in five case-study banks

	A1	A2	B1	AB1	AB2
Senior Management	OG-7, OG-8 and XY*	EVP and SEVP	SVP, EVP and SEVP	EVP and SEVP	EVP and SEVP
Middle Management	OG-4, OG-5 and OG-6	AVP, VP and SVP	Asst. Manager, Manager, AVP and VP	AVP, VP and SVP	AVP, VP and SVP
Officers	OG-2 and OG-3	OG-III, OG-II and OG-I	OG-III, OG-II, OG-I and MTOs	OG-3, OG-2 and OG-1	OG-III, OG-II and OG-I

Source: Adopted from company documents

Note: OG represents Officer Grade; AVP, Assistant Vice President; VP, Vice President; SVP, Senior Vice President; EVP, Executive Vice President; SEVP, Senior Executive Vice President

**** Employees in XY Grade (Acronym) include Chief Executive Officer and top advisors.***

*****Bank B2 is not included as employment structure is based on a hybrid of mostly job and partially grades.***

In two case-banks (B1 and A1) a grade was added at the top of the hierarchy in 2006-2007 but for different reasons. The resultant implications for pay also varied. Previously, in bank A1 Directors / Head of Departments were placed with other employees in Grade OG-6 who were not Directors /Heads of Department (see Appendix H). So, those amongst the Directors who had completed two years of service with the bank were promoted a grade above and Executives who were already in OG-7 were re-classified to OG-8 (the new grade). The table below indicates that this change resulted in a significant increase in the percentage of senior managers (79%) while middle managers and Officers increased by an inconsequential percentage only.

Table 5-2: Changes in employee numbers by job grade in bank A1 following grade addition

		2006	2007	2008	Percentage increase from 2006 to 2008
Senior Management	OG – 8		8	8	**79**
	OG – 7	8	20	30	
Middle Management	OG – 6	39	27	40	**15**
	OG – 5	108	100	104	
	OG – 4	120	143	171	
Officers	OG – 3	302	469	417	**14**
	OG – 2	234	171	206	

Source: Annual performance review report bank A1 (2006 and 2007)

In bank B1 a grade was added at the top of the job ladder due to expansion in the branch network and hiring of new employees[36]. As a result employees in all grades Officers and above were promoted without any conditionality on service or performance. Promotion of employees in this case did not result in a noteworthy change in the composition of senior, middle or Officer Grade employees but enhanced pay satisfaction (as discussed in chapter 7).

In all case-study banks, multiple entry tracks resulted in the segregation of employees into different workgroups within and beyond hierarchical levels, according to HR managers and employees interviewed. The diverse methods of hiring resulted in three forms of segmentation: incumbent vs. new / young employees; permanent vs. contract employees; and batch hired Management Trainee Officers (MTOs) vs. individual hired employees (refer to table 5-3). It created disparity in career and pay opportunities for different workgroups and caused perceptual issues of fairness and justice.

[36] especially at entry level (MTOs) and Middle Management

Table 5-3: Employee workgroups due to multiple entry tracks

Employee Workgroups	A1	A2	B1	B2	AB1	AB2
Individual Hiring	✓	✓	✓	✓	✓	✓
Batch Hiring (MTOs)	✓	✓	✓	✓	✓	✓
Third party contract *			✓	✓	✓	✓
Renewable Fixed term bank contract	✓	✓	✓	✓	✓	✓
Incumbents	✓	✓	✓	✓	✓	✓

Source: Interviews of HR Managers and employees

**** Employees hired for sales positions only***

At the time incumbent employees were hired, a professional or Master's degree was not a requirement and employees with such qualifications were limited in number. However, the new / younger employees who were hired during and post reforms were professionally qualified, technically better equipped and IT literate. This division between incumbent and more qualified employees was accompanied by more favourable HR practises for the MTOs which created perceptions of preferential treatment in pay and career progress. Both privatized and public banks in our sample were four to five decades old (at the time of interviews) so the presence of incumbents was strong in these banks. It was evident from interview data of HR managers in these four case-study banks that most of the incumbent employees (with15 to 40 years of service) were members of middle or senior management[37]. In both private banks the division was less strong. In private bank B1 only some incumbents were initially hired from public and privatized banks and in private bank B2 a few employees of the

[37] Employees nearing the age of retirement in the public and privatized banks opted for the Voluntary Separation Schemes as well, which were handsome. Incumbents chose to continue and compete with younger employees to meet a different set of management expectations (Ch 7).

predecessor bank (P1 which had dissolved) were hired in senior and middle management to start operations.

In addition to the regular employees, individuals were inducted on contract. Banks in Pakistan hired employees on renewable fixed-term and third party contracts increasingly in the last decade for two reasons: first, to respond to the need for commission-based sales staff following the emergence of consumer banking; second, to induct professional bankers from foreign banks due to restructuring at the operational and management levels. Hiring of all third-party contract employees for sales positions was managed through an outsourced temporary employment agency and these employees remained on the latter's pay roll. Renewable fixed-term contracts were extended to key middle managers or senior managers hired through references or head hunting agencies. Mostly senior managers on fixed-term contracts were paid higher salaries, exceeding those of the permanent employees who had served the bank for decades. However, they were not considered for promotion.

MTOs were Master's qualified from leading professional education institutions and were hired in batches as Officers to cater for expansion in operations, competition in new product markets and restructuring / reforms. A strict merit based criteria was applied through a process of competitive examination and interviews. This scheme existed in all six case-study banks investigated but only the two private banks identified MTOs separately in their employment structure possibly because they had few incumbents and hence feared no backlash from them. Officers hired individually were not necessarily Master's qualified and were from educational / professional institutions which were not highly rated. [38] In all banks only MTOs were promised two quick promotions in the first few years (subject to performance) up to middle management grades. Resultantly many MTOs were either in the same or higher grade (in some cases) than the incumbent and individually hired employees. Also, banks invested more in their training and compensation to retain them.

In summary, five of the six case-study banks investigated followed a grade based employment structure for employees with the exception of private bank B2 which had a position / person based system. Four banks (two public and two privatized) had

[38] According to a list issued by the Higher Education Commission – body for overseeing educational institutions in Pakistan.

eight grades while the two private banks had between nine and ten grades / levels and one public (A1) and one private (B1) bank added a grade at the top of the structure when it was modified. The three most commonly cited employee workgroups were created due to the multi-track hiring policy in all case-study banks. These included - incumbent vs. new / young employees, contract vs. regular employees and batch (MTOs) vs. individually hired employees. These groups are reflected in the design and implementation of the changed HR practises (chapter 6) and bear implications for employee perceptions related to changes in HR practises and notions of justice (chapter 7).

5.2. Pay structures

A comparison across the three categories of banks – public, private and privatized – reveals that previously, five case-study banks followed a multi-grade pay structure with narrow pay bands while the sixth bank (B2) which was established in the private sector and had no influence for the public sector banks had a broadband pay structure. Pay structures comprised of basic pay plus a number of additional allowances (between nine and thirteen) calculated as a percentage of the basic pay. Tables illustrating principles and structure of pay under the previous and new system are attached at Appendix E. Also a uniform pay structure existed for all Officers and above employees in five case-banks. The one exception was at public bank A1 which implemented a separate pay structure in 2003 that incorporated higher rates of pay in order to recruit and retain specialized professionals in Information Technology and Information Systems (see Appendix F). However, it was discontinued in 2007 when the addition of an additional pay grade in the job ladder (see above) provided an opportunity to move IT professionals to a higher job grade.

The previous multi-grade pay structure (except B2) had incremental pay points which were increments employees received every year. The amount and percentage was higher for employees in higher grades[39]; incremental steps in the structure differed across banks and ranged between 20 and 30. In some instances, like bank AB1, the number of pay increments also differed between grades -- the highest grade SEVP had 14 steps while the lowest grade OG - 3 had 21. In all five banks, an upper and lower

[39] For example in Bank AB1 OG - 3 employees got an increment of Rs. 175 while SEVP (highest grade) received Rs. 485.

limit was defined for each pay grade and ranges overlapped. Grade drift which meant higher pay with no formal change in grade was a common practise. This rewarded an employee who had reached the maximum in their grade with pay of the next higher grade without a promotion but they were not eligible for benefits / allowances of the next grade till they were promoted.

The private bank B2 is distinctive because it applied a broadband uniform pay structure since the bank was first established. Henderson (1998: 209) argues that 'broadbanding focuses efforts on valuing somewhat dissimilar jobs similarly for pay purposes.' Compared to the other five case-study banks, there has been relatively little modification of pay structures at B2, as we detail below. Its distinctiveness lies with its specific history and ownership structure. It was established in the private sector, was never a part of the public sector unlike the privatized banks and differs from the other private bank B1 because of its significantly smaller workforce with previous employment history in the public sector.

5.2.1. Comparison of the new pay structures

Transition from a multi-grade to a broadband pay structure was evident in four case-banks (A1, B1, AB1 and AB2) while bank B2 already had a broadband pay structure and bank A2 continued with the multi-grade pay structure with upward revision in the ranges due to employee union influences. Armstrong (2010) defines multi-graded structures as those containing 10 or more job grades with a narrow pay span (p.13) and an emphasis on hierarchy with upward progress only through promotion or re-gradation (p. 316). Broadband structures typically entail four to five bands, were originally managed through unstructured bands based on market or spot rates and progress depended on competence or wider role responsibilities. However, our data indicated that in practise, reference points aligned to market rates which extended into zones were used in banks A1, B1, and AB2 while there was an absence of defined zones and ranges in two banks (B2 and AB1).

Triangulation of data from interviews of HR managers and bank documents revealed that the new pay structures remained anchored in grade based employment structures in five case-banks, as in the past, except B2 which had a job based pay structure. Details for not moving to a job-based pay structure were provided by bank B1 only.

Their HR department proposed to switch from a grade to a job based pay structure to benchmark pay for key jobs like Retail Head, Commercial Head, and Corporate Relationship Manager with the industry. In part this was in response to concerns of employees in specialized departments like Credit and Risk Management who felt their pay was less than the competitor banks. However, the Board of Directors felt that the transition would require very substantial pay increases for some jobs[40] which would widen pay differential within grades and could result in employee discontentment as they were accustomed to internal parity. The following discussion is divided into four parts – description of the new pay structure, pay zones / ranges, means for transition to the new pay structure and nuances across the banks.

Description of the new pay structures

Bank A1 had seven bands and bank B1 had ten which may be considered more than the standard. Armstrong (2000) for example suggests between three and five for a standard broadband pay structure with a large bandwidth.[41] In bank B1 the pay increase was substantial in all three employee categories after the change in pay structure and ranged between twice and more than three times in comparison with

[40] Like Middle Managers in operations division would get considerably less pay than those in the specialized risk division as few professionals were available in this area.

[41] In bank A1 for example, the lowest grade (OG - 2) the width was Rs. 62000 which increased to Rs. 510000 for the highest grade (OG – 8).

Table 5-4: Main features of the previous and existing pay structures

Banks	Previous	Existing					
		Structure	**Pay bands**	**Overlap**	**Pay limits / ranges**	**Nuances**	**Allowances**
A1	Multi-grade	Two parallel: 1. Continuation of previous multi-grade with upward revision of pay ranges 2. Broadband	Seven	Substantial	Upper and lower limits defined	Two separate pay structures	Three - Four
A2	Multi-grade	Multi-grade	Eight	Substantial	Upper and lower limits defined	Spot rates	Eight - ten
B1	Multi-grade	Broadband	Ten	Substantial, greater for higher grades	Defined zones with min, max and midpoint	Spot rates	Three - Four
B2	Broad-band	Broadband	Nine	Undefined because there were no band limits so overlap could not be calculated	Only lower limit defined	Market adjustment	Three
AB1	Multi-grade	Broadband	Three	Undefined because there were no band limits so overlap could not be calculated	No upper or lower limits	Market adjustment	Four
AB2	Multi-grade	Broadband	Six	Inconsistent as pay ranges were not fixed and were based on actual salary paid	Upper and lower limits based on actual salary paid in a grade. Divided into 4 quartiles	Spot rates	Four

**** Source: bank documents.***

***** Pay consisted of base pay and allowances in all case-banks***

the previous structure; it was highest for Senior Managers (3.5 times). This is because earlier the bank had very low pay levels relative to the market. In bank AB1 the new pay structure consisted of three pay bands for two cadres (Executives and Officers) in which the nine previous grades were adjusted. There were two pay bands within the Executive cadre for senior and middle managers while the other band was for Officers. In bank AB2 the new structure consisted of six pay bands while the previous structure had 10 pay ranges. Bank B2 had a broadband pay structure with nine pay bands since its inception. The only modification was an upward revision in 2008 of the lower limit of each pay band. In the opinion of a Senior HR manager,

'Unlike the other banks we already had a fairly well developed pay structure (broadband) and pay was linked with performance to some extent. We lagged behind the market in pay level which increased quite steeply across the industry in 2004-05 and beyond, so that was the only change required.' (B2HR3)

The only bank in our sample which continued to implement a multi-grade pay structure in line with its tall hierarchy and large workforce was bank A2. Maintaining internal equity was as important as matching market pay levels for them. These pressures were evident to some degree in the other banks as well. Armstrong and Brown (2001) contend that institutions with formal, hierarchical structures prefer conventional structures which are easy to manage and address internal relativities. Triangulation of bank documents and interview transcripts revealed that the limits for each pay scale were substantially revised upwards. The major change in the new structure was performance rather than seniority increment for middle managers and above. Officers were an exception; their increments continued to be allocated as fixed percentages[42] because of pressure from the union to retain the pay structure / system which provided equitable treatment regardless of other factors like performance, contribution and skills.

Evidence from data indicated that five banks (A1, B1, B2, AB1 and AB2) had between three and four allowances under the new pay structure which were calculated as a percentage of the basic pay. These were reduced considerably in number; for example, at bank B1 seven[43] out of ten allowances were abolished. The three remaining are House rent allowance (45% of basic), Utilities allowance (10% of basic pay) and Medical allowance (10% of basic). In part, these changes were driven by

[42] The process and criteria for increments will be discussed in detail in the next section on pay progress

[43] Previously, they also included the special duty allowance, winter allowance, special pay, technical allowance, dealer allowance and education allowance.

the new tax rules and a desire to avoid administrative complexities. An HR manager responsible for compensation and benefits explained.

‘ the advent of the new tax regime made some allowances redundant [as no tax benefits associated with them continued] and calculation of the total pay bill with 12-13 allowances was laborious. We barely had an idea of an employee’s pay.’ (B1HR4)

In the case of bank AB1, some allowances were fixed at a uniform rate for all employees[44], while the rate of others varied across the bands[45]. Bank A2 was an exception and retained all eight to ten allowances in the previous structure with significantly increased rates. The compound effects of increase in basic pay and rates of allowances (calculated as a percentage of basic pay) were reasons for the sizeable increase in total pay of all employee workgroups.

Pay zones

The new pay structure featured defined pay limits (upper and lower) and zones in three case-study banks which had adopted a broadband approach (A1, B1 and AB2) while two banks B2 and AB1 preferred loosely constructed bands (see Appendix I). In the case of AB2 these were based on the actual minimum and maximum pay employees were receiving which was a requirement in view of the market pay levels which were changing quickly and frequently due to the dynamic pace of changes in the sector. The HR manager in bank B1 elaborated that pay was kept above the median only for employees with prior earnings or experience which warranted an exception to the general rule of placing employees at or around the midpoint. Employees with no experience or with experience but weaker qualifications were kept at the lower end of the relevant pay grade. Bank AB2 divided each band into four quartiles and pay for employees was generally fixed at quartile two, especially for senior managers, as opportunities for promotion were less and more room was reserved for future pay increases.

[44] House rent and Medical at the rate of 45% and 10% respectively

[45] Utilities Allowance was highest for the lowest band while Conveyance Allowance was only for employees in AVP grade and below as Middle and Senior Managers were entitled to a bank car.

The two banks with no defined pay limits were B2 and AB1. Bank B2 had a defined lower limit but there was no midpoint or upper limit. However, an HR Manager expressed that in future, management planned to define the maximum limit for each range as market pay levels had stabilized. This occurred because growth had stagnated in the industry and had resulted in reduced job opportunities for employees in the market. Also the shrinking profit margins compelled banks to control costs. By contrast bank AB1 was keen to stick with the flexible upper and lower limits based on market rates. HR managers at the bank viewed flexibility as a requirement in the face of rapid changes in the market pay levels and a diversified workforce of over 10000 employees.

'We have multiple workgroups, some with 20-25 years of experience with us who are not used to competing in this environment; some professionally qualified and trained youngsters whose progress we can't afford to halt, so flexibility is important. This is just one example; we have other types of employees as well.' (AB1HR1)

'…the market sets a benchmark for ideal candidates in a job or position, in view of their experience, qualification, exposure and professionalism, but all employees do not excel in all areas, so pay needs to be adjusted accordingly. Also we have different workgroups [incumbents and individual hired] so our decisions are made in view of their varying demands as we need to retain them.' (AB1HR2)

The overlap between pay bands was substantial in banks A1 and B1 where both the upper and lower limits of each band were identified; it increased as did grades while band width decreased with a decline in grades[46]. For example, in bank A1 Officer Grade pay overlapped till the lower limit of the next higher grade, middle management extended till the mid-point and senior management crossed the mid-point by a sizeable margin. In the two banks which did not have defined limits of each pay band (B2 and AB1), overlap could not be defined either, while in bank AB2 the overlap was inconsistent between bands because their limits were not fixed, rather they were determined on the basis of actual pay received by an employee within the band. The HR Head Organisation Development stated,

[46] For example, in bank B1 on average, in Officer Grades the overlap was between Rs. 13000 and 15000, in Middle Managers it stood between Rs. 60000 and 75000 and for Senior Managers it was the highest at Rs. 280000.

'Oh you will not be able to identify any such thing because currently our ranges are not static; they are based on the actual highest and lowest pay an employee is drawing in a particular band. We have no pre-determined limits because of ad-hoc hiring, a mix of incumbent and young employees and then contract employees make it even more difficult to follow limits even if they exist. However, we are now streamlining this.' (AB2HR2)

Means for Transition

Two case-banks (A2 and B2) continued with their previous pay structures while four banks (A1, B1, AB1 and AB2) implemented new pay structures. The means used to facilitate this transition varied across the four banks. Public bank A1 had two parallel pay structures (details in previous section). When the new pay structure was introduced employees were given the option to select; those who preferred to stay with the previous structure had longer service careers with the bank and wanted to safeguard the post retirement pension. Pay ranges in the previous multi-grade pay structure were revised upwards for them. All employees hired subsequently were governed by the new broadband structure. Management stated that after retirement of the incumbent employees who had opted for the previous pay structure, it would be discontinued[47].

'We have a few years of service remaining so we did not want to forgo our pension; this new scheme has no provision for pension.' (A1O3)

Bank AB1 implemented the new pay structure through a multiplier factor which aimed at maintaining internal parity and attaining market competitiveness. According to the HR Manager for Compensation, the multiplier was a specific percentage increase in pay for its upward revision in the transfer of an incumbent employee from the old to the new pay structure. The multiplier varied across pay bands and was in fact highest for the lowest pay band to ensure that those on lower grades, who earn less, do not stand at a disadvantage after implementation of the changes. Further, employees working in the same jobs within a particular grade received different pay based on the size of the branches (large, small or medium) and the city due to the

[47] A total of 418 employees in OG-2 to OG-8 grade opted for the new structure while 517 preferred to remain with the previous one.

varying availability of qualified individuals across cities. A senior manager provided the following justification.

'We have a large branch network and cannot afford to pay on the higher end in all branches like the foreign banks or the other private local banks. So in bigger cities we pay higher to retain employees.' (AB1S1)

Bank B1 managed this transition with the addition of a grade at the top of the job ladder which benefitted all employees as they moved a step up in the hierarchy. This was because pay of employees in all groups and at all hierarchical levels was low relative to the market and needed to be enhanced substantially to be competitive enough to retain the talented and performing amongst them. Additionally, upward revision in pay limits was made. In the case of bank AB2, the means of market adjustment was used for this purpose[48]. This approach was relevant because decisions were made on individual basis and only those incumbents who were working in key positions benefitted from this policy.

In addition, the case-study data suggests that spot rates and higher pay levels for MTOs were also used as a means for transition. Spot rates are defined as specific rates for individual jobs or people without any defined scope for pay progression to or beyond the rate; they provide flexibility but may result in the neglect of internal equity considerations and present the increased danger of paying unequally for work of equal value (Armstrong and Brown, 2001). Further, as stated by Armstrong (2000) spot rates 'bear no apparent logical relationship to one another and are determined by management intuitively' (p.35); they may be adopted by organisations that want to maximize the scope to pay what they like or to vary pay levels by means other than incentives (p. 213). Banks A2, B1 and AB2 used spot rates for some new employees who possessed exceptional skills, technical knowledge or experience. However, generally employees interviewed in these banks, especially middle managers and Officers in bank AB2 felt that the lack of a written qualifying criterion of what may constitute 'exceptional' skills for example, created mis-perceptions and raised issues

[48] The details of how this was managed are covered in the next section on pay progress.

of trust and fairness discussed later. The following comment by a middle manager is illustrative of the sentiments of other employees,

'I was hired on merit through a three stage selection process but people recruited on contracts within my grade with similar responsibilities are getting better pay. In Pakistan there are many influences on disregarding merit in hiring and also paying such employees higher salaries.' (AB2M4)

In practise, spot rates were used to meet the pay demands of newly recruited employees in emerging fields and senior management positions which transgressed the maximum limit of the grade they were hired in. However, employees interviewed expressed that in some cases those recruited due to external influences (keeping aside the hiring criteria) also benefitted. HR managers viewed the practise of spot rates to be unfavourable because of these issues but indicated that the need for it surpassed the negative implications. The following comment of an HR manager in Bank A1 is illustrative of the views of counterparts in the other two banks.

'….. Spot rates are not only for fixed-term contract employees, some regular / permanent employees also benefit from them. Actually we don't have any mechanism to ensure that only the exceptional candidates benefit from this which makes it contentious. To put it simply, demands / expectations of some individuals exceed the pay range of their grade but because we require their services this is the only choice we have.' (A1HR1)

MTOs were identified separately in the employment structure in both private case-study banks only (see table 5-1 and Annex 'A') while in the remaining four banks this was not the case. In general, across the case-study banks most employees in the sample recruited individually disagreed with the practise of higher pay for MTOs in the same grade, performing the same jobs but management felt this was justified because of their higher qualification. Also HR managers interviewed expressed that one of the objectives of changes in pay structures was to enhance flexibility in fixing pay to meet the expectations of different employee workgroups. The HR manager of private bank B2 downplayed the concerns of employees and expressed that,

'…we have different ranges (1-9) and we hire MTOs in range 3 initially while other fresh graduates are hired in range 2. Obviously [since MTOs are in a higher grade]

there has to be a difference in their pay. This has been our policy for a long time now and I am pretty sure prospective employees know about it. So the feeling of unfair treatment is difficult for me to understand.' (B2HR3)

In summary, a general trend of transition towards broadband pay structures appeared in the case-study banks but they remained embedded in grade-based employment structures except in bank B2 which continued with its position / person based pay structure. The number of pay bands across the five case-study banks ranged between three and ten and defined zones / limits existed in banks A1, B1 and AB2 while banks B2 and AB1 preferred loosely structured pay bands. In the former group of banks, pay within the bands was administered in a conventional manner while in the latter a more flexible approach was adopted which raised issues of inequity and concerns of fairness and justice. Further, the transition to new pay structures was managed differently in each bank due to their internal factors. For example, banks with a large branch network and workforce (AB1 and AB2) used the multiplier and market adjustment to balance internal equity with market relativities. To accommodate a large number of incumbents public bank A1 offered employees a choice between two separate pay structures while private bank B1 which was expanding added a grade at the top and promoted all existing employees one step above in the job ladder. Inevitably, their pay registered an increase. The use of spot rates (A2, B1 and AB2) and higher pay for MTO's featured in the new pay structure across the case-study banks and raised questions concerning fairness and justice discussed in chapter 7.

5.3. Pay progression

Data indicates that across the case-study banks, under the previous system pay progress largely occurred through promotion, fixed increment (seniority based except B2) and an allowance to adjust for increase in living costs (Cost of Living Allowance - COLA). In the following analyses the shift from seniority to a performance-based system is discussed highlighting the hybrid mechanisms adopted and differences in the approach followed by each bank. Previously, the seniority of an employee was established from their date of joining and it determined pay level and dictated decisions of promotion[49]. In the new pay system seniority lost significance in pay

[49] The more senior an employee; the higher their pay

determination because increments were tied to employee performance rather than service within the organisation. However, it continued to be considered in promotion decisions.

The frequency and procedure for promotion varied between the case-study banks. In the private and privatized banks promotion was based on seniority within the bank only, despite the existence of an Annual Confidential Report (ACR) which assessed the employee on behavioural and attitudinal aspects. No specific criterion for measuring performance was established in the appraisal form, the employee was not privy to its contents and it did not determine promotion. According to HR managers in these banks, career progress[50] was clear to employees but irregularity in the frequency of promotions and yearly revisions in the percentage of employees to be promoted led to uncertainty and lost opportunities for pay increase. In both private banks seniority along with ACR mattered in decisions of promotion and private bank B2 also held a promotion interview which weighed 30 out of a total of 100 points to assess an employee's suitability for promotion. This indicates that the private banks associated somewhat with the performance principle even in the previous pay system.

'The promotion policy has changed frequently in the past few years and we are unaware of the criteria for promotion. As promotions regularized in the last six years or so, many incumbent / experienced employees are still working as Officers. Delayed promotions have resulted in delayed pay and allowance increases.' (AB2M1)

Increments were tied with seniority under the previous pay system. All employees within a grade received a predetermined and fixed amount which was higher for senior grades. Grade drift was a common practise in the public and privatized banks which allowed employees who reached the maximum of a pay range to draw pay of the next higher grade without promotion. This was due to infrequent promotions and overstaffing at the Officer and middle management levels mostly. However, this did not exist in the private banks as they were expanding and adequate promotion opportunities existed for their workforce which was comparatively smaller.[51]

[50] Discussed in chapter 6

[51] The total number of employees in the banks varied. Generally the public and privatized banks had between 12000 and 15000 employees while the private banks had between 7000 and 8600 employees. Figures extracted from the 2008 Annual Reports of banks.

In the new pay system, the significance of seniority was eliminated and replaced with performance in all the case-study banks. A cross comparison of the case-study banks revealed that both promotion and increments were tied to performance for all employees except Officers in public bank A2 (due to union pressure) and COLA was built into the performance increments. Further, the four banks which previously practised grade drift discontinued it after the introduction of broadband pay structures. However, some employees interviewed viewed this unfavourably due to the infrequent and decreased opportunities for promotion. A middle manager in bank AB1 commented.

'I am not saying grade drift is preferable but in our system it was a requirement and still is. Promotions are slow which creates dissatisfaction in employees and this is perhaps one way they feel they are progressing.' (AB1M5)

Evidence indicates that generally, the opportunities for promotion decreased in the public and privatized banks and increased in the private banks. This was a result of change in pay systems and the government's privatization policy which compelled the now privatized banks to contain promotions and downsize to become lucrative for privatization. However, in public bank A1 promotions in certain employee grades increased in the years 2007 and 2008 due to the addition of a grade as explained in section 5.1. In the case of private banks, growth in the sector resulted in expansion of these banks and opportunities for promotion accelerated till 2009. To address employee concerns in this regard, the case-study banks introduced new mechanisms like loyalty awards (A2 and B1) and market adjustment (AB1, AB2 and B2). For example, in bank B1contributions of loyal employees which could not be compensated in pay were rewarded through a one-time bonus after completion of a stipulated time period like 10 years and 15 years.[52]

According to HR managers in case-study banks AB1, AB2 and B2 market adjustment was mainly used to align pay levels with the market rate to recruit and retain employees in certain specialized positions[53]. However, triangulation with employee interviews revealed that it was also used to adjust the widening pay gap due to hiring

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[52] 50% of basic salary is given, after 15 years 75% and 100% basic salary plus 10 gram cold coin after 20 years.

[53] Like Risk Management and Compliance (experts in Basel II) and IT departments.

of new employees at the prevailing higher market rates. The following comment by an incumbent middle manager in bank AB1 is reflective of this.

'…we feel that market adjustment reduces the pay gap between experienced people like me who have served the bank for decades but were not promoted and the youngsters. It's an indicator that the bank cares for its senior employees.' (AB1M2)

Pay progress through job enlargement was unique to bank B2, in line with its job-based approach described in section 5.1. above. It was used to enhance the pay of talented individuals who were assigned extra roles in addition to their scope of responsibilities. In many cases vacancies for promotion were not available to retain and reward such employees for performing additional responsibilities so the bank enhanced their pay instead to recompense / balance for the reduced opportunities for promotion. The HR Manager Performance Management commented,

'We have a pronounced policy for internal promotions, even at senior levels. We want to retain our star performers. Talented youngsters will only stay if they are progressing; we want to develop them and if we can't promote them then we enhance their pay. Non-existence of an upper limit provides the flexibility for this.' (B2HR2)

In the six case-study banks pay progress was linked with performance to align with the shifting culture, to address issues of external and internal parity and to respond to changes in work design. Under the new pay system, seniority was eliminated and replaced with performance and pay progressed through increments and promotions in most case-study banks. The practise of grade-drift was withdrawn in the four banks (A1, A2, AB1 and AB2) where it prevailed earlier since it encouraged pay increase largely based on the criteria of seniority. Hence incumbents felt concerned with this withdrawal. The COLA was built into the performance increments in all the banks. To address concerns resulting from a reduced role of seniority in pay and career progress, the case-study banks adopted different approaches – loyalty awards and market adjustment – which were also in conformance with the new performance culture. The latter approach was used to make pay competitive with market levels for some key positions and to adjust widening pay differentials between incumbent and new employees. Bank B2 also rewarded employees for an enlarged job scope through this practise. Resultantly, employee pay varied within grades as well. Promotion opportunities reduced in the public and privatized banks due to downsizing for privatization purposes but increased in the private banks due to expansion in these banks.

5.4. Changes in bonus schemes under the new pay structures and systems

Under the previous system, in addition to the fixed, yearly increment employees received cash bonuses in all banks but the frequency and amount varied across each. The fixed bonuses were given twice a year on major religious events, as a percentage of the basic pay except in bank AB1 which awarded them on gross pay, resulting in possibly larger bonuses. For example, bank B1 disbursed five basic pays of an employee as a bonus but only once in a year while banks A1, A2, B2 and AB2 gave between two and three,[54] twice a year. In all banks, the amount of bonuses was higher for employees in senior grades.

Table 5-5: Distinctive features of the new bonus scheme in all case-study banks

	A1	A2	B1	B2	AB1	AB2
Employees covered under performance bonus	All	Senior and Middle Managers only	All	All	All	All
Performance bonus only	✓		✓			✓
Fixed and performance bonus		✓		✓	✓	
Higher bonuses for revenue generating employees			✓			✓
Bonus for contract employees					✓	

Source: Adapted from bank documents

In the new pay system, all banks introduced performance bonuses with minor differences in disbursement across the examined employee categories and types of bonuses (see table 5-5). However, in bank A2 Officers continued to receive fixed bonuses due to trade union pressure which is discussed in greater detail in chapter 6. HR managers across the banks opined that the performance bonus was intended to: reward performers for their contribution / effort, motivate others to perform and

[54] Basic pays

promote a performance culture. Therefore, performance bonuses were awarded only to employees in the highest rankings in all case-study banks and the amount increased at higher levels. For example in Bank A1 bonus was given to employees with A and B+ ratings and the amount increased with an employee's grade (see table 5-6). This was the case in the remaining five case-study banks also. The magnitude of the change can be gauged from the remark of an HR manager in Bank B1 who stated that the new bonus scheme was ***'a major shake-up'*** for employees as they were used to flat / fixed bonuses rather than ones contingent on performance.

Table 5-6: Bonus scheme at case-study bank A1

Grade	**Bonus amount in rupees**	
	A Rated Performers	**B+ Rated Performers**
OG-2	10000	**5000**
OG-3	12500	**6250**
OG-4	17500	**8750**
OG-5	22000	**11000**
OG-6, 7 and 8	**25000**	**12500**

**** Source: Bank documents. Figures pertain to the year 2008.***

Wider differences in implementation of this policy occurred due to the following: continuation of fixed bonus in addition to a performance bonus in banks A2, B2 and AB1, provision of a larger share for revenue generating departments in banks B1 and AB2 and distribution of bonuses to contract, in addition to regular / permanent employees in bank AB1. HR managers in the other five banks had mentioned that most contract employees were already drawing higher salaries than their colleagues within and between departments so they did not deserve a share in the bonuses. This leads us to conclude that disbursement of bonuses to contract hired employees could raise perceptual issues of fairness and add to costs also. Hence the various options were exercised to address the concerns of incumbents and to meet the expectations of revenue department employees who perceived their greater share of contribution in the profits generated and thus expected greater rewards. In banks A2, B2 and AB1 the two fixed yearly bonuses continued even after the introduction of the performance bonus. HR managers in these banks stated that the fixed bonus compensated employees for the lack of state funded welfare schemes; it was used as a tool to incentivize especially at lower levels and fulfilled multiple objectives the banks wanted to achieve. The comment of a senior manager interviewed in bank B2 reflects this.

'Our philosophy is clear; some bonus should be given across the board, especially to those in lower pay ranges. The inflation is increasing at an alarming rate; even I feel the pinch so how do you think these people are surviving? They wait all year for this bonus to marry their children or themselves and for renovations at times and we don't want to take this away.' (B2S1)

In bank AB1 most employees interviewed across hierarchies thought that fixed bonuses were fast diminishing in the industry and gave the bank an edge over its competitors in the prevailing economy. Their HR Manager Compensation stated,

'We are concerned for the welfare of our employees but we also want to inculcate a performance oriented culture. Hence, we still disburse the two yearly bonuses, which are important in this economic situation but we have introduced a performance bonus alongside, to reward the performers.' (AB1HR4)

Bank B2 only gave performance bonuses to few exceptional performers after special recommendation by the Department or Group Head and subsequent approval by the CEO. It had the propensity to de-motivate true performers but the HR manager clarified that the bank had multiple objectives to achieve - recognition and reward for exceptional contributors and motivation of the entire workforce[55]. Further, banks B1 and AB2 reserved a larger share for revenue generating departments to reward those employees more whose contribution was considered greater in generating the profit as a reflection of the bank's intent to reward higher to performers. For example the HR Country Head of bank B1 cited a figure of 25 percent additional amount in the bonus pool for revenue generating units as opposed to support units.

[55] For this purpose increments were linked with performance.

'Remember I said we compensate performers for not having a job based pay system; 25% of the total bonus amount is allocated for them. Recently Corporate Banking sealed a Rs. 5 billion deal so they were rewarded through this scheme.' (B1HR1)

In general, evidence indicates that all banks introduced a performance bonus under the new pay system aimed at motivating performers. However, three banks retained the fixed bonus as well to provide for a base-line increase as a substitute for the lack of state funding. Of the three banks (A1, B1 and AB2) which opted for performance bonuses, two banks (B1 and AB2) reserved a higher percentage for revenue generating departments in recognition of their performance and as a reward for their larger contribution towards profit generation. The perceptual issues this created are discussed in chapter 7.

5.5. Other sources of pay enhancement in the case-banks

To make the pay structure attractive for employees some other sources of pay enhancement like spot awards, employee recognition schemes, cash awards for completion of banking diplomas and job and position based emoluments were made a part of the pay structures (see table 5-7).

Table 5-7: Other sources of pay enhancement in the pay structure of all case-study banks

	A1	A2	B1	B2	AB1	AB2
Spot awards	✓	✓				✓
Completion of banking diploma by Officers	Contingent on number of attempts in the new system	✓	✓	Contingent on number of attempts in the new system	✓	✓
Job based emoluments	✓	✓	✓	✓	✓	✓

Source: bank documents and HR manager interviews

Data highlights that generally these sources remained unchanged in the new pay structure but their rates / percentages were revised across the case-study banks. However, a few new sources were introduced and some were withdrawn in an attempt to align with the performance principle. We discuss each of these separately. The policy of leave encashment was withdrawn from five case-study banks except Bank A1 which gave employees the choice between vacation and leave encashment[56]. HR managers in different banks stated that earlier mandatory leaves were not a norm in Pakistan and employees preferred to accumulate their leave which could be exchanged for remuneration. However, realizing the advantages of mandatory leave for both employee performance and the pay bill, domestic banks discontinued this policy.

The new sources of pay enhancement included spot awards and recognition schemes. According to HR managers in both public banks and one privatized bank AB2, spot awards were introduced to reward exceptional performers and were disbursed prudently. They were declared at any time during the year but lack of criteria to define 'exceptional contribution' resulted in employee dissatisfaction which is discussed in chapter seven. However, HR managers interviewed in these banks accentuated that the schemes were transparent and recommendations of supervisors were scrutinized and approved at the highest level (Group Head / Country Head of relevant departments and approved by the Chief Executive). Bank A1 introduced a scheme which rewarded employees for introducing innovative business practises and products. It comprised of four levels with a note or letter of thanks at level one and a department wide recognition certificate and cash reward of Rs. 5000 for departmental commitment at level two. At level three for organisation competence, a cash reward of Rs. 15000, a recognition certificate, a shield and bank wide recognition. At level four (highest), an Excellence Award with cash award of Rs. 30000, a recognition certificate, a shield and bank wide recognition was given. The Director HR of the bank stated that only a few employees benefited from this scheme as the purpose was to recognize innovation and financially reward successful ventures only[57].

Across the case-study banks, two sources of pay enhancement continued from the previous pay system - one-time cash awards for completion of the Institute of Bankers Pakistan (IBP) Diploma and position / job based allowances. The former was designed for professional growth of entry level / junior officers who desired to be

[56] Employees were given an opportunity to decide based on their interest for financial gains or vacation.

[57] Between 2006 and 2008 950 employees received level 2 awards and only 313 benefitted from level 3 awards while no employee could earn a level four award. Source: bank documents of these years.

promoted to middle and senior management positions. Greater alignment with the performance culture was evident in banks A1 and B2 which made this award contingent on the number of attempts utilized to clear the exam. For example in Bank B2, for stage one, if the employee qualifies in one attempt the award is Rs. 50000, two attempts is Rs. 30000 and Rs. 10000 for three attempts and beyond. Job and position based pay enhancements varied in number, type and amount across the banks. Officers and middle managers benefitted most from job related emoluments which were larger in number but nominal in amount. For example, in bank A2 these included Unattractive Area Allowance, Northern Area Allowance, Evening and Night Allowance and Utilities Collection Allowance. An HR manager commented,

'We want them [Officers and Middle Managers] to know we understand their difficulties and issues and the bank cares for all its employees not just senior or key personnel. These allowances are a way to recruit employees (who need money) to perform jobs which require longer hours.' (A2HR3)

Data indicated that position related allowances (linked with nature of job, level of responsibilities) were less in number but greater in amount and mostly benefitted key middle managers and senior executives. The situation was common across the six banks examined but the title and amount varied. Table 5-8 illustrates this using Bank B2 as an example.

Table 5-8: Position based pay enhancements in case-study bank B2

S.No.	*Job and position based pay enhancements*	*Rs. / month*
1	Group Head, General Manager	35000
2	Regional Manager	25000
3	Deputy General Manager, Regional Head and Product Head	20000
4	Area Manager	15000
5	Branch Manager	10000
6*	Chief Cashiers	3000
7*	Tellers, Cash Officers	2000
8*	Asst. Manager (Call Centre)	5000
9*	Supervisor (Call Centre)	3000
10*	Officer (Call Centre)	2000

Source: Bank documents.

**** Job based allowances***

To summarise, the sources of pay enhancement in the case-study banks fall in three categories and generally changes were introduced to improve alignment with the performance principle. First, across the case-study banks, Officers continued to receive one-time cash awards for passing IBP examinations and job/position based allowances mostly remained unchanged, with an upward revision in the percentage / rate. Triangulation of bank documents and employee interviews indicated that job based emoluments benefitted Officers and middle managers while position based allowances compensated key middle managers and senior managers. Sources for the latter were few in number but sizeable in amount compared with the former. Second, pay increases through leave encashment were discontinued in five case-banks as management became aware of its positive impact on employee performance. Third, new sources of enhancement in pay were introduced in some banks which included spot awards and recognition schemes but no pattern discernible on ownership structure appeared. Management attempted to link reward with performance /

innovation through these but lack of explicit criteria resulted in employee dissatisfaction due to issues of fairness as explained by employees interviewed in banks A1, A2 and AB2[58].

5.6. Changes in the pension policy and benefits due to restructuring of pay structures and systems

Prior to the reforms which compelled banks to review the cost of providing pension to retired employees, pension was a common feature / element of the pay structures in place in the banking sector of Pakistan. All public banks (these include the two privatized banks in our sample which were under public ownership then) had pension schemes which paid employees a lump-sum at the time of retirement and a monthly amount thereafter. However, both private banks had no pension schemes for employees since their inception and instead had Employee Contributory Funds.

Under the new pay structure, pension was discontinued across the sector but the pace of implementation varied between the six case-study banks. The objective of achieving cost reduction was a key factor in this case in addition to the demands placed by international donors to improve the financial positions of the public sector enterprises. Public bank A2 was the only exception in our data which continued the pension policy for all employees (new and incumbent) on completion of service, largely due to trade union pressures. In public bank A1 employees opting for the previous multi-grade pay structure continued to benefit from pension but it was discontinued for all other employees[59]. Similarly incumbent employees who did not convert to the Employee Contributory Fund in privatized bank AB1 also continued to receive pension. This fund presented opportunities for greater returns as it was invested in risk free, viable ventures by the bank, on behalf of the employees. Employee Contributory Funds existed in these three case-study banks for all new employees as in the case of both private banks and privatized bank AB2 in our sample. These funds were created through an equal contribution made by employees and the bank and the former were eligible for it at the time of separation or retirement. Discontinuation of pension led to higher pay packages for new entrants and an upward revision in pay ranges in the new pay structures.

[58] Details are discussed in chapter 7 – fairness and justice section.

[59] Both banks continue to pay pension to previously retired employees.

The importance of benefits in the total compensation package was evident from the interviews of employees and HR managers in all banks examined. According to three HR managers in Bank AB2, benefits increased pay expenses overall but they were significant in covering for high healthcare costs in the absence of state welfare schemes and non-pensionable jobs. Similar views were expressed by HR managers in the remaining five case-study banks. A review of documents obtained from the banks and triangulation with interviews of HR managers revealed that the benefits structure largely remained unchanged. However, the rates / amounts / percentages were revised due to staggering inflation in the last five years. The benefits generally included [60]complete medical and hospitalization of self and family and a number of subsidized or interest free loans.[61] The public and privatized case-study banks also extended loans for education of wards of employees and scholarships covering tuition fees of up to two children in some cases. Benefits were grade based in five case-banks except private bank B1 in which they were linked with employee performance to strengthen the performance culture. This, the bank stated was a signal to the employees that the benefits were not to be considered as the employee's right but they were to be earned as in the case of pay increases.

Along with the existing benefits, private bank B2 and privatized bank AB1 introduced few new benefits that were geared towards promoting a performance culture, retaining employees and discouraging shorter careers. Privatized bank AB1 introduced a deferred share ownership scheme as a long-term retention tool to reward employees (in all grades) for their outstanding performance. The shares were transferred to employees over a period of two to three years. Private bank B2 introduced two distinctive schemes for the same purpose. One scheme was designed to pay a percentage less than the employee's gross pay for five years in the case of their death or permanent disability while on job. This ensured financial security for their dependants. The other scheme provided for treatment of chronic diseases like cancer which are very costly. Their HR manager commented,

'Benefits are designed in view of the social and economic set up of Pakistan and the preferences of Pakistani employees. People like career oriented rather than

[60] Additionally banks A1, B1 and B2 provided loans for the purchase of laptops while others provided for club memberships and paid vacations with air travel for Senior Managers and families.
[61] Generally loans were given for house building, car financing and personal use.

organisation specific jobs but they continue to desire job security as well [in the prevailing economic conditions]. Such policies help in employee retention.' (B2HR3)

In summary, this indicates a clear departure from the policy of pension which was an important component of the previous compensation structure in the public and privatized banks. It also highlights the limitations which resulted in partial transition to the new policy of Employee Contributory Funds in at least three of these case-banks. Further, benefits appeared to be significant for employees as a part of the total compensation package in all the case-study banks and only a few changes were made in this area the broader restructuring exercise. Generally, rates / percentages of most benefits were revised upward in the six banks while provisions for new benefits were created in two case banks (B2 and AB1). This was done to improve alignment with the organisational objective of increased performance and to strengthen employee retention. Private bank B1 adopted a different approach for the same purpose by linking benefits with employee performance.

5.7. Drivers of change in pay structures and systems

This section discusses the objectives for change in pay structures and systems and the drivers which necessitated the changes. Data indicated more similarities than dissimilarities across the case-study banks because the main drivers were mostly external to the bank's environment and placed mimetic / normative pressures for similar changes. Banks desired to achieve multiple objectives from the new pay structures and systems but interviews with HR managers and a few senior managers in some case-study banks (A2, B1, AB1 and AB2) highlighted that changes were not well planned and integrated. Three major, interlinked drivers which influenced changes in pay structures and systems emerged from the interview data of HR managers in the case-study banks – privatization and deregulation, economic growth and change in business strategies.

The government launched a reforms initiative in the banking sector in the late 1990s which continued till the early half of the next decade. The main pillars of this initiative included policies of deregulation and privatization which resulted in the establishment of new private banks and the transfer of public banks to the private sector. Public sector banks controlled more than 90 percent of the market share at that time[62] and while they were performing adequately in terms of profits they were finding it difficult to meet the demands of a growing customer base. Additionally, they were plagued with problems of nepotism and corruption[63]. The new private sector banks increased competition and influenced the public and the then recently privatized banks to restructure, introduce new products and control costs.

In all banks interrogated, the demand for professional banker's at all hierarchical levels increased consequently. At the Officer level, higher pay was demanded by better and professionally qualified employees while at the senior level, those inducted from foreign banks expected substantially better pay packages than those offered by the banks. Hence, the normative pressure placed on management by these employee workgroups who were used to earning rewards based on their performance and contribution rather than mere seniority was also responsible for driving the changes in pay structures and systems. Earlier, pay levels were low as competition was less so banks generally made nominal revisions in the pay structure to cover for increase in living costs. Senior managers were hired to turnaround the public sector banks, make them lucrative for privatization and to introduce a performance culture. Also, incumbent employees were not experienced in emerging areas of consumer and investment banking for which services of senior managers from foreign banks which operated in these fields were required.

The banking industry registered significant growth from the year 2000 and onwards which led to expansion through increase in the number of branches of private banks. The public and privatized banks which were larger in size, with an average workforce of over 10000 employees were challenged to minimize costs and capitalize on growth to remain competitive. This influenced banks to eliminate seniority in favour of performance based pay systems which were considered viable for strengthening a performance culture and controlling / monitoring costs[64]. Further, growth in the overall economy increased purchasing power of the general consumer and banks shifted their focus to strategies like customer satisfaction and service quality and

[62] As sourced in the section on review of banking sector.
[63] Discussed in the section of sector analyses
[64] This reduced the overall pay bill as fixed increments and bonus was made conditional on performance. Those performing poorly received less increments and bonuses.

entered new product markets.[65] This change occurred in all six case-study banks but the greatest difference was apparent in the public and privatized banks that had mostly engaged in business with government bodies and institutions, previously.

A driver unique to public bank A1 which emerged from employee interviews was the intervention by foreign donors and agencies in the restructuring of pay structures / systems. For example, the discontinuation of pension plans for all new employees and those incumbents who chose to move to the new pay structure. Employees expressed that under the pressure of international donors (like IMF), the bank redesigned its pay structure to control costs in return for the donor's promised economic aid package to the government.

5.7.1. Objectives for changes in pay structures and systems in the case-banks

Similar to consistency in the drivers for change across the case-study banks, our findings revealed similar objectives for the design and implementation of new pay structures and systems, in spite of different ownership structures and market share. The four broader objectives were to – recruit and retain employees, manage pay (flexibility and complexity), reflect new career paths and transition to a performance culture[66].

To recruit and retain employees

Evidence from data collected indicated that demands by the new workforce, low pay levels in the previous structure and relocation in the case of one bank increased the challenge of recruiting and retaining employees. Post deregulation, the newly created banks provided alternative job opportunities to employees of the older established banks and increased the latter's challenge of recruiting and retaining employees. In the former's case, expansion in the branch network resulted in similar challenges. According to HR managers in the banks examined, they regularly participated in salary surveys conducted by local and international organisations to monitor how competitive their pay structures were. Pay for some key positions was benchmarked and compensation for other positions / hierarchical levels was calculated accordingly.

[65] Car financing, lease arrangements for the purchase of consumer products etc
[66] Adopted from a study in the UK by Duncan brown (1996)

However, in the view of some senior managers these surveys did not completely reflect the market pay levels.[67]

As an interim strategy, banks opted for contract hiring (to pay higher salaries) but realized that to recruit and retain employees in the long-run, they needed to restructure their pay structures and systems. The HR manager of one operations group in bank B1 stated that generally, across the industry, in the last 8-10 years demands for professional bankers had increased and their expectations for higher pay led banks to reconsider the existing pay structures. To reflect this change in employee expectations and to recruit potential employees with comparable credentials from the market, pay ranges were enhanced and a broadband pay structure was introduced. The Director HR of bank A1 stated,

> **'we wanted to recruit qualified bankers but they were not willing to join under the old pay structure, so restructuring was a necessity, especially for senior managers as their pay lagged behind the market. Our Chief Executive always handed me visiting cards of professional bankers with international experience [after foreign tours] and I highlighted the inadequacies in our existing pay [at that time].' (A1HR1)**

Across the case-study banks, HR managers stated that with the restructured pay packages they were successful in recruiting Pakistani professional bankers from Canada, U.S.A, Europe and the Middle East. However, changes in the broader HR bundle that included practises like recruitment and performance appraisal were also required to strengthen this initiative (discussed in Chapter 6).

Aligned with the objective to recruit was the need to retain the new entrants as well as the existing workforce (incumbents). In the latter's case, the opening of new private banks presented job opportunities for them and increased management's challenge to retain them. Further, exit interviews were introduced in banks A1, B1, B2 and AB2 which highlighted the growing need for improvement in pay levels. For example, the HR manager of bank B2 explained that employees leaving the bank mostly cited pay as an issue. Also, across the industry, the employee turnover ratio reached double digits, a phenomenon which had not been experienced previously. The following quote from an HR manager is illustrative of the above.

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[67] Discussed in chapter 7 – section on perceptions of changes in pay practise.

'Sizeable recruitment of employees was made through political and bureaucratic interventions after nationalization. Increased employee mobility, entry of professionally qualified (MBAs) and hiring of experienced foreign bankers augmented demands for pay and created issues of retention. So the pressure was on us to retain them and the new pay structure is designed just for that.' (AB2HR1)

According to an HR manager in bank AB2, relocation of the Corporate Office to a new city made it difficult to recruit and retain employees in senior and key middle management positions. This was unique reason, specific to this bank.

To improve pay administration

This objective entailed increased flexibility and reduced complexity in pay structures / systems. Low pay levels, rigidity and narrow pay bands characterized previous pay structures in five case-study banks barring B2 which had a broadband pay structure. The previous pay structures were a hurdle in recruiting and retaining professional bankers and MTOs at the entry level; this required increased flexibility in pay fixing. For example, the HR Organisational Development Head at bank B1 remarked,

'Our pay was below the market till last year. If we wanted to hire an SVP from the market their last drawn pay was higher than our SVP. To attract them, we had to pay at least 10-15% more than what they were earning which our pay structure inhibited.' (B1HR4)

Rigidity in the pay structures restricted flexibility in determining pay on the basis of scope of work and differences in the level of skill / competence. Essentially then, the objective of this flexibility was to enable banks to establish different pay levels for employees within a grade performing similar jobs but with varying experience, skills, and knowledge. According to HR managers in the banks investigated, flexibility was also required for pay fixation in a dynamic market where there existed no benchmark pay levels for jobs in emerging fields (discussed earlier). Further, another objective to increase flexibility was to reward employees of varying performance levels at different rates.

In some case-study banks (A1, A2 and B1) the previous pay structures were complex and consisted of between nine and thirteen allowances while benefits were in addition to these. The complexity in forecasting pay and increments with a large number of allowances deemed it necessary to either eliminate or consolidate the allowances so pay budgeting and forecasting could improve. For example, allowances in bank B1 were reduced from ten to three which eased pay calculation and administration at the individual and organisational level. Another example of reduced complexity was the elimination of one of the three parallel pay structures in bank A1 after introduction of the new pay structure. This enabled the absorption of employees with higher pay in two as opposed to three pay structures.

To reflect new career paths and enable transition to a performance culture

Changes in the recruitment policies of the banks led to the creation of multiple career paths in all case-study banks and pay policies were restructured to reflect this. Section one of this chapter examined that all case-study banks introduced a batch scheme for hiring MTOs who had a defined career path and higher pay compared with incumbents and individual hired within the grade, performing similar jobs. Two promotions of performing MTOs in the first four years led to their larger representation in middle management. They exerted pressure for higher pay as a return for their effort. The following comment is illustrative of this.

'rapid growth in the banking sector resulted in very young people reaching middle management positions in their early thirty's and they would never stick around if we didn't pay them; they wanted a better return for their efforts.' (AB2HR2)

In addition, these banks employed individuals on renewable fixed-term bank contracts which paid them higher (through spot rates) relative to other employees. Also, the restructuring of banks led to leaner organisations in the four public and privatized banks and the de-layering reduced opportunities for promotion. Modification in pay structures was required to address this development. The new pay structures which had broad pay ranges / bands (overlapping till the middle of the next pay band in some instances) enabled pay progression for employees to off-set the declining opportunities for promotion. For example in bank A1 under the new pay structure the OG-5 pay band extended from Rs. 68000 to Rs. 180000 while that of OG-6 was between Rs. 90000 and 240000. This indicated that employees in OG-5 pay band could possibly cross the midpoint of the next higher band without promotion.

All participating banks in the research underscored that an objective for designing new pay systems was to enable transition towards a performance culture, one which would reward performance instead of seniority. For this purpose, a new pay system which made increments, bonuses and benefits (in B1 only) contingent on performance (individual, unit, organisation or a combination) was implemented in all banks. Other instruments like spot awards and recognition schemes which would reward performance were introduced in the new pay structures (A1, A2 and AB2) to achieve this objective. It was perceived that these would shape employee attitudes and aid them in relying on performance rather than other means like contacts and external influences for pay enhancement. Similarly, different allowances which were delinked from performance were withdrawn. Also, banks discontinued pension which put an added pressure for restructuring pay upwards and introducing performance bonuses as an alternative.

5.8. Conclusion

This chapter lays the foundation for a discussion on the consequences of changes in pay structures and systems for shaping employee perceptions of fairness and justice because of the differentiated implementation across employee workgroups and the use of certain hybrid mechanisms in the pay structure that were unique to specific banks. Evidence from data indicated that changes in pay systems and structures in domestic banks in Pakistan were largely driven by external factors - deregulation, privatization and growth in the sector which led to changes in the composition of the workforce. Experienced bankers from foreign banks (abroad and in Pakistan) and professionally qualified MTOs (in batches) at entry level were recruited to meet the growing needs and demands. Consequently, changes in the employment structures occurred, though they remained grade-based and new employee workgroups emerged for whom the pay structures were designed to be flexible which carry implications for employee perceptions.

Pay restructuring was done to meet the objectives of employee recruitment and retention, ease in pay administration, transition to a performance culture and reflection of new career paths. The underlying pay principles were similar across the case-study banks due to the mimetic and normative isomorphic pressures placed by the external rather than bank specific drivers. Pay structures were re-designed in four banks (A1, B1, AB1 and AB2) from multi-grade to broadband, while they remained unchanged in bank A2 (multi-grade) and B2 (broadband). However, in the latter two banks, the pay ranges were revised upwards. Introduction of the broadband structures enhanced flexibility in pay determination but to a varying extent across the case-study banks. From amongst the five banks which had a broadband structure, only two (A1 and B1) had defined upper and lower limits while the remaining three either had no limits (AB1) or had loosely defined bands (B2; only lower limit) and (AB2; limits based on actual low and high). The need for balancing internal equity with market relativities to evade perceptions of unjust pay systems by some employee workgroups (incumbents, individual hired) in a diverse workforce led to the introduction of different hybrid mechanisms. For example, implementation of the new pay structure in parallel with the old one in bank A1, addition of a grade in the pay structure (B1), use of a multiplier factor (AB1) and market adjustment (AB2).

In an attempt to shift to a performance culture, pay systems were modified to reflect performance rather than seniority across the case-study banks. Data provides evidence that pay progress through increments, bonuses and promotions was made contingent on employee performance in the banks for the entire workforce, except Officers in bank A2. The size of increments and bonuses varied across the case-study banks and depended on the appraisal scheme which is examined in greater detail in chapter 6. Benefits and allowances generally remained similar to the previous pay structure across the banks, with two notable differences: One; reduction in number of allowances from 13 to four in five case-study banks (barring A2) to reduce complexity in pay administration. Two; shift towards long-term benefits, geared towards retention in the short-run and performance in the long-run as evidenced in two banks (B2, AB1) which introduced new benefits. Bank B1 made benefits contingent on employee performance, thus according the performance factor a critical position in the total compensation package. Rates of benefits and allowances were revised upwards to cater for the increasing inflation. In a similar attempt, other banks opted for spot awards and recognition schemes which were to be utilized judiciously, only to reward extra-ordinary performers. Under the new pay structure, pension was withdrawn and replaced with different Employee Contributory Schemes in three (A1, AB1 and AB2) of the four banks which previously guaranteed pension as a post-retirement benefit. Problems and contradictions in the sustaining of alignment between HR practises (for instance, career management, job security and employee engagement) were revealed by the data and will be examined in the following chapter.

Chapter 6: Changes in the HR bundle and implications for the pay structures and systems

6.0. Introduction

The previous chapter discussed changes in pay structures and systems in the Pakistani banks which were one element of a broader reform agenda that aimed to restructure the HR bundle in an attempt to shift to a performance culture in the banks. This chapter identifies where possible, complementarities and conflicts among the four inter-related practises – recruitment and selection, performance management, training and career development and employee engagement (involvement and participation) and the link between pay and the broader HR bundle as they can affect an employee's pay and career progress. This is significant because integration between the HR practises has likely consequences for achieving the stated objectives of the new pay structures and systems, as conceptualized in the HR bundle. The chapter also investigates the differentiated application of the HR practises on a workforce segmented on the basis of hierarchical levels (senior management, middle management and Officers), service tenure (incumbent and new hired) and entry track (batch and individual hiring). This is positioned to study the influence of changes in HR practises on the employee psychological contract in chapter seven. In some cases the differentiated implementation was intended to enhance employee performance through wider differences in work conditions while in others it was inadvertent.

Previously, all the local banks were government owned and seniority rather than performance was the principle for pay and career progress[68]. This chapter is divided into four sections; all four HR practises bundled together are examined to assess the integration or lack thereof between them, their link with the new pay structures and systems (if any) and the differentiated design and implementation of each practise across the emerging HR architecture (employee workgroups). Ownership structures as a source of these differences across the case-study banks are also examined; however in most cases the practises were similarly diffused across the public, private and privatized banks due to the mimetic isomorphic pressures discussed in chapter

[68] These banks rewarded experience rather than operational expertise and skills like inter-personal communication, innovation and leadership.

five. Section one discusses changes in recruitment and selection that were intended to hire employees who could inculcate and enforce the performance principle in which the new pay system was grounded. Section two explores changes in performance management systems that aimed to establish performance as a key criterion in the assessment of employee performance which determined pay progress. Section three examines changes in the training and career development practises due to the rising need for capacity building of employees, especially because career and pay progress was linked with performance. Section four focuses on modifications made in employee involvement and participation which Cox (2000) establishes as a vital link in the success of pay systems.

6.1. Changes in the recruitment and selection practise

During the last decade core HR practises changed in all the six case-study banks in pursuit of a performance based culture and in an attempt to meet the new set of employee expectations that emerged from a change in the HR architecture (Cappelli, 1995)[69]. A brief historical perspective of recruitment and selection in Pakistani banks since the 1970s is presented to explain the need for change. According to the HR and senior managers interviewed in all the case-study banks, the public and privatized banks gained a reputation for low meritocracy, transparency and fairness during the nationalization era which continued later on as well. Political and influential figures pressurized banks to hire individuals based on their recommendations rather than following merit which resulted in overstaffing. This practise continues even today but HR managers in all the banks (especially the private and privatized) stated it had reduced significantly. They specified the following reasons for change in recruitment and selection: (i) structural reforms which resulted in leaner organisations and rationalization of workforce (reduction in size). Consequently management aimed to hire highly skilled and professional individuals who could perform multiple tasks. (ii) Wider developments in the sector made banking a lucrative profession with prospects for career growth which aided in attracting better and highly qualified individuals. (iii) Competition in newer product markets led banks to hire individuals in fields

[69] recently hired employees (Officers and Senior Management)

earlier considered irrelevant for the banking jobs[70] and in which the existing workforce was not experienced. Table 6-1 illustrates the key changes made in this practise and their implications for the two main foci of this chapter – integration and the differentiated implementation.

Table 6-1: Changes in recruitment and selection practises in all six banks

Changes	Integration	Inconsistency
***Increase in minimum qualification criteria**	This was raised from intermediate to Bachelors and Masters for newly hired employees	
****Batch hiring (MTO)**	A rigorous and merit based process was adopted to identify performance oriented employees	Inducted professionally qualified employees in Officer Grade only
Renewable fixed term contracts	Seasoned bankers with experience in foreign banks were expected to enhance performance	Inducted senior managers mostly or very few middle managers in key jobs
Outsourcing		For non-technical, non-key positions only
Campus hiring and head-hunting firms		Innovative methods for hiring highly skilled employees at entry and senior level

Source: Data from interviews with Senior and HR Managers

**** Applied on all new hiring at entry-level***

***** Batch hiring scheme was introduced for inducting professionally qualified employees in Officer Grade***

The minimum qualification criterion was raised to address performance considerations, in part a response to the changing demands and the scope of job and also due to the job queuing effect, in all banks investigated. The private banks took the lead in implementing this industry-wide policy. The practises of batch hiring schemes and renewable fixed term contracts were implemented in all banks studied and reflected the integration with the performance objective but created inconsistencies between employee workgroups as well. The private banks hired MTOs every year while the public and privatized banks did not due to overstaffing in

[70] Examples include computing, internet-cyber warfare, project management and product design and development

previous years. The HR manager in public bank A2 attributed this irregularity to the large size of their workforce, a reason valid for banks AB1 and AB2 also.

> **'.. We are still trying to rationalize the overstaffing which occurred due to ad hoc hiring during the nationalization period. For this reason we have to freeze new hiring at times. However, realizing the need for fresh blood to compete in the new market we try to recruit MTOs almost every year.' (A2HR2)**

The recruitment and selection process differed between MTOs and individually hired employees; this resulted in dissimilar opportunities for training and progress in pay and career development between the different employee workgroups which indicates a link between the new pay structures and systems and the recruitment practise. According to HR managers in all the case-study banks, the differentiated design and implementation was intentional and was aimed at identifying future leaders and key employees from amongst the MTOs.

Investigating the link between the recruitment practise and the new pay structures that were bundled together, we found that the renewable fixed term employment contracts[71] offered to employees awarded higher salaries to them which did not fit within the defined pay ranges at that time. They presented an ideal short-term solution to hire senior and professional bankers[72] who could not be attracted with the low pay packages. According to interviews of HR managers these individuals had prior work experience in performance oriented organisations and could strategize and implement change in their banks. Under the new pay structures these contracts were a means to enhance flexibility in pay determination. Data emerging from interviews with HR managers indicated that these contracts were more prevalent in the public sector banks followed by the privatized and then private banks. The HR manager in bank AB1 stated,

> **'Sometimes people who do not meet the criteria for a position have to be hired because they are referred by an important stakeholder / client / director. However, in general, bank contracts are for individuals in senior positions who are both competent and experienced but their pay expectations can't be met within existing pay ranges.' (AB1HR1)**

[71] renewable after two – three years
[72] with previous experience in foreign banks, abroad and in Pakistan

The outsourcing of sales positions and the use of modern methods[73] in the recruitment practise resulted in a varied level of investment in the hiring process across different employee workgroups which was purposefully designed in all the case-study banks but for different reasons. According to HR managers in the six case-study banks, outsourcing was restricted to sales employees only due to the nature of the job (non-strategic and non-technical), availability of individuals (surplus supply) and shorter assignments.

Banks adopted newer and innovative recruitment methods like campus hiring, online applications and head-hunting firms for some employee workgroups, replacing the traditional newspaper advert technique (see table 6-2). In all banks examined, hiring practises varied within the Officer Grade, MTOs were inducted in batches through campus hiring and employees hired individually applied directly to banks (random applications). Further, head-hunting firms and personal references were used to hire senior managers. Four case-study banks (A1, B1, B2 and AB2) purchased services of head hunting firms frequently as past experience indicated that individuals hired through this source performed well in a personal capacity and contributed valuably to the bank's performance. The method of personal references was common across the case-study banks and individuals fulfilling stated criteria were hired on references provided by top management and key middle managers. The HR Head of public bank A1 shared the following experience,

> **'After his visits abroad, the Chief Executive would hand me visiting cards and tell me to convince expat Pakistanis to return. He was willing to attract them at any salary package, even if it was double of our existing package [at that time].' (A1HR1)**

Senior and HR managers in all the case-study banks interviewed suggested that the personal references method increased the probability of achieving individual-organisational fit, at least for key positions which were considered instrumental for driving and inculcating change. However, this created room for inducting individuals who did not otherwise fulfil the hiring criteria because the existing employees would collude with each other to get their relatives / friends hired and as a favour would do the same when vacancies arose in their departments.

[73] Example intranet job postings, campus hiring and online application processing

No distinguishing patterns based on ownership structure emerged in the recruitment practise which was generally similar across the case-study banks with minor differences in the features. However, culture and work environment which have a role in attracting and retaining employees appeared to vary by ownership structure and are discussed next. According to HR managers MTOs and senior managers hired from foreign banks in the initial reforms period raised the need for a professional and performance oriented work environment in addition to attractive pay packages for retention. As we will discuss in the next section, employees hired through the new entry tracks created a need for change in the then existing performance management systems. For this purpose banks made conscious efforts to create a professional image[74].

Table 6-2: Hiring methods across the case-study banks for different employee groups

	AI	**A2**	**B1**	**B2**	**AB1**	**AB2**
Officer Grade **MTO (Batch Hiring)**	Campus hiring	Campus hiring	Campus hiring	Campus hiring	Campus hiring	Campus hiring
Individual hiring	Online applications	Random applications by individuals	Random applications by individuals	Online and random applications by individuals	Random applications by individuals	Random applications by individuals
Middle Managers	Intranet postings and online external applications	External applications and personal references	External applications and personal references	Intranet postings and personal references	External applications and personal references	External applications and personal references
Senior Managers	Intranet postings, head hunting firms and personal references	Personal references and rare use of head hunting firms	Head hunting firms and personal references	Intranet postings, head hunting firms and personal references	Personal references and rare use of head hunting firms	Head hunting firms and personal references

Source: Adapted from bank documents and interviews of HR managers

[74] like change in branch layout (open plan), designing of ergonomic workspaces, professional dressing of employees and separate computers for them

In the four larger banks (public and privatized), aside from the cosmetic changes in the larger branches and some important departments in the Head Offices, remnants of the previous bureaucratic environment persisted[75]. According to HR managers, supervisors sat in open spaces to facilitate interaction but employees interviewed revealed that most senior managers in all banks (except private bank B2) sat in separate offices. They stated that communication had improved with direct supervisors but high power distance with senior managers remained. The HR Director of one public bank remarked,

'Management wanted a new look, a professional environment to attract employees and customers. Five years ago, we had a huge hall with no demarcation of employee workspace; there was one wooden desk for three - four employees and in some cases even the chairs were broken. The lifts were dirty and mostly non-functional and there was no concept of computers.' (A1HR1)

In the other public bank a middle manager highlighting the plight of employees a few years ago stated,

'I've been employed here for 32 years. A lot has changed in the last few years. You may think this is a joke but we had to chain our chairs to the desks at times, otherwise we had to look for chairs in the morning.' (A2M3)

Both privatized banks closely resembled the public banks and Officers and middle managers interviewed claimed that management invested in bigger cities while work environment in the branches of smaller cities had not changed. In private banks, changes were made across branches in different cities and areas because of their smaller branch network.

Summary

Across the case-study banks, five major changes took place in the recruitment and selection practise in which the private banks generally took the lead. These included an increase in minimum qualification criteria for hiring Officers, the introduction of batch hiring schemes and the use of renewable fixed-term bank contracts, outsourcing of sales positions and the use of campus hiring and head-hunting firms for

[75] Separate and closed offices for supervisors / managers and lack of automation in work processes.

recruitment. The recruitment and selection policy supported integration between the bundled HR practises and acted as a catalyst for inculcating a performance oriented culture in the six banks examined. The particular entry track determined the training and career opportunities for some employees, an issue we explore further in sections 6.3.2. and 6.3.3. The recruitment initiative of hiring individuals on renewable fixed-term contracts is linked with the new pay structures as it provided flexibility and allowed for higher pay packages for senior managers. This was important in the initial reform period when seniority based pay systems were viewed as an obstacle in management's capacity to attract seasoned and experienced people at market competitive rates. The introduction of a separate entry track at the Officer level (MTO) was facilitated by a new performance based pay system which made it possible to fix higher pay rates for MTOs in comparison with the individual hired employees within grades. This clearly indicates that the changes in the pay practise were related to and influenced the other HR practices in the HR bundle, in this case recruitment.

A differentiated approach to the implementation of the recruitment practise was adopted to introduce flexibility in pay and career progress so banks could recruit and retain the core talent. MTOs were better qualified and their selection process was rigorous; HR managers expected them to provide support for a performance culture from lower grades while senior managers hired on renewable fixed term contracts were supposed to lead the cultural change. In the following sections, we will present evidence of this and the perceptions of some incumbent employees who had suspicions that the policy of multiple entry tracks would formalize non-merit hiring. The use of methods like campus hiring and head-hunting firms indicated that the redesigned recruitment and selection practise focused on strengthening the hiring process for those employee workgroups that were considered instrumental for the bank's performance which indicates the influence of the emerging HR architecture on the design and implementation of the new recruitment practise. We conclude that all the case-study banks changed their recruitment and selection practises to some extent but no clear pattern was discernible based on ownership structure.

6.2. Developments in performance management systems

Data from interviews of HR Managers in the case-study banks revealed changes in three key areas of performance management systems - objectives, rating schemes and distribution schemes. Reasons for these changes included reward for high achievers, alignment of organisational and individual performance objectives, identification of future management talent, skill development and employee motivation. In this case as well, evidence of pay being linked to the broader HR bundle and of integration between the HR practises in the bundle emerges. Changes in the performance management systems were introduced to identify and reward the performers which was an objective of the new performance based pay systems. These changes were also aimed at identifying the talented employees performing in strategically important positions so they could be trained and their career managed to develop them into future leaders.

Objectives of performance management systems

According to HR managers and as verified through bank documents, in four banks - public bank (A1), privatized bank (AB2) and both private banks – the new system was designed to achieve both long-term (development) and short-term (reward) objectives (see table 6-3). Appraisal was conducted twice in a year to provide weak performers an opportunity to improve performance in these banks. However, in the two remaining banks – A2 and AB1 – the objective, in practise, was only to appraise and reward employees[76]. Obstacles resulting in an under-emphasis on the development aspects of performance management systems appeared to be: (i) the large size of the workforce which was segmented and thus made it difficult to implement a new system speedily and; (ii) the need to focus first on developing reward practises as pay was an immediate issue to be resolved. Most middle managers and Officers interviewed in both the banks stated that supervisors did not discuss training requirements or options for career progress.

'Don't go by the forms; there are a few sections to identify development trainings but they have not been used so far. I mean supervisors fill these sections but they don't

[76] although the appraisal forms had separate sections for identifying training needs

seem interested, in fact they rarely even discuss them. Till now, information gathered in this section has not been used properly.' (AB1O3)

'I consider the shift in appraisal policy - the reliance of rewards on appraisal - as a major accomplishment for this bank. It is difficult to change the mind-set of people so more time is needed to integrate the development aspect of this policy.' (A2M3)

Table 6-3: Features of the new performance management systems

	A1	**A2**	**B1**	**B2**	**AB1**	**AB2**
Objective as practiced	Reward and development	Reward	Reward and development	Reward and development	Reward	Reward and development
Employees covered	All	Senior and Middle Managers	All	All	All	All
Goal setting process	Employee sets goals, approved by supervisor after meeting	No formalized mechanism, varies by department	Supervisor sets goals, finalized after meeting with employees	Supervisor sets goals, finalized after meeting with employees	No formalized mechanism, varies by department	Employee sets goals, approved by supervisor after meeting

Source: Bank documents and interview data from HR Managers and all employee workgroups

A formalized and consultative process for goal-setting existed in four banks (A1, B1, B2 and AB2) but in the remaining two banks (A2 and AB1) it varied between departments (refer to table 6-3) because of ad hoc implementation processes. Most Officers and middle managers interviewed in the latter banks stated that no significant increase occurred in employee participation as supervisors set goals without employee consultation and in many instances at the time of appraisal. Armstrong (2000) claimed that the goal-setting process was critical in clarifying the expected performance level to employees and lack of goal clarity was likely to affect employee performance to which pay was linked.

Only HR managers interviewed in public bank (A1) and private bank (B2) stated that the goal-setting process was clearly defined and integrated with the Business Development Plans of departments which was evident in the goal setting forms. HR managers in private bank B1 stated that lack of clarity in goal quantification existed because the system had not yet matured[77] and line managers were unable to spare time for this activity.

'…Employees are still listing their job responsibilities as goals and line managers do not want to spend time on this activity so they just send it to us as such.' (B1HR3)

Appraisal rating schemes

In all the case-study banks the second change - revision in the rating schemes - was made to reflect the importance of employee performance and these schemes replaced the previous system which valued seniority rather than goal accomplishment. Rating schemes were required for employees to establish a clear line of sight between their effort, performance and reward which is critical for achieving enhanced employee performance, motivation and commitment. Armstrong (2000) stated that clarity in assessment criteria and processes is vital because it can create issues of fairness and trust. This change integrated the practise of performance management with the new pay systems in all the banks examined and training and development in private bank B1 that assigned training a weight of 5-10 percent.

Table 6-4: Assessment criteria in case-study banks

	A1	**A2**	**B1**	**B2**	**AB1**	**AB2**
Weight of individual goals in appraisal	70 %	70 %	70 %	70 %	70 %	70 %
Weight of behavioral component in appraisal	30%	30%	*20%	30%	30%	30%
Performance indicators identified	Yes	No	Yes	Yes	No	Yes
Core competencies defined	Yes	**No	**No	Yes	**No	Yes

Source: Adapted from bank documents

**** The remaining 5-10% is assigned to training***

***** No core competencies are identified; instead a list of expected behaviours is used for assessing this component***

[77] only been implemented a year earlier (at the time of interviews)

One part of the new appraisal form assessed individual goals such as business-related financial goals and sales targets while the other part catered for behavioural competencies such as communication skills, motivation, team work and customer focus (see table 6-4 and Appendix G). In one public bank (A1), the two private banks and one privatized bank (AB2), key performance indicators (KPIs) were identified for each goal and behavioural competencies but in the remaining two banks which had lesser developed performance management systems no measures for the KPIs or definitions of competencies existed. This is because both the banks used the performance management systems only for the purpose of rewarding employees and not for developing them so they did not focus on shaping the behaviours of employees which are defined and assessed through behavioural competencies. The implications of absence of a link between the training and performance management practises bundled together is highlighter further, in the next section. According to HR managers interviewed and policy documents of the six case-study banks, fixed percentages were allocated to each point / rank on the rating scale (bell curve), except in B1 where it had been implemented a year ago. Generally, the percentages were revised every one-two years by HR with the approval of top management. However this information did not travel to employees very timely and weakened the effort-performance-reward link. Contributions of the top few performers were rewarded more than those of average or low performers. The Organisational Development Head of bank AB2 stated.

'We want the bank to have a true performance culture, so we reward 25 percent of the best performing Officers and 35 percent of senior and middle managers while placing only those who perform poorly in the last category. It motivates those we want to retain and warns the others to improve if they want to continue.' (AB2HR2)

The pattern emerging from data (see table 6-5) illustrated that most employees (45-60 percent) were placed in the middle ranks of the rating scale in four case-study banks (A1, A2, B2, AB2) but there were two exceptions. The lesser developed performance management systems at bank AB1 placed 40 percent employees in the first two ranks (A and B) while the remaining 60 percent were adjusted in ranks C and D while the last rank (E) was not used in practise. This feature seemed to conflicted with the intention to reward employees with varied levels of performance differently because more than half of the bank's employees was allocated to the merged ranking of C and D even though the former was defined as 'Good' and the latter 'Needs Improvement.' This appears to have been done to award all employees with a rating against which a performance increment could be justified. In context of the expectancy theory, there was a potential for the performers to be de-motivated because there would be no difference in their reward and that of the low performers. Also the weak performers would continue to under-perform since there was no incentive or deterrent to under-performance. Also, this could reduce the valence of the reward (increment) and result in a decline in the effort of the performers as their reward was equated with that of the weak performers. The other exception, private bank B1, did not allocate fixed percentages to ranks on the rating scale. According to their Organisational Development Head, this flexibility was important because the system had not yet matured[78] and they needed provision for addressing issues which might crop up post implementation. However, this resulted in anxiety amongst employees and fear that the system could be implemented unfairly (discussed in chapter 7).

Reward distribution schemes

The introduction of reward distribution schemes integrated appraisal with the new pay structures and systems implemented in five case-study banks. Annual increments and performance bonuses (where applicable) were dependent on employee performance at all hierarchical levels but in public bank (A2), the pay increments of Officers remained fixed due to trade union pressure. No tenure related increments were given while experience was considered only when the employee was hired and their pay was fixed. Increments are discussed first followed by performance bonuses which also enhanced the pay package. The performance related pay increment, an annual, cumulative increase in basic pay was highest for employees who attained the top rating; to reinforce the pay for performance ideology. For example, in public bank A1, an employee in rank 'A' received 14% increment while one in B+ got 10% increment (see table 6-6), regardless of their level in the hierarchy.

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[78] Was introduced one year ago at the time of interviews; no sample ranking was available.

Table 6-5: Performance appraisal (rating scale)

<table>
<tr><th colspan="2">A1</th><th colspan="2">A2</th><th colspan="2">B1</th><th colspan="2">B2</th><th colspan="2">AB1</th><th colspan="2">AB2</th></tr>
<tr><th>5 POINT RATING SCALE</th><th>RANKING
%</th><th>5 POINT RATING SCALE</th><th>RANKING
%</th><th>5 POINT RATING SCALE</th><th>RANKING
%</th><th>3 POINT RATING SCALE</th><th>RANKING
%</th><th>5 POINT RATING SCALE</th><th>RANKING
%</th><th>5 POINT RATING SCALE</th><th>RANKING
%</th></tr>
<tr>
<td rowspan="2">A
B+
B
C
D</td>
<td rowspan="2">10
15
50
15
10</td>
<td rowspan="2">Outstanding
Very Good
Good
Needs improvement
Non – performers
(separate for Middle and Senior Management)</td>
<td rowspan="2">10
20
50
15
5</td>
<td rowspan="2">1-1.8 (A)
1.9-2.8 (B)
2.9-3.8 (C)
3.9-4.8 (D)
5</td>
<td rowspan="2">No fixed percentage allocated to any point on the scale</td>
<td rowspan="2">Excelling
(2.60-3.00)
Performing
(1.50-2.59)
Partially Performing
(Up to 1.49)</td>
<td rowspan="2">25
60
15</td>
<td rowspan="2">A
(Outstanding)
B
(Very Good)
C
(Good)
D
(Needs improvement)
E
(Unsatisfactory)</td>
<td rowspan="2">15
25
C & D
Combined 60 %</td>
<td>5
4
3
2
1</td>
<td>10
15
45
25
5</td>
</tr>
<tr>
<td>FOR SVP AND ABOVE
5
4
3
2
1</td>
<td>FOR SVP AND ABOVE GRADES
10
25
55
5
5</td>
</tr>
</table>

Source: Adapted from bank documents

Table 6-6: Annual performance related pay increment for all managerial employees in the case-study banks

A1		A2		B1		B2		AB1		AB2	
5 POINT RATING SCALE	**% INCREASE**	**5 POINT RATING SCALE**	**% INCREASE**	**5 POINT RATING SCALE**	**% INCREASE**	**3 POINT RATING SCALE**	**% INCREASE**	**5 POINT RATING SCALE**	**% INCREASE**	**5 POINT RATING SCALE**	**% AVERAGE INCREASE**
A	14	Outstanding	Figures not given by bank	1-1.8 (A) + Promotion	12	Excelling **(2.60-3.00)**	Figures not given by bank	A (Outstanding)	Figures not given by bank	5	200
B+	10	Very Good		1-1.8	10	Performing **(1.50-2.59)**		B (Very Good)		4	150
B	7	Good		1.9-2.8 (B)	8	Partially Performing **(Up to 1.49)**		C (Good)		3	95
C	1	Needs improvement		2.9-3.8 (C)	6			D (Needs improvement)		2	60
D	0	Non – performers		3.9-4.8 (D)	0			E (Unsatisfactory)		1	0
				5	0						

Source: Adapted from bank documents

Rates are revised yearly except in case of bank A1 where revision occurs every four to five years.

Also, the spread of the increments was between four and seven percent (for average and high performers) in the banks for which data was provided. This appears to be adequate for distinguishing the performance gap between employees in these categories. In all banks investigated a combination of both employee and organisational performance determined the total increment. Public bank A1 and privatized bank AB1 considered bank profit in addition to individual performance while both private banks, public bank A2 and privatized bank AB2 assigned a small percentage to branch / department / unit performance as well (see table 6-7 below). This highlights management's preference for rewarding collective performance in the first instance and an emphasis on department / branch performance in the second.

Table 6-7: Criteria applied by case-study banks for determining increment

	A1	**A2**	**B1**	**B2**	**AB1**	**AB2**
Individual performance	X	X	X	X	X	X
Bank profit	X				X	
Branch / Unit/ Department performance		X	X	X		X

Source: Adapted from bank documents

Additionally data collated from interviews with HR managers across the case-study banks revealed different reasons for placing emphasis on branch / unit / department performance. In both private banks employees in branches / departments which performed exceedingly well were given a higher increment because their contribution towards the bank's profitability was greater. Top management in privatized bank AB2 attempted to generate healthy competition between departments and branches to maximize employee effort and yield higher profits. Public bank A2[79] awarded relatively higher increments to employees in the most profitable branches and regions in comparison with the less performing ones. Further, HR managers in all the case-study banks suggested that the significance of performance

[79] which was larger in size (branch network and number of employees)

related increment (pay) was evident from an increase in the budget allocated for this purpose[80].

In addition to one-time cash bonuses for exceptional performance, some banks declared performance bonuses to reward top rated employees but these were non-cumulative[81]. The HR manager of privatized bank AB2 explained that the bank wanted to escalate the use of bonuses and reduce dependence on increments to control costs. Typically performance bonuses are awarded quarterly or semi-annually but in the Pakistani banks and specifically this sample they were awarded annually and their share in the pay bill was smaller than that of increments. Public banks only awarded performance bonuses in years when exceedingly high profits were generated.

6.2.1. Differentiated design features and implementation of the performance management systems

The differentiated implementation of performance management systems was evident in two areas primarily which included the non-implementation of performance based pay for Officers in bank A2 and the use of different ratings schemes for employee workgroups in banks A2 and AB2 (see table 6-3 above)[82]. In bank A2, management intentionally excluded Officers in the initial years of the payment system for smoother transition according to an HR manager. However, later (three years on) they were still not included due to union activism as commented below,

'The Officers Association actually wants it because a large number of young professionals seek differential in pay based on their performance / effort but the union is lobbying against this. They know that after Officers are included, they [clerical and non-clerical employees] are next and they don't want this.' (A2HR2)

In the second case, banks A2 and AB2 used separate rating scales (bell curves) for different employee workgroups (see table 6-8). In bank A2, middle and senior managers were assessed on separate bell curves with similar percentages allocated to

[80] For example, public bank A1 increased its increment pool from five to eight percent in 2008 while private bank B1 increased it from 10 to 15 percent of budget in 2009

[81] not added to base pay

[82] In the other five banks investigated pay was contingent on employee performance for all three workgroups

each rank on both the curves (refer to table 6-5)[83]. In contrast bank AB2 used two separate bell-curves – one for Officers and the other for middle and senior managers but with different percentages[84].

Table 6-8: Differentiated design features and implementation of rating scale across different employee workgroups

	A1	**A2**	**B1**	**B2**	**AB1**	**AB2**
Officer Grade	Uniform	Not Covered	Uniform	Uniform	Uniform	Separate for officers
Middle Managers	Uniform	*Separate for middle managers	Uniform	Uniform	Uniform	**Separate for middle and senior managers and percentage also varies
Senior Managers	Uniform	*Separate for senior managers	Uniform	Uniform	Uniform	

Source: Bank documents

**** There are two separate bell curves but the percentage allocated for each point on rating scale is the same***

***** There are two separate bell curves and percentage allocated for each point on rating scale also varies***

Further, bank AB2 had two different forms for revenue and support department employees on account of differences in the nature of work and goals, according to an HR manager. This reflects that bank AB2 placed an equal emphasis on rewarding contribution / performance rather than seniority, as in the case of bank A2. However, the remaining five banks used a universal form across the departments, for all employees which was a source of concern for most senior managers and some middle managers interviewed. A senior manager in private bank B1 stated,

'It could have been better; the forms should reflect the nature of the job but the consultant who designed these had business units in mind …. Our forms are meant for evaluating business side employees not support staff.' (B1S3)

[83] For example, the percentage of employees who could attain an 'Outstanding' rating was constant (10 percent), on both bell-curves
[84] For example, 15 percent Officers could attain a rating of 4 but a higher percentage (25%) Middle and Senior Managers could achieve the same rating (see table 6-5).

A middle manager in bank B2 stated,

'I feel my job is riskier [in comparison with support departments like HR] so I should not be evaluated like back office staff. The nature of my work is very different and so is my contribution towards the bank.' (B2M2)

Another middle manager in bank A2 commented,

'There is inequity in the system. How do you compare a rabbit and a turtle; we are [support and revenue departments] from a different league. All of us are assessed on a generic appraisal form which is not customized for either group.' (A2M5)

No clear pattern based on ownership structure appeared in the changes made to the performance management systems across the case-banks. These were modified in all the case-study banks but were developed more (in terms of process, rating scales and descriptors) in public bank A1, private bank B2 and privatized bank AB2. In the case of public bank A1, this was because the system had been implemented for a relatively longer duration (three years) and had matured while in banks B2 and AB2, it was designed after months of consultation with external experts. They were least developed in public bank A2 and privatized bank AB1 which used them for reward purposes only, with little attention to employee development.

Performance management systems were integrated with the new pay structures and systems in all the case-study banks (except Officers in bank A2), they had a weak link with the practise of employee involvement due to the low involvement of employees in the processes of goal setting and feedback while a scattered pattern emerged in the case of training and career development. The two private banks, one public and one privatized bank each identified training and development needs through appraisals while private bank B1 allocated trainings a weight of 5-10 percent in the employee appraisal. Rating schemes (bell-curves) were applied differently across some employee workgroups in one public (A2) and one privatized (AB2) bank for reasons stated earlier. In all other case-study banks, regardless of ownership structure, uniform rating schemes were applied across the employee workgroups. Further, the unit (cluster, department or division) on which the rating scale (bell-curve) was applied varied across the banks without this being related to ownership structures.

Summary

The new performance management systems in all the case-study banks were an apparent improvement over the previous (especially from the employer's perspective) because they were linked with performance and productivity rather than seniority alone. In all the banks examined, appraisals were integrated with changes made in pay structures and systems highlighting a link between the pay practise and the other HR practises in the bundle (performance management systems in this case) since pay raises (increments), performance bonuses and even benefits (in bank B1) were dependent on employee performance. In four case-study banks performance management was used for evaluation and development purposes and was fairly integrated with the training policy. In one public bank (A2) and one privatized bank (AB1) it was used for employee evaluation and was only loosely integrated with the training and development practises as we will establish in the next section. Employee involvement in goal setting was minimal in both these banks while in the remaining four banks (A1, B1, B2 and AB2) employees were involved in the goal-setting process to some extent. The process of feedback which was earlier non-existent improved but employee participation remained limited. The differentiated implementation of the appraisal on senior managers in bank A2 and AB2 and additionally on revenue generating department employees in AB2 occurred through the use of two bell curves which increased complexity in implementation and caused perceptual issues between employees (discussed in chapter seven).

6.3. Changes in training and career development

Training and career development can lead to improved performance which complements the pay practise that aims to reward performance (PRP systems); this explains how the link between both the HR practises in the context of a broader HR bundle. Our data indicated that training was the first HR practise modified in the six case-study banks because of one or more of the following reasons: automation of processes, introduction of performance based pay systems and the objective of organisation-wide cultural change. Crompton et al. (1996), Gallie (1996) and Drucker and White (2000) proposed that reconfiguration of work processes required employees to learn new skills to perform their roles. HR managers of all case-study banks revealed that training and development was an area of priority for developing new recruits and equipping incumbents with new technological skills for four reasons.

First, pay progress was made contingent on employee performance which necessitated the training of employees in emerging concepts and technologies to equip them better to perform in their jobs. Second, in the last decade, all six case-study banks[85] (and more generally banks across Pakistan) automated their operations, established IT departments, created intranets and introduced many technology driven products and services which necessitated training. Third, investment in both functional and managerial training of employees became important as banks focused on enhancing employee performance. Fourth, increased competition resulted in greater mobility of employees between the banks which made training and development an integral part of the retention strategy.

In all the case-study banks examined, training was formalized through the preparation of an annual training calendar and increase in training budgets was also registered till 2008[86] when the global financial crisis forced Pakistani banks to curtail these costs. The six case-study banks established separate training and development departments because of the growing need for training and the significance associated with it. In four banks (A2, B1, AB1 and AB2) training departments existed within the HR Department while public bank A1 and private bank B2 had separate Training Departments[87] and their Heads reported directly to the Chief Executive. Training Officers were also assigned to each department in all the case-study banks to facilitate the administrative work and to coordinate with the HR department at the head offices.

6.3.1. Integration of training with other HR practises

Extant research highlights the importance of training and development for meeting short and long-term employee expectations and points to the inter-linkages between

[85] Source: State Bank of Pakistan annual reviews, bank documents and interviews.
[86] According to Country Head HR of private bank B1, the training budget which was generally two to three percent of the overall budget increased by 76 percent in two years, between 2006 and 2008.
[87] Bank A1 had extensive trainings (foreign and local) while management at B2 considered it a year round activity which absorbed a lot of time of the HR Head, so it had to be separated.

the different HR practises. For example, Brown et al. (1997) proposed that long-term earnings and vertical promotions relied on training opportunities and training influenced and was influenced by employee involvement. Also Druker and White (2000) stated that performance management systems encouraged employees to continuously focus on training and development which emerged in our discussion in section 6.2.

Reward strategies have potential links with training since the former help in attracting and retaining skilled and competent employees while the latter provides them an incentive for career development. Our study provided evidence for this but indicated that pay and training held different valence for separate employee workgroups. This provided the basis for the argument about different groups developed in chapter seven. Lawler (1990) proposed that reward strategies had a central role in flatter and leaner organisations with shrinking opportunities for internal growth; he linked pay with performance which relied on skill acquisition through training. This highlights that a relationship exists between the different HR practises bundled together and it sheds light on the reliance of multiple HR practises on each other for achieving the broader HR objectives. In the mid 1990s, the government restructured and downsized all public sector banks in a bid to privatize them. Both privatized banks in our sample (earlier public owned) and the two public banks (A1 and A2) experienced downsizing which resulted in the shrinking of the internal labour market as Lawler (1990) had proposed.

The integration between the training and the pay practises (primary research focus) is discussed prior to an elaboration of those features of the new training policy which aided in integration and those which inhibited it. In five of the banks studied (A1, A2, B2, AB1 and AB2) there was no direct link between training and pay but in bank B1, up to 10 percent weight in the appraisal was assigned to training based on which increment was determined. This was an additional attempt by the bank to highlight the significance of training to employees explicitly as they had in the past not been made to realize the indirect yet crucial role of training in enhancing their performance on which their pay progress depended after implementation of the new pay system. In addition, bank B1 had a policy for awarding cash prize to the top participants in a one week or more duration course although this had not been implemented by the time of the interviews. Also, public bank A2 introduced an allowance of 10 percent on the basic salary for employees who developed themselves as trainers. The financial impact of training through competence and skill-based pay (Armstrong 1997, Druker and White 2000) was not widely evident in the Pakistani banks except for a one-time cash reward for Officers (in all case-study banks) after completion of the banking diploma examinations.

The two integrating forces in the training practise included training requirements and the inclusion of training in the performance appraisal forms. However, weaknesses in the Training Needs Analysis (TNA) and training evaluation processes reduced the value of these programmes and led to a weaker integration with the other HR practises. For example, pay and career progress is influenced by training and the purpose of training reflects on management's policy to incentivize employees either in the short-run through pay progress or long-run through career development.

Except for bank A1 (which revoked this policy), in all other case-study banks, mandatory training for a specific number of days in a year was part of the appraisal form and a criteria for promotion but training only had an indirect link with pay[88]. Bank A1 delinked this criterion from promotion in 2007 to signify a shift in policy from quantity to quality of training, according to the Training Head. However, data indicated a sharp decrease in the number of employees who registered for training that year but the situation improved in the following year as illustrated in table 6-9 below.

[88] For example in banks A2 and B1 three days were mandatory and in bank B2 five training days in a year were compulsory

Table 6-9: Number of participants in training programmes at bank A1

TRAINING AREA	**PARTICIPANTS**		
	2006	**2007**	**2008**
Function Specific	822	226	**772**
Management	809	356	**579**
Total	**1631**	**582**	**1351**

Source: bank documents

The decrease between 2006 and 2007 occurred because employees perceived no apparent benefit from attending training sessions as highlighted in the comment made by a middle manager.

'People didn't want to attend trainings because they were not associated with any financial reward (pay) or opportunity for growth (promotion).' (A1M2)

Senior managers interviewed in the bank attributed increases in training figures the following year to the awareness HR created about the benefits of training - personal development and skill improvement. Employees were informed of the payback skill development could give in the form of improved performance on which increments, bonuses and promotions depended.

The lack of integration between training and performance management weakened the processes of Training Needs Analysis and training evaluation in all the case-study banks. Lack of identification of skill-gaps hindered achievement of desired training outcomes while poor training evaluation created issues for re-allocation of the training budget in subsequent years. This is because the absence of any information which directly establishes a link between training and individual and organisational performance makes it difficult to justify to the management how and to what extent the investment in training employees can benefit the organisation by improving its bottom line figure (profits). For employees in case-bank B1 these gaps were of greater concern because unlike the other banks training had a certain weight in their overall performance rating with which the yearly increments were associated.

Based on the comments of HR managers in all the case-study banks, the following additional reasons for weaknesses in the Training Needs Analysis process emerged. The first reason was the recent introduction of a formalized process (two years only) for assessing training needs which meant that this process had not yet matured. For example in 2008, the training manager of bank B1 held meetings with Group Heads/ Country Heads to identify areas in which most employees required training. The annual training calendar which was developed subsequently was examined in conjunction with weak areas highlighted by internal auditors. However, a similar exercise for individual employees had yet to be conducted. The second reason was the lack of formal job descriptions in four case-study banks except banks A1 and B2; thus gaps in the assessment of employee skills related to the tasks performed were inevitable. In four banks (A2, B1, AB1 and AB2) informal job descriptions existed (see table 6-10).

Table 6-10: Job analysis system across case-study banks

	A1	**A2**	**B1**	**B2**	**AB1**	**AB2**
Job Evaluation System	Internal exercise conducted recently	An informal system but plans for conducting a formal exercise	Internal exercise conducted recently	Conducted an exercise with Hays Group 8-9 years ago	Recently conducted an exercise with Hays Group	Recently completed an exercise with the Hays Group

Source: Interviews with HR Managers and bank documents

The third reason was the use of trait / behaviour based appraisal forms in the initial few years following the introduction of the new training policy. These appraisals assessed attitudes and behaviours and were inappropriate for identifying inadequacies in technical skills. Further, training evaluation in the six case-study banks appeared to be weak because limitations of the former resulted in the training of employees in skills not required for performing in their current job. Consequently, employees could not apply the knowledge and skills learnt in their work which made it difficult to gauge / measure the possible positive effects of training on employee performance. Despite these common weaknesses banks A1 and

B2 improved their training processes more as compared with the other four banks as according to the HR Director of bank A1, the bank had recently established a separate unit for training evaluation which would only focus on the training needs of the bank. The training head of bank B2 explained that after automation employees could only register for appropriate trainings short-listed for different jobs by HR and the relevant business heads. The software displayed trainings already attended by an employee reducing the incidence of repeat trainings as re-registration which was a norm (previously) was not possible any longer.

6.3.2. The differentiated design and implementation of the training practise and the influence of ownership structures

The differentiated design and implementation of the training practise in all the case-study banks resulted in disproportionate opportunities for career development between different employee workgroups. The types of training imparted (function specific, management, combination) and the emphasis placed on training varied across workgroups based on hierarchical level (senior, middle, Officer grade) and entry track (MTOs, individual hired), as illustrated in table 6-11. In addition to informal learning methods like mentoring, coaching and on-the-job training, all case-study banks employed formal training programmes to impart knowledge and skills to employees. Function-specific training focused on technical skills in specialized areas like risk management, commercial banking operations and banking rules / regulations while management training courses aimed at developing managerial, leadership and conflict resolution skills of employees.

Table 6-11: Training types according to employee workgroups

	General Banking	Function Specific	Management
<u>**Officer Grade**</u>			
MTO (batch hiring)	X	X	*X
Individual hiring	X	**X	
Middle Managers		X	X
Senior Managers			X

Source: Adapted from bank documents

**** MTOs are given basic management training only such as communication skills, presentation, and work management.***

***** Very few function specific training opportunities are available for individual hired employees***

The type of training varied according to the hierarchical level of employees and their entry track (batch or individual hiring). Function specific training was intentionally designed for Officers in all case-study banks but in some instances middle managers also benefitted from it[89]. Triangulation of bank documents with data from interviews with middle managers indicated that management training in all the case-study banks was more generic, with less focus on the technical aspects of management and leadership. For example, an HR manager in bank A1 said that 60 managerial level employees were trained to improve their communication skills in one year. Only private bank B1 had a formalized training policy for executives (senior managers) which gave them discretion to choose external trainings with a higher budget ceiling. This option was not available to employees in other hierarchical levels in this or the other five case-study banks. This finding indicates that the strong power distance culture in Pakistan placed an emphasis on the fact that the higher you get in the hierarchy the more experienced you are and hence the need / requirement for training diminishes as it is believed that there is no further learning from which the employee stands to benefit.

The differentiated implementation in this practise across employee workgroups was evident on the basis of entry track in all the case-study banks and it was apparent in

89 For example in emerging fields which included Basel II, Inflation Targeting, Risk management etc

the extensive training programmes designed for MTOs upon induction as opposed to shorter duration programmes for individually hired employees. Induction training for MTOs ranged from 9 to 18 months while Officers hired individually were generally trained for up to a maximum of one month in general banking, with few opportunities for functional training. MTOs were initially trained in general banking, were then rotated in functional departments[90] and ultimately placed in one of these departments. In all the case-study banks, MTOs received up to 30% increase in pay after completion of the training period. It appears that the increased job mobility of MTOs did not have any bearing on their training prospects as management across the case-study banks believed that a bond[91] would drive them to seek employment elsewhere and would act as a deterrent to retention. Shorter training for employees hired individually indicated management's hesitance to invest in them. For example, newly hired Officers in the Sales Group at bank B1 were provided only with 15 days training in general banking. Our inference above was substantiated by interviews with two individually hired Officers who claimed that sometimes orientation sessions were delayed for weeks and even months. An HR manager who did not deny this claim remarked,

'This is due to operational issues like the location of academies in only three cities while branches are spread geographically. We give preference to in-house training and with an increase in employees in the past few years we plan on opening a new academy and hiring more trainers to resolve this matter.' (B1HR4)

The types of training programmes, modes of training (internal, external –foreign and domestic) and weaknesses in the training policy were similar across the six case-study banks with minor differences. Apart from one public bank, A1, which received funding from international donors, none of the other five banks financially sponsored employees for foreign training. According to the HR manager in bank A1, management intended to develop junior employees through foreign training; they were either promoted or placed in key positions with enhanced pay packages upon return. The other five banks also encouraged employees to enter higher education but did not provide financial support. In-house training was preferred by

[90] Like Foreign Trade and Exchange, Operations and Investment Banking

[91] A contract requiring an employee to serve for a minimum stipulated period in return for the extended training

all banks except when internal experts / trainers were unavailable because it made the training of more employees at less cost possible. Table 6-12 illustrates the heavy reliance on in-house training at bank A1 which is reflective of the trend in the other five banks as well[92].

Table 6-12: Employees trained in-house at bank A1

Type of training	Institutions	Function specific training	Management training	Programmes
Internal	Training department of bank	91	582	24
Internal	Institute of Banking and Finance	208	121	23
External	Private domestic and foreign organizations	156	69	91
Total		455	772	138

Source: Bank documents. Figures pertain to the year 2008

6.3.3. Changes in the career development practise

The practise of career development gained significance because the newly inducted Officers expected banks to invest in their professional growth and senior managers hired from foreign banks believed it could play an important role in employee retention. According to HR managers in all banks examined, implementation was intended for all employees but inadequacies in the IT infrastructure and greater focus on modifying core HR practises[93] in the early years led to a differentiated and phased implementation across the employee workgroups. Banks placed greater emphasis on realigning those HR practises which could enhance performance like recruitment, training, appraisals and compensation. Moreover, automation of processes which is a costly affair was at first carried out in the areas of banking operations while support departments got second priority. In the initial years only MTOs in all the

[92] A larger number of participants benefitted from in-house training - 299 from a total of 455 participants. In the case of management training, 703 participants were trained in-house and 69 from external organisations.

[93] like recruitment, performance management and training and compensation

case-study banks were covered under the policy. In the public and privatized banks incumbent employees interviewed at all levels and Officers (hired individually) indicated that banks invested more in the development of MTOs who were seen as the future leaders. This perception created dissatisfaction amongst employees in the other workgroups (discussed in chapter 7).

Brown et al. (1997) stated that career progress depended on increase in skills, knowledge, responsibilities and earnings of employees (p.8). HR managers in four case-study banks (A1, B1, B2 and AB2) which had a written career development policy stated the use of job rotation, job enlargement and job enrichment as techniques for career development in Pakistani banks. However, employees interviewed in these and the remaining two banks associated promotion with career development and were unaware of the benefits / role of job enlargement and job-rotation for instance, in the development of their careers. In these four banks, evidence from employee interview data (except MTOs) indicated weak and patchy implementation of the above mentioned career development techniques while in banks (A2 and AB1) employees were unaware of a related policy. These are the two banks we discussed earlier that did not use the performance management systems for development purposes. The comments below illustrate these findings.

'We don't have a written policy but it is understood that Line Managers are responsible for career management of their subordinates. Employees, who start in the branch, know their next major career move is a promotion as Manager Operations, then Branch Manager…' (AB1HR3)

A senior manager in public bank A1 remarked,

'There is a roadmap for performers, especially those who intend to remain with us in the long-run. Everyone wants to retain good people; nobody would cull a chicken which is laying eggs,' (A1S1)

The differentiated implementation of the career development practise existed between employees (within grades) based on education, entry track[94] and performance which resulted in an inequality in their earnings and career progress. Brown et al. (1997) found similar evidence in their study of pay systems and career

[94] incumbent and fresh employees and batch (MTOs) and individual hired workers

management in Japanese and American firms. Evidence from interviews of Officers and middle managers and triangulation with bank documents revealed that career paths were defined for MTOs but not for individually hired employees, in all six case-study banks. MTOs were guaranteed two promotions within three to four years, upon fulfilment of the performance criteria. They were transferred and rotated in different departments in the initial training period[95] to acquaint them with different banking operations and to identify areas in which they had abilities, skills and an aptitude to excel. Interviews with HR managers and employees at all levels indicated that job rotation was used in three case-study banks (A1, B1 and B2). Department Heads rotated employees within departments without information to HR which was unfavourably seen by the latter as it made career planning difficult for them.

Summary

The six case-study banks invested in the training of employees soon after the introduction of the banking reforms which resulted in the automation of processes, the shift to a performance culture and the modification of other HR practises. The emphasis on training increased across the banks but its integration with other HR practises was weak. For example, in all six case-study banks a separate section on employee development was added in the appraisal form but little evidence of a strong link between identification of skill gaps and allocated trainings emerged. A weak and indirect link between training and pay practises emerged in five banks as the former was not considered in the performance appraisal on which increments and bonuses depended. However, a relatively direct link was visible in bank B1 which introduced a weight for training in the employee appraisal. Further, financial rewards related to training were visible in the one-time cash award for Officers upon completion of the Banking Diploma Examination in all six banks and an increase in pay for those who went abroad for higher education[96] in bank A1.

Brown et al. (1997) proposed that training enhanced employee involvement and performance. In return for accepting comparatively low pay packages relative to the

[95] which extended up to 18 months in some banks
[96] Upon completion of the degree

market, extensive training programmes were designed and implemented in a bid to retain younger employees in the case-study banks. However, the feedback and evaluation processes which enhance employee involvement were limited and reduced the desired outcomes. Different training programmes were intentionally designed and applied differently for batch and individually hired workers to demonstrate greater investment for developing this group of employees. Few training opportunities for senior managers existed because they were expected to perform in personal and organisational capacity based on their experience, vision and exposure. Senior managers indicated that they were neither inclined to nor valued training as it was a long-term incentivizing tool, more appropriate for Officers and middle managers; this reflects the mind-set of individuals who reach senior positions in a society that equates experience and competence with seniority. This also Career management was weak in the six case-study banks investigated, mainly due to an inadequate IT infrastructure and HR's focus (in the initial reform period) on core HR practises[97]. It was only integrated with other HR practises for MTOs for whom a defined career path with fast-track performance based promotions was implemented.

As with the two previously examined practises, no pattern in the design and implementation of the training policy based on the ownership structure of the banks existed. The types of training programmes, issues in integration with other HR practises and differentiation in the design and implementation of this practise across different employee workgroups was mostly diffused across the six case-study banks. A distinct pattern based on entry track was apparent across the case-study banks in the case of career development. Only MTOs in the Officer grade and middle management positions had defined career paths which indicated management's intention to motivate and develop MTOs as future leaders. We found that even within this group performance was a major criterion in the fast track promotion which indicated that the policy was possibly designed for high-flyers only.

6.4. Improvements in the practise of employee involvement and participation

[97] like recruitment and selection, performance management etc

The practise of employee involvement and participation is significant to explore for this research as extant literature provides conclusive evidence of its role in the success of pay systems. Research by Cox (2000) determines that a large part of pay administration comprises and depends on employee involvement, communication processes and resolution mechanisms. Further, Brown et al. (1997) point to the role of effective employee involvement in the integration of the HR practises constituting the HR bundle. We examine changes in this practise with a focus on its role in the integration of the three HR practises discussed above and pay. While Cox (2000) and Kessler and Purcell (1996) contend that employee participation has a central role in organisations and the success of changes in pay structures and systems we found that this may not be necessary where employees perceive the outcome of restructuring as favourable. For example, the Organisational Development Head of bank B1 explained that even though employees were not involved in restructuring of the pay systems and structures they supported the changes because of the substantial pay increases they received as a consequence[98].

Modifications were made to this practise in the six case-study banks investigated but emphasis was laid on improving communication and introducing resolution mechanisms rather than enhancing employee participation. Marchington et al. (1992) elaborate on the techniques organisations use to increase employee involvement and participation; these include mode of communication (upward, downward and two-way), financial participation and representation (refer to table 6-13). We found that employee involvement was weak across hierarchical levels in financial decisions and representation in such forums but communication processes had generally improved in all case-study banks. Interview data from employees in all categories establishes their non-involvement and non-participation in the changes introduced in the pay practise and the broader HR bundle. However, in some banks, senior managers were present in the approval sessions which were informative rather than participative in nature.

[98] This statement is triangulated with data obtained from employee interviews.

'A seminar was held with some consultant informing us of the new system. Actual participation is involvement at all stages of change but this was just informing us of the decision after the new policies were finalized.' (B1S3)

'We are not involved in pay decisions at all. People in management think they know it all and are not willing to value our suggestions.' (AB2S2)

Across the case-study banks, mechanisms for resolution of pay disputes existed. However, employees interviewed in five banks with the exception of bank A1 contended that these were ineffective as they did not result in the reversal of decisions. Employees in bank A1 stated that in very few cases their supervisors were able to convince HR for upward revision in the pay raise / increment after employees had filed for a review. The following comment is illustrative of this.

'We can talk to HR and even appeal in case we disagree with our appraisal rating but action is seldom taken; in fact after some time the employee suffers at the hands of their supervisor.' (AB1M1)

The presence of employees in representative forums was limited due to the weak presence of trade unions in Pakistani banks as substantiated by interview data from HR managers, middle managers and Officers in the six case-study banks. Trade Unions and Officers Associations existed in the public and privatized banks but were confined to non-managerial workforce groups which are outside the scope of our study[99]. Unions in these banks participated in collective bargaining arrangements but Officers Associations did not.

Distinct patterns based on ownership structure emerged in the case of changes in communication patterns; we discuss changes in private banks followed by public and then privatized banks based on interviews of HR Managers and all employees. A cultural shift in the extent of communication was evident in five banks investigated with the exception of one private bank (B2) which had relatively open communication channels prior to reforms. Communication processes were freer in the private banks due to a lesser percentage of incumbents in the workforce and a larger representation of younger employees. Management informed employees of forthcoming events and changes through blogs on the internet (refer to table 6-13).

[99]Clerical and non-clerical employees

Middle managers interviewed in both private banks stated that most communication reached them through circulars or official emails and their participation in strategic and operational decisions was limited. However, HR managers in these banks contended that participation had increased but, due to cultural norms employees did not perceive it as such.

‘It’s a cultural issue in Pakistan. There will be all Chiefs and no Indians. Employees think they have participated only when their proposal is accepted. Abroad [in foreign countries], sharing of ideas rather than their acceptance constitutes participation which is not the case in Pakistan.’ (B2HR1)

Between the two private banks, Bank B1 was relatively more bureaucratic than bank B2 because a majority of the former’s senior managers were hired from public sector banks and opted to implement practises which were prevalent in their previous banks. Middle managers stated that despite top management’s efforts, few departmental meetings were held and senior managers mostly remained in their cabins even though an ‘open door policy’ existed in principle. One HR manager commented,

‘Despite management’s policy to encourage the use of intranet for discussion, few employees do. Two years ago, out of approximately 3000 employees only 400 had email IDs but now all do which indicates that the bank management is now serious about bringing in a cultural change and about institutionalizing mechanisms that can increase the effectiveness of communication.’ (B1HR2)

Table 6-13: Employee involvement and participation techniques in case banks

	Downward Communication			Two-way Communication	* Upward Communication			*** Financial Involvement		Representative Participation	
	Email / Intranet/	**Newsletter**	**Use of Chain of Command**	**Team briefings / meetings**	**Suggestion Schemes**	**Attitude Surveys**	****Town Hall Meetings**	**Profit Sharing**	**Unit Wide Bonus**	**Collective Bargaining**	**Change programme**
Bank A1	Email / Notice Board	✓	✓	✓	✓	Once in last 7 years	X	X	X	* Union and Officers Association	X
Bank A2	Email	✓	✓	✓	✓	X	Monthly but only downward communication	X	✓ X	* Union and Officers Association	X
Bank B1	Email / intranet/ notice board/ blog	✓	✓	✓	✓	Once in last 5 years	Once or twice a year but only with HR Head	X	✓ X	X	X
Bank B2	Email / intranet/ notice board/ blog	✓	✓	✓	✓	Once in last 5 years	X	X	✓ X	X	Business Heads and Some Senior Managers involved
Bank AB1	Email / intranet	✓	✓	✓	X	X	X	✓ X	X	Union	X
Bank AB2	Email / intranet	✓	✓	✓	✓	Once in last 5 years	Once or twice a year but only in bigger cities and corporate headquarters	X	✓ X	Union	X

Source: Table adapted from Marchington et al (1992) and Cox et al (2007)

**** Unions are only for clerical / non-clerical Staff which is not part of our sample.***

***** Some techniques like quality circle, works council and customer care have been omitted as they do not exist in any case bank while others like town hall meeting are included.***

******These schemes exist but employees have no participation / involvement in decisions related to distribution of profit / bonus.***

According to Middle managers and Officers in both public banks, the preferable mode of communication was the chain of command; electronic methods like email and intranet had limited use but discussions with immediate supervisors were possible. The latter was a departure from the previous norm of power distance. Senior managers interviewed suggested that communication was not institutionalized and depended on the management style of the respective departmental head. In public bank A1 remnants of a bureaucratic culture persisted but both management and employees claimed bureaucracy in processes had reduced with the support of top management for change in culture. Further, professional bankers hired from foreign banks promoted performance-oriented practises which they had seen in their previous institutions. However, the HR Director conceded that significant room for improvement remained.

'It varies between departments. Some [Head of Departments] are traditionalists others [recently hired from foreign banks] are not. They believe in empowering their staff and hold many departmental meetings.' (A1HR1)

In HR's view, bank A1 had progressed from a strictly top down communication approach to a slightly participative one with an open door policy which encouraged employees and line managers to improve interaction. In this regard the HR Director cited an example,

'Protocols have reduced. Employees in a department were unhappy with their Head so I called a joint meeting to discuss the issue. The Head was asked to improve his performance in certain areas while his team understood the reasons he gave for certain other actions taken. It's a big change for this bank.' (A1HR1)

The pattern of communication, participation and involvement shifted in both privatized banks similar to that of the public banks. The large size of these banks and the strong bifurcation of the workforce between incumbent and newly hired professional bankers presented a challenge in this context. The former believed in minimal interaction while the latter encouraged employees to participate in departmental decisions resulting in varied participation levels across departments. Despite these weaknesses, most Officers and middle managers interviewed pointed towards improved communication processes but believed participation remained restricted because discussion forums continued to be dominated by management.

Summary

All six case-study banks took steps to improve employee engagement and communication processes but this did not result in a significant change in the level of employee participation. A weak link was identified between pay and employee engagement with negligible employee involvement in the re-designing of HR practises. Participation was restricted to goal setting in the new performance management system and was non-existent in training decisions.

This practise was uniformly implemented across different employee workgroups in the six case-study banks examined but some differences emerged in the accessibility to top management. Senior line managers had frequent interaction with top management but opportunities for middle managers and Officers were rare. Contrary to the other practises, a pattern based on ownership structure was discernible here. The private banks enjoyed freer communication while in public and privatized banks open communication was not institutionalized and varied by department. A glaring commonality across the case-study banks was the focus on improving communication processes with little attention to the inclusion of employees in designing of policies and decision making. It appeared that opportunities for upward communication had increased in at least five case-study banks, excluding privatized bank AB1. The former introduced suggestion schemes and conducted attitude surveys but in most cases the survey was conducted only once in the last five years. Communication forums between senior management and employees were introduced in public bank A2, private bank B1 and privatized bank AB2 but employees stated that they facilitated one-way communication only. Public bank A2 was the only bank which organized regular communication sessions but their middle managers and Officers also claimed its inefficacy because of the top down approach which was characteristic of its history as a bureaucratic, public sector bank in a high power distance country.

6.5. Conclusion

We attempted to examine the changes in the broader HR bundle and their link, if at all, with the changes in the pay structures and systems in the case-study banks. Evidence provided in this chapter indicates that the newly designed HR bundle in the case-study banks facilitated the attainment of the objectives outlined for changes in the pay structures and systems of the case-study banks. These objectives included recruitment and retention, reward for and motivation of high performing employees, facilitation of a new performance culture, increased flexibility in pay determination and the introduction of new career paths. HR practises were re-designed as part of a wider initiative to primarily conform to the emerging performance culture in the case-study banks. The changes reflected the influence of the reforms in the banking sector and the expectations of the professionally qualified Officers at entry level and senior managers from foreign banks. Changes in each of the HR practises in the bundle were motivated by different reasons but their features were more or less similar across the case-study banks.

Some evidence of attempts at integrating the HR practises seemed to exist but the extent to which each practise conformed to or complemented others differed in the six case-study banks examined which relates with the varying needs of the banks to adopt hybrid mechanisms. For example, performance management systems were used for development and reward purposes in four banks while in A2 and AB1 they were only used to reward employees in reality and were not fully integrated with the training practise. Also in the case of pay, progress for Officers in A2 was not linked with performance as in the remaining banks and only performance based bonuses were awarded in banks A1, B1 and AB2. In the remaining banks fixed bonuses delinked with performance were continued in parallel thereby weakening integration with performance. Better communication, one measure of employee engagement was evidenced to a greater extent in the private banks in comparison with the privatized and public banks. This was the only practise in which a clear pattern based on ownership structures emerged. Across the banks the changes appeared to be designed to promote performance but were often geared towards the progress and development of certain employee workgroups as opposed to others due to the differentiated implementation of the HR practises across employee workgroups.

Evidence indicated that the key design features of the new HR practises were similar across the six case-study banks but they were applied differently across employee workgroups. This was an intentional attempt by management to invest in key employee workgroups only and to provide career and pay progress to workers who performed and had the potential to be developed into future leaders. Management across the case-study banks invested more resources and time in the recruitment, training and career development of MTOs (batch hired) as opposed to individually hired employees. This was done with the intention to develop the high performing MTOs who were better qualified in comparison with the others, for key positions and leadership roles. Senior managers were more involved in organisational decisions as opposed to middle managers and Officers; also communication processes had started to improve at the time of the interviews.

Hence, the differentiated implementation of the HR bundle across different employee workgroups created issues for management and had consequences for the employee psychological contract discussed in the next chapter. Findings from this chapter establish the presence of mixed systems in some case-study banks in which hybrid mechanisms that facilitated the continued implementation of the previous practises in parallel were retained in the new HR bundle. Further, the differentiated design and implementation of various HR practises in the case-study banks forms the premise for our analysis in chapter seven which examines employee reactions to the changes in pay structures and systems and the broader HR bundle through the perceptual lens of the employees. It elaborates on the influence these changes had on shaping the employee psychological contract, especially of those employees in whom the organisation invested less in comparison with the other employee workgroups.

Chapter 7: The influence of changes in the pay structures and systems and the HR bundle on the employee psychological contract

7.0. Introduction

The previous chapter discussed the link between changes in the pay structures and systems and the broader HR bundle and the differentiated implementation of the HR bundles across different employee workgroups. The analysis highlighted that most changes in the HR bundle (including pay) were performance driven but the differentiated implementation created perceptions of inequity, lack of fairness and injustice. This chapter is based on the views of employees and HR managers and addresses two broad themes: (i) the changes in the employee expectations which influenced the emergence of a new psychological contract (Westwood et al., 2001) and; (ii) employee perceptions of changes in the pay structures and systems and the broader HR bundle which organisations use to signal their intentions about the exchange relationship (Aggarwal and Bhargava, 2009). The employee expectations define the potential gains the employees expected would result for them after the changes in the HR bundles while the perceptions are their interpretations of how they actually viewed the outcome of the changes (just / unjust, favourable / unfavourable). Perceptions related to notions of justice emerged due to the conflicting employee views and expectations as previously concluded by Robinson and Rousseau (1994) and Aggarwal and Bhargava (2009) across hierarchies and explored in the context of multiple employee groups by Koene & Riemsdjk (2005), Elmes & Kasouf (1995) and Armstrong-Stassen (2008). The conflicting views in this study are between incumbent and new hired employees and MTOs hired in batches and individual hired employees. Examining employee expectations and their perceptions is important in this study because they aided employees in interpreting whether the changes in the HR bundle introduced by management were favourable for them and if management invested in them to the extent that it expected them to performan and contribute to the organisation.

This chapter consists of five sections. Section one outlines the new set of employee expectations at different levels as they influence the composition of an employee's psychological contract (Willem et al., 2003b; Willem et al., 2004;Van den Brande, 2002) and relate to the new employment relationship based defined by a performance culture. Section two and three investigate employee perceptions related to changes in the pay structures and systems and antecedents of pay satisfaction. Perceptions related to changes in the broader HR bundle[100] are discussed in section four as HR practises are inter-linked and only a few studies of the psychological contract like Aggarwal and Bhargava (2009, p.6) highlight employee perceptions of multiple HR practises; hence this needs to be addressed as a gap in the literature. The last section discusses employee perceptions related to the HR bundle but through the lens of theories of justice (Folger 1993; Tremblay et al., 2000; Colquitt et al., 2001) as they are significant in building employee acceptance towards the changes.

7.1. The new set of employee expectations

Employee expectations related to the HR practises evolved and changed in the post-reforms era as a consequence of: (i) changes in the employment relationship which occurred due to growth in the banking sector, shift in the style of management, modification of the HR practises and restructuring of the organisations and business strategies and (ii) change in the workforce composition with the induction of MTOs and ex-foreign bankers, the latter mostly in senior positions (see table 7-1). The nature of jobs, career development, skills, competitive pay, relationship with the immediate boss and work environment appeared as the six significant elements in the post-reforms employment relationship. Prior to reforms job title, promotion, experience and internal pay equity defined the set of employee expectations while a more open relationship with the boss and work environment were not considered significant. The induction of minimum masters qualified individuals through a competitive process at the entry level resulted in a better qualified workforce that was more aware of the significance of training and development and expected the banks invest in training and develop their careers (Carlson and Rotando 2001; Sharpe 2002). Under the new career development practise promotions were based on the nature of the job and expertise of the employee which made job content significant. The importance of appointment on key positions and the size of the portfolio being handled increased and influenced decisions of pay and career progress. This was

[100] Discussed in Chapter 6 – performance appraisal, training and career development, employee engagement and recruitment and selection.

especially true in the case of senior managers across the case-study banks who perceived that the spread of their portfolios indicate the value of their job for the bank.

'I joined this bank because they offered an enticing portfolio, larger than that in my previous bank [foreign]. The employees in my Group [department] here are almost double the entire workforce there [foreign bank] which enhances my potential to contribute more towards the organisational growth.' (A2S1)

'Pay increase with promotion is a common industry wide practise but at my level the emphasis is mostly on the portfolio and how challenging the job is. For me, pay kind off slides down the priority list.' (B1S3)

While middle managers expected challenging jobs / roles because it impacted their future career prospects, Officers expected diversity in the assigned tasks because of the opportunity it presented to show their talent and skills. Challenging jobs are crucial for employees to demonstrate their contribution, especially in a performance driven organisation.

The second change in expectations related to the skills and competence. Previously, experience was the only factor which mattered in pay and career decisions which indicated to the employees that this was the sole criteria valued by the employer. However, post reforms all three categories of employees expected management to additionally acknowledge and reward their skills and competence. This highlights employee expectations of greater investment by the organisation in training and developing their skills and competencies. Middle managers in private bank B1 and AB2 described the expectations as follows:

'Experience is nothing now. A young lad comes in and does better than an experienced employee. What I learnt in 10 years he learns in one year and gets the best of me. How can you pay for experience anymore? I look for smart guys and train them so they can perform better.' (B1M4)

'Skills are intangible but they result in tangible gains for the bank. For starters, a section is added in the appraisal form but we need better alignment with rewards to communicate to the employees that we are recognizing skill enhancement. Management is trying to invest in enhancing employee skills.' (AB2M3)

The third change in the employee expectations was related to career development. Earlier, career progress meant upward movement in the career ladder through vertical promotions. In the new set-up senior managers wanted to see a greater role for their contribution rather than their seniority alone in decisions of career progress and Officers and middle managers expected lateral opportunities for growth and career development through training. The use of mechanisms like job enlargement, job rotation and job transfer increased but Officers and middle managers interviewed in the banks where these mechanisms were employed suggested that they were not institutionalized and varied by department (see chapter 6). Further, an increase in job mobility led employees to develop a stronger commitment with their career rather than the organisation which had implications for the employee psychological contract as previous research by Sharpe (2002) has shown that employee mobility is a significant feature of the new psychological contract. Employee mobility is the ease with which an employee can move in from one employer to another.

Middle managers and Officers interviewed in Bank A1 revealed that they joined the bank and remained with it because of its reputation for training and developing employees. In case-study banks B1, B2 and AB2 employees stated that they settled for lesser pay due to the promise of opportunities for training and development. This implies a shift from vertical promotion to lateral career development. Comments of a senior manager in public bank A1 and one Officer each in Banks A2 and AB2 indicate the expectations of employees associated with career development opportunities.

'Times have changed; experience should not be the only thing which counts at the executive level, it's the contribution one makes. Experience comes with exposure but it should be result oriented. If I don't contribute I don't deserve to lead this organisation.' (A1S3)

'Pay is not the only motivator. I take extra projects like the new accounting system being developed, to improve my CV. I would be paid even if I didn't do my job because this is a public sector bank and they can't stop my pay. It's my personal development which motivates me.' (A2O4)

'It's not about my current job; I'm more interested in how the bank can train and develop me. These days loyalty is with the career not employer. This is a bitter truth but if one sticks with an employer too long, career stagnation starts.' (AB2O4)

Table 7-1: Changes in employee expectations in the six case-study banks

	Previous set of expectations	**New expectations**		
		Senior Managers	**Middle Managers**	**Officers**
Nature of Job	To attain a title such as General Manager or Branch Manager.	Bigger / more important portfolio to enhance contribution	Challenging jobs to demonstrate strategic contribution	Diversity in jobs to demonstrate potential to perform
Skills / Competencies vs. experience	To gain experience – number of years as it determined seniority	Balance between competencies and experience	Better link of skill enhancement with rewards	
Promotion / Career development	Only upward movement in the hierarchy was considered progress	Greater role of contribution than experience in progress	Focus on career development and training opportunities to secure their future	
Pay equity	Expected organisation to maintain internal equity only	Competitive salaries across sectors. External pay referents	Internal and external referents	
Relationship with immediate boss	Formal with limited personal interaction	Frequent, closer interaction with Group Chiefs / President	Regular contact / consultation with unit / department head and ease of access	
Environment	Not significant	Professionalism and open culture	Professional and open culture; more information sharing	

Source: Employee interviews across hierarchical levels in all case-banks

In the case of pay equity, our findings indicate that post-reforms employees in all the three hierarchical levels expected market competitive pay as well as internal parity at the middle management and Officer level. This indicates a shift to a more transactional nature of the psychological contract where employees are interested in proximal gains as they do not intend to remain with one employer for long. Also lack of job security can give rise to this expectation. For example, in the public and privatized case-study banks incumbents where satisfied with lesser pay post reforms and de-regulation of the sector but in subsequent years they also started expecting market competitive pay to off-set the lack of job security. External comparison did not exist earlier because the big five public banks dominated the banking sector and had similar pay levels. It was only after deregulation that many new banks opened in the private sector and job mobility increased allowing employees to compare salaries with those offered in the other banks and to assess the differential in pay. Also, the foreign bankers who joined the domestic banks were used to examining pay parity in context of the offerings of competitors. Senior managers interviewed expected pay to be competitive with that of professionals at their level in the other sectors while the middle managers and Officers expected the banks to maintain both internal and external parity. Their referent group extended beyond the domestic banks and included the foreign banks. Employee views (one from each employee category) which reflect these expectations are given below.

'Pay parity is a relative concept. At our level internal comparison is rare; our reference group is people in our strata in other sectors like telecom. When management contends they are rewarding us handsomely they should compare with executives in other growing industries.' (AB2S3)

'It's tricky. I would say both internal and external parity are important depending on a person's situation. When I was hired from the market, they had to pay me a lot more than their existing employees. For me external parity was important but it created an imbalance in internal parity with existing employees. (A2M1)

'Pay in our grades is similar across banks but new employers are willing to pay 10-15 percent more than the existing pay of an employee. I think there are more problems internally at our level. Those who are not from the MTO batches and older employees [incumbents] get lesser pay than us.' (B2O5)

The last two changes, relationship with the immediate boss and the work environment relate to cultural change. Employees interviewed from a cross section in all the case-study banks highlighted the need for a more frequent interaction with the Group Heads and the CEO (senior management) and regular contact with their immediate boss. The expectation of a professional and conducive work environment was common amongst all groups while greater information sharing was additionally expected at the Officer and middle management levels (see table 7-1). When probed during the interviews, the Officers and middle managers acknowledged that good pay packages increased motivation but indicated that unfulfilled expectations of a favourable work environment and a close relationship with the boss negatively impacted their motivation. Senior and middle managers in the public and privatized banks considered the large size of these banks (branch network and workforce) to be a hurdle which impeded the institutionalization of these changes.

'Unfortunately in Pakistan individuals are more powerful than institutions. It's all about the top man, whether it is work culture, communication or relationship with your team and boss. If the approach is traditional that's how the department operates, if it is more contemporary or modern that will define the working of the department.' (AB1S3)

'I expect to work in an environment free from the ills of nepotism, directed behaviour and controlled actions. The bank has open communication and superiors are generally aware of employee expectations. I feel the bank trusts me so I need to perform in return.' (B2M3)

'People in this sector move in blocks; I have worked with my team and boss in a previous bank. When he [boss] joined this bank, he brought us all here. I know what he expects from me [performance] and he knows I expect credit for my contribution and growth opportunities.' (AB2M1)

To summarize, employee expectations related to the HR practises evolved in the post reforms era primarily due to a shift in the employment relationship and in addition, the change in the composition of the workforce both of which generally increased employee expectations for greater investment by the employer. The new set of employee expectations appeared to attach greater significance to the job content, opportunities for lateral growth through career development and increased opportunities for engagement with seniors. Also, the comparison of pay with that of the competitors within and beyond the industry emerged as employee expectations for market competitive pay increased.

7.2. Employee perceptions on changes in the pay structures and systems

A dominant theme emerging from the data and reflecting on the employee perceptions related with pay was the lack of employee engagement which studies indicate includes both employee participation and involvement. Employee engagement affects the psychological contract (Janssen, 2002; Guest and Conway, 2000; Willems et al., 2003a), expectations for involvement in pay decisions (Flood et al. 2008), employee acceptance of changes in pay (Sharpe, 2002) and effectiveness of PRP schemes (Kauhanen and Piekkola 2004). Lack of employee engagement was evident in the: (i) infrequent employee / pay surveys; (ii) insufficient information related to the purpose of the new reward schemes and; (iii) the non-declaration of the formula for calculating increments.

Chapter six highlighted that generally employee engagement improved across the case-study banks but this was restricted to better communication processes with lesser evidence of increased participation and involvement. It appeared from a cross section of the employees interviewed across the six case-study banks that they were not involved in the changes made to the pay structures and systems and the broader HR bundle. They expected management to involve them in such decisions and perceived that ignoring their views had resulted in lesser effective pay practises. Senior managers stated that they were not consulted while the practises were being re-designed but they were present in the final presentation sessions. However, middle managers and Officers expressed dissatisfaction at HR's approach of not involving them in decisions pertaining to the changes in the HR bundle. This was especially true in the case of the public and privatized banks where employees may have had greater expectations of information sharing as suggested by Coyle-Shapiro and Kessler (2003) and Guest and Conway (2000).

'I don't know HR. They never interact with employees, except for emails and circulars. We have accepted the changes [in HR polices] but they don't even take our feedback.' (A1M4)

'They [HR] change policies and we are unaware of them till we receive an email notifying the new policy. This is disturbing for us [employees] because we don't know why changes are made. The new pay structure is good but I believe it is more beneficial for top management.' (AB2M3)

An exception was that the employees in private bank B1 mentioned the lack of their involvement in the newly designed pay structures and systems but they did not voice concerns about unmet expectations in this regard because of the very high increases in pay. Hence it can be inferred that effects of non-engagement in pay decisions may be off-set if the pay increase is beyond employee expectations. [101]

Employee and pay surveys

Employees at all levels in the six case-study banks stated that HR did not conduct employee surveys regularly while they expected management to take feedback from them more often to assess what they employees expectations and feelings were at a time when there were many quick changes being introduced on a regular basis. In public bank A1 employees stated that a consultant conducted a pay survey before changes in the pay structures and systems but never after that. In four case-study banks (A2, B2, AB1 and AB2) employees stated that surveys were conducted after such long intervals that they could not even remember the last time they had filled a survey. In private bank B1 a pay satisfaction survey was conducted one year prior to the interviews (after the change in pay structures) and employees across the hierarchical levels and workgroups opined that they were satisfied with pay at that time. Again this can be attributed to the sizeable pay increase.

Insufficient information related to the new reward schemes

Lack of information related to the objectives for introducing the new reward schemes also resulted from weak employee engagement and created uncertainty amongst the employees because they were not sure how many of them could benefit from the schemes and what would the amount of reward be. As indicated in chapter five, all

[101] In this bank, the addition of a pay grade at the top resulted in pay increase through promotion for almost all employees. Also, the average increase in an employee's pay was two to three times their previous pay and almost 3.5 times for senior managers.

the case-study banks restructured pay to make it competitive which was one of the objectives but information related to the market percentile (a comparison of the market was paying to employees in similar positions) of an employee's salary was not shared with them. Senior managers contended that pay had become relatively competitive at their level but was slightly behind the market for Officers in most case-study banks; they felt that the market surveys were not truly representative of the market pay levels because they did not capture all the relevant pay components.

'Salary surveys do not quantify the perks Senior Managers usually get so they should be regarded as a guide for base salary. Also, the portfolios are different, banks are of different sizes and responsibility levels vary. So these surveys should not be used as a benchmark.' (A1S3)

Further, in the case of the privatized and public banks which were larger in size, pay levels varied based on the cities and branch / corporate office but employees (especially Officers) had little information on why and how this was managed. According to senior managers this was necessitated as the banks could not afford to make pay competitive for all employees due to the costs involved. On the contrary employees felt it was not their fault that they were placed in a certain branch and additionally the information of pay disparity due to differences in branch size or location was not shared with them at the time of hiring so they did not expect such differences.

'They may have reasons but the fact is we are not told about this disparity at the time of hiring. My assumption and that of others like me was that this is a large bank so it would have an established criteria for making pay decisions. This tells me the interest is not in my skills, my contribution but it is where I happen to be placed. Generally organisations pay more to employees in the corporate headquarters but this rationale of branch size and city is difficult to understand.' (AB1S2)

The purpose of the long-term deferred share ownership scheme in bank AB1 which rewarded performers in the top two ratings was to enhance retention of the exceptional performers across hierarchical levels, according to the HR managers. However, Officers in this bank were generally unaware of the scheme, some middle managers who were, did not have a clear idea of its purpose and felt that seniority should also be considered. Also, senior managers were dissatisfied with their share in the scheme and expected more. Somewhat of a similar situation existed in bank A1, in the case of the recognition scheme aimed at rewarding innovation. As employees were unaware of its purpose, they felt that very few people benefitted from it; this created dissatisfaction with the scheme.

Non-declaration of the formula for determining increments and bonuses

Lack of employee engagement also appeared in the form of non-declaration of the formulae for calculating increments, bonuses and spot awards. This was stated by most middle managers and Officers and very few senior managers in the case-study banks. It not only created uncertainty but blurred the effort-performance-reward link and thus employees were dissatisfied because they probably raised their level of expectations related to the amount of the performance increment which was ultimately not fulfilled. In banks A2 and AB1 this also created feelings of mistrust with the employer. A study by Guest and Conway (2000) also found the emergence of such feelings of mistrust by the employees in the context of public sector employees in the UK. Yearly revisions in the rates resulted in employees being uncertain of the reward to expect in return for their effort. However, management contended that this went in favour of the employees because rising inflation required constant adjustments in pay and other emoluments.

'We have no idea at all about the amount of increment even though they [supervisors] tell us the appraisal rating. The rate changes every year and we are left guessing which puts me off. I don't understand the reason for this secrecy?' (AB1M4)'

In bank B1 this perception was very strong as approximately 90% of all the employees interviewed stated they had very little or no idea of the formula used for determining their increments and bonuses; this was the first year that performance increments were disbursed under the new system. While employees generally perceived the switch to performance based increments as a positive change, the lack of information related to the process of calculation caused concerns. One middle manager remarked,

'The new system seems to be an improvement but HR never plays straight. It's not possible that a formula has not been decided till now but they [HR and Management]

rarely share information with employees. If there is a reason behind this we should be informed so that these doubts, ill-feelings and anxiety can finish.' (B1O4)

However, evidence provided in chapter six indicated that this was not to be the norm and management had opted for this because of the previous pattern of inflated appraisal ratings whereby most employees were rated in the top two categories. Also, keeping the percentage / formula ambiguous was a means to exercise flexibility in the first year of implementation. The comment of an HR manager at the junior level is reflective of this view.

'Inflation was 15 to 17 percent last year and the highest increment we paid was 10 percent because they [supervisors] had placed over 70 percent employees in 'A' grade. So this year we will declare the rate of increment after appraisal ratings reach HR.' (B1HR3)

Further, in the case of banks B2 and AB1 employees faced inordinate delays in the increments and in addition to causing de-motivation (as in bank B2) it resulted in mistrust (a characteristic of public sector organisations undergoing change) with management in bank AB1 according to Officers and middle managers. They claimed that increments were not purely delayed due to economic reasons but also because management was waiting for the other banks to declare their increments after which they would announce their increments. In the past as well, the bank had used such tactics to declare one of the lowest increments amongst its competitors. The comment of a middle manager reflects this perception.

'No employer is worth trusting; they are all in it for their profits. Some of us are doing the work of two- three people and then we don't get increments for an indefinite period without reason. Last year as well, the board meeting was delayed till after other banks declared their increments; this is becoming a routine.' (AB1M2)

To summarise, the lack of employee engagement due to infrequent employee and pay surveys, insufficient information regarding the new reward schemes and the non-declaration of the formula for calculating bonuses / increments appeared to emerge as the primary factor shaping the employee perceptions of changes in the pay structures and systems. Concerns of senior managers related to the sharing of information or its sufficiency were relatively less than Officers and middle managers across the case-study banks. Both the latter employee groups carried mostly similar perceptions and appeared to have lesser information related to the purpose of new reward schemes for example. This analysis shows that there was a greater tendency on the part of employees in the public and privatized banks to perceive lesser effort by management to engage with them, to the extent of mis-trusting management (delay in increments) in the case of bank AB1. Also, pay disparity based on branch size and city was unexplainable in their view. An interesting finding was the positive influence of an unexpectedly higher increase in pay on the employee perceptions of non-involvement in pay decisions in the case of bank B1. This leads to the inference that unexpected financial gains may off-set negative feelings in the area of non-involvement / participation.

7.3. Pay satisfaction – antecedents and the employee psychological contract

This section examines the role of different pay components (pay level, increments, bonuses and spot awards for instance) in determining the satisfaction of employees with pay. Specifically then, employees adjusted with a change in the principle (shift to performance) for grant of increments, bonuses and spot rewards under the new pay system; the change was accepted with little resistance by the fresh hired, younger workforce and employees inducted from the foreign banks who had previously been evaluated under similar performance systems. However, the incumbent employees[102] while embracing this change expected some weight to be retained for their seniority and service within the banks and demonstrated relatively greater resistance. Also, factors like the lack of state funding, rising inflation and certain means used for transition to the new pay structures which caused dissatisfaction amongst employees are discussed in the later part of this section.

In the case of performance bonuses[103] employees across the case-study banks generally seemed to be satisfied but incumbents in banks A1 and AB2 were dissatisfied with the new policy because the fixed bonuses were discontinued rather than being retained in parallel like in the other public and privatized banks. Public bank (A2) and privatized (AB1) bank in our sample continued to disburse fixed bonuses' alongside the new performance bonuses so even if the incumbents were

[102] They were in significant numbers in the public and privatized banks
[103] In banks A2, B2 and AB1 performance bonuses were introduced in addition to fixed bonuses

unable to earn a performance bonus they received some sort of a bonus which prevented a breach in their psychological contract. An incumbent employee in middle management in bank A2 stated,

'The performance bonus is encouraging but only for top performers and they are less than 10 percent of the organisation. What about the others? Can the bank work without the remaining 90 percent employees? The fixed bonuses were good; everyone knew what to expect, so there was no de-motivation, no ambiguity.' (A1M2)

Spot awards which were implemented only in banks A2, B1 and AB2, were viewed favourably in principle, by employees interviewed across the hierarchical levels because they presented another means for pay enhancement. However, the unclear criteria for the level of performance required and the ad hoc nature of the decision making process created concerns of transparency, resulting in a certain level of dissatisfaction with the scheme.

'Most of us (employees) believe that spot awards are disbursed in lesser number. Even some exceptional performers are ignored so it's actually confusing what criterion is being used. This is what makes us think whether the promise for rewarding performance is actually being honoured?' (A2M1)

Allowances and benefits which were pre-defined in the pay structure positively influenced pay satisfaction in the case-study banks (barring B2) as evidenced through the interviews. The absence of state funded health and education schemes and the economic downturn increased their value even more and created satisfaction. Employees at the Officer level specifically, and some middle managers interviewed as well, felt that the allowances and benefits enhanced their total compensation package and eased the financial pressures. In addition, benefits and allowances and mattered somewhat to employees in decisions of joining an organisation. Further, due to rising inflation the perceived worth of both these pay components increased because pay alone appeared to be insufficient to meet employee expenses. One Officer each, in private bank B2 and public bank A2 remarked,

'At our level, I wouldn't say the pay is not good but with inflation sky rocketing, every passing day it is becoming difficult. The allowances, car and housing loans on

subsidized rates and educational benefits for our children make it easy for us to survive. When I add these to my pay it sort of comes up to my expectations.' (A2O1)

'I have elderly parents and my mother has been suffering from cancer. Her treatment was impossible without this policy; I am obligated to perform for the bank.' (B2O1)

While employees across most of the case-study banks appeared to be satisfied, those in banks B2 and AB1 seemed to be highly satisfied due to the newly inducted schemes of deferred share ownership and continuation of pay due to permanent disability or death in service (see chapter 5). For example, in the case of bank B2, employees felt the new scheme added to their sense of security and hence satisfaction. A middle manager commented,

'I would love to die knowing my family is well taken care off; many people are not leaving the bank for such benefits. This shows how much they care for our welfare but I must add that a huge chunk of the pay budget goes towards the Senior Management while our share is far less. May be it is required to retain them.' (B2M3)

In the case of bank B1, mentioned as an exception above, a new policy of linking benefits with performance was introduced. Some employees, especially the few incumbents perceived it to be 'unfair' and a radical shift to a performance based culture and they expected benefits and allowances to be associated with their position in the hierarchy as had always been in the past.

7.3.1. Antecedents of pay dissatisfaction

The inability of increments to meet the rising inflation, the lack of state funding and certain means[104] adopted for transition to the new pay structures negatively impacted employee expectations related to the new pay structures and systems and lowered employee satisfaction with pay. Further, low frequency of disbursements of performance bonuses and spot awards (A1), delays in the disbursement of performance bonuses (B2, AB2), ambiguity in the criteria for spot awards and undeclared formulae for calculation also resulted in the perceived breach of the employee psychological contract. Within these banks, employees viewed these deficiencies in the new pay systems as a cause of the unfulfilled promise by

[104] These included market adjustment, parallel pay structures, discontinuation of pension schemes and loosely coupled pay structures. See chapter 5 for details.

management to reward performance. In the perception of employees they performed on their end of the deal and non-payment, delayed payment or infrequent rewards were a breach in management's promise; this breach of contract caused pay dissatisfaction. The following comments relate to the explanation above.

'The performance bonus is handsome at all levels. May be you have come at a wrong time because the bonus is late by many months this year. Today it was declared for a few ranges only and the amount was less than normal. We have not been given any reason; no one has shared why they are delayed.' (B2M5)

'I love my people to live on defined benefits not on undeclared, undisclosed benefits for which you work directionless. There is an internal crisis at the moment because of undeclared bonuses which is wrong.' (A1M5)

'We are happy that only performers will get a bonus from now onwards but slightly dissatisfied because management is not declaring how they will calculate them [formula] and which employees will be eligible for the bonus.' (B1M3)

Consistently increasing inflation resulted in unmet employee expectations across the spectrum in the six case-study banks. They perceived that their performance was not truly rewarded because the performance increments did not meet the inflation figure. For this reason, middle managers and Officers particularly perceived that management had been unable to deliver on their end and this led to pay dissatisfaction. In general the pay of senior managers in the case-study banks was competitive with the market and the perks (car, driver, fuel and maintenance) which were part of their compensation package significantly absorbed the inflationary pressures. Hence, dissatisfaction was not very evident within this group. Further, the senior managers attributed the failure of the increments to keep pace with inflation to the economic and market pressures and organisational resources and constraints of which they appeared to have a broader view owing to their position in the hierarchy. HR managers in bank B2 in particular and some in the privatized banks implied that the dissatisfaction partly stemmed from high expectations of employees who had been receiving generous increments in the past four to five years when the industry was growing and registering high profits. The following comments are reflective of the discussion above.

'Increment should at least meet inflation; this happens only for 15-20% employees with the top rating. For the rest then, it is difficult to accept that performance is rewarded in real terms.' (B2O5)

'It's becoming difficult to cope with the expenses. My spouse also works but it's still difficult. If the best performers are getting eight to nine percent while inflation is touching 16 percent how can we be satisfied? Perhaps management is facing a hard time but last year we made the second highest profits in the sector [banking] so if performance was being rewarded, we should have gotten good increments.' (AB2M4)

'In absolute terms, the increments are good but with inflation rising, in real terms they are not. Nowhere in the world do you get 11-12 percent increments which we do but with 15 percent inflation employees perceive they don't compensate for their performance.' (AB1S1)

The lack of state funding appeared as another cause leading to unfulfilled employee expectations and was interlinked with certain mechanisms for transition to the new pay structures like market adjustment (in bank B2) and discontinuation of the pension scheme (see section 5.6.) in the public bank and privatized banks. This at times brought the compensation of moderate or weak performers at par with the good performers. Discontinuation of pension triggered discontent amongst the incumbent employees only[105], who felt that the banks had dishonoured their commitment made decades ago at the time they were hired. However, this feeling varied according to the extent to which the pension schemes were shelved in the banks and was highest in the case-study bank AB2 which had completely abolished the scheme. Also significant imbalances did not occur in the expectations of incumbents in case-study banks A1 and AB1 because those who wanted to separate from this scheme chose to do so themselves. There was no change in the case of bank A2 as all incumbent employees continued to receive pension. In banks B2 and AB1 market adjustments were awarded to employees not only to achieve market competitive pay for some jobs but also to compensate incumbents who were considered as performers and had years of service but lesser pay than the younger employees.

Senior managers presenting what appeared to be the views of management and HR stated that these mechanisms were introduced (market adjustment) or retained

[105] They remained the only employee group which was affected by the discontinuation.

(pension) in part, to offset the absence of quality healthcare and education services funded by the state in addition to neutralizing the level of resistance demonstrated by the incumbents. However, market adjustment in particular, undermined management's promise to reward performance as weak performers stood in line with better performers which caused dissatisfaction amongst the MTOs and employees hired from the foreign banks in senior positions.

Further, in bank A1 which used two parallel pay structures to manage the transition, incumbents who had themselves chosen to remain on the old pay structure complained that they never expected wider pay differentials with other employees (on the new pay structure) within the same grade which created dissatisfaction. Also in banks AB1 and B2 which had loosely coupled pay structures, some employees interviewed at the Officer and middle management level perceived inequity in pay fixation. They perceived that at times, pay disparity existed between employees performing similar jobs with similar credentials for unexplainable reasons. The comments below reflect some of these perceptions.

'I don't propose that average or poor performers be given significant increments but it is difficult to feed a family of four-five people and meet other expenses in this difficult economic period. Employees at the lower level can become negligent and even dishonest if we don't address their need in the absence of The State. Four / five percent increment with inflation running into double digits is nothing.' (A1S3)

'I say to my President that the poor performer should not be rewarded but he says that in the absence of the State something needs to be given to them so they can sustain. We even give an increment to 'D' ranking employees.' (AB1S1)

'HR reviews salaries intermittently [for some positions] and adjusts them to meet market pay levels. It's fine till here but then adjustments are also given to incumbents to cover the wider gap with the new employees. Since all of this is added together and employees only get to know the final increment amount there is confusion. Two of my performers have come to me complaining that there was no difference in their increments and that of weaker performers. They feel this is a violation of our stated principle to reward, encourage and promote performance.' (B2S3)

To summarize, performance based increments, bonuses and spot awards appeared as antecedents of pay satisfaction in the post reforms era, amongst a larger sample of employees interviewed. However, perceptions of the incumbents who had grown used to the previous psychological contract which pre-dominantly catered for seniority indicate that the changes were difficult to accept wholly. This is evident in their preference for continuity of fixed bonuses in addition to the performance bonus in the two banks (A1, AB2). Also mixed perceptions related to some pay components like spot awards and benefits were found in this study. While employees accepted the changes principally, procedural issues like criteria and mechanism which create ambiguity and lack of transparency led to a perceived breach in the psychological contract of employees and created dissatisfaction amongst them (also discussed in sec 7.5.). The external factors like inflation, absence of state funding and economic downturn enhanced the significance of pay components which included healthcare and education benefits. The internal factors included higher expectations of employees based on their previous experience, mechanisms used for transition to the new pay structures, the lack of clear criteria or procedures and the frequency / delay in disbursements. For example, market adjustment led to dissatisfaction when the employer exercised it for purposes other than those stated; in this case to reduce pay disparity for incumbents. Discontinuation of pension in the long run or conversion to employee contributory schemes added to the dissatisfaction of incumbents. Also in terms of components used to enhance pay, relatively lesser dissatisfaction appeared amongst senior management that can be attributed to their position in the hierarchy which provided them a broader organisational perspective.

7.4. Employee perceptions of changes in other HR practises

This section analyses changes in the broader HR bundle from the perspective of employees. Across the case-study banks the performance driven HR practises were assessed to be an improvement over the previous HR practises which largely catered for seniority and did not recognise performance more heavily[106]. However, unmet employee expectations created a perception of breach in the psychological contract which was largely due to the limitations in the design and implementation of these HR practises.

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[106] In bank A2 the system was not implemented on Officers and in bank B2 it was in the first year of induction so employees had yet to experience the outcome. Date of implementation of new system in each bank is given in appendix – pay principles

7.4.1. Recruitment and selection

The new merit based recruitment practises appeared to reduce but did not eliminate nepotism and external influence in hiring decisions in the case-study banks. The continued existence of non-merit based hiring was perceived by employees at large as a breach in management's promise for hiring and encouraging performers. The breach was felt more in the public and privatized banks where such instances were more common. Employee interviews in both private banks (B1 and B2) revealed that non-merit based hiring was rare and generally these individuals were not promoted. However, their pay was in some instances higher than that of the other employees with similar experience and qualification within the grade. This was also the case in the public and privatized banks where middle managers and Officers interviewed perceived that external influence continued to have a visible role in hiring but that it had reduced to quite an extent. The following comments by a middle manager in privatized bank AB1, a senior manager in private bank B2 and an Officer in public bank A1 are reflective of this.

'Listen, it's really bad. According to the policy, people who can get maximum Rs. 10000 are hired at Rs. 30000 when they bring a slip [note from a well-placed individual]. The other regular staff gets between Rs. 10 and15 thousand.' (AB1M3)

'The minimum pay for new hiring is quite defined for all grades but exceptions exist. If someone's dad is influential and they can bring a few million in deposits they may be hired. However, their future growth depends on their performance. A lousy character can't be hired for life!' (B2S3)

'What's the use of my qualifications if people lesser qualified are earning more by entering through the back door?' (A1O4)

HR managers in the six case-study banks, especially the public and privatized banks felt that the new merit hiring approach aided them in highlighting the adverse long-term implications of opportunistic hiring to senior management. Also, the new recruitment practise reduced the incidence of non-merit hiring. The HR manager in privatized bank AB2 stated,

'Our bank is larger in size than most others so it will take some time to uproot nepotism / favouritism. Top management is realizing that it will be difficult to manage this in

times to come because pay progress, trainings and promotions are tied to performance. The other employees are vocal about this now and even supervisors can't create an exception for poor performers.' (AB2HR2)

7.4.2. Performance management systems

Evaluating expectations from and outcomes of the new performance management systems is important because this study builds on the fact that an employee's pay and career progress is tied to their performance under the new pay structures and systems and the other HR practices bundled together. Employees across the different case-study banks perceived that the use of the bell-curve which resulted in forced distributions reference to the performance of others rather than the actual employee performance, incidence of rater error and the role of supervisors in the appraisal process diluted the link between performance and reward (see table 7-2). Data and employee views indicated that these design and implementation issues appeared to negatively affect the employer's stance of encouraging performance and the promise to reward it. The weak / diluted link was especially true in the case of banks A2 and AB1 where performance measures were unclear due to the marginal involvement and participation of employees (Kauhanen and Piekkola, 2004; Latham and Locke, 1979). In all the case-study banks, employees knew that performance determined increments but they perceived that the predefined bell-curve percentages restricted rather than rewarded performance because of the limited supervisory discretion in assigning earned ratings. This affected the employers promise to reward an individual's own effort / performance rather than that which was in comparison with others and de-motivated them. For instance when a team performed exceptionally well all members got different ratings while the employees felt that each one in such instances contributes to the overall success so they should all get a higher rating. Senior and middle managers[107] stated that the bell curve presented a challenge for them as sometimes truly deserving performers had to be rated low due to the pre-defined percentages. Decisions had to be made in relative terms but they were struggling to explain this notion to the employees with a weaker performance. Some employees interviewed in the six case-study banks suggested that supervisory discretion was

[107] They were primarily responsible for evaluating employee performance and filling up appraisals.

needed to adjust for the different sizes of the departments especially in the public and privatized banks and to retain performers and improve the implementation process in all the case-study banks. This view was not restricted to a particular workgroup rather it prevailed across the sample interviewed.

'Supervisors should have the discretion to make finer modifications in the bell-curve in awarding ratings. Departments vary in size so the same percentage applied in smaller departments means fewer employees will receive top ratings which is de-motivating. Exceptions [with reason] for high performers should be made.' (A1M1)

'If we want to retain high performers a rigid curve won't work. Some competent people are really dis-heartened. I think if a team does brilliant the supervisor should have the discretion to give all members maximum increment that year. This is how the bank can project itself as a performance rewarding organisation.' (B1S3)

Further, the use of separate bell curves for Officers and executives (senior and middle managers) in banks A2 and AB2 created a sense of inequity amongst the Officers[108].

Also, except for bank B1 where the performance contingent increments were to be distributed for the first time that year, in all other case-study banks employees (mostly Officers and some middle managers) questioned the role of the approver[109] who was above their supervisor and had the power to overturn the supervisors rating, in finalizing the ratings. Employees expected their immediate supervisors who had routinely monitored them and were in contact with them to assign the ratings. Specifically, in the public and privatized banks Officers perceived that favouritism existed in assigning appraisal ratings and viewed them with mistrust; this is aligned with similar findings in these banks (previous section). Other factors which varied across the banks and weakened the explicit performance link included: lack of supervisory commitment to the appraisal process, absence of supervisor empathy related to the impact of the appraisals on the career of employees and the legacy effect.

The role of supervisors in the appraisal process was contentious according to the employees interviewed in the four banks (A1, A2, B2 and AB1). This was not the

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108 Since this carries greater implications for perceptions of fairness and justice, we elaborate it in that section.

109 The supervisor's boss, who finalized the initial appraisal rating given by the supervisor.

case in private bank B1 because employees had yet to receive their first performance based increment (till the time of interviews) and in bank AB2 which used separate appraisal forms[110]. In the four case-study banks above, the reasons cited ranged from the approving authority and favouritism in all four banks and supervisory intentions in the public and privatized banks. In the latter banks, employees appeared unwilling to trust the assessment of supervisors owing to legacy reasons[111] despite their acceptance of the new performance system. Perceptions of employees from the different banks enumerated below highlight these apprehensions.

'The system has attracted a lot of criticism because ratings are approved by those who seldom know the employee. For example, I rate the 15 employees under me but my boss who has little or no contact with them finalizes it. He doesn't even know them well! I exercised my independence in rating my subordinates but had to pay for it in mine; my increment was not based on my performance.' (A1SM2)

'Ratings are not always based on performance; other factors [referring to favouritism] continue to affect employee rating.' (B2O1)

'I think it was important to link increments with performance to reduce favouritism but the new appraisal is conducted by the same supervisor.' (A2O4)

The limitation of rater error was pronounced in the private and privatized banks where employees perceived that supervisors spent inadequate time in the appraisal process, especially the goal-setting part. In the public banks employee views pointed to a trust deficit as explained below. Evidence presented in chapter six indicates that in privatized bank AB1 the process of goal-setting was not well defined. Earlier Latham and Locke (1979) also found that in situations where the goal-setting process is not well defined there is a tendency of employees to develop a trust deficit with the management. In private bank B1, both employees and HR managers stated that goal-setting was problematic because the process was newly established and required a few more years to mature. In the remaining two banks (B2 and AB2) employees interviewed cited that lack of appraiser understanding of the implications of their decisions on an employee's pay and career progress created issues. This reflects the

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110 This issue overshadowed concerns of the role of supervisors and is discussed in the section on justice.

111 Favouritism and external influence as stated in chapter 6.

new employee expectations for greater employer attention in the areas concerning their career progress. The following employee perceptions represent the assertions made above.

'It's not about the new system; we understand that it goes in our benefit. It does not solely focus on financial / productivity targets but also assesses key skills. However, some of us fill the first form [goal-setting] at the time of appraisal which shows how interested our managers are in this activity. This makes us [employees] wonder about the seriousness with which they rate us.' (AB1O3)

'I believe they rate us without studying the effects it would have on our career. Last year I performed really well and was due for a promotion also but because I didn't get an 'A' rating all my effort was wasted. They [supervisors] just assess us on the number of accounts we get.' (B2O2)

The views of middle and senior managers who were responsible for rating employees in their department / team also support employee contentions related to the formers understanding of the new appraisal system. Lack of adequate training and time and achieving business targets were the two widely cited reasons for this.

'We [supervisors] are learning as we practise; HR conducted a training a while ago but these things are better understood when done. We had a different system for all these years so it will take time to understand the nuances of a new system.' (B1M4)

'I think we [supervisors] don't side-line it deliberately but with all the work we do, conducting appraisals is difficult because it's time consuming. One of my subordinates said to me the other day that he and the others felt that I was not bothered about their appraisal even though it was important for them. I had to explain that I was but meeting financial targets was equally important.' (AB2M1)

Table 7-2: Employee perceptions of changes in the performance appraisal systems

<table>
<tr><th></th><th>A1</th><th>A2</th><th>B1</th><th>B2</th><th>AB1</th><th>AB2</th></tr>
<tr><td>**Purpose**</td><td>Used for reward and development, latter less effective</td><td>Only used for reward purposes</td><td>Used for reward and development, latter less effective</td><td>Used for reward and development</td><td>Only used for reward purposes</td><td>Used for reward and development</td></tr>
<tr><td>**Design issues**</td><td colspan="6">Bell curve led to de-motivation, dissatisfaction and conflicts between employees.</td></tr>
<tr><td></td><td></td><td>Unclear performance indicators. Weak effort-performance-reward link.</td><td></td><td></td><td>Unclear performance indicators. Weak effort-performance-reward link.</td><td></td></tr>
<tr><td></td><td>Lack of separate forms for employees in revenue generating departments</td><td>Separate bell curves for senior managers and uniform forms for employees in revenue departments also</td><td colspan="3">Lack of separate forms for employees in revenue generating departments</td><td>Separate bell curve for senior management and separate appraisal forms for employees in revenue generating departments</td></tr>
<tr><td>**Implementation issues**</td><td colspan="6">Dissatisfaction with the rigid application of a bell-curve - the predetermined percentage distribution restricted supervisory discretion to reward performance</td></tr>
<tr><td></td><td></td><td></td><td colspan="4">Lack of confidence in the rating of performance – reflects limited supervisory time devoted to evaluation, legacy effect of previous system and limited supervisory concern of its impact on employee growth</td></tr>
<tr><td></td><td colspan="2">Incumbent employees mistrusted management</td><td></td><td></td><td>Incumbent employees mistrusted management</td><td></td></tr>
</table>

Source: Employee interviews in the six case-banks

7.4.3. Training and career management

Employee perceptions related to the practises of training and development and career management are discussed in this section. They carry significance because middle managers and Officers specifically had more expectations from the employer than senior managers as training influenced their career progression. In the case of training and development data highlighted that the process of training allocation and evaluation, the link with pay and career progress and opportunities for training were significant for employees (see table 7-3). Most employees interviewed across the

hierarchical levels and banks appeared satisfied with the number of training courses provided (except individual hired employees) but inadequacies in the types of training conducted and the nomination process led to unfulfilled employee expectations. Individual hired employees felt that fewer training opportunities would impact their career development as well as performance on which pay was contingent. Greater satisfaction with training was apparent in banks A1 and B2 which offered the option of sponsored foreign training (A1) and reimbursement of

Table 7-3: Employee perceptions on changes in the training practise

	AI	**A2**	**B1**	**B2**	**AB1**	**AB2**
Training types according to employee workgroups and the training process	Function specific and general banking training for middle managers and Officers.					
	Foreign trainings for senior and middle managers.	Minimal stress on training senior managers.	Senior managers had the discretion to select trainings within a budgetary limit.	Less stress on training for senior managers. Option for reimbursement of professional courses completed successfully	Minimal stress on training for senior managers.	
	Relatively improved processes of training assessment and evaluation in banks A1 and B2 compared with the other four case-banks.					
Link with appraisal, promotion and rewards	Link with promotions except in A1					
	Trainings identified through appraisals but no weight assigned in rating except in B1.					
	Only Officers rewarded for training (Banking Diploma) and trainers paid in bank A2					
Issues of fairness	Batch hired employees (MTOs) were provided extensive training but individual hired employees got up to a maximum of 15 days training at the time of induction. Only MTOs were provided management training					
	Incumbent employees felt trainings were a tool to promote the young employees and give them positions of authority				Incumbent employees felt trainings were a tool to promote the young employees and give them positions of authority	

Source: Employee interviews and bank documents

fees (B2) for the successful completion of professional courses. Senior managers in banks A1 and B1which had a relatively better focus on training for this workgroup felt that training prospects were limited. However, their expectations related primarily to opportunities for networking which they found adequate and hence they appeared to be satisfied. The following two comments are illustrative of the general trend across the case-study banks explained above.

'In the last two years, I have attended around four to five trainings and that's the average number you will get if you interview most of us but the problem is, I'm not being sent on relevant trainings. At times no one else is available so I have to go, at other times I need to complete the mandatory trainings so I attend any available. The training plans are not matched with my career or job requirements. Also, functional trainings in some specialized fields like risk management are ignored.' (AB2M3)

'Since the last year when the training allocation process was automated things have improved. For example, I cannot re-register for a training already attended [just to complete the requisite training days]. Also, now only trainings relevant to my job and career appear when I log in. There is no post training evaluation and the reliance is more or less on the feedback forms filled by the trainee.' (B2O4)

Further, middle managers and Officers interviewed across the case-study banks expected training to result in some financial gain as well. They proposed that this could facilitate a continuous learning culture which would aid the employer to attain greater benefits from the investment made in training employees. Despite the lack of financial gains associated with training employee discontentment remained low for two probable reasons (i) in the case of Officers, a one-time cash reward for completing the banking diploma exam and (ii) the continued link of training with promotion in five case-study banks with the exception of A1. One reason specific to bank B1 was the weight training was given in the appraisal rating.

Career management

Across the case-study banks employee perceptions related to the practise of career management were mostly similar (see table 7-4) because the pre-dominant issue revolved around disproportionate opportunities between MTOs and individual hired employees. Both workgroups existed in all the case-study banks. Career management was administered through promotion and opportunities for job rotation, job enlargement and job enrichment. The individual hired employees also expected more growth opportunities similar to those provided to MTOs who benefitted from career planning through fast-track promotions. The former felt that their responsibilities and job were similar to that of their counter-part MTOs so once inducted growth opportunities should be similar and related to performance. However, job rotation, enlargement and enrichment were equally applicable on all other employees in the three banks (A1, B1 and B2) (see section 6.3.3.). Most Officers and middle managers interviewed across the case-study banks expected a more involved approach by management in these decisions. Since HR rarely was involved or informed of the decisions related to job transfers, job enlargement and job enrichment, there was a perception that it would not result in tangible career progress. Also a few middle managers in both the public banks and privatized bank AB1 stated that line managers did not want to let go of willing and capable workers so they did not share career development opportunities intentionally, many times. The perception of a deliberate and intentional action to hide career development opportunities points to a lack of trust in the employer (section 7.2.).

In the case of promotion, lack of information on the successive changes in policies and criteria appeared in almost all the case-study banks investigated (see chapter 6). Further, in banks A2 and AB1, the irregular frequency of promotions indicated unfulfilled promises of management to middle managers and Officers in general and led to the discontentment amongst them. While promotion opportunities are less at the senior level, these employees generally had pronounced expectations of the enhanced portfolios and greater involvement in organisation decisions instead. Further, in the Officer category, MTOs were satisfied with management’s ability to fulfil promises for career progress due to the fast-track promotions, an option which did not exist for the individual hired employees. Also incumbents in the public and privatized banks criticized the changed promotion criteria which overwhelmingly emphasized performance with an insignificant component for seniority, in their view. Constant revision in the promotion policy occurred due to the restructuring in the case-study banks and the new performance criteria reduced the chances of the incumbents for career progress.

'Promotion in my previous bank depended on seniority and in certain cases interventions by influential people. Things have even changed there. Here, [current bank] promotion depends on multiple criteria - audit ranking, value of assignment and expertise required for the new position. Length of service within the reference pay range is also considered so performance has not totally side-lined seniority.' (B1S3)

Table 7-4: Employee perceptions of changes in the career management, promotion and succession planning practises

	A1	A2	B1	B2	AB1	AB2
Career management	Formal policy for MTOs but no other employee workgroups. Incumbent employees and Officers hired individually perceived unfulfilled promises related to career development. Involvement of HR in job transfers, job rotation and job enlargement does not exist.					
Promotions	Successive changes in the criteria of policy led to uncertainty which created feelings of mistrust with management in public and privatized banks. Issues of unfair treatment highlighted by individually hired employees as MTO's were promoted through fast-track promotion policy.					
	Criticism by incumbent employees of lesser opportunities due to changes in criteria				Criticism by incumbent employees of lesser opportunities due to changes in criteria	
	Most Officers promoted in preceding two years (at time of interviews) due to restructuring of grades	Frequency of promotions was irregular (not every year at bank level)	Regular promotions, almost all employees promoted in the last two years due to restructuring of employee grades	Regular promotions	Frequency of promotions was irregular (not every year at bank level)	Regular promotions

Source: Data from employee interviews; verification with bank documents where applicable

In summary, merit and performance appeared to be the intended objectives of the new HR bundle in the case-study banks. However, evidence indicated that these objectives were not completely met due to incidences of favouritism, legacy issues, and failure of the management to establish distributive, procedural and interactional justice and inadequacies in the design of these practises. Specifically in the public and privatized banks, perceptions of mistrust, malafide intentions and favouritism emerged amongst incumbent employees in the practises of performance management, career management and promotion in particular. In addition to procedural justice, the legacy effects contributed towards these feelings. In the case of individual hired employees, the lack of distributive justice resulted in a perceived breach in the psychological contract by the employer. This was evidenced in lower opportunities for career growth and training and development for them. It appeared that changes in the HR practises comparatively affected the expectations of middle managers and Officers more than senior managers because they reported greater instances of unmet expectations and breach in the psychological contract.

Further, in the case of performance management systems, procedural issues like marginal involvement of employees, limited discretionary power of the appraiser, separate bell curves for senior managers (A2, AB2) and the presence of an approver in the process diluted the link between performance and reward. This link was the intended outcome of these changes and the promise which the employer was obligated to meet under the new deal. To some extent the problems identified are those which are inherent in performance related pay systems but there are examples of faulty implementation as well. For example, the issues revolving around the role of the approver in finalizing ratings could be dissuaded if the responsibility for the final appraisal rating was assigned to the immediate supervisor. The lack of goal clarity, training of appraisers and limitations of their time and need to meet their business targets were identified as the possible reasons leading to some of these employee perceptions. In the case of training and development, procedural issues like weaknesses in the nomination and evaluation of training and design issues which led to a weak link between training and rewards resulted in a perceived breach of the psychological contract. However, links with promotion (except A1), weight in the appraisals (B1 only) and one-time cash awards (Officers) appeared to reduce the negative effects above. Also discretion in choosing the training courses (A1, B2) and other preferences (networking for senior managers) had a positive effect on employee perceptions. The latter is also true in the case of promotion where senior managers preferred larger portfolios. Here, procedural justice (frequency of promotions, HR's involvement in decisions of job involvement and enlargement), distributive justice (fast-track promotions for MTOs) and interactional justice (successive changes in policy without information) appeared to shape employee perceptions of a breach in the psychological contract.

7.5. Employee perceptions related to notions of justice and breach of psychological contract in the design and implementation of HR practises

It appeared that the transition from a grade to a market based pay structure, hiring of employees through multiple entry tracks and the different level of investment in certain employee workgroups created issues of internal pay parity. The differentiated design and implementation of some modified HR practises in the HR bundle resulted in a perceived breach in the psychological contract for particular employee workgroups. Further, Officers and middle managers in all the case-study banks except B1 perceived that senior managers benefitted more from the new market pay structures because pay bands were wider at the top. A cross comparison with documents provided by the banks confirms this perception. In bank B1 this perception did not prevail because the revised pay structure, with an added grade at the top had resulted in a sizeable pay increase across the hierarchy.

7.5.1. Transition mechanisms

The transition to market based pay structures was managed through different means in the case-study banks. From amongst them, the use of a parallel pay structures in bank A1, market adjustment, spot awards, spot rates and renewable fixed-term contracts created perceptions of unjust treatment and perceived breach in the psychological contract. Incumbent employees who had themselves chosen to remain on the old pay structure in bank A1 felt that it was unjust for the bank to hire new employees on higher wages and also to have a pay structure with enhanced pay bands[112] for them. In particular they found the difference in pay levels with MTOs within the grade but on a separate pay structure to be unfair because the nature of the job performed and effort was similar. This suggests that even participation in decision making cannot guarantee acceptance of the change when it is perceived to be inequitable with reference to similar others. A middle manager in this bank remarked,

'I have almost 20 years of experience and these guys [new employees in the same grade] are getting more salary than me; our service with the bank was totally discounted. We perform in the same capacity, have equal responsibilities but there is a big difference in our salaries. There was actually no choice because we couldn't have forgone our

[112] Since enhanced pay bands provide for greater flexibility in pay determination and progress.

pension of all these years. It is not by choice but by design that we are on the old pay structure [management's intention].' (A1O4)

Even some employees who had opted for the new pay structure felt that it was unjust on the part of management to raise their expectations to an unrealistic level. They felt that the new pay structures did not fully compensate them for foregoing pension. This indicates that ambiguities in communication can result in one party building higher expectations of the other, as in the case of unrealistic job purviews which lead to inflated employee expectations (Morrison and Robinson, 1997).

'My pay is neither at par with the market nor will I get pension. They [employer] kept saying that pension till the date of switch over would be invested in some fund but it has been two years and only plans are being made.' (A1M1)

Spot awards were contentious in three case-study banks (A2, B1, and AB2) where they were implemented due to procedural issues. Lack of a defined criterion for granting spot awards to employees with exceptional performance rendered this scheme unjust in the perception of employees across the hierarchical levels. They felt that 'exceptional performance' was interpreted differently by different managers and hence there was no standard to measure 'exceptional performance.' Consequently, the awards were perceived to be subjectively finalized, at the will of the supervisor and thus unjust. In the case-study banks where market adjustment was practised, new hired employees in different cadres felt that apart from using the policy for the stated objective of making pay market competitive, management employed it for adjusting the widening pay gap between them and the incumbents. In the view of the new hired employees this negated the promise to reward performance and in our analysis the lack of distributive justice created feelings of unjust treatment and over-investment in the incumbents. Also, renewable fixed-term contracts were used to hire employees against spot rates; this was a source of discontentment for the other employees, especially at the middle management level. This was because many on this contract were hired in senior management positions which reduced career prospects for middle managers. It was perceived that apart from benefitting the hiring of specialized employees who did not otherwise fit in the pay bands / ranges, they were used to fix higher pay for individuals who came with the external reference of influential people (nepotism). The latter perception was more prevalent in the public and privatized banks due to the legacy effects and feelings of mistrust in management.

7.5.2. Multiple hiring / entry tracks

Hiring of employees through multiple entry tracks resulted in the differentiated implementation of the HR bundle across the emerging HR architecture and created perceptions of unjust treatment amongst the employees. The workforce was segmented into incumbent and new hired employees, MTOs (batch hired) and individual hired employees and employees on renewable fixed-term contracts. In addition, the divide between revenue generating and support department employees[113] which appeared in (B1 and AB2) created similar perceptions. Evidence indicated that across the banks investigated and more specifically the public and privatized banks with a larger and stronger representation of incumbents, delinking of seniority from pay created a perceived breach in the psychological contract of the incumbents. While the incumbents welcomed the performance based, market anchored pay systems they felt the pay differentials with the new and young hired employees within the grades, performing similar jobs was unexplainable and thus unjust. This was more so the case in bank A1 where incumbents chose to remain on the old pay structures in which the pay level remained less than the new pay structure despite revision of the pay ranges. However, HR Managers interviewed in this bank maintained that within the old pay structure, seniority was retained in each grade and anomalies were rare.

Incumbent employees in the public and privatized case-study banks believed that the new bonus scheme was meant to reward the new / young employees since they got better ratings. This is an example of mistrust with management previously highlighted in the above sections and points to the lack of interactional justice. They felt that for the most part of their career they had performed against different criteria and set of expectations, in a dissimilar environment, so it was difficult for them to outperform the young / new employees under the newly implemented HR bundle. Also, management expectations for a quick transition in a short time were seen as unrealistic. Resultantly, the incumbents started to lag behind their new hired

[113] See discussion on performance management systems in Chapter 6

colleagues in performance, promotion and pay progress. The following comments illustrate these views.

'I am not against the new performance approach to progress but there is a way to do things. Management kept introducing changes without training or preparing us for the challenges these presented. Now we are left high and dry! Like other things, the bonuses are also performance based and I think mostly the new kids benefit from them. The bank is using this policy to gradually limit our progress.' (AB2M1)

'It's been four-five years of gradual decline in growth prospects for us [incumbents]. We were happy with the performance bonus scheme but it now seems that management just wants to pull up the young guys. Yes they're better qualified but we are more experienced. This was an intelligent way to restrict our progress [pay and career]. Management is capitalizing on the fact that at our age and especially in this economy we can't get jobs elsewhere. For example, there are no established criteria for some cash rewards [recognition scheme]; they are just going to the new blue-eyed guys based on their boss's recommendations alone.' (A1S3)

In the case of MTOs who were hired at entry level in batches, through competitive examinations, the corresponding group were individually hired employees. Evidence in the previous two chapters indicates that MTOs were paid higher salaries, had a defined career path with an option of fast track promotion contingent on performance and the banks invested more in their training. Subsequent to completion of the initial training period which was spread over many months in which employees were rotated between departments their pay was also increased by approximately 25 to 30 percent across the case-study banks. However, individual hired employees got no such advantages and felt that this amounted to injustice in the distribution of opportunities for career and pay progress despite similarity in the nature of work and level of responsibilities. They perceived that greater organisational investment and commitment towards MTOs was not justifiable in all cases, especially when, in comparison, an individually hired employee demonstrated greater potential, effort or commitment in their work and responsibilities. This apparent breach of the psychological contract seems to stem from the lack of distributive justice and the creation of inflated expectations owing to a possible lack of communication related to the realistic job expectations.

Evidence suggests that perceived under-investment in the career and pay progress by management created perceptions of unfulfilled promises which led to the discontentment of incumbents and individually hired employees. However, they did not indicate indulging in any activity to re-balance the psychological contract due to a perceived breach. This can be attributed to the shrinking employment opportunities at the time of interviews, as the global financial meltdown had started to affect the banking sector in Pakistan. Our data indicates that these feelings were significantly strong in the individual hired Officers and middle managers hired across the case-study banks. This was because MTOs were hired at entry level and some had progressed to middle management positions and presented a direct comparison for the individually hired employees. Similar issues of justice prevailed in both the private banks as well despite the separate identification of MTOs in the employment structure (see section 5.1). In bank B2, MTOs were placed in a higher pay range and management hence justified their greater investment in them. This leads us to conclude that even a separate and distinct presence of a workgroup identified in the organisational structure may not help evade perceptions of unjust treatment which result from the differentiated implementation of the HR practises.

7.5.3. Views of support and revenue department employees

In privatized bank AB2 and private bank B1 the revenue versus support department employees also had different perceptions related to some changes. The pattern emerging from data indicated that employees in the revenue departments of these banks mostly expected that pay, increments and bonuses should be higher for them since their efforts directly contributed to the bank’s profit. However, those in the other departments expected an equal share since they felt they had fulfilled their obligations by meeting the mutually agreed performance goals. The support department employees contended that when their effort and performance was in line with the objectives given and expectations of their management, they deserved to be compensated equally. They perceived an apparent preferential treatment of the revenue department employees by management which led to feelings of inequity because without the back-end support provided by the support department employees it would be difficult for the revenue departments to meet their targets / objectives. The following comment is illustrative of this.

‘They [colleagues in revenue departments] are rewarded more as management believes their contribution towards profits is greater but we [support department employees] perform equally well and feel under-rewarded for our effort. (AB2M3)

Employees interviewed in the Credit, Risk Management and Investment Banking departments in the five case-study banks, which followed a grade-based pay structure expected higher pay levels than others because of their expertise and the strategic value of their job to the bank. Based on evidence presented in chapters five and six we can state that management in these banks intended to compensate revenue department employees better in the future. At present, the absence of documented skill inventories, inferior IT infrastructure and under-developed job descriptions were the hurdles in the implementation of this policy. The underlying concepts behind these contrasting views are that of distributive justice and equity. The former because a large proportion of performance bonuses were distributed to revenue department employees in banks AB2 and B1 and pay levels were higher for these individuals in bank B2 (job-based structure); and the latter because of the comparison employees make between their effort and outcome and that of others. Another concept is that of clarity and relevance of the appraisal forms as in the case of bank AB2 revenue department employees who were evaluated on customized appraisal forms perceived congruence in their goals and performance assessment criteria.

‘this is the debate going on with management, like here in the Credit Division we need to have technical expertise and the risk is greater, plus we generate the revenues so we should be paid higher than the back office jobs for example.’ (B1M2)

In two banks (A2 and AB2) separate bell-curves were used to rate Officers and middle and senior managers. However, perceptions of unjust treatment prevailed amongst Officers in bank AB2 only because of the higher percentages allocated against each rating on the bell-curve for senior and middle managers (see table 6-5). Officers felt that management was overly investing in the senior cadre because a larger percentage of them stood to benefit from the higher ratings and ultimately larger increments and it was under-investing in the operational staff which was the back-bone of the bank.

In summary, employee perceptions of notions of justice within each case-study bank were dominated by four issues primarily. Mechanisms adopted to shift to a market competitive pay structure, the use of multiple hiring tracks, differentiated implementation of the HR bundle across the emerging HR architecture and the preferential treatment of MTOs, senior managers and employees in the revenue generating departments. Essentially, these issues revolved around opportunities for pay and career progress. Operationalizing the shift to market based pay structures through parallel pay structures, market adjustments and spot rates for contract employees created differences in the pay levels between incumbents, contract employees and new hired employees. There was also an indication of the role of unrealistic / inflated expectations of employees in this case and findings suggested that even employee involvement was not a guarantee for acceptance of change (for example the choice parallel pay structures in bank A1). In a different manner, but with similar outcomes, extensive training, fast track promotion and higher pay levels for MTOs created a sense of injustice in the perception of individually hired and incumbent employees. Most of these perceptions had risen due to the similarity in the nature of jobs being performed, especially within grades but with dissimilarity in pay, except in the case of a divide between the revenue and support department employees. These perceptions appear to be anchored in notions of distributive and procedural justice and resulted in a perceived breach in the psychological contract. The use of adjustments to incumbents for covering pay disparity, spot rates which gave higher pay to some individuals and the new bonus schemes (specifically in banks B1 and AB2 which paid higher amounts to revenue staff) appeared to have given rise to the feelings of distributive injustice. This is also applicable to greater training opportunities and faster promotions for MTOs. The failure of procedural justice in determining spot awards and the use of the adjustment mechanism beyond the stated purpose also appeared to have led to a perceived breach in the psychological contract. Further, in the opinion of the incumbents and the individual hired employees, this overinvestment (generally in MTOs, revenue department employees) or underinvestment (generally in incumbents, individual hired employees) was intentional on the employer's part. Also, a sudden and almost complete shift from seniority based pay and career prospects which created new employer expectations towards performance resulted in the perceptions of injustice and broken promises in the views of the incumbent employees.

7.6. Conclusion

The findings in this chapter highlight the role of a new set of employee expectations in laying the foundation for the employee perceptions related to changes in the pay structures and systems and other the broader HR bundle. The evolution of these expectations can largely be traced to the shift in the employment relationship and the change in workforce composition (Kang and Yanadori, 2011). In general, the changes in the HR bundle, especially the loss of the underpinned principle of job security and seniority in the case of incumbents created greater employee expectations from the employers related to training, compensation and career development. One reason for the new HR practises was to introduce a performance culture so instances of favouritism and non-merit based decisions could be reduced. Evidence indicates a reduction in such instances but with less success in the public and privatized banks. Relative to the private banks, employee expectations mostly at the Officer and middle manager level appeared unfulfilled in these banks due to favouritism, mistrust in management and their intentions, and a lack of communication. In the private banks the unfulfilled employee expectations at similar levels existed but in our analysis they were mostly due to failings in procedural and distributive justice rather than trust deficit. Breach in the psychological contract of senior managers appeared to a lesser extent as they had greater access to information, a broad view of the external pressures (inflation, lack of state funded welfare schemes) and internal constraints which justified management's actions. Senior managers preferred the opportunities for networking and larger portfolios which enhanced their profile and image in the industry rather than certain other HR practises in the bundle like training and career management.

The other key findings emerging in this chapter include the shaping of employee perceptions due to issues of procedural distributive and interactional justice. The hybrid mechanisms adopted to introduce the new pay structures, the differentiated implementation of the HR bundle on the basis of entry / hiring track and the greater investment in some employee workgroups (MTOs and revenue department employees mostly) seemed to influence the employee perceptions. In large part, the perceived breach in the employee psychological contract occurred due to the similarity in the level of job (grade) but dissimilarity in pay and at times varying pay and career opportunities. For example, in the case of individual hired employees lower pay levels, training and career management and promotion opportunities relative to MTOs and in the case of incumbent employees a quick shift and relegation of the principle of seniority for performance in pay and career progress. Further, disparity in pay to manage different employee workgroups led to distributive issues and created perceptions of over and under investment by management. For example, the use of market adjustment and parallel pay structures to address concerns of incumbent employees and the introduction of spot awards and spot rates to manage employees from different entry tracks. These perceptions could be potential threats to the institutionalization of the new HR bundle but may have emerged because of the recent implementation of the new HR practises which had yet to mature.

Procedural issues emerged more in the case of performance management, with separate bell-curves for senior managers in banks A2 and AB2, the limited discretionary power of the appraiser and the presence of an approver. Also, the lack of goal clarity, training of appraisers and their limitations (time and business targets), and marginal employee involvement in the goal-setting process (especially in A2 and AB1) resulted in procedural issues. In the case of training and development procedural inadequacies were evident in the allocation of trainings and their evaluation, in the frequency and criteria for promotions and in pay, in the criterion for determining spot awards. Interactional justice can be used to interpret employee views related to the lack of employee engagement / sharing of information in the process of design and implementation of the new HR bundle, an example of which are the successive changes in the promotion policy which left employees unaware of the required criteria. This existed in all the case-study banks but was more pronounced in the public and privatized banks. However, this research found that unexpected gains (high pay levels in B1) and the availability of other preferred work practises (discretion, networking opportunities for senior managers) seemed to off-set the negativity associated with the lack of employee engagement.

Further, antecedents of pay satisfaction which emerged in this study across employee workgroups in the case-study banks (except incumbents to an extent) included the performance contingent increments and bonuses. Other factors which positively influenced satisfaction with components like benefits included high inflation, the absence of state funding and the economic downturn. The antecedents of dissatisfaction included non-engagement of employees in the procedure of pay restructuring which emerged due to the lack of pay surveys, insufficient sharing of the purpose of the new pay schemes and the non-declaration of formulae for determining yearly performance increments and bonuses. The frequency of the distribution of some of these components like performance bonuses in A1 and the delay in disbursement of performance increments are also included in the list of antecedents. Also, the use of hybrid mechanisms like market adjustment beyond the stated policy, and the parallel pay structures for incumbents led to dissatisfaction in the newly hired employees and the discontinuation of pension for the incumbent employees.

Chapter 8: Discussion and Conclusions

8.0. Introduction

This research sought to explore and understand the changes which occurred in the pay structures and systems of Pakistani banks in the last decade, the drivers which resulted in these changes and the objectives management wanted to achieve from these changes. To develop a deeper understanding the research examined the extent to which other HR practises bundled together were modified in tandem and whether and how they related with the changes in the pay structures and systems. To enrich the study and give voice to employee views the changes in the HR bundle were analyzed through the perceptions of employees as shaped by their new set of expectations and the differentiated implementation of the HR bundle across multiple employee workgroups. The consequent implications of the differentiated implementation of the HR bundle for the employee psychological contract are also highlighted.

This research encapsulated multiple levels of analysis from the social, economic and political drivers for change to the organisational level HR bundles and the employee level perceptions shaping the psychological contract, in an attempt to bridge the micro-macro gap highlighted in HRM research by Wright and Boswell (2002). In part, this approach stems from the gaps identified in literature (section 2.7) which support the adoption of multiple perspectives at different levels to study the changes in the pay structures and systems and the other HR practises. For instance, Marchington and Grugulis (2000) and Cox (2000) while pointing to the under-reliance on employee views in related literature highlight the importance of employee views for enriching studies. Similarly, at the organisational level, the HR bundle has been found to be under-researched in connection with its effects on the employee psychological contract (Aggarwal, 2009).

The discussion in the following sections elaborates on the substantive findings of this research as encapsulated in the theoretical framework presented in chapter two. Each section discusses these findings and relates them with the existing literature to highlight the conformity with it, to extend the debates in the area and to identify the areas for further examination. In summary, these sections discuss (i) summary and key findings of the research; (ii) influence of the country context on changes in pay structures and systems and the broader HR bundle; (iii) influence of the banking sector dynamics on the changes in pay structures and systems and the broader HR bundle; (iv) the new pay structures and systems and implications of the organisational contingencies and the workforce composition. Also included are the objectives of and the factors governing the choice of these pay structures and systems; (v) alignment between the HR practises, the link between pay structures and the broader HR bundle and the implications of the emerging HR architecture on the design and implementation of the new pay structures and systems; (vi) implications of the employee psychological contract in studies of pay and the broader HR bundle, the differentiated implementation of the new HR bundle and implications of notions of justice for shaping the employee psychological contract; (vii) the implications of the findings of this study for future research based on the contributions made by this research and the limitations within. The final section provides the conclusions to the research.

8.1. Summary and key findings of the research

A summary of the key findings of this research is presented first and an elaboration of each finding is discussed in the subsequent sections. The discussion in this chapter focuses on the three major themes of this research – changes in pay structures and systems, changes in the broader HR bundle in tandem and the subsequent influence of these changes on the employee psychological contract. We found little influence of ownership structures in the principles underpinning the design and implementation of the new pay structures and systems across the case-study banks; this highlights the role of mimetic and normative isomorphic pressures in directing these changes. Changes in the broader HR bundle were also driven by similar isomorphic pressures and hence the new HR practises across the banks investigated appeared alike, at least principally.

There was evidence of a shift from seniority to some hybrid form of performance based pay systems in the six case-study banks and adoption of broadband pay structures generally anchored in grade-based employment schemes in four case-study banks (A1, B1, AB1 and AB2) with bank B2 continuing with its broadband pay structure; also evident was the discontinuation of defined pension benefits in the public and privatized case-study banks. We also found evidence that the changes made in tandem in the HR bundle in the case-study banks facilitated the attainment of the objectives outlined for changes in the pay structures and systems which included recruitment and retention, reward for and motivation of high performing employees, facilitation of a performance culture in the organisations, increased flexibility in pay determination and the introduction of new career paths. Our findings establish that the key design features of the new HR practises were similar across the six case-study banks, the practices were applied differently across employee workgroups and hybrid mechanisms were adopted to retain some previous practises in parallel with the new HR bundle.

This discussion in this chapter is informed by incorporating the influence that country and sector specific factors, the differentiated implementation of the HR bundle across an emerging HR architecture and the organisational contingencies had on the changes that occurred in the pay and broader HR practises bundled together. The country specific factors which influenced these changes included the pressures placed by foreign donors like the IMF and World Bank for reforms, the lack of state funded welfare schemes, the social stratification of the society and the prevalence of nepotism and corruption which side-lined merit in the organisations, specifically the state owned (public sector) enterprises. Nepotism prevailed due to the external intervention of political and influential individuals (in the society) in the organisational decisions which resulted in the contravention of the existing HR procedures related to hiring and promotion of the employees. In the later years, the growing inflation rates and the energy crisis which led to increased tariffs influenced the perceptions of employees related to the changes in the pay structures and systems in particular. This is because inflation and high tariffs reduced the disposable income of employees and they felt that in real terms their pay had reduced and was insufficient to meet their expenses (see chapter 5). In addition, beyond the economic, social and political pressures cited in extant research as drivers leading to changes in the pay structures and systems, our research adds that privatization and deregulation policies may also drive such changes, which is evident in the banking sector of Pakistan. The sector level factors include privatization and deregulation of the banking sector in Pakistan, changes in the workforce composition, employee mobility and a transition to the performance oriented HR practises.

Further, the influence of the changed workforce or HR architecture had a bearing on the changes in pay structures and systems and the broader HR bundle which is evident from the differentiated implementation of the new HR practises across the newly emerging employee workgroups. The differentiated implementation resulted in considerable differences in the level of investment management made in the pay and career progress of some employee workgroups. We found that these underlying differences in the implementation resulted in implications for the employee psychological contract and created pronounced conflicts between incumbents and the new hired employees on the one hand and the MTOs and individual hired employees on the other hand. To some extent these conflicts were also visible between senior and middle managers hired on the renewable fixed-term contracts and the other employees (see chapter 7). And while we found little evidence of the influence of organisational contingencies like size, structure, culture, existence of employee unions and rules and norms on the selection of the new HR practises in the bundle, these factors did influence the extent to which some HR practises were changed across the case-study banks and the level of resistance demonstrated by certain employee workgroups like the incumbents (see chapter six).

8.2. The influence of the context of Pakistan on the re-designed pay structures and systems and the broader HR bundle

This study was conducted in Pakistan, the context of which is defined in chapter three with the aid of some specific factors that include the intervention by foreign donors like the IMF and the World Bank, the growing economy, the lack of state funded welfare schemes and the prevalence of nepotism and corruption in the country. In the latter half of the previous decade (2009 onwards), the rising inflation rate and the increasing utility tariffs also describe the country context which had implications for the organisations that designed the HR bundles and the employees who interpreted the outcomes of these bundles reference to these two factors.

While we will cover the implications of the reforms in the banking sector on the HR reforms in the next section, here we discuss how the pressure by foreign donors resulted in changes in the HR bundles. Pakistan relies heavily on the aid by donor agencies like the World Bank and IMF and has a long history with these organisations. In the early half of the last decade (2000) these organisations placed a pressure on the state regulators in different sectors, especially the banking sector to undergo reforms if they were to remain in the aid programmes. Consequently the state regulator for banking (SBP) announced broad based reforms in the sector which included those at the operational level as well as those in the areas of corporate governance and HRM. Setting the pace for the reforms, the State Bank of Pakistan itself took the lead in introducing these initiatives but the private banks quickly took over and started designing and implementing the new performance driven HR practises, at times in haste. Hence the drive for change which was initially influenced by coercive pressures, later started to get influenced by mimetic pressures for change. The public and privatized banks attempted to imitate their competitors in a bid to achieve greater acceptability and to build a reputation as efficient, merit based and transparent organisations. This was especially important because of the menace of the deep rooted corruption and nepotism in the society which had pervaded in the public and privatized banks for long.

Our findings highlight that nepotism prevailed in all the case-study banks; it was less evident in the private banks which were established in the early to mid 1990s and more widespread in the public and privatized banks that were established 50 to 60 years ago. This was because of the political intervention throughout these years due to which a large number of employees were hired based on the references of politicians, in many cases even when no vacancies existed; this resulted in overstaffing in the public and privatized banks. Employees hired through such means entered the banks contravening the established selection and hiring criteria and in return for this favour they sanctioned bank loans to the politicians, their families, relatives and friends, again by-passing the procedures and criteria in this regard. Most politicians in Pakistan are part of the elite class to which the feudal landlords and owners of big business houses also belong. In many instances these loans were never paid off and were written off in due course of time. Thus the non-merit hiring resulted in the induction of incapable and incompetent employees and their mal-practises caused the banks to perform poorly. Hence, when the reforms were initiated in the case-study banks a large majority of the employees who were unhappy with the clout enjoyed by the few non-performing but very influential employees willingly accepted the change. Essentially then, the performance based pay structures and systems and the newly designed performance oriented HR bundles were perceived by a large number of incumbent employees to be transparent and an improvement over the past. Also, the potential of the new HR practises to reduce the instances of nepotism led the incumbent employees to accept a fundamental change in the principle underpinning the new HR practises (transition from seniority to performance). However, the incumbents were not very willing to accept a complete replacement of the seniority principle due to which the public and privatized banks employed hybrid mechanisms to implement the new pay structures and systems and the broader HR bundles.

Related to the mention of an elite class above, we found that while the changes in the pay structures and systems in the case-study banks conformed to the newly emerging HR architecture (professionally qualified MTOs and experienced foreign employees on fixed-term renewable contracts) they conflicted with the autocratic status based societal structure. Hence our finding can only partially confirm arguments made by Rubery (1997) who states that in some instances social drivers press organisations to make changes in pay practises in order to conform to the principles upon which society is structured and work is organized and thereby avoid conflicts related to pay disparity. The partial confirmation is because the performance based pay structures did not conform to the autocratic societal structure which categorizes people according to their status – elite upper class, middle class and lower class. Hence, the shift from seniority to some hybrid form of performance based pay systems created rather than avoided conflicts between different employee groups like the fresh, new hired employees and the older incumbent employees because of the pay disparity which existed due to their varied performance levels. However, the introduction of PRP did conform to the need for merit in a society where otherwise corruption and nepotism was prevalent.

Further, our analysis revealed that the lack of state funded welfare schemes in Pakistan played a significant role in the decisions pertaining to pay and benefits, especially when interpreted in context of the rising utility bills and the staggering inflation which made real income less in comparison with the previous years. The consideration of lack of welfare schemes in pay decisions was a trend that was visible across the spectrum of the public-private divide in the banking sector and provided justification to the case-study banks for adopting hybrid mechanisms. The mechanisms included the continuation of fixed bonuses in addition to the newly implemented performance bonuses and the use of adjustments as a means to enhance the pay of incumbent employees to bring it at par with that of the newly inducted MTOs and employees on renewable fixed-terms contracts. Also, the lack of state funded education and health care programs for instance led the banks to adopt a more paternal approach which compromised their objective to inculcate a performance oriented culture. For example, the rating of a larger majority of the employees in the merged ‘C and D’ category in bank AB1 to reward a baseline increment to all the employees. In addition, the inflation factor reduced the valence of the performance increments which were otherwise quite high and hovered around the 10 percent mark in some instances. However, since the inflation was higher than that in most years during the study, employees continued to struggle to meet their financial obligations and felt that the increment did not truly reflect the hard effort they had put in, in the tough economic conditions.

8.3. The influence of the changing banking sector dynamics on the changes in the pay practise and the broader HR bundle

The strong influence of the changing sector dynamics, similarity in the drivers pushing for change and the emerging HR architecture resulted in normative and mimetic pressures on the banks investigated compelling them to opt for very similar HR bundles underpinned in the performance principle. Only subtle differences / nuances across the case-study banks emerged as far as the design of the new HR bundle was concerned. For example the transition to broadband pay structures varied on whether there were defined upper and lower limits or not, whether there existed an upper limit only or a lower limit only or none. Similarly in the case of training, the variation appeared in the number of required training sessions per year and to some extent the process of identifying required training modules across the banks.

After the privatization and deregulation of the banking sector, performance became a crucial factor for the banks. The introduction of the new performance management systems in the case-study banks which aimed at assessing employee performance and tying it with some form of organisational or divisional performance for reward purposes provides evidence of the efforts of the case-study banks to encourage and reward performance. The smaller, private banks started giving stiff competition to the larger public and privatized banks; this competition resulted in the need for the larger banks to adopt performance oriented HR practises to gain social and economic legitimacy and to internally infuse a culture of performance. Perry et al., (2006; 2009) state that economic drivers for change play a more active role when concerns exist for improving organisational performance. In conformity we found that increased competition resulted in greater pressure, but on the larger (public and privatized) banks to perform better and maintain their profitability which meant that costs had to be contained where possible. The public banks[114] held more than 90% of the market share till the mid 1990s and served the same market so in the absence of any substantial competition they felt no compulsion to enhance their performance further and to improve their efficiency. However, increased competition from the new private banks in the sector made performance improvement critical and one measure taken to enhance efficiency was the introduction of performance based pay systems which establish the legitimacy of pay (one of the biggest organisational expenses). This was also important for improving their image of inefficient organisations at that time. For the privatized banks adoption of performance based pay systems post-privatization was important because they were targeting the same market as the private banks and wanted to mimic their HR practises to match their image – that of a performance oriented organisation - to attract their customers. This finding confirms the model of isomorphic pressure presented by DiMaggio and Powell (1983) (see also Kostova and Roth, 2002) which states that organisations tend to adopt changes similar to those of other organisations because they are socially acceptable and are considered the norms / trends in the industry. Evidence available from data highlights that all the case-study banks opted for changes in pay structures and systems keeping in view what their competitors were doing and because it had become an industry standard. This is probably the reason some HR and senior

[114]Including the now privatized banks.

managers, particularly in banks A2, B1, AB1 and AB2[115] stated that the changes in the HR bundle were not well planned. In multiple instances participants interviewed in these banks mentioned that there was no specific plan according to which HR practises were changed rather they were a consequence of decisions of HR Heads and their newly inducted teams (mostly from foreign banks). Evidence of this is provided in different sections of chapter five and six (6.3.3., 6.4. and 6.5).

In all our case-study banks evidence of changes in the workforce composition which resulted in the creation of a new HR architecture are apparent (section 5.1.) and the influence of the new entrants in driving the changes is also documented in our presentation of data. Growth in the sector and changing societal preferences for better living standards in the present as opposed to saving for a better future living standard resulted in the introduction of new products and services for house-hold and individual consumers (see section 5.1 and 5.7.1.) in all the case-study banks. The consumer finance market was earlier un-tapped and for which employees in the existing workforce were not experienced and trained. Also, we found that management in the banks investigated intentionally hired seasoned bankers with work experience in foreign banks to successfully implement the changes since *'they had worked in performance geared organisations'* and could design and implement such changes effectively. To address both the emergent issues of infusing performance in the larger banks (more so) and of introducing new products / services in areas like consumer banking, retail banking and investment banking, different categories / groups of employees who possessed the requisite skills and knowledge were hired.

The preceding paragraph signifies the influence of the changing sector dynamics on the recruitment and selection practise particularly, which now focused on introducing new and multiple entry-tracks within the case-study banks. The subsequent, new HR architecture which emerged created distinct and different employee workgroups based on the uniqueness of their skills and strategic value. The emerging HR architecture carried implications for the re-designed HR bundle as the HR bundle was implemented differently for multiple groups to provide flexibility in managing their pay and career for instance, which was critical for recruiting and retaining some employee types / groups. This finding confirms the stance of Becker et al. (2009) that

[115] See section 5.7.

a reason for designing and implementing different HR practises across a differentiated HR architecture is to engage the right employees and to align with the concept of the HR architecture given by Lepak and Snell (1999). While their framework implies that the architecture is designed from scratch our findings indicate a process of transition and adaptation. The senior and middle managers hired from foreign banks as well as MTOs qualified with professional degrees from reputed universities placed normative isomorphic pressures on management to redesign the pay structures and systems and the broader HR bundle to reflect performance rather than seniority as the underpinning principle. The influence of the new HR architecture resulted first in the introduction of renewable fixed-term contracts as a stop gap arrangement to attract and hire the seasoned bankers in senior positions and later in the revamping of the pay structures to broadband structures.

Further, the banking sector did not witness a uniform extent of implementation of the changes in the HR bundle across the spectrum of organisations operating in it. For example, the public and privatized banks in our sample which were mostly large in size (branches and employees) had traditional management styles and a large representation of incumbent employees experienced a slower transition to the new pay structures and systems as well as the other HR practises. They tended to rely more heavily on hybrid mechanisms for implementation unlike the private banks that were smaller in size, were established in the private sector and had significantly few old / incumbent employees. A plausible explanation for the slower transition in the public and privatized banks is that management feared resistance to change from the incumbents here and the large size and geographical spread of these banks hindered the pace of implementation. Evidence presented in chapters five and six indicates that the private banks generally led the change initiatives whether they related to recruitment, performance management or any other HR practise. This finding deviates from that of Spell and Blum (2005) and Kang and Yanadori (2011) who state that organisations of larger size that are more visible in the media and state agencies and have greater resources to expend initiate changes first.

For example, the private banks were the first to start the MTO scheme, use head-hunting organisations, incorporate a competency framework in the appraisal and automate training (the latter only in bank B2). Similarly, communication processes which were the focus of EIP initiatives were better developed in the private banks while the public and privatized banks faced challenges in institutionalizing them across departments in the Head Offices as well as in smaller and rural area branches. This was due to the sheer size and spread of these banks and the existence of incumbent employees in senior positions in some departments. Hence the management style in these banks tended to vary depending on the individual heading the department / division / unit. Therefore, our findings tend to deviate to a small degree from those of Lengnick-Hall & Lengnick-Hall (1998) and Bowen and Ostroff (2004) who highlight the influence of contextual factors (which define vertical fit) such as firm size, strategy or structure on the type and nature of the HR practises within organisations. We found that while these organisational contingencies did not define the type of HR practises the case-study banks adopted / designed, they did influence and explain the extent to which the new HR bundle was implemented in the case-study banks and the use of hybrid mechanisms to reduce chances of resistance. These contingencies are also used to place into context findings related to changes in the HR bundle and employee perceptions in later sections of the chapter as well.

Specific to the issue of pay differentials in the context of the banking sector and the six case-study banks investigated we were unable to identify a skewed pattern of high pay favouring either the public or the private sector banks. Olari (2006) states that in the initial time period public sector organisations face low employment and the private sector offers higher pay to attract employees. Later, the first mover advantage decreases and the differentials diminish. Further, the presence of unions in private banks is stated to be much less so the power of employees to bargain diminishes because of a lack of institutional mechanisms to bargain. However, our findings did not reflect this as the public sector banks did not face low employment in the initial period. The variation between the findings is explained by two factors; the larger market share and investment portfolios of the public and privatized banks which constituted over 90 percent of the market share pre-privatization and deregulation. Both these factors provided the public and privatized banks an advantage over the newly established private banks that did not have such deep pockets to attract away the leading bankers the larger public and privatized banks were hiring from the foreign banks. Thus, while the smaller private banks offered high pay packages, the public and privatized banks also did the same because they had an adequate capital base to do so and a legitimate cover in the form of the reforms agenda. Also we found that great employee mobility in the sector (switching of employers by the employees) and in the three categories of banks examined resulted in the individual employee retaining the bargaining / negotiating power despite the absence of unions in five of the six case-study banks. This power was exploited more by employees in middle and senior management positions who were fully trained and widely experienced and had thus a greater value in the external labour market, especially for the newly established banks who had a less trained and experienced workforce.

8.4. The new pay structures and systems: implications of the organisational contingencies and the workforce composition

Building on the discussion in the previous sections which elaborated on the influence of the country and sector level factors in driving the changes in the pay practise and the broader HR bundle, in this section we elaborate on the different features or components (performance increments, spot awards, loyalty awards and adjustments) of the new pay structures. We highlight the influence of the organisational contingencies and the differentiated workforce as factors leading to the distinguishing features in the case-study banks. These influencing factors also explain the need for adoption of different hybrid mechanisms to implement the new pay structures and systems across the case-study banks. In large part these mechanisms were adopted in an attempt to ward off resistance by incumbent employees, an issue that is also included in the discussion in this section. This research revealed that changes in pay structures and systems were part of a larger reform agenda which aimed at restructuring HRM practises as a bundle much in the manner Korean firms pursued management reforms while adopting pay for performance systems as highlighted by Kim (2003). The new pay systems underpinned in the performance principle largely replaced but did not eliminate the principle of seniority which was the sole criteria for award of increments, bonuses and any cash / spot awards under the previous pay systems. However, the change included many hybrid mechanisms (mostly in the public and privatized banks) to cater for any resistance presented by the incumbent employees; the mechanisms included continuation of fixed bonuses alongside performance bonuses in some case-study banks and the provision for rewarding seniority through loyalty awards in others. Also while seniority was marginalized in pay progress decisions it was retained as an important determinant in decisions of promotion to differing extents in all case-study banks (section 5.3.) which signalled to incumbent employees that a total departure from seniority had not occurred. Greater reliance on fixed pay as opposed to variable continued despite a shift to performance based pay in all the case-study banks because the payout pool for bonuses continued to remain less than that for increments. This was probably to allow employees to adjust with the new pay structures and systems in the initial years of the implemented changes.

Findings of this research highlight that the case-study banks wanted to balance internal and external pay relativities which became an issue post privatization and deregulation due to increased job mobility and the induction of a better aware workforce. Bank A2 which was in public ownership, was rather centralized due to its large size and bureaucratic systems, had a large number of incumbents and an employee union continued with its narrow, multi-graded structure. This structure is stated to be suitable for meeting internal relativities according to Milkovich and Newman (2008) and it also fits well with a mechanistic organisational structure according to Gomez-Mejia (1992). The other case-study banks shifted to broadband pay structures with different features (section 5.2.1.) like defined upper and lower pay limits and zones in banks A1 and B1 and loosely coupled pay structures in banks B2 AB2 and AB1 signifying greater preference for establishing external relativities. In the first instance pay limits were preferred because both the banks wanted to maintain control of the costs associated with the introduction of a broadband structure more than the other three banks that wanted to emphasise more on the financial prospects an employee could achieve if they were able to perform more. Within these three banks, the privatized banks AB1 and AB2 also wanted to put forth an image in the market that they were truly transforming from ineffective to efficient, performing and effective organisations that valued the person, their competence and skills in addition to their experience and were willing to pay to any limit for this. Further, while Gomez-Mejia state that mechanistic organisations would tend to have a grade-based pay structure and organismic a more flexible and variable one, we found that this may not hold true under certain conditions. For example, our analysis indicates that one public bank A1 and both privatized banks AB1 and AB2 which were quite bureaucratic in terms of procedures adopted broadband pay structures and PRP systems. Also, the only bank with a narrow grade pay structure (A2) did not have pay rates above the market average because it had introduced performance based components in its pay structure which could enhance an employee's pay contingent on performance, so a high base salary was not the only attraction for the employees. Hence we suggest that these may only be considered as broad guidelines that should be refined in the context of recent changes in the nature of the employment relationship and the use of a differentiated HR architecture in designing HR practises.

None of the banks changed their employment structure (remained grade-based) in accordance with changes in the pay structures despite the suitability for example of person based employment structures for organisations dependent on the idiosyncratic knowledge and competence of employees in relevant fields as stated by Armstrong, (1999). Such employment structures help explain differences in pay levels to employees in similar grades or jobs that occur due to varying performance levels in performance based pay systems which make them complex to understand (ibid, 1999). In the context of this research we found that adoption of person based pay structures could have increased the imbalance in pay differentials further as explained by HR managers in Bank B1 (section 5.2.1.). Evidence of the implications on the employee psychological contract of pay differentials between employee workgroups is discussed in greater detail in sections 8.4. and 8.5. The different approaches adopted by the banks investigated included for example, conducting appraisals on two different bell-curves to reward larger performance based increments to those in executive / higher positions in one bank A2 which had a legacy of seniority based HR practises and continued to have a culture which appreciated the substitution of seniority for experience and knowledge. In privatized bank AB2 separate appraisal forms for revenue and support department employees were designed due to the different nature of their jobs which distributed higher bonuses to the former category of employees in recognition of their greater contribution to the organisation's performance. Here again the aim was to shed the old, inefficient organisation image and emphasise that the bank was truly adopting a performance based culture and would embrace the principle of greater reward for greater contribution and performance. Pay differentials between employees also existed through pay enhancements due to job enlargement and enrichment in addition to performance based increments in the only case-study bank with a person based structure B2 (section 5.1.). This was because the bank previously had performance based HR practises and now wanted the employees to realize that their contribution in multiple areas would not only equip them for better positions of authority in the future but would also result in pay increase through lateral rather than vertical promotion.

Linked with the type of pay structures are choices for adoption of pay systems. The latter define opportunities for pay progress according to Armstrong and Brown (2001) and they can be contingent upon performance, skills, competencies, contribution or service according to Bryson and Forth (2006) and Rubery et al. (1997). Confirming findings by Heneman and Gresham (1998) which indicate greater acceptance of managerial level employees for performance pay systems, our investigation of the case-study banks in Pakistan also revealed that managerial level employees favoured the shift to performance based pay systems and even Officers from the MTO hiring track in bank A2 on whom the system was yet to be implemented, preferred an early transition. Aligned with the position adopted by authors of numerous texts like Armstrong, Murlis and Brown and Milkovich and Newman that a transition to performance based pay systems results in changes in the level of job security, our empirical evidence highlights an alteration in the provisions for entitled job security, post retirement pension benefits and surety of pay increase with service for employees after the change to performance pay systems. The exception is of Officers in bank A2 on whom the new pay system was yet to be implemented.

As stated in the introductory paragraph of this section the changes in the pay structures and systems of the case-study banks were a clear transition to broadband structures and performance based pay systems in large part. However our findings concur with the position adopted by Armstrong (1999) and Wang et al. (2009) which highlights the presence of employee resistance to changes in pay practises in organisations with egalitarian pay structures. We found that the transition to the new pay structures and systems was not completely smooth and some resistance and reluctance to change was visible especially in the public and privatized banks which had egalitarian pay structures since they were established many decades ago. A major finding from our data which is aligned with the position adopted by Kostova and Roth (2002) and Kang and Yanadori (2011) that organisations adopt hybrid mechanisms to overcome resistance is that the case-study banks adopted different hybrid mechanisms at least in part to counter this resistance. This highlights the nuances / dissimilarities between the case-study banks in the design and implementation of the new pay structures and systems.

According to Boxall and Purcell (2003) and Rowley and Benson (2000) resistance is common where organisations attempt radical changes and Kang and Yanadori (2011) state that resistance emerges where organisations move from the traditional models which are seniority based to the performance based pay systems. Parks (2009) and Kim and Kim (2003) attribute this resistance to the perceptions of employees who fear that PRP systems may result in lower pay for some. This research confirms such findings because evidence of resistance against the new PRP systems from incumbent employees was found across the case-study banks and more so in the public and privatized banks where incumbents existed in greater strength (see section 5.3.). The resistance was a consequence of higher pay levels which were set for newly inducted employees on renewable fixed-term contracts (in senior and middle management) and MTOs. Specifically in the case of bank A1, two parallel pay structures were implemented to cater for the concerns of incumbent employees. Also adjustments were used in both privatized banks and fixed bonuses were retained in banks A2, AB1 and B2 for this purpose. However, incumbents expressed in the interviews that wider pay differentials existed between both the structures with the new hired employees (MTOs and fixed-term contract) receiving higher pay levels which was de-motivating for them. According to them this contradicted with management's promise that their pay would remain at par with that of employees governed by the new pay structure. Kruse (1996) and Long and Shields (2005) in their research findings point to a greater role of unions in creating resistance to adoption of performance based pay systems. Our findings concur with their research conclusions as resistance to implement the PRP system on Officers was evident in bank A2 - the only bank with an employee union - because the non-managerial employees below them feared it as a step closer to applying the same scheme on them. Therefore the new performance based pay system was not implemented organisation wide and Officers continued to receive seniority based increments and fixed bonuses.

Further examples of the hybrid mechanisms which also highlight the procedural differences in the extent of implementation between the banks include the continued use of fixed-bonuses. These were disbursed despite the introduction of performance bonuses to employees in one public (A2) and two privatized banks. This decision was in view of the large workforce size in general which had a high percentage of incumbents from whom the management expected significant resistance. Similarly, defined pensions were not completely discontinued for the existing employees in the four public and privatized case- study banks (section 5.6.), loyalty awards after certain years of service were introduced in bank A2 and pay enhancement on account of market adjustment was awarded in both the privatized banks, in some instances to reduce pay disparity between incumbents and new hired (section 5.3.). Also, the previous pay structure was continued in parallel for employees who opted to remain on it in public bank A1, a multiplier factor was applied to enhance the pay of incumbents in privatized bank AB1, market adjustment was used in privatized bank AB2 and bank A2 did not apply the scheme on Officers (see section 5.2.1.). Apart from anticipated resistance from incumbents, both the privatized banks also resorted for hybrid mechanisms because the new performance based pay systems were only in their initial phase of transition and the organisational culture which valued seniority, status and experience due to age had not yet changed. Therefore, to facilitate the acceptance of the new pay structures and systems these mechanisms were adopted. The same argument holds true for both public banks in addition to the presence of an employee union in bank A2 which pressurized for maintaining the status quo for their employee workgroup as well as Officers who were only a step above them in the hierarchy.

Differences between the banks were also evident in the other HR practises which were modified in tandem; this suggests that a link exists between pay practises and broader HR bundles. The new performance appraisal systems are one example (see table 6-5). While the underlying principle of performance remained constant across the banks variations included the use of separate forms to evaluate revenue and support department employees in bank AB2 and the use of separate bell curves for

Officers and Executives in banks A2 and AB2. In the case of training, the only bank which assigned a weight to it in the appraisal of employees was bank B1 and bank A1 was the only bank which sent employees on foreign trainings but did not include a specific number of trainings attended as a criterion for promotion.

8.4.1. Objectives of the new pay structures and systems

The previous section discussed the new pay structures and systems; in this section we extend the debate to respond to one of the research questions which sought to investigate the drivers leading to and the objectives the case-study banks attempted to achieve from the new pay structures and systems. The multiplicity of pay objectives is a much explored theme in research on pay and leads to some interesting insights in Pakistan and its banking sector specific context. In addition to the more widely cited objectives of recruitment and retention, motivation and reshaping of culture the case-study banks expected to achieve the objective of gaining flexibility in administering pay and to reduce the complexity of the pay structures to enhance transparency. The requirement for flexibility was a direct implication of the normative pressures exerted by the new workgroups inducted in the workforce who expected higher / market equitable pay packages if the banks wanted to hire and subsequently retain them. This warranted discretion and flexibility for management to determine pay packages for employees based on their skill-set and expertise in addition to qualification which varied from one to another individual. Also, the growth in the sector in the initial years and then the constantly rising inflation rate influenced the decision for upward adjustment in the pay levels. Earlier the pay levels were quite static due to the lack of competition in the banking sector and a slow economic national growth rate. This is because only a few large banks existed so opportunities to move to other employers were limited and employees were not in a position to bargain for substantial pay increases.

Related to the objective of re-shaping the organisational culture to reflect performance as the guiding principle and organisational norm, the case-study banks were driven to adopt performance based HR practises by the mimetic pressures placed on the public and privatized banks in particular, to improve their image and operational efficiency. While generally disagreement seems to exist on the relative importance of different functions of pay as highlighted by Rubery (1997), our research indicates with considerable certainty that in this specific context[116] considerable significance was assigned to the objective of change in organisational culture. Sections 6.1. and 5.7.1., provide details of non-merit hiring in the public and privatized banks mostly and a work culture dominated by compliance to established norms and good conduct with higher management rather than performance. However, conforming to the mimetic and normative pressures the newly designed pay structures and systems introduced numerous performance based elements that included performance bonuses and increments, spot awards and cash awards in recognition of outstanding performance which signals a shift towards reliance on performance as the criterion for pay and career progress. This holds true to varying degrees across the six case-study banks that re-oriented other HR practises in the bundle as well, and concurs with Marsden (2004) and Perry et al. (2006) who state that organisations may adopt performance based pay systems in order to renegotiate the effort-performance-reward link. Similar findings emerge from studies by Kessler and Purcell (1992) and Kerr and Slocum (2005) who suggest that pay structures can both reinforce and modify the organisational culture. For example, we found that performance based pay systems in bank B2 reinforced the element of performance in its HR practises which was present previously as well but to a lesser extent. Consequently, it appeared to have more developed HR practises, better integrated HR bundles and the implementation of the newly introduced HR bundle was evident to a relatively greater extent. On the other hand in case-study banks like AB1 and A2, the performance based pay systems introduced a new work culture which encouraged employees to perform if they expected their pay and career prospects to increase. In these case-study banks there was variation in the development between various HR practises in the bundle and the extent of their implementation was limited due to factors like the legacy effects and the larger presence of incumbents in the workforce. In bank AB1, while the pay structures were fairly well developed the performance management systems lacked effectiveness. In the case of bank A2, evidence indicates that the new performance based pay system was not applied on Officers mainly due to resistance faced from the employee union.

[116] deregulation and privatization of the banking sector in Pakistan

While change in work culture was an objective of introducing PRP systems, the new systems were accompanied by certain issues for management and evident in the findings were the disparate outcomes of the differentiated implementation of the systems across different employee workgroups and the failure to improve employee involvement which is considered to be an objective of introduction performance based pay systems. Also, the limitations inherent in PRP schemes resulted in unintended consequences for employee motivation. Hendry (2006) identifies decreased instances of nepotism and favouritism and Grote (2005) highlights decreased organisational politics as the associated benefits of an objective appraisal process. However, these favourable outcomes were not very evident in our case organisations because employee interviews widely pointed to continued instances of these as a cause of unjust treatment, especially in the public and privatized banks. Additionally, mistrust in appraisal ratings was cited as a negative consequence of the new PRP systems by employees in the public sector banks mainly due to the legacy effects. This factor was earlier identified by Noe et al. (2006) and Milkovich and Widgor (1991) as well. Evidence of other negative influences of performance based pay on the cultural aspects of organisations such as team-work, information sharing and jealousies between employee workgroups can be confirmed through employee interviews but this did not appear to result in dysfunctional behaviour. Reasons included the initial preference of employees for the newly introduced HR practises as a bundle and reduced opportunities for employment elsewhere in the later years (2010-2011) as growth in the sector had stagnated by then due to the global financial crisis.

Also visible were the disparate influences of PRP on some employee workgroups across all the case-study banks. This confirms similar findings highlighted by Rubery et al. (1997) and Jensen et al. (2003) which point to PRP as a means for rewarding the already rewarded in society. MTOs, employees on renewable fixed-term contracts and senior managers inducted from foreign banks tended to benefit more from the new pay practises. Their pay levels were fixed higher than other colleagues, indicating greater investment in them and making the banking sector more lucrative for employment for these groups specifically. Hence the findings of Rubery and Jensen et al. are confirmed from our research and their consequent impact on the psychological impact of employees is discussed in section seven. Further, according to Flood et al. (2008) employees perceive that a shift towards performance based pay systems will result in their greater involvement and while our findings confirm the presence of such expectations on the part of employees, there appeared little evidence of the achievement of this objective in the case-study banks. This resulted in employee involvement being identified as an antecedent of pay dissatisfaction.

Related to the motivational aspects of performance based pay systems, evidence from our data highlights the dichotomous nature of motivation reported in previous studies of performance-related-pay. The findings of this research indicate that issues in implementation of the PRP schemes limited their potential motivational returns. Details from data on employee perceptions discussed in chapter 7 provide evidence of a lack of employee participation in the goal setting process especially in banks A2 and AB1 which did not have well defined procedures. Also, irregularities in the frequency (A1 and A2), procedures for determining some rewards (spot awards A2, B1 and AB2) and the amount of increments (all case-study banks) contributed towards motivational issues. This concurs with research by numerous authors like Kauhanen and Piekkola (2006), Sherstyuk (2000), Marsden and Richardson (2004), Cox (2000) and Kessler and Purcell (1992). They propose that such issues have an opposite effect from what the organisation intends to achieve in terms of motivation. Further, Ratner (2009) proposes that the lack of credibility of the supervisor and mis-trust in management can create complex situations. These concerns also emerged in the public and privatized banks in our sample, but not the private banks, largely because of the legacy effects experienced in the former organisations of the nationalization era which continued for over two decades. In addition, the shying away of supervisors from clearly identifying the performers from the non-performers as proposed by Armstrong (2009) was apparent in the case of bank AB1 where 60 percent employees (see table 6-5) were grouped together at the bottom; this blurred the effort-performance link. Additionally the focus of employees to perform only in areas the appraisal assessed as identified by Jensen (2003), Cadsby et al. (2006) and Kessler and Purcell (1992) blurred the motivational impact even more. In this case employee concerns included the lack of time supervisors devoted to the appraisal and feedback process (see table 7-2) which is supported by comments given by supervisors who in addition to the above mentioned meeting the business targets as a greater priority (see section 7.4.2.).

Further, motivation appeared as an implicit rather than a stated objective of changes in pay structures and pay systems probably because of the scepticism PRP attracts as a direct factor impacting performance and a stronger link of performance with the achievement of broader organisational goals as highlighted by Kessler and Purcell (1992). However, despite the absence of an overt intention to enhance employee motivation through the new pay structures and systems we found that there existed an implicit understanding of pay as a motivational factor in recruiting and retaining employees (see also, Mohanty, 2009) which was a stated objective of changes in the pay structures. This highlights the role of an integrated HR bundle in achieving multiple and at times conflicting organisational objectives. Further, Jensen (2003), Cadsby et al. (2006) and Marsden (2001, 2004) highlighted the influence of pay as a motivational factor in shaping employee attitudes and behaviours at work. Evidence of this is presented in chapter 5 and 7 where views of employees inducted from foreign banks abroad and banks within Pakistan clarify that it would have been difficult for them to either join or remain with the banks for long had their pay not been enhanced to a certain level through either adjustments or spot rates. This suggests some causal, implicit link between motivation, pay and employee decisions in the selection of an employer. However, other factors like conditions in the external labour market and the need to achieve market competitive pay structures may also explain the choice of employees to join an employer.

Moreover, our discussion in this paragraph highlights how the pay practise is part of a broader HR bundle and the link it may / can have with HR practises like recruitment, training and appraisal for instance. Multiple pay components were used to recruit and retain employees including pay levels, pension for incumbents, long-term healthcare schemes (bank B2) and deferred share ownership schemes (bank AB1). In the context of this study, performance bonuses and increments acted as both a tool to recruit and retain high performing employees across the case-study banks; benefits such as mortgage loans, attractive allowances and continuation of fixed bonuses (in four case-study banks) helped retention in general. This is because of the absence of state-funded welfare schemes and adequate healthcare and education facilities in

Pakistan. Other factors highlighted by authors like Hausknecht et al. (2008) and Carroll (1999) which influence decisions of recruitment and retention include opportunities for growth and training, corporate culture, organisational prestige and pension schemes. These also emerged through our analysis in chapter 6 related to the coherence between HR practises and their influence on each other. Hence we can state with some degree of conviction that pay fulfils multiple organisational objectives some of which may be more subtle and implicit in nature such as motivation but to whatever extent it was achieved it was a favourable outcome for the employer.

8.4. 2. Factors governing the choice of new pay structures and systems

Having discussed the drivers and objectives for changes in pay structures and systems in the previous section, in this section we discuss the factors significant to consider at the time of selecting new pay structures and systems. An examination of literature in chapter two (section 2.3.2.) highlighted that the following factors influenced the selection of pay structures and systems - the approach to be adopted (best practise, best-fit), the number of pay systems to be implemented, the role of employees in the process and pay differentials between the public and private sector organisations.

Our findings indicate that in the case-study banks both the best practise and best-fit approach guided the decisions for change to meet the multiple pay objectives. This confirms previous findings made by Rubery (1997) and Torrington et al. (2004) which state that both horizontal and vertical integration is necessary for organisations that want to maximize their gains. Evidence of a wider diffusion of HR practises across the case-study banks and the presence of mimetic isomorphic pressures for change indicates the adoption of a bundle of HR practises considered as best practises; this approach is prescribed by Huselid and Pfeffer as a means for attaining industry standards. Beyond this, we also found strong evidence of considerations for enhancing efficiency and performance of the case-study banks. HR and senior managers interviewed across the banks investigated stated that a primary driver for change in the HR practises bundled together was the alignment of HR practises with the objective of performance enhancement. For this reason employee and organisational performance also appeared as the intended principle underpinning the modified HR practises and their differentiated implementation across the emerging HR architecture of the banks. Extensive evidence of this is cited in both chapters 5 and 6. For example, pay enhancement was linked with performance of the individuals and the bank / relevant department / unit except for Officers in bank A2. The desire of the case-study banks to enhance individual and organisational performance through the HR changes conform to similar findings made by Boyd and Salamin (2001), Bloom and Milkovich (1998), Gomez-Mejia (1992), Delery and Doty (1996) and Wright and Snell (1998). They propose that changes in the HR practises must be aligned with the organisational strategy (in this case performance improvement) in order to become successful. Additionally, we conclude that the mimetic and normative pressures resulting from the changing sector dynamics and the work norms advocated by the new employee workgroups pressed for similar changes in practises constituting the HR bundle to achieve social legitimacy and the economic drivers concerned with achieving organisational and individual performance levels met the criterion which defines the best-fit approach to gain financial legitimacy.

Further, the option to implement uniform or multiple pay systems is also of consequence as it carries implications for the employee psychological contract due to the concerns raised about fairness and justice by employees administered through different pay structures, as is evident in our research. The only bank in our sample with multiple pay structures (A1) chose this option to avoid larger conflicts with the incumbent employees post changes and to attract and retain the new workgroups of employees that were required after deregulation and the introduction of new products and services. The visible implications of the multiple pay structures on the employee psychological contract are discussed in section six. The parallel pay structures are also an example of the different hybrid mechanisms the case-study banks adopted to implement the newly designed HR practises. The parallel pay structure supported the continuation of defined pension plans in the pay structure for the incumbent employees but had lower pay levels for them relative to the new pay structure for other employees. This resulted in internal competition and conflicts between the two employee groups which confirms findings by Hoffman (1987) who had indicated that multiple pay systems create feelings of inequity and result in internal competition between employees. Despite these unfavourable outcomes, the parallel pay structures managed to address the different set of expectations of employees in the MTO and fixed-term contract workgroups in this bank (A1).

Moreover, evidence from our case-study banks points to the lack of employee involvement during the re-designing phase of the pay practises. Research by Cox (2000), Kessler and Purcell (1996) and Bowey (1996) found that involvement of employees in the change process increased the acceptance level of the changes and improved the effectiveness of the new implemented pay practises as employee concerns in existing pay practises were eliminated through consultation. However our research revealed that no employee workgroups, inclusive of senior managers participated in this exercise but the latter were included in the final presentations given before induction of the new pay structures and systems. Hence, in partial conformity with findings of these researchers we state that while employees voiced concerns related to non-participation and felt their ideas could have resulted in better systems, the pay increases beyond employee expectations in one bank (B1) (section 7.2.) and a general preference for departure from existing pay practises in the other case-study banks mediated the negative consequences related to acceptance of change.

Related to the factor of wage differentials our findings do not corroborate with the little research that exists on the evolution of wage differentials in periods of transition as discussed in section 8.2.above. Also the stance adopted by Burgess and Ratto (2003) and Olari (2006) that the absence of profit sharing with employees in the public sector leads to a preference for job security and seniority based emoluments (pension and fixed increments) needs reconsideration. Our findings indicate that even after the sharing of profits (bonuses, cash and spot awards) with employees in both public sector case-study banks, the incumbent employees continued to demand job security and were quite concerned about any changes in the defined pension scheme. This was despite increasing opportunities for senior and middle managers in the external labour market due to the opening of many new private banks that were keen to hire experienced bankers.

Further, extant research highlights that embedded in the selection of pay structures and systems are multiple factors including performance measures (Railey, 1992), payout formula, amount of payout, type and frequency of payout and leverage (Miceli and Heneman, 2000). Our research indicates that while these are important for consideration, organisations which mimic others may not necessarily give them sufficient weight while making the decisions for change because much of what is being done is in response to external pressure rather than internal need. Hence, organisational specific factors are given less consideration in the process of change. Evidence of this appeared in our research because two case-study banks (AB1 and A2) did not have clearly defined KPIs (chapter 6), the payout formula remained undisclosed (especially in B1 where it was the first year of implementation) and constantly changed in others and the frequency of the bonuses emerged in a scattered pattern in public bank A1. In terms of leverage a conscious decision to enhance the variable component was taken by only one bank AB2 but that too was for the future.

8.5. Alignment between the HR practises: theorizing the link between the pay practise and a broader HR bundle

This section is divided into two parts. In the first part, the discussion revolves around the argument of how the pay practise is linked with the broader HR bundle and the inconsistencies if any, between the HR practises (bundle) and their implementation. This argument is based on the premise established in chapter six that there exists a link between the pay practise and the broader HR bundle. The second part of the section elaborates on the reasons for the differentiated implementation of the HR bundle across the employee workgroups and points to the implications this may have for the employee psychological contract.

The discussion in this part focuses on three primary findings from this research: (i) the primary underpinning reason for changes in the practises constituting the HR bundle across the case-study banks was to re-orient the work culture and make it performance focused; (ii) the changes were regardless of organisational contingencies such as their size, stage in life-cycle, organisational culture, ownership and structure which leads us to conclude that a best practise HR bundle was being implemented sector wise. However, the extent to which the changes were implemented and institutionalized reflects the influence of the organisational contingencies and; (iii) the HR bundle - pay, recruitment and retention, performance management systems, training and career development and employee involvement and participation - reveals that changes in these practises were also aimed at achieving horizontal integration which signifies that pay practises relate to a broader HR bundle and that coherence between the practises is significant.

Colbert (2004) and Fiss (2007) highlight the importance of achieving a horizontal fit between HR practises and Wright and Boswell (2001) point to a gap related to systemic / meso-level investigations in studies of pay and HRM which we attempt to fill as evident through the discussion below. The best practise approach propagates the adoption of an HR bundle which when combined is believed to positively influence organisational outcomes according to Pfeffer (1994), MacDuffie (1995) and Ichniowski et al. (1996). Further, varying sets of bundles are used in studies depending on their focus like high-involvement HR practises, work-family and flexible work bundles have been examined by Stravrou (2005), Perry-Smith et al. (2000) and Guerrero & Barraud-Didier (2004). To fill the preceding gap, we explored an a priori HR bundle in this research which primarily focused on changes in pay practises. This HR bundle concurs with the areas which management identified for changes, according to the HR Managers interviewed in all the case-study banks. In addition, our rationale behind identifying pay, recruitment and selection, performance management systems, training and career development and employee involvement and participation as a bundle of HR practises lies in the concomitant changes which took place in them indicating a relationship / link between the HR practises constituting the HR bundle.

The recruitment and selection practise (see section 6.1) for instance was made more stringent with higher entry level qualifications for managerial posts (minimum Master's) to ensure that those hired would be experts in their specialized areas and would enhance possess the abilities and competence to improve individual and organisational performance. The new recruitment practise appears to be aligned with the new broadband pay structures which were designed to enhance flexibility in order to attract employees in the upcoming workgroups targeted at induction of individuals with expertise in the newly introduced products / services by compensating them for their knowledge, skills and expertise. A similar attempt is visible in the re-designing of the performance management systems which now incorporate multiple performance dimensions including behaviour, competency and financial / operational targets (see section 6.2.) to assess employee performance more holistically. We find evidence of change in appraisal forms and rating schemes which are aligned with the objective of evaluating and rewarding employees based on their performance levels and their competence level assessed on multiple dimensions under the new performance based pay systems. Heightened management interest in training employees, especially MTOs to enhance their performance levels as well as to develop them for future positions appears to be aligned with the requirements of the new pay systems which placed rewards contingent on performance (details are discussed in section 6.3). Further, a weak attempt at aligning the employee involvement and participation practise with the new envisioned performance culture of the case-study banks was also visible. However, this was limited to narrowing the communication gap and did not facilitate performance improvement through involvement of employees in the objective setting processes and their presence in unit / department meetings where decisions were made. This practise was the weakest link in the HR bundle and an examination of its absence in the re-designing and implementation of the new pay structures and systems had clear implications on the employee psychological contract (see section 8.7.) thus establishing the link between the pay practises and the broader HR bundle.

Performance based pay systems were introduced in all the case-study banks which made pay increments and bonuses contingent on employee and organisational performance. The outcomes of integrating changes in the pay structures and systems with those in the other bundled HR practises and vice versa can be described as mixed to some extent. For example alignment between pay and performance appraisal systems was quite successful while in other cases like alignment between training and performance management systems lesser success was evidenced. The performance management systems[117] which are responsible for assessing employee performance appeared quite well integrated with the new pay systems because new appraisal forms were designed which incorporated multiple performance dimensions. Similarly new appraisal schemes were designed to identify the top performers from the other

[117] See section 6.2.

employees as accurately as possible and to reward them on a progressive scale[118]. The integration of performance management systems with the practise of training was relatively weak in most case-study banks because of inadequacies in the processes of conducting a training needs analysis (TNA) exercise and training evaluation. But, a more visible link was evident in bank B1 where a certain percentage was allocated to training while assigning appraisal ratings. A distinct strategy of the HR department in this bank was to enhance and to motivate employees to attend training sessions by providing a visible link with financial rewards so a culture of learning and development which is essential for performance oriented organisations could be built. Also, in one public and one privatized bank (A2 and AB1) where the purpose was only to use employee ratings for short-term reward purposes, the integration between PMS and training was weak. Similarly, limited integration was apparent with the practise of EIP, especially in banks AB1 and A2 where employee involvement in the goal setting process was negligible due to the adoption of adhoc procedures. Part of the problem in these banks was a slow cultural shift due to the prevailing legacy effects and the continuation of incumbents in senior positions in some departments. They had operated on a philosophy of minimum sharing of information and distance between seniors and juniors and found it difficult to involve team members in decision making. Hence it is clear that the HR practises within a bundle are related and lack of coherence between them carries implications for an organisation.

Drucker and White (2000) and Brown et al. (1997) categorize EIP as significant for achieving integration between practises in the HR bundle while the consultative process is deemed to be the most beneficial aspect of PRP by Lewis (1998). The lack of EIP in the context of Pakistani banks confirms these findings. This research found the integration of EIP with other HR practises to be problematic. Further, conclusive evidence of the role of EIP in the success of pay systems is presented in the literature but in our case study banks it was close to being non-existent for most employee categories. Some evidence of the presence of senior managers in the final presentation sessions of the new pay practises and resistance by the non-managerial employee union in public bank A2 did appear. Despite this status, it did not greatly affect the acceptance of the new pay practises as had earlier been found in research by

[118] Higher percentage increases for employees in higher rating brackets.

Cox (2000) and Kessler and Purcell (1996). This was because of a general preference for departure from the prevailing traditional HR systems at that time and the effects of working in organisations where there existed a culture of downward cascading of policies and practises as deemed appropriate by top management. However, lack of EIP did affect the effectiveness of the new pay system because a perception of injustice emerged amongst some employee workgroups (incumbents and individual hired) who reported dissatisfaction. This gives partial confirmation to earlier empirical findings suggesting a role for EIP in the success of new pay practises. Poor design and implementation of EIP was evident in the lack of information related to new schemes launched, reasons for delayed bonuses and formulae for calculating the performance increments across different banks. Also, the inefficacy of the dispute resolution mechanisms is a testament that employee voice was not attached much significance. In the case of training as well, the integration of EIP was weak, as mentioned above. Formal feedback from and to employees post-training was almost non-existent; employees (except senior managers in bank B1) had no discretion in choosing the training programmes to attend.

Crompton et al. (1996), Lawler (1990) and Drucker and White (2000) proposed that training is critical and central in situations where work norms are reconfigured. Confirming their findings, we found that in all the case-study banks investigated training was the first HR practise to be modified. It was also used as a tool for attracting and retaining employees and acquainting them with emerging concepts and technologies required for ensuring performance on which their pay advancements were contingent. To this extent, it was integrated with the new pay practises which rewarded performance and establishes the link between HR practises comprising a bundle but in contradiction with the stance adopted by Armstrong (1997) and Ibid (2000) that in such situations training must translate into financial returns, we found little observable evidence of financial implications (see section 6.3.1.). Only employees in bank B1 were assigned a 10 percent training weight in their appraisal rating which determined their increment and bank A2 gave a 10 percent allowance on basic pay to employees who opted to conduct trainings. The general perception amongst HR managers was that training translated into performance which was rewarded under the new pay system so there was as such no need to attach explicit monetary awards for attending training programmes. But in conflict with Drucker and White (2000) who state that organisations with changing work norms encourage employees to seek training we found that employees did not feel encouraged to opt for continuous training and development. This is because of the weak integration of training with the performance management systems, especially in banks A2 and AB1.

The last of the HR practises in our defined bundle recruitment and selection under which the objective of employee retention is also nested, was well integrated with the new pay practises across the case-study banks. Confirming findings in existing literature (Taber and Hendricks, 2003), evidence from our study revealed that the reasons which prompted employees to join the case banks as cited in their interviews included work environment, status and monetary rewards like performance based pay. In addition, opportunities for training were cited as a reason for joining by Officers and to some extent middle managers in one particular bank (A1) that received funding from external donors and private bank B2 with a reputation for its training programs. Related to the issue of retention, evidence from our investigation agrees with findings presented by Kim and Gelfan (2003) and Pfeffer (1998) that the potential for employees to move to the next highest bidder is a major challenge for HR Managers. We can add that the context of a growing and prospering sector may certainly be the cause in our context because an HR Manager in bank B2 stated that turnover decreased as salaries stabilized after the growth in the sector started to decline somewhat. This in turn reduced the challenge of matching pay with competitors in order to retain employees. Hence a clear link between the pay and recruitment and retention practises in the HR bundle is evident in the above example and points to the implications that changes in one HR practise can have on the other. Another example of this is evident in the newly adopted broadband pay structures which provided flexibility in pay determination that aided in recruiting and then retaining the new type of employees required (performance oriented), under the changed recruitment practise of multiple entry tracks. For example employees hired on renewable fixed term-contracts and MTOs were paid higher salaries within a grade relative to those hired individually in recognition of their potential, skills / abilities and knowledge which could enhance organisational performance. Further, since the success of performance based pay systems depends upon selecting potentially high performing employees identified through rigorous selection processes the recruitment criteria was revised upwards to consider only those applicants for managerial positions who had a Master's degree. The arguments above highlight both the significance and implications that changes in one HR practise within a bundle can have for the remaining HR practises. The strongest evidence of this is that the pay practise alone was not modified but in tandem the entire bundle of HR practises was either modified completely or partially to achieve effectiveness through greater integration.

8.5.1. The HR architecture and differentiated design and implementation of pay and other HR practises

This section builds on a key finding in this research which highlights that the attempt at separate HR configurations for multiple employee workgroups was not generally visible; differentiation between employee groups was achieved through implementation rather than differences in the initial design of the new HR practises. The differentiated implementation carries implications for the employee psychological contract as it influences their perceptions related to the notions of fairness and justice in the case-study banks. An analysis through the lens of the HR architecture provides evidence of the lack of coherence in the implementation of the re-designed HR bundle across the different and emerging employee workgroups with the intention to address the expectations of various employee workgroups and to adjust for management concerns to invest differently in each workgroups based on their strategic value to the organisation. This lack of coherence emerging in the new HR practises in context of a differentiated HR architecture is studied in an attempt to contribute in this area and to narrow this gap in literature which is reported in the research conducted by Aggarwal (2009) and Marchington and Grugulis (2000). According to Guthridge et al. (2008) the *differentiated HR architecture* is inherently susceptible to creating lack of coherence in the bundled HR practises, as they are designed and implemented on different employee workgroups. This happens due the varying levels of investment by the management in the various employee workgroups as stated by Chew (2004). In conformity, we also found that the HR practises bundled together for each employee workgroup varied according to the level of investment the employer wanted to make in each group but were coherent within the particular HR bundle.

The influence of the HR architecture in the design and implementation of the new pay structures and systems was quite visible in our findings as evidence points to the differentiated application of pay practises across certain employee workgroups. This resulted in greater financial rewards for MTOs, fixed-term contract employees and in some instances senior managers (in the banks that had historically rewarded seniority A2 and AB2) and revenue department employees (AB2 and B1). Notable here is the presence of bank AB2 in both the senior manager and revenue department employee category; this is because of the bank's focus on rewarding performance and its need to balance for the concerns of incumbents. Confirming previous findings by Kim (2003) which point to higher salaries for employees on contract, we found that employees on fixed-term renewable contracts were paid more but they were not promised any increments or promotions unlike the other employees.

We could not identify the use of separate pay elements for particular groups as clearly as prescribed by Lepak and Snell (1999) in their research and substantiated through the work of Yanadori and Marler (2006). However, varying levels of investment in different employee workgroups through the same pay elements was clearly visible. This included greater investment in core employees - (MTOs), senior and middle managers in key positions hired on fixed-term contract - relative to other employees[119] in the same grade, performing similar jobs. This substantiates findings by Chew (2004) who pointed to the inclusion of high level professionals in the contracting mode contrary to earlier definitions given by Lepak and Snell (1999) that imply low strategic value and uniqueness for employees in this mode. In addition, Officers were given a onetime cash award for passing the banking diploma examination.

Also differently treated were high performers (see chapters 5 and 6) who were given better increases (increments and bonuses) as compared to the other employees and some rewards like spot awards, employee recognition scheme (A1), deferred share ownership scheme (AB1) and benefits like housing / car loans (B1) were either specifically introduced for or benefited this category of employees. This confirms the stance of various authors like Kessler and Purcell (1992), Rubery (1997), Rubery et al. (1997) and Truss et al. (1997) related to PRP which they state is a mechanism whereby greater income is redistributed amongst high fliers and the already

[119] In the case of MTOs the corresponding workgroup was individually hired employees

advantaged (senior managers). The implications on the employee psychological contract of the differentiated implementation of the new pay practises across the emerging HR architecture are discussed in detail in the next section.

Further, our findings concur with the broader arguments in literature stated above as in the case of recruitment and selection we found greater financial investment and transparency in the hiring process for MTOs who were to be groomed as the future strategic leaders of the banks and senior managers for whom head-hunting firms were paid heavy fees (see table 6-2). Conversely, the case-study banks outsourced hiring for sales staff because finding their replacement was easy as their skills were low on uniqueness. In the case of the performance management practise the design and implementation was not differentiated across the employee workgroups except in two banks A2 and AB2 (see section 6.2.1.). The former bank used two separate bell curves to rate middle and senior managers to reward a larger number in the latter category with higher amounts of bonuses and increments. Bank AB2 also used separate bell curves and in addition had different appraisal forms for revenue and support department employees. Hence they not only invested more in senior managers but also those who were performing in the revenue generating departments based on their greater strategic contribution towards the bank's profits. The latter holds true in the case of bank B1 as well where the revenue department employees received higher bonuses (see section 5.4.).

Perhaps the most strikingly differentiated HR practises in the case-study banks explored were training and career management. In both cases greater investment was made in the core employee group (MTOs) confirming findings made by Entrekin & Court (2004) and Chew (2004) in their research. Also we found less emphasis on training contract workers and those hired individually. This also indicates coherence of the various bundled HR practises within the configuration for these workgroups as it aligns with similar investment levels in the pay and recruitment and selection practise. Section 6.3.2. provides evidence of this; MTOs were trained for 12-18 months in the different case-study banks in both technical (function specific) and management (soft-skills) areas while individual hired employees were trained for a few weeks only and that too after months of joining and in some instances only in function specific areas. No special training programmes were arranged for the skill enhancement of incumbents (traditional / internal partners) or even if they were, such information was not shared by HR Managers during the interviews. Also, incumbent employees interviewed in both the public and privatized banks mentioned that management intentionally provided them fewer opportunities because they wanted to invest in the younger employee cohort. Armstrong-Stassen (2008) suggested that organisations needed to engage mature workers (incumbents) through different HR practises but we did not find much evidence of this in our research. The weak EIP policies which were incapable of communicating the reasons for changes and even how the incumbent employees could bring themselves at par with the younger cohort rather than feeling alienated were one reason for this. Also, lack of interest of the incumbents, especially those nearing the retirement age contributed towards this. However, HR Managers interviewed across the banks did not concede that the apparent under-investment in this group was deliberate. Despite this, we contend that the public and privatized banks that had a larger number of incumbents were by intent under-investing in the incumbents in an attempt to phase them out. A supporting evidence in this regard is the introduction of voluntary employee separation schemes which aimed at reducing the overstaffing in these banks and providing incumbents an incentive for early retirement / separation.

Similar to the above, evidence in the case of career management also pointed towards less focus on incumbents and individually hired employees; in fact HR Managers stated that management had higher priority for modifying core HR practises like recruitment, compensation, training and performance management in the initial years. So, apart from MTOs and key middle managers they had yet to implement the policy organisation wide. MTOs had a defined career ladder with two quick promotions in the first few years, contingent on performance in all case-study banks and in bank B2 they were provided opportunities for job-enlargement and enrichment. Hence changes made in all the practises comprising the HR bundle in our data indicate that there exists a link between the pay practises and a broader HR bundle. Although in most instances the changes appeared as an attempt at aligning the different HR practises we found evidence of a lack of coherence in the implementation of the practises across the newly emerging HR architecture indicating managements resolve to invest more in the groups which were deemed of strategic importance for the organisation. This led to significant implications for the employee psychological contract.

8.6. Theorizing implications of the employee psychological contract in studies of pay and HR bundles

Aiming to narrow the gap of under-reliance on employee voice in HRM studies identified by Aggarwal (2009) and Marchington and Grugulis (2000) our research incorporated employee perspectives on changes in the HR bundle which were applied differently across various groups. Employee perceptions are important to study because changes in the HR bundle or a particular practise are made to achieve certain objectives like recruitment, retention and motivation for which it is critical to understand how the employees perceive the change. A study of the perceptions can aid management to hypothecate whether the changes made were acceptable and to what extent and consequently whether the objectives they set out to meet will be achieved and if so, to what extent. The fundamental reason for incorporating the views of employees in this study was to analyse the implications of implementing differentiated HR bundles for various employee workgroups in organisations that had previously adopted uniform HR practises across all employee categories. The discussion in this section will revolve around the issues of complexity in the meaning and constitution of the psychological contract and the approaches to analysing (level of employer investment, implications of ownership structures) the psychological contract.

Changes in the expectations of employees across hierarchies and workgroups as presented in table 7-1, substantiate the argument in literature by Herriot and Pemberton (1997), Sparrow (1997) and Rajan (1997) which points to a transition in the psychological contract. The complexity of the psychological contract is evident in the conflicting debates on whether the contract lies solely in the employees' mind or it is a mutually shared view of the expectations and obligations of both parties to the contract. However, adopting a contrasting perspective from the views of Rousseau (2005) and Guzzo et al., (1994) who contend that the psychological contract lies in the mind of the employees only, we found the psychological contract to be an agreement between the employer and the employee but each can/may interpret it in their own manner. This is because when employees enter an organisation their roles, responsibilities and obligations are defined by the employer so any expectations they build will only be in the context thus established. Related to the constitution of the psychological contract we compiled a list specific to the banking sector in Pakistan which was in a state of transition, attempting to adopt a performance oriented culture in an environment of growth and reform. However, a closer look reveals that the list of elements compiled appears to be generic in nature which draws us back to conclusions in extant research that continue to debate on what elements can and should constitute the employee psychological contract. Resultantly the likelihood of identifying the elements in a specific context such as ours becomes even more problematic and conflicting. The elements constituting the employee psychological contract in our study repetitively emerged from the interview data and included employee expectations related to involvement in changes in HR practises, the amount of investment employers were willing to make in their training and development and the extent and manner in which information was shared with them.

Related to employer expectations, we can partially confirm the stance adopted by Sharpe (2002) as confirming their findings, our analysis revealed that in the banks studied in Pakistan there existed an expectation from the employees to perform in multiple roles and to acquire new skills. However, the efforts by management to empower employees in such situations as contended by Sharpe (2002) were only slightly visible as by and large the employees interviewed stated that they had little discretion in decision making. However, there were some exceptions to this like the employees in four banks (A1, AB1, B2 and AB2) stated that their hiring was a result of the discretion their bosses used in selecting their team. Their bosses were in senior positions, were hired on fixed-term renewable contracts and influenced management to agree with their decisions as highlighted in an earlier section. Hence such examples are not a reflection of the widely practised norms in the organisation and only illustrate the influencing power of a particular employee workgroup.

While multiple typologies which provide the approach to studying the psychological contract exist in literature, we identified two which corresponded with our research sample. The first is based on the level of employer investment (Tsui et al., 1995; 1997; Heneman et al., 2000) where the level of investment has been found to differ between multiple workgroups identified in the HR architecture. Integrating the HR architecture with the psychological contract complicates the argument but this is essential for our research because one driver for the changes was the normative pressure the new employee workgroups were putting on the management to modify the outmoded practises. This approach highlights the negative outcomes of the lack of coherence in the application and design of the HR bundle across the multiple workgroups and identifies the resultant implications for the employee psychological contract. The second typology relates to identification of different types of psychological contracts based on the ownership structures of the organisations according to Janssens et al. (2003), Guest and Conway (2000) and Willems et al. (2004).

In this research ownership structures are significant because the culture, management style and level of communication in the larger public and privatized banks varied from that in the private banks. Also the hybrid mechanisms employed in these banks created confusion for employees as on the one end they highlighted the importance of performance for rewards and growth and on the other end rewarded employees through components like fixed bonuses and adjustments for example, to create a perception amongst the incumbent employees that the bank intended to protect their experience and seniority during the transition phase at least. These factors had a bearing on how different employee workgroups interpret the changes which subsequently shaped their psychological contract.

Studying evidence from the interviews of employees as well as HR Managers related to the differing levels of employer investment in various employee workgroups which is the first approach used in studies of the psychological contract, we can confirm the findings of Heneman et al. (2000) who highlighted that employees on a mutual contract were rewarded through skill-based pay, stocks and long-term benefits. We found that the incumbent group corresponded with the definition given by ibid. (2000) of a 'mutual contract' especially under the previous pay systems which were seniority based and rewarded employees through long-term benefits like pension. These employees of the public and privatized banks (A1, A2, AB1 and AB2) were expected to have unspecified contribution towards the banks and in return they were compensated through defined pension, medical and educational benefits. However, there was no evidence of rewarding through stocks or for skill acquisition.

Concurring with research by Sharpe (2002) and Bellou (2009) which indicates the eagerness of mature workers to be involved in organisational decisions and matters, we found evidence of incumbent employees having a stronger desire for involvement in the organisation and greater expectations from the employers related to development opportunities, job security and commitment. After changes in the HR bundle, the incumbent employees were shifted to the under-investment psychological contract which is evident from the lesser investment of the employer in their training, career management and pay relative to the newly hired MTO and renewable fixed-term senior manager employee workgroup. The implications of this transition were highlighted in the dissatisfaction of incumbents with the different implementation of the new HR bundle which a larger number of them expressed during the interviews. However, they stated that they would continue till retirement because they were loyal to the bank and also because of the lack of options to move elsewhere at this late stage in their career. This confirms similar findings by Pettigrew et al. (1997). Another factor contributing to this employee response was that the mimetic pressures had contributed to similar differentiation in the implementation of the HR bundle across the organisations in this sector so regardless of the employer, the under-investment feeling would prevail everywhere. Hence we conclude that employee responses are determined by changes in environmental factors in addition to their perceptions which are shaped by organisational actions and that the changes in employee psychological contract need to be examined in this context as well.

Further, the sales staff who were hired on contract and individual hired employees also identify with the under-investment psychological contract type in this research which is defined as a contract in which the employee obligations are broad but the employer obligations are limited and hence is their level of investment in the employee. This is because little in terms of investment in their training or career progression was reported and employees interviewed in this category across the case-study banks also complained of management's neglect in this regard.

MTOs and senior managers (mostly) hired on renewable fixed-term contracts align with the over-investment psychological contract category. The former because of greater management investment in training them, developing their careers and providing them higher compensation relative to individual hired and incumbents within the grade and the latter due to considerably higher pay than others hired through different entry tracks. Concurring with findings of Sharpe (2002) and Carlson & Rotando (2001) we found that generally MTOs (high fliers) demonstrated lesser discontentment with their employer in all case-study banks because they had greater opportunities for quick career advancement and development. Further, we were able to discern a link to some extent between employee expectations, the level of employer investment and the design of the HR bundle since we found that the case-study banks changed certain HR practises only to meet the expectations voiced by the strategic / valuable workgroups for the employer, in which they then invested more. For example, MTOs who were qualified from more reputed professional institutions and were better aware of their potential demanded higher compensation and positions where they could demonstrate their potential. They also expected greater involvement in decision making and frequent contact with senior management. The HR bundles discussed in chapter 6 highlight greater investments by management in each of the HR practises for this particular workgroup. This is aligned with the findings of Netz and Raviv (2004) who suggest that such employees are confident of what they want and what they have to offer. We can add that barring career development options, similar positive perceptions emerged for the interviews of senior managers who were hired on fixed-term contracts in Pakistani banks because of the special treatment accorded to them.

Related to the second typology, we partially agree with conclusions drawn by Willems et al. (2004) and Guest & Conway (2000) that it is difficult to ascertain distinct contracts in the public sector. Our evidence indicated that keeping aside incumbent employees who were in sizeable numbers in the public and privatized banks, there was little significant distinction in the psychological contracts of other employee workgroups across the case-study banks. Further, findings by Coyle-Shapiro and Kessler (2003) which imply that the implicit elements of the contract differ in extent and execution across the public and private sector deserve some further explanation because they relate to non-management employees and the unique context of one UK public organisation which provides public services. Also, they pertain to a period of political uncertainty and economic crisis which resulted in radical changes in employment relations. Hence, we propose that it is important to study the implications of ownership structures on the employee psychological contract in context of the changing sector dynamics and policies because our research on managerial employees did not find such distinctions on a wide scale which can be attributed to the sector level pressures that resulted in similar changes in multiple HR practises based on the principle of performance.

Also, the six public and private sector psychological contracts identified in Janssens et al. (2003) appear to be very simplistic because of an oversight of further distinctions in the public sector (PSEs dispensing commercial services like banking) and very narrow definitions of contracts in the private sector – related to commercial, industrial activity – ignoring classifications according to the HR architecture. Hence, we differ from their findings in that different types of employee groups appeared to build unattached and instrumental versus loyal or strong psychological contracts rather than sector related elements affecting the state of the psychological contract. Evidence from our research shows that generally employees hired on the fixed-term contracts and MTOs built unattached / instrumental psychological contracts whereas incumbents and even sales staff built loyal contracts. The latter employee workgroups built loyal contracts due to few external job opportunities which made job security important for them and thus compelled them to demonstrate their loyalty towards management. This again points to the relatively greater influence of the incoherent implementation of the HR bundles (between the workgroups under discussion) as opposed to the influence of ownership factors on the development of the psychological contracts of the different workgroups. Further, we agree with findings by Guest and Conway (2000) that some employee groups exhibit lack of trust in management in the public sector due to inadequate performance criteria / measures and standard promises for all employee groups. Employee interviews in the privatized and public banks (see chapter 7) reflect this perspective.

8.6.1. The differentiated implementation of the new HR bundle and its implications for the employee psychological contract

In this section we discuss the implications for the employee psychological contract of the changes in the HR bundle implemented differently on various employee workgroups. Our discussion is restricted to addressing what the employees attributed the breach in psychological contract to and the varying reactions of the different employee workgroups as a consequence. Evidence indicated that the perceived breach in the psychological contract due to unmet employee expectations, the felt significance of breach in contract and the reason (s) / (attribution) for breach as interpreted reference to other employees intervened between changes in the HR practises and how employees perceived the outcome. This is similar to the arguments made by Morrison and Robinson (1997), Turnley and Feldman (1999b) and Turnley et al. (2003) who contend that employees will respond when they perceive a breach in contract but the response may differ depending on what it is attributed to. The discussion hereon highlights that in the case-study banks investigated most changes in the psychological contract of different employee workgroups were a consequence of the differentiated implementation of the HR practises.

The strongest reaction to the changes in the psychological contract came from the incumbent employees who felt that differences in implementation of HR practises was intentional (reneging) with the aim of marginalizing their importance and involvement in the banks. Specifically, they raised these concerns in the case of pay, career development and performance management; the latter, they felt was designed for performers who received higher increments and bonuses and thus better positions in the bank. Due to this practise they stated they were superseded by many junior / young employees. The difference in reasons stated by employees interviewed between the case-study banks was that of trust; apart from the two private banks, incumbents in the other four banks did not trust management's intention while in these two banks it was more a matter of changed circumstances in the views of incumbent employees interviewed. The lack of trust in management emanated from a history of broken promises during the nationalization period, uncertainty during the early days of the privatization era and a feeling of alienation due to hiring of outsiders on senior positions. Another example of an intentional breach was evident in the case of recruitment and retention when some employees were hired on spot rates in banks A2, B1, and AB2. This was viewed by other employees in the three banks as an intentional breach of management's stated policy of promoting merit and transparency in hiring matters. Further, individual hired employees across the case-study banks felt that management was intentionally reneging because it willingly invested less in training, developing and compensating them while they were given no such idea at the time of hiring (realistic job purview) (see table 7-3). The latter can also be constituted as breach due to incongruence or unintentional breach. Additionally, lapses in the completion of promises (delay in disbursement of increments and bonuses) in banks B2 and AB1 and complexities due to adoption of hybrid mechanisms which created ambiguities and complications for employees in understanding differences in the level of management investment in them which constitute as breach due to incongruence. Since most hybrid mechanisms were adopted in the public and privatized banks, greater application of this concept appeared there.

However, conflicting findings of Morrison and Robinson (1997), Turnley and Feldman (1999b) and Turnley et al. (2003) who state that employees resort to behaviours like withdrawal from job or extreme jealousies resulting in leg pulling when they believe an intentional breach has occurred we found that regardless of the reason for the breach (intentional / unintentional) employees in our case-study banks did not exhibit such negative behaviours. These employee workgroups (incumbents and individual hired) however, shared their resentment at what they perceived as unequal treatment due to lack of coherence in the application of the new HR practises. The negative feelings were stronger in the public and privatized banks where employees lacked trust in management and their intentions as in the case of bank AB1 where delay resulted in perceptions of mis-trust as opposed to bank B2 where it resulted in decreased motivation.

Further, as Rousseau (1995) suggests, revisions in contract which occur with clarification have the potential to increase employee association with the organisation. In the context of the restructuring and reforms in the Pakistani banks we found a weak link of EIP with the broader HR bundle investigated which caused certain workgroups (those who perceived under-investment) to assess the changes unfavourably and they stated that continuing with the organisation was not a matter of choice but compulsion. For the incumbent group this was because they were not in a position to forego their pension and they were in at a stage in their career when job mobility was not an option. For the individual hired and sales contract employees this was because they knew they were performing jobs for which replacement employees were in abundance in the external job market. This evidence leads us to suggest that attribution may not be the only key factor in determining employee perceptions and should be studied in conjunction with other factors like macro-level transformational changes, workforce characteristics, competition and the labour market position.

The concept of boundaries of tolerance given by Rene and Roe (2007) also appeared to be an underlying cause of the negative employee feelings in the public and privatized banks. Since employees in these banks had low trust in management they had narrow boundaries of acceptability and perceived the breach in the psychological contract to have occurred due to reneging while in the private case-study banks it was mostly attributed to unintentional reasons like incongruence or situational delays resulting in lesser discontent and feelings of negativity. To this end, our evidence contrasts with the views of Schalk and Freese (1997) who propose that zones of acceptability and tolerance are influenced by the individual's value system rather than the employer's obligations. In our analysis it is safe to conclude with some degree of certainty that the zones are influenced by both parties to the psychological contract as evidence indicates that zone limits of employees stretch and narrow in part due to the attitude and dealings of the employers.

8.6.2. Implications of notions of justice for shaping the employee psychological contract

In this section we discuss the implications of the changes in the HR bundle on the psychological contract of employees based on their interpretation reference to the constructs of fairness, trust and delivery of the deal. This is relevant to our research especially because of the differentiated implementation of the HR bundle across various employee workgroups which resulted in comparisons between them giving rise to perceptions of unfair and unjust treatment by some workgroups. Previous research by Guest and Conway (2000) and Willems et al., (2003a) also highlights the role of fairness, trust and delivery in the changes in the HR practises which ultimately affect the psychological contract of employees.

Evidence provided in chapter 7 highlights that employee perceptions of fairness in terms of distributive, procedural and interactional justice influence their opinions related to the outcomes of the new HR bundle and thus influence the shaping of the psychological contract. This concurs with the findings of previous research by Heneman and Judge (2000), Sharpe (2002) and Colquitt et al. (2001). As early as 1980, Leventhal et al., identified consistency, bias suppression and accuracy as three of the six rules known to establish fairness in procedures. Empirical data from our research shows that this holds true even today as the lack of consistency emerging from the differentiated implementation of the new HR bundled practises, frequent changes in promotion policies, perceived favourable biasness towards MTOs and fixed-term contract employees and inaccuracies in the appraisal ratings and training allocations influenced employee perceptions of fairness. Due to these reasons there was a feeling of breach of psychological contract amongst various employee workgroups (see previous section) across the case-study banks which resulted in the reconstitution of the previous psychological contract. Hence, we agree with Morrison and Robinson (1997) that once a perceived breach occurs, employees compare how fairly management has dealt with them compared to others to determine how strong their reaction should be. The implications of lack of coherence in the implementation of the HR bundle across employee workgroups is exemplified as follows. Incumbent employees and individual hired in comparison with relevant others felt management did not deal fairly with them (under-invested in them) and hence both groups shared strong negative perceptions in the interviews. This reaction was almost similar across the case-study banks where ever these groups existed but can be stated as stronger in the public and privatized banks with a significantly larger proportion of incumbent employees. Further, in bank A1 the parallel pay structure gave incumbent employees an understanding that their pay would be competitive with that of new hired in the new pay structure but the raise in pay level did not meet their expectations when they compared it with the latter (section 7.5.1.). They felt management had not been fair with them in communicating the changes which can be attributed to the failure of interactional justice. This caused them to express feelings of mis-trust in management and complacent behaviour on the job but they had no intention to the leave the bank because they would have to forego their pension which was not possible for them at that stage.

This is despite the option given to incumbent employees to choose of their own free will to continue on the old pay structure or shift to the new one. Hence, in this specific instance we can only partially confirm assertions by Colquitt et al., (2001) and Sharpe (2002) both of whom propose that interactional justice infuses feelings of fairness which influence employees to accept and adjust with complex changes by reducing insecurity and uncertainty. Our findings indicate that involvement and communication can only alleviate perceptions of unfair treatment in situations where employees are secure of their future, do not mistrust the intentions of employers[120] and do not feel that the employer under-invests in them in multiple HR areas like career development and participation for instance. However, in general, we agree that interacting with employees can lessen feelings of unfair treatment because in most instances[121] employees interviewed complained of non-engagement by the employer in pay decisions to be the reason for their uncertainty which in some cases led to de-motivation and in others mistrust. This suggests a larger role for interactional justice in performance based pay systems as previously highlighted in research by Till and Karren (2010).

In broad conformity with existing research in the area of distributional and procedural justice, we found that where it was contravened or perceived to have failed, employee perceptions of fairness and their psychological contract were negatively influenced. Evidence indicated that distributive justice had an integral part in establishing fairness of the decisions which was earlier concluded by Greenberg (2003) and it affected pay as well as job satisfaction. This substantiates similar findings made by Tremblay et al. (2000) and Folger and Konovsky (1989) in their research. For example, in the banks where fixed bonuses continued in addition to performance based bonuses, incumbent employees felt that it was fair of management to distribute part of the profits with all of them since each one had contributed in the organisational profits to some extent. Where only performance bonuses were distributed employees who could not qualify for them felt that it was unfair of management not to share any profits with them as they had fulfilled their end of the deal by completing their responsibilities.

Conversely MTOs and most employees hired on fixed-term contracts in senior management positions felt that it was unfair to distribute performance based increases to those who had negligible contributions in the performance of the bank. This highlights that the differentiated implementation of the HR bundle results in varying definitions and perceptions of fairness amongst different employee workgroups. Further, Ratner (2009) pointed out that employees would accept that pay was tied to performance if they received expected appraisal ratings. However, contrary to this,

[120] As in the public and privatized banks which had a larger incumbent workforce
[121] Formulae for calculating increments and bonuses, communication of new schemes and criteria for spot awards.

our evidence indicated that employees were only willing to accept this link when it translated into an acceptable level of reward. In the particular context of our research employee expectations were to receive increments above the inflation rate which was hovering in double digits (around 15 %) in Pakistan at the time of the interviews. This was a major factor leading to dissatisfaction with pay as discussed in section 7.3.1. in detail.

Varied psychological contracts emerged across different employee workgroups such as individual hired and MTOs due to perceived disproportionate distribution of resources for compensation, training and career development of the latter. Similarly, in banks B1 and AB2 where revenue department employees received larger performance bonuses in recognition of their greater and direct contribution in generating profits, the support staff perceived distributive justice to have failed (section 7.5.3.). Here we conclude that in organisations where pay systems change from seniority based to performance based feelings of unjust or unfair treatment may also arise in employees distinguished informally, according to the nature of their work.

Procedural justice appeared as the underlying cause for negative employee perceptions related to pay and other HR practises in the broader HR bundle in the case-study banks investigated. Evidence indicates that in banks A1, A2 and AB2 the lack of procedure and clear criteria in the award of spot awards negatively influenced the psychological contract of employees who did not benefit from these awards as they were uncertain of the nature and level of performance which rendered them eligible to earn that extra amount. Similarly, there was no clear procedure for hiring employees on spot rates (mostly at senior levels) in banks A2, B1 and AB2 which led employees, especially middle managers to feel that a breach of psychological contract had occurred. This is because most hired on this idiosyncratic contract were in senior management positions which led middle managers to perceive it to be a cause of delay in their promotion. This constitutes as an implication of the emerging HR architecture in these banks and the new hiring practise of inducting senior managers on higher pay level.

In the case of performance management systems, side stepping from the goal-setting procedure by supervisors in banks A2 and AB1 led to perceptions of unfair treatment mostly at the Officer level as they were not responsible for initiating or directing this process. In the case of training, inadequacies in the procedures for allocating and evaluating trainings led middle managers and Officers across the banks to perceive a relatively weak link between the HR practises of training, pay and career progress. These examples from our data set provide credence to research findings by Colquitt et al., (2001), Folger and Konovsky (1989) and Colquitt and Greenberg (2003) who highlight that contravention of procedures during planning and implementation affect the employee's feelings and their perceptions. Our findings in the six Pakistani banks investigated also exemplify and hence concur with these findings because the contravention of principles underlying the previous HR bundle (like seniority, loyalty and job security) was visible. Further, a shift from the norm of uniform HR practises to differentiated HR practises based on a newly emerging HR architecture also influenced employee perceptions of fairness and carried negative implications for their psychological contract.

We conclude that when changes occur on a broad scale which encompass HR practises as a bundle and in which the principles underlying the HR bundle are altered, to some extent coherence in the implementation of the new HR bundle across the employee workgroups may be needed in order to establish fairness. This is because evidence from our findings indicates that lack of coherence in the design and / or implementation of the new HR bundle acted as a source of breach in the psychological contract of incumbent and individually hired employees leading to their de-motivation and mis-trust with management in some case-banks.

8.7. Limitations of the study and implications for future research

This study followed a qualitative, in-depth case study design to investigate the changes in pay and other HR practises in context of the limited research focusing jointly on the HR bundle and the HR architecture. It incorporated views from a sample of 74 employees and 20 HR managers to address the under-reliance of the former's perspective in previous research. Since our aim was to develop a better understanding of the employee perspective rather than a generalizable explanation we conducted this study in one sector only. Further, the paucity of published research on HRM in the Pakistani context and organisations, especially related to the focus of this study limited our attention to the domestic owned organisations only despite the significance associated with studies of cross-comparative nature in HRM.

Our study suggests that macro-level drivers resulted in isomorphic pressures on the case study banks and they adopted HR practises underpinning in similar principles with little significance of organisational level factors like size, strategy, structure, organisational life-cycle in the decision for changes. However these factors were found to affect the extent to which changes were made, their level of acceptance and the resistance presented. The multi-case research design limited our capacity to study the organisational factors related to each bank in greater depth and hence future research based on a single case design is expected to provide a better understanding of their implications on organisational decisions. Further, the findings of this study pertain to the changes in HRM policies and practises in the banking sector of Pakistan which was experiencing growth and undergoing reforms at the time. Therefore, a study of this nature needs to be replicated in other sectors and settings to substantiate these findings and to enhance their generalizability.

More specifically, these studies can attempt to define: (i) the parameters of what constitutes major restructuring and reform; (ii) the relative significance and relevance of different drivers leading to changes; (iii) the particular reason for dis-association of organisational level factors from decisions of modification in HR practises and; (iv) other factors in addition to drivers for change which can cause this dis-association. Also, the under emphasis on the international perspective in this research of the banking sector in Pakistan needs to be addressed in future research by incorporating foreign banks in the sample. This can present a more holistic and thicker understanding of how the mimetic pressure may have caused the domestic banks to modify their HR practises and to what end these changes can be attributed to the influence of foreign banks which have a small presence and workforce strength and control a small market share in Pakistan.

At the meso level, the multi-case design and the qualitative nature of this research limited its scope and generalizability. Firstly, our empirical results emphasized the weak implementation of EIP and its lack of coherence with other HR practises across the case study banks. However, the attempt to study several HR practises as a bundle across six organisations restricted the exploration of multiple techniques of a single

HR practise and its role in influencing the effectiveness of changes in the pay practises identified as a gap in literature (Cox 2000; Kessler and Purcell 1996). Therefore, further research on this in relatively fewer case organisations within Pakistan can provide richer and detailed data and can extend the literature on EIP in general and particularly in the context of Pakistan. This research can address the following questions: To what extent has EIP gained significance as a key HR practise in Pakistani organisations? How central is its role in determining the effectiveness and acceptance of changes in HRM practises? Does the influence of EIP on integration between HR practises vary between organisations undergoing reforms relative to those that are stable?

Secondly, this research which was principally qualitative in nature revealed that inconsistency in the implementation of HR practises carried implications for notions of justice but it could not precisely define the relationship between each HR practise and employee perceptions. Also the significance of the correlation between each of the multiple HR practises examined, notions of justice and their influences on employee perceptions could not be revealed. However, future research which adopts a mixed approach to research design and incorporates elements of the quantitative approach can identify the design options of a bundle of HR practises which can be tweaked to achieve the goals of organisations to be responsive to multiple workgroups and to simultaneously avoid imbalances in the existing employee psychological contracts. Such investigation can seek to answer questions ranging from: (i) Can design options in the HR practises control for fairness concerns of multiple groups comprising the organisations HR architecture? (ii) Which design options for HR practises especially pay respond more aptly to different employee workgroups that have emerged as a consequence of changes in employment relationships and organisational forms? (iii) Which options for implementation of HR practises can be exercised that can replace the need for different design options for multiple groups?

At the micro-level, we attempted to incorporate views of multiple employee groups but the limitation of in-depth qualitative interviews restricted the number of employees who could be interviewed within each group. The sample within each case study bank was representative of employee workgroups across hierarchies and entry tracks but in the latter case we could not assert the number of employees to be interviewed from each entry track because of time and other constraints on the part of the case study banks. In addition, our findings indicate that most issues of fairness and perceptions of over or under investment emerged within the latter category of workgroups. Therefore, it is justifiable to suggest that due to the far reaching implications for these groups further research based on a survey questionnaire which can target a larger percentage of employees across a sample stratified on this basis may be conducted to substantiate our findings. Also, a longitudinal research design needs to be employed to study the extent of changes in employee expectations and perceptions over time to develop a more realistic view of the influence of the changes in pay and other HR practises on their views reported in this study.

8.8. Conclusion

This research was conducted to study the changes which occurred in the pay structures and systems in the banking sector of Pakistan. The main objectives were to explore: (i) the drivers which led to these changes and the objectives management sought to achieve from the new pay structures and systems; (ii) the other HR practises bundled together which were modified in tandem and how and whether they align with the changes in pay structures and systems; (iii) how and whether these changes in the HR bundle which varied across employee workgroups had implication for the employee psychological contract. This multi-level study which captured sector, organisation and individual level data offered a rich analysis with some interesting findings. Firstly, similarity in the macro level drivers which include growth in the economy and the banking sector, privatization and deregulation in the banking sector and induction of better qualified and more professional employees in the workforce placed mimetic and normative isomorphic pressure on the case-study banks which resulted in similar changes in the pay structures and systems and the other HR practises bundled together. The new HR bundle was designed on the underlying principle of rewarding and encouraging performance. The sector wide reforms resulted in restructuring of the HR practises to achieve mostly similar objectives which included a focus on: (i) reflecting the changing HR architecture and enabling transition to a performance culture; (ii) recruiting and retaining performance oriented employees in the face of competition and growth in the banking sector of Pakistan and; (iii) improving administration and flexibility in pay determination. Secondly, with changes in the pay structures and systems other HR practises which comprised a bundle were also concomitantly modified and they were applied differently across a newly emerging HR architecture across the public-private spectrum. The systemic level analysis revealed that each of the new HR practises mostly complemented others in the HR bundle or appeared to be attempting such an alignment barring the practise of EIP which had only recently gained some significance at the time of interviews. Thirdly, the psychological contracts of employees appeared to differ more according to their strategic value highlighted through an analysis of the HR architecture rather than the sector they were employed in except in the case of incumbents who were in significant strength in the public and privatized banks and presented legacy issues. This confirms that a differentiated design and implementation of HR practises in a bundle across various employee workgroups which form the organisational HR architectures carries implications for the psychological contract of employees.

The detailed conclusions were that changes in pay structures and systems which relate to the broader HR bundle were largely a result of the privatization and deregulation of the banking sector in Pakistan which overtook other drivers leading to change because of their influence in determining the scope and momentum of change. While mimetic and normative isomorphic pressures resulted in similar HR practises across the case-study banks disregarding their ownership status, the resistance to changes was relatively greater in the public and privatized banks due to the legacy effect. Also, where they exist, such pressures likely reduce the influence of design features of pay practises like the payout formula and type and frequency of payout, in decisions related to the selection of pay structures and systems. To meet the consequent challenges deregulation presented, in addition to the economic, social and political pressures which had resulted in changes in the employment relationship and the emergence of a new HR architecture, the case-study banks restructured the other HR practises bundled together in tandem. In the case of economic drivers (growth in the sector) the response of public and privatized banks which were larger in size varied as they preferred rightsizing the workforce and penetrating into new product segments while the private banks chose to expand their branch network and workforce and also expanded their product market. However, changes caused by social and political drivers were responded to in a similar manner by all the case-study banks. The incongruence between the organisational level principle (performance) and the cultural / societal principles (status, income level and age) for categorizing individuals created conflicts between different employee workgroups within the case-study banks because of the differentiated design and implementation of the HR practises across the emerging HR architecture. Further, flexibility in pay determination, the desire to infuse a performance based culture and recruitment and retention of select employee workgroups (in the new HR architecture) emerged as the key objectives for changes in the pay structures and systems and the broader HR bundles as well. And while motivation was not a stated objective it was found to have influenced employee decisions to join and stay in the case-study banks and to have affected their perceptions of satisfaction / dissatisfaction with the changes. Hence its implicit and subtle presence in the HR domain cannot be ruled out. We conclude that if changes in the HR practises differentiated across the employee workgroups reflecting the new HR architecture of the organisations are not supported by changes in the employment structure (grade / person based), hybrid mechanisms and implementation options are adopted which create issues of fairness and justice. This ultimately has implications for the employee psychological contract and highlights the need for a more dynamic and evolving framework for understanding organisations in transition than that provided by Lepak and Snell.

The overall objective of the reforms was to redesign the HR practises as a bundle to instil a performance culture and the differentiated HR practises were intended to reflect the existence and expectations of the new employee workgroups emerging from the HR architecture. In this case as well, the isomorphic pressures side-lined contextual factors like size, structure, strategy, ownership and stage in the life-cycle in decisions related to the design of the different practises but they affected the extent of changes implemented and their level of acceptance across the entire workforce. The private banks were the first to initiate changes in most cases as they adopted less hybrid mechanisms for design and implementation of the new HR practises and the acceptance across employee groups was wider relative to the public and privatized banks. Since the overarching objective behind the new HR practises was common (performance), they mostly complemented each other but the lack of coherence was apparent in the absence of employee participation and involvement in the re-designing and implementation of the HR bundle. Also, the differentiated implementation of the HR practises across certain workgroups like MTOs and senior managers (core employees), fixed-term contract employees in middle and senior management (contract employees) and sales support and incumbent groups (internal employees) resulted in the creation of negative perceptions and psychological contracts for the other employees who felt the organisation had invested less in them. Greater investment was apparent in the training, compensation and career development of the core employees which indicates that pay is related to the broader HR bundle and this investment kept declining across the continuum and was lowest for the internal employees. This was aligned with management's objective of encouraging and rewarding performers, especially in the core workgroups who were considered as potential future leaders. However, the differentiated implementation of the HR bundle across workgroups created negative perceptions and negatively influenced the psychological contracts amongst those groups who felt management was deliberately under-investing in them, especially the incumbents who were used to equal / uniform treatment under the previous seniority based HR practises. In the private banks this resulted in opinions of breach in the psychological contact due to changes in circumstances while in the public and privatized banks the breach of psychological contract resulted due to mistrust in management and caused stronger negative perceptions.

Lastly, we conclude that due to mimetic and normative isomorphic pressures, the implicit elements of the psychological contract did not vary markedly across the case study banks based on their ownership structure which is simplistically investigated in extant research; rather they varied according to the strategic value of each workgroup which points to the implications of a differentiated HR architecture for the organisations and the psychological contract for the employees. Also, even where employees perceived an intentional breach (incumbents) in the psychological contract they did not respond in a dysfunctional manner due to external and other environmental factors[122] at the time, but they did exhibit strong negative perceptions which culminated in some resistance at times. In addition to procedural and distributive justice, interactional justice also played a key role in determining

[122] Labour market conditions, job mobility and personal circumstances like retirement age.

employee perceptions in our research because the lack of EIP surfaced in employee interviews as a cause of uncertainty leading to de-motivation and in the public and privatized banks mistrust. Further, interactional justice was found to enhance the fairness of decisions when employees did not mistrust management, felt their future was secure and did not feel the under-investment in them to be deliberate.

Therefore, the contributions of this research carry implications for both academics and researchers. From an academic perspective this thesis contributes to debates in the areas of compensation, alignment of HR practises, the role of HR architecture in contemporary HRM and employment practises and the influence of notions of justice on employee perceptions. Additionally, it contributes to the under-researched context of South Asia and Pakistan which is an emerging economy, a country with a population of 1.8 billion people, a large youth populace and an access to foreign direct investment (Khilji, 2012) that makes it potentially noteworthy in the global business context and hence significant for research. From a practitioner's perspective it provides valuable insights to HR Managers and Senior Management in Pakistan on the role of pay in the HR bundle, the significance of achieving consistency in design and implementation of HR practises, the realization of existence of different employee workgroups and the importance of considering their views in decisions affecting them. Also increase in the significance of HRM in Pakistani organisations is a recent development so this study can contribute in many ways to develop a better understanding of the factors at multiple levels which affect the relationship between management and employees and groups within employees in an organisation.

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Appendix - A

CHARACTERISTICS	OLD	NEW
Changed Environment	Stable, short-term focus	Continuous change
Culture	Paternalism, time served, exchange security for commitment	Those who perform get rewarded and have contract developed
Rewards	Paid on level, position and status	Paid on contribution
Motivational Currency	Promotion	Job enrichment, competency development
Promotion Basis	Expected, based on time served and technical competence	Less opportunity, new criteria, for those who deserve it
Mobility Expectations	Infrequent and on employer's terms	Horizontal, used to rejuvenate organization, managed process
Redundancy / tenure guarantee	Job for life if perform	Lucky to have a job, no guarantee
Responsibility	Instrumental employees, exchange promotion for more responsibility	To be encouraged, balanced with more accountability, linked to innovation
Status	Very important	To be earned by competence and credibility
Personal Development	The organization's responsibility	Individual's responsibility to improve employability
Trust	High trust possible	Desirable, but expect employees to be more committed to project or profession

Source: Sparrow 1997

QUESTIONNAIRE HR MANAGERS

I will start with a few general but important background questions pertaining to the organization!

<u>GENERAL ORGANIZATIONAL ISSUES:</u>

1. What is the ownership structure of the bank?
2. What is the present organizational structure of the bank? Have any changes taken place in the last 5 years?
3. What is the size of your organization in terms of the market share, branches and number of employees? How has this changed in the past 5 years and what would you attribute the change to?
4. What strategy does the bank follow at the corporate level and the business level? What changes has the bank made in its strategies in the past 5 years? (Probe for market niche and change of strategy)
5. How would you define and describe the culture of the bank?
6. What are the core work practices at the bank?
7. How does communication take place between employees at different levels in the bank? Are there any formal forums?
8. Are employees involved in any kind of decision making processes? If so, can you share the kinds of decisions in which they are involved?
9. Is there a formal employee union at the bank? What is the membership level and what type of decisions are they involved in?
10. As a result of the deregulation policy of the government in the last decade, what changes have taken place in the banking sector in general and at your bank in particular? (Probe for effects on employee hiring, retention and pay issues)

Now I would like to ask you a few questions pertaining to the external environment the bank operates in.

11. What is your product range and who would you indentify as your customers and competitors?

12. Are there any external organizations, agencies or associations that influence policy matter decisions at the bank?

13. Have foreign banks operating in Pakistan brought about any changes in the way local banks operate? If so what and why?

14. What sort of challenges and constraints do you envision the organization will face in the coming 5 years?

<u>GENERAL HR INFORMATION:</u>

I will now be asking some questions which focus on the HR department, its' activities and the HR practices being followed in the organization.

1. What are the objectives of the HR strategy?

2. What is the structure of the HR department and what strategic level decisions is it involved in?

3. How long has the HR department been functioning in the bank and what change has taken place in the activities it performs in the last 5 years?

4. On which HR activities has the bank been focusing in the last 5 years? What major HR related changes have taken place during this time?

I will now move on to some questions related with the HR practices at the bank.

5. What is the bank's policy for filling vacancies at various hierarchical levels and what hiring process is being followed?

6. Does the bank have a uniform criterion for hiring at all levels? Any exceptions?

7. Does the organization have a standard employment contract for all categories of employees? **(WERS cross section questionnaire 2004)**

8. Can you give details of the terms and conditions which are made available to employees in the employment contract? **(WERS cross section questionnaire 2004)**

9. Do you have a formal training policy for employees at various levels in the bank? If so, what opportunities exist?

10. For which category of employees are formal performance appraisals conducted? Are these appraisals linked with pay or training requirements in any way? **(Modified from WERS)**

11. What is the process and frequency of performance evaluation being followed at the bank? Has there been any change in this over the last 5 years? ? **(WERS cross section questionnaire 2004)**

12. Have the prospects for promotion increased, decreased or remained constant over the years? Why?

13. Is there any formal career planning at the bank? Do employees expect a long career with the bank?

14. How many employees have left the organization in the last 12 months?

15. How many were recruited in the last 2 years?

16. Which HR areas does do you foresee will experience the greatest change in the next few years? Can you attribute these changes to any internal or external factors?

<u>PAY RELATED ISSUES:</u>

I will now ask a few general questions related with pay

General Pay Issues:

1. What is the current pay system being followed at the bank? Is it uniform across the board for all categories of employees? **(WERS cross-sectional questionnaire 2004)**

2. Have there been any changes to the pay structure in the past 5 years? If so, what internal and external factors have driven these changes?
3. While making decisions regarding pay, what factors internal to the organization are considered**? (WERS cross-sectional questionnaire 2004)**
4. What employee concerns does the bank keep in view while determining their salary?
5. What are the main challenges in managing employee pay? (Current and future)
6. Are any responsibilities related to pay fixation / implementation delegated to any employees who are not part of the HR department? If so what are those responsibilities and who are they delegated to?

Pay Structure:

1. Is there a formal job evaluation system in the organization which helps in comparing the relative value of different jobs for the purposes of pay determination? **(WERS cross-sectional questionnaire 2004)**
2. Is there any exception made to assigning jobs to particular grades?
3. Are there any national labor laws / policies which affect the determination of pay for any employee category in the organization?

(Question 4-12 are adapted and modified from the WERS cross-sectional questionnaire 2004).

4. How is pay determined for Senior Managers?
5. How is pay determined for Middle Managers?
6. How is pay determined for Non-Managerial workers?
7. Do regular, contractual and casual workers all receive pay based on a similar structure? Elaborate on the differences and the need for them?
8. Is your pay structure similar to that of other banks in the industry? How do you keep it competitive?
9. Which category of employees i.e. Senior Managers, Middle Managers, and Non-Managerial Staff is it competitive and what makes it competitive?
10. Which category of employees are entitled to non-pay items and what are these items?

Pay Practices:

(Question 1-5 are modified version of questions from WERS cross-sectional questionnaire)

1. How frequently are pay reviews conducted? Does this apply to employees in all categories?
2. Are employees or their representatives involved in pay decisions? Are they consulted or do they negotiate?
3. Is the seniority of employees important in determining their pay? If so, which employee category is this applicable to?
4. Similarly, does the age or career experience count towards pay determination? If so, for which employee category?
5. Does the organization cater for reflecting employee skills and qualification while determining pay?
6. Are any exceptions made in determining pay at the time of hiring? If so under what circumstances and for what type / category of employees?
7. Does the organization give increments to all employees? What is the frequency and what are they based on?

(Q8-Q9 are relevant only if variable pay schemes are in place)

8. Do any employees in the organization get paid under PRP or any other variable pay schemes? If so, which employees are these and what are the respective variable pay schemes?
9. What criteria do employees need to meet to earn increments under variable schemes and who decides on this criteria?

Pay Function:

1. What objectives does management seek to achieve from its pay policies?

2. Apart from the objectives you just stated, were there any unintended objectives which were also achieved through these policies?

3. Do your pay policies make the organization an attractive employer? If yes, for which category of employees, or is it across the board?

4. Are the pay polices / structure at the bank only attractive at the time of hiring or do they help in retention of employees as well?

5. Do the organization pay policies / practices encourage employees to seek training opportunities is any way?

6. Does the organization use pay as an instrument to enhance employee productivity or to motivate employees? If so, how?

7. Is pay used to promote specific values or work practices in employees? If so, can you cite some examples?

8. From the discussion above, it appears that pay is used to fulfil multiple organizational objectives. Does this result in conflict at times? Any examples?

EMPLOYEE QUESTIONNAIRE

General Questions:

15. Please describe your job in terms of the tasks you are required to perform and the roles expected of you?
    a. **Prompt:** extent of involvement of others
    b. Work on individual assignments or group tasks
    c. Responsibility of outcomes
16. What factors attracted you to join this organization? Was pay one of them?
17. Is there a concept of job for life in the organization? What is your preference? (Dickinson, 2006)
18. What expectations regarding training opportunities do you have from the organization? (Willems & Hendrickx, 2004)
    a. **Prompt:** What trainings had you taken prior to joining this organization
    b. What training have you received after joining this organization
19. What forums for communication with the management are available to employees and what kinds of decisions are employees involved in? (Dickinson, 2006)
    a. **Prompt:** for decisions regarding pay and annual increments
20. Is the organization involved in any career management activities for employees? (Dickinson, 2006)
    a. **Prompt:** for clarity in career plan / progression and promotion
21. What expectations regarding pay did you have at the time of joining the organization? Were they fulfilled and to what extent? (Dickinson, 2006).

Pay Function:

1. To what extent do you think the pay you receive is reflective of : (Dickinson 2006)
    a. Seniority in the organization
    b. Level of skills (certified, non certified,)
    c. Qualifications (Academic and professional)
    d. Status within the organization

    e. Demands of the job
    f. Level of performance
2. Are you satisfied with your pay? Why? Why not? (Dickinson, 2006)
    a. **Prompt** for whether yearly increment is satisfactory or any other variable pay component is preferred.
3. Does pay give you an incentive to work beyond job responsibilities? (Marsden, 2004)
4. Does pay motivate you in any way, for example does it make you want to work more? Put in extra effort?

   (Questions for organizations which have undergone change in pay system) In the next three questions the term 'Change' means change in the pay system from graded to broad banded, the appraisal system based on MBOs and the determination of increments based on performance)
5. Do you feel the manner in which pay is administered has an impact on your level of commitment and loyalty towards the organization? Has there been a change in your view especially after the changes just mentioned?
6. Do you think the change in pay policies/practices have affected your work pattern in any way? If so, what change has come about?
7. Does the new pay system cause jealousies amongst colleagues and do you think it has reduced the willingness to assist others? (Marsden 2004)

Pay Practices: (The first three questions are on pay determination and admin)

1. What pay related terms and conditions are clearly written in your employment contract?
2. Are you satisfied with the process of pay determination and administration? Any changes you would like in this? (Dickinson, 2006)
3. Are you given any opportunity to discuss issues regarding pay with management? If so at what level?

(The next two questions relate to pay increases)

4. Are you satisfied with the way pay increases are determined? What bases are used for this and would you would you prefer something else? (Dickinson, 2006)

5. How regularly are pay reviews done? Are you happy with the frequency and process? (Dickinson, 2006)

(The next three questions relate to the issue equity, fairness and justice in pay)

6. Who would you tend to compare your pay level and increments with? Why? (Dickinson, 2006)
7. Do you think that reference to the relevant others you are being paid equitably? (Dickinson, 2006)
8. Under what circumstances if any do you think differential is justifiable between you and your colleague? (Dickinson, 2006)

(The next few questions relate to the performance appraisal process)

9. Are you satisfied with the performance appraisal process? Why / Why not?

   (Questions 11 – 13 are inferred from Marsden 2004)
10. Did you feel pressured to accept the objectives management wanted during the process of goal setting? (**probe** line managers attitude, do they need training?)
11. Do you think management applies quota on good assessments / appraisal?
12. Do you think management applies the scheme with fairness?

Applicable in organizations which have undergone change in pay structure:

1. Why do you think was change needed in the pay system / structure?
2. What do you think of the new pay system?
3. Were you communicated the changes that were to take place?
4. What changes in your pay have taken place as a result and are you satisfied with them?

(These questions are inferred from Dickinson, 2006)

Appendix D

Employment Structure (Bank B2)

Job Positions	Range Band
❖ Group Head / General Manager	**IX**
❖ Head of Division/DGM/Regional Manager/Regional Heads/Product Heads	**VII-VIII**
❖ Senior Managers at HO and Group Offices/AGM	**VII**
❖ Area Managers/Zonal Managers	**VI-VII**
❖ Branch Mangers according to size of the branch ❖ Team Leaders according to size of portfolio ❖ Head of Department of Large Size Branch (Credit/Trade Finance/Operations Manager etc.) ❖ National Sales Managers ❖ Head of Large Department at Head Office Division	**V-VII**
❖ Head of Credits/Foreign Trade/Operations Dept. of Medium size Branch ❖ Relationship Managers at SME ❖ Dept Heads at HO with more than 5 years relevant experience	**IV-V**
❖ Head of Dept at small size branch ❖ Branch Sales Officer or Branch Sales Supervisor ❖ Senior Officer at HO Divisions with more than 5 years of relevant experience ❖ Secretaries of Group Heads & GM	**III-IV**
❖ Credit Officer or Trade finance Officer ❖ CD in-Charge or Chief Cashier of Large size branch ❖ Officers with more than 3 years of relevant experience (Officers at Head Office, Officers of Consumer finance, Mortgages, SME, Rural finance, Leasing, General Banking, Operations, Cash CD In-Charge, IT, Accounts, Customer Service/Relationship Officer etc.) ❖ Secretary with 5 years or more relevant experience. ❖ MTO (Post Graduates or Foreign Qualified)	**III**
❖ Fresh Officers – Post Graduates or 4 years BBA/BS etc. ❖ Officers who are Graduates with less than 3 years of relevant experience (Officers at HO, Officers of Consumer Finance, Mortgages, SME, Rural finance, Leasing, General Banking, Operations, Cash, CD In-Charge, IT, Accounts, Customer Service Officer etc.)	**II**
❖ Entry level position / fresh Graduates / Cash/Operations Officer	**I**

Source: Bank documents

Appendix E

Bank A1

PAY PRINCIPLES	OLD SYSTEM	TRANSITION	NEW SYSTEM
Pay structure	Multi-grade	Multi-grade (midpoint and reference points)	2 Parallel pay systems
	Incremental pay points	Capping of salary at maximum of grade	Broad-grade – Minimum and Maximum defined
	Grade drift	Special Salary structure based on skills for some departments only ex. IT	Addition of grade at top of salary scales
	Special Salary structure based on skills for some departments only ex. IT		Considerable overlap between grades
Forms of pay progression	Promotion (ACR based), service and increment	Promotion (ACR based) and increment	Opportunities for fast track promotion; quick increase in pay
	Increments standardized – service and Annual Confidential Report		Increments (performance based); payout as a percentage of basic salary.
	Defined career path		
Use of bonus	Fixed yearly bonus	Fixed yearly bonus	Bonus determined on the basis of performance but not given regularly
*** Other pay enhancements**	One time cash award for OG III-OG I employees for clearing IBP diplomas	Same	Variation in amount based on how many times an employee sits in IBP exam to pass
	25% deputation allowance	Same	Same
	Recreation leave allowance	Same	Same
			Spot cash award given for exceptional contribution
Pension and other benefits	Pension scheme for all regular employees	Pension scheme for all regular employees	Pension for incumbents only.
	Free medical insurance for employee's family, parents and dependants. Also for retired employees.	Same	Same
*****	Loans for house building, car and personal emergencies	Same	Same. Additionally a laptop loan is also provided now

Source: Bank documents and interviews of HR managers

**** The amount and percentages vary considerably with substantial increases sometimes over the years***

Bank A2

PAY PRINCIPLES	OLD SYSTEM	NEW SYSTEM
Pay structure	Multi-grade	Multi-grade (substantial restructuring and increase in pay limits) and spot rates
	Pay Spines	Pay Spines
	Substantial overlap between grades	Substantial overlap between grades
*	Components – basic plus utilities and allowance (House Rent, Fuel and Medical) and allowances mentioned in other enhancements below	*Components – basic plus utilities and allowance (House Rent, Fuel and Medical)
Pay progression	Promotion based on service and Annual Confidential Report and increments	Promotion and increment based on performance appraisal for Middle Management (AVP) and above and service criteria for others
	Standardized incremental increases for all employees in each grade	Increments are a percentage of basic pay and criteria varies for different employee groups as stated above
	Defined career path	Promotion is based on performance appraisal
Use of bonus	Fixed bonus (twice an year, 55% of monthly basic pay)	Two fixed bonus on Eid for all employees plus Fixed bonus for OG I – G III grade and performance for AVP and above (2008 onwards)
Other pay enhancements	Cash award (Officers) Passing banking diploma	Same. Cash award (Officers) Passing banking diploma
* **	COLA for all employees. Other Allowances: Unattractive area (20%), Northern area posting (15%), severe weather (Rs. 400-700 p.m.), evening and night (Rs. 600 p.m. only for OGI –OG III), utilities collection (Rs. 250 p.m. for OG I – OG III)	*Same with the addition of teaching allowance (10%)
		Spot awards for outstanding performance
	Leave encashment: Salary given in lieu of unutilized leaves of an employee	Discontinued
Pension and benefits	Pension for all regular employees	Same. Pension for all employees
*	Car and housing loans are grade based while home furnishing is title based and the limit varies with grade	*Same
	In-service death grant for family (one time, six month pay	Same
	Marriage grant for self or children, one time only	Same

***Source:* Bank documents and interviews of HR managers.**

**** The amounts and percentages of allowances have changed but they continue in the new system.***

***** The allowances are a percentage of the basic pay and mostly the increases in salary are at a higher percentage for Officers than executives (AVP and above grade)***

Bank B1

PAY PRINCIPLES	OLD SYSTEM	NEW SYSTEM
Pay structure	Multi-grade	Broad Graded
	Pay Spines with series of incremental pay points and overlap between grades	Midpoint – segment zones (Upper, mid, low) with an overlap between grades
	Components – basic plus 8-10 allowances	Components – basic plus allowances merged to reduce to 3-4
		Spot rates for some individuals
Pay progression	Promotion (length of service and ACR) and yearly increment	Promotion and increments (both based on performance)
	Standardized (fixed) increments for all employees in each grade	Increments are 10-15% of HR budget. Based on an individual's performance
		Training accounts for 5-10% of employee appraisal based on which increments are determined
Use of bonus	Fixed bonus (yearly, 5 basic salaries)	Performance bonus is based on individual, unit and bank performance (25% extra for revenue generating units)
Other pay enhancements	Cash award (Officers) Passing banking diploma	Same: Cash award (Officers) Passing banking diploma
	Grade based allowances	Grade and title/position based allowances (latter based on value of job)
	Provision for leave encashment	Discontinued practice
Pension and benefits	No pension. Medical for family. House building and car financing loan	*****No pension. Medical for family. House building, car financing and laptop loans.

Source: Bank documents and interviews of HR managers.

**** In the new pay system all loans are now linked with performance of an employee and not length of service as per previous system***

Bank B2

PAY PRINCIPLES	OLD SYSTEM	NEW SYTSEM
Pay structure	Broad band (9 pay levels) with no formally structured zones within each level	Same
	Only lower limit is defined for each level (no maximum limit or mid-point defined) and market rate used as a reference point	Same
*	Components: basic, house rent allowance and utilities (40% and 10% of basic respectively), conveyance allowance (up to level V)	Same
Pay progression	Promotion (performance based), increments (performance based, variation with grade and rating), market adjustment and job enlargement.	Promotion (performance based), Increments (performance based). Additionally pay progress through market adjustment for job enlargement
Use of bonus	Fixed bonus only	Fixed and performance based bonus
Other pay enhancements	Cash award (one time) for passing banking diploma IBP	Same with variation based on the number of attempts utilized
*	Evening and public holiday allowance	Same
*	Job / grade allowance on monthly basis like allowance for driver, telephone and mobile phone (Level VII and above) and furniture allowance (level IV and above).	Same
		Title allowance and fuel entitlement
***Pension and benefits**	No pension. Free medical insurance for employee and family. Car, house building loans on subsidized rates and an emergency loan.	Same. Addition of policy which granted medical treatment for long-term, costly illnesses like cancer
	Monthly fee for club membership for Range IX employees only	Same with the addition of initial membership fee and monthly fee for family as well. Reimbursement of fee for professional courses upon (successful completion)
		Pay continuation scheme (for five years in the event of employees' death in service – basic pay plus certain allowances included)

Source: Bank documents and interviews of HR managers.

Note: Salary grading structure unchanged but the minimum limit of each level was revised upward in 2007

*** Rate and percentage varies between the two systems.**

Bank AB1

PAY PRINCIPLES	OLD SYSTEM	NEW SYSTEM
Pay structure	Multi-grade	Broad banded (3 pay bands)
	Pay Spines	Upper and lower limit of ranges set according to market rate (Not defined)
	Components – basic plus allowances (House rent, conveyance, adhoc relief, COLA, and utilities)	Components – multiplier basic pay plus allowances (House Rent Medical for all bands at 45% and 10%, of basic respectively, utilities 20-30% (variation between bands, highest percentage for lowest band) and a conveyance allowance for AVP – OGII only
Pay progression	Promotion (length of service and ACR), yearly increment and COLA	Promotion (performance appraisal), increments (performance based) and market adjustment
	Series of incremental pay points with standardized increments for all employees in each grade	Increment based on performance on gross pay. Percentage according to appraisal rating but minimum of 4-5% given to lowest category (D) employees as well
Use of bonus	Two fixed bonus (yearly)	Two fixed bonus yearly (60% of basic pay) for all regular employees and bank contractual employees. In addition A and B rated employees given performance bonus
Other pay enhancements	Cash award (Officers) Passing banking diploma	Cash award (Officers) Passing banking diploma
	Leave encashment	Discontinued
	*Job and title rated allowances	Same
***Pension and benefits**	Pension. Medical for family. Car financing and house building loans.	Pension only for incumbent employees who chose to continue with it, Provident and Contributory Fund for the rest. Other benefits are the same
		Employee benefit scheme (deferred share program spread over four years) for category A rated employees

Source: Bank documents and interviews of HR managers.

**** The rate / percentage varies considerably between the two systems.***

Bank AB2

PAY PRINCIPLES	OLD SYSTEM	NEW SYSTEM
Pay structure	Pay spines	Broad Graded, no structured salary ranges
	Incremental pay point	Midpoint – segment zones with reference points
	Progress – service, promotion, increment	Spot rates for exceptional individuals hired from the market
	Fixed bonus (twice an year), based on a percentage of basic pay for all employees across grades	Disparity between existing and new market hires
Pay progression	Promotion (Length of service and ACR), yearly increment and COLA	Promotion (performance appraisal), increment (performance based) and market adjustment
		Increments – performance based, 95% employees covered, difference between highest and average performers' increase is 5-6%
		Variable component in salary is only 18% of total pay
Use of bonus	Fixed bonus twice an year (as a percentage of basic)	Bonus based on performance, 85% employees covered. Revenue and non-revenue generating units get different increase
Other pay enhancements	Cash award (Officers) Passing banking diploma	Cash award (Officers) Passing banking diploma
	Leave encashment	Discontinued
	*Job and title rated allowances	Same
***Pension and benefits**	Pension. Medical benefits and loans for car and house building	Pension discontinued. Medical benefits and loans for car and house building

Source: Bank documents and interviews of HR managers.

* **The rate / percentage varies considerably between the two systems.**

Appendix F

Bank A1

GRADE	SALARY SCALES UNDER NEW STRUCTURE		SALARY SCALES UNDER PREVIOUS STRUCTURE	
	MINIMUM	MAXIMUM	MINIMUM	MAXIMUM
OG - 8	150,000	660,000	75,000	247,500
OG - 7	120,000	360,000	61,400	213,150
OG – 6	90,000	240,000	45,600	172,100
OG – 5	68,000	180,000	42,200	162,250
OG – 4	50,000	150,000	38,350	149,650
OG – 3	34,000	120,000	31,500	130,700
OG – 2	28,000	90,000	26,250	106,300

Source: Bank documents

LEVEL	SALARY STRUCTURE FOR SPECIALIZED PROFESSIONALS	
	MINIMUM	MAXIMUM
Entry	40000	80000
Middle	60000	120000
Higher	80000	150000
Managerial – MP-II	82500	154000
Managerial – MP-I	186500	238000

Source: Bank documents

Section A – OBJECTIVES SET FOR THE PERIOD JANUARY 01 - DECEMBER 31, 2008

Objectives/ Key Assignments	Performance Measures (Targets) *List measures for each objective. Be sure measures are* ***quantifiable*** *(measurable in numbers) or* ***verifiable*** *(observable)*	Appraiser's Review (Actual) *Describe the achievements in the light of each objective and performance measures*	Evaluation *Please tick as appropriate.*
			☐ Fully Met ☐ Partially Met ☐ Did not Meet
			☐ Fully Met ☐ Partially Met ☐ Did not Meet
			☐ Fully Met ☐ Partially Met ☐ Did not Meet
			☐ Fully Met ☐ Partially Met ☐ Did not Meet

Employee Signature ____________ Supervisor's Signature ____________

Personality Attributes	Appraiser's Review	Evaluation Please tick appropriate.
➢ <u>Customer Focus</u> Provides quality and timely service to customers. Identify venues to improve service quality.		☐ Highly Effective ☐ Effective ☐ Moderate
➢ <u>Communication</u> Communicates clearly and concisely. Listens to other in order to understand issues, problems, or needs.		☐ Highly Effective ☐ Effective ☐ Moderate
➢ <u>Team Work</u> Works within the network to achieve team's goals. Contributes to an enthusiastic & positive work environment.		☐ Highly Effective ☐ Effective ☐ Moderate
➢ <u>Initiative</u> A self starter who demonstrates willingness to take on new challenges, responsibilities, and assignments.		☐ Highly Effective ☐ Effective ☐ Moderate

Section C – Final Rating

Please Check the Appropriate Box

Final Rating ☐ **A**- Outstanding ☐ **B** – Very Good ☐ **C** – Good ☐ **D** – Needs Improvement ☐ **E** – Unsatisfactory

Section D – Personal Development Plan

Development Needs *(Identify skills, behaviours, knowledge and experience to be developed)*	**Development Plan** *(Steps to be taken which will help develop areas identified as development needs)*	**Target Dates**
Technical Development Skills **Management Development Skills** *(for e.g. Communication, Customer Services, Team Work, Leadership Skills, etc)*		

Section E – Annual Review

Comments regarding the Annual Performance review

Immediate Appraiser's Comments	**2nd Level Appraiser's Comments**	**3rd Level Appraiser's Comments -if applicable**
Signature ____________ Date ____________	Signature ____________ Date ____________	Signature ____________ Date ____________

Employee Comments & Signature	
Signature ____________	Date ____________

In case of any change in performance ranking after the immediate supervisor's evaluation the appraisee should be requested for his/her sign off immediately on the changed ranking.

Appraisal Form Bank B2

A: Performance Planning (PP) *To be submitted to HR at start of Performance Management Cycle*

Name of Employee		**Employee No. & Range**	
Title		**Group & Location**	
Review Period	From : To :	**Name of Supervisor**	

SMART Goals Identify 5 to 7 Goals for this Performance Management Cycle	**Weighting** (min 10%)	**RESOURCE REQUIREMENTS** Training, equipment requirement etc., necessary for achievement of goals
	TOTAL 100%	

Initial Performance Planning Discussion

Employee Signature:	Date:
Supervisor Signature:	Date:

B: Performance Agreement (PA)

Name of Employee		**Employee No. & Range**	
Title		**Group & Location**	
Review Period	From : To :	**Name of Supervisor**	

Calculating Overall Performance Rating

To determine Overall Performance Rating: (1) transfer the Supervisor's ratings (1, 2, 3) for each SMART Goal and Core Behavioural Competency to the chart below; (2) record the appropriate Combined Weighted Ratings; and (3) use these two combined ratings to determine the Overall Performance Rating. Additional instructions can be found in the Performance Management notebooks received in the mandatory Managing Quality Performance Training.)

Rating	Category	Description
1	**Partially Performing**	Jobholder did not consistently meet all expectations for SMART Goals and Core Behavioural Competencies.
2	**Performing**	Jobholder has achieved as minimum effective results against ALL SMART Goals and Core Behavioral Competencies, and has occasionally exceeded some expectations.
3	**Excelling**	Jobholder has consistently exceeded all expectations for SMART Goals and Core Behavioural Competencies

RATING SCALE	
Up to 1.49	Partially Performing
1.50 – 2.59	Performing
2.60 – 3. 00	Excelling

SMART GOALS (WEIGHT 70%)				CORE COMPETENCIES (WEIGHT 30%)			
SMART Goal #	(A) Weighting	(B) Supervisor Rating	Weighted Rating (E) = (A)x(B)	Core Behavioural Competency #	(C) Weighting	(D) Supervisor Rating	Weighted Rating (F) = (C)x(D)
1				1 (C)	20%		
2				2 (DM)	10%		
3				3 (PO)	10%		
4				4 (RF)	20%		
5				5 (TIR)	20%		
6				6 (TA)	20%		
7				-	-	-	-
Total	100%	-		Total	100%	-	
Weighted Rating for Goals (E x 70%)				Weighted Rating for Competencies (F x 30%)			

OVERALL PERFORMANCE SCORE (Goals + Competencies)	

Final Performance Review

Employee Signature:	**Date:**
Supervisor Signature:	**Date:**
Next Level Supervisor Signature:	**Date:**

C: Core Behavioural Competencies Model

Core Behavioural Competency	Definition	Partially Performing	Performing	Excelling
1. Communication (C)	Demonstrates the ability to convey thoughts, concepts, and ideas effectively through speech and in writing, using correct and appropriate grammar, organization and structure; attends to and fully comprehends what others are saying.	Demonstrates a lack of being able to express facts and ideas clearly and logically both orally and in writing. Considerable time spent on guidance and editing of work.	Expresses facts and ideas orally or in writing in a clear and logical manner. Needs minimal guidance and editing.	Demonstrates an exceptional ability to express facts and ideas clearly and logically both orally and in writing. Requires virtually no guidance and editing.
2. Drive/Motivation (DM)	Consistently maintains sustained energy and determination even in the face of obstacles; understands what needs to be done and stretches self to deliver results effectively.	Often lacks enthusiasm for the job and generally gives up at the first obstacle. Seeks excuses rather than a way forward.	Maintains personal energy and commitment to achievement of routine and developmental goals. Finds solutions to obstacles with minimum guidance.	Strives continuously to set and achieve 'stretch' personal goals for achievement that 'raise the bar'. Demonstrates energetic 'can do' behaviour even in the face of great obstacles.
3. Planning and Organizing (PO)	Establishes a systematic course of action for oneself or others to ensure accomplishment of a specific objective. Determines priorities and allocates time and resources effectively.	Generally inadequate which results in fruitless expenditure in terms of energy, time, human resources, equipment and finances. Lacks ability to scope length and difficulty of project. No clear breakdown of the process steps. Development of work plans weak.	Demonstrates ability effectively and efficiently. Demonstrates the ability to scope length and difficulty of project. Clear breakdown of the process steps. Well thought out work plans.	Demonstrates an exceptional ability to scope length and difficulty of projects. Clear sequencing of events/activities/ process steps. Work plans exceptionally well thought through and expressed. Achieves results on time and with required quality.
4. Results Focus (RF)	Demonstrates the ability to stay on track to achieve personal, team and corporate objectives and takes personal responsibility for their achievement.	Fails to execute functions as instructed and within agreed upon time frames. Loses track of objective/goal/deliverable.	Seldom needs enquiring about progress of a task. Shows commitment to work. Stays on track of objective/goal/ deliverable.	Far exceeds normal expectations. Handles greater responsibility independently.
5. Taking Initiative/Responsibility (TIR)	Evaluates, selects and acts on various methods and strategies for solving problems and meeting objectives before being asked or required to do so.	Demonstrates little or no initiative at work, seeking out repetitive or routine work. Consequently requires extra amount of supervision and instruction. Has to be chased for completion of job. Lack of initiative is detrimental to the workgroup.	Works out own methods/ approaches to overcome problems and competently performs to expectations. Requires normal level of supervision and guidance.	Constantly shows a high level of initiative. Always volunteers for additional responsibilities. Normally no guidance necessary.
6. Teamwork Ability (TA)	Willingly cooperates and works collaboratively toward solutions that generally benefit all involved parties and accomplish group objectives.	Unwilling or unable to co-operate with others. Demonstrates lack of commitment and negates teamwork. Work of team adversely affected.	Cooperates and gets on well with colleagues. Able to influence and communicate well as part of a team. Works to achieve team objectives. Requires normal level of supervision and guidance.	Demonstrates exceptional abilities working as member of a team. High level of cooperation communication skills and ability to influence and motivate others to achieve targets. Coaches other team members to better results. Little or no guidance ever required.

D: Performance Log *(STAR EVIDENCE)*

Name of Employee		**Employee No. & Range**	
Title		**Group & Location**	
Review Period	From : To :	**Name of Supervisor**	

The STAR approach (**Sit**uation, **A**ction, **and Result**) is a useful way to document performance for both employees and supervisors. Supervisors are recommended to maintain this form for each of their employees, and employees are encouraged to maintain this form for their own performance. Individual activities pertaining to SMART Goals and Core Behavioural Competencies achievement may be recorded as 'evidence' throughout the appraisal period and referred to during the mid-year and final appraisal reviews.

DATE	**Situation** *(Outline the setting in which performance/behaviour was observed, i.e. Who was involved? What task needed to be done?)*	**Action** *(Describe the specific approach or actions taken)*	**Result** *(Describe or quantify the outcome of the actions, i.e. What was the impact/affect? What was the learning?)*	**Evidence for which SMART Goal *or* Core Behavioural Competency?**

E: One-to-One (1:1) Form

For Coaching and Mentoring Opportunities

(To be completed by employee and/or supervisor prior to 1:1 session)

Name of Employee		
Title		
Review Period	From :	To :
Employee No. & Range		
Group & Location		
Name of Supervisor		

This form is not for disciplinary issues, but rather for employee or supervisor initiated feedback as part of the Performance Management Cycle. This tool positions the supervisor in a listening and supportive role.

Potential Areas of Discussion	
• Follow-up on action items from last meeting	• Personal concerns
• Clarification of work expectations	• Specific management concerns/requests
• Problems/Obstacles	• Suggestions for improvement
• Individual training needs	• Information sharing
• Success and achievements	• Progress toward job goals

Discussion Item	Action Plan / Suggestions / Status on Performance	Person Responsible and Due Date

One-to-One	
Employee Signature:	**Date:**
Supervisor Signature:	**Date:**

F. Performance Improvement Plan (PIP)

Name of Employee		**Employee No. & Range**	
Title		**Group & Location**	
Review Period	From : To :	**Name of Supervisor**	

The Performance Improvement Plan form MUST be completed when an employee receives a rating of "Partially Performing" on any Goal or Core Behavioural Competency during a Mid-Year Review or Final Appraisal. This form will be attached with the employees Performance Agreement at the end of the Performance Management Cycle.

Performance Improvement Areas Be sure to indicate the Goals and/or Core Behavioural Competencies that relate to the deficiency and whether they are currently meeting expectations.	Action Plan and Timescales Identify specific corrective action to be implemented by the employee and steps taken by the supervisor. Also, include consequences for failure to meet specified actions.	Evaluation Describe how performance improvement will be measured.

Performance Improvement Plan (PIP)	
Employee Signature:	**Date:**
Supervisor Signature:	**Date:**

PIP Follow Up	
Date(s) for a follow-up discussion:	1. Did the employee implement corrective action? ___Yes ___ No
2. If 'NO', what further actions will be/have been taken?	

Employee Signature/Date

Supervisor Signature/Date

Next Level Supervisor Signature/Date

G: Self Evaluation Form

Name of Employee		**Employee No. & Range**	
Title		**Group & Location**	
Review Period	From : To :	**Name of Supervisor**	

To be completed by Employee, prior to assessment. (If the space provided is insufficient, the comments can be included in an attachment). Use the *GDD Framework* (Good, Difficult, Different).

1. **GOOD:** My major accomplishments as they related to my Performance Agreement were:

2. **DIFFICULT:** I was less successful in the following areas for the reasons stated:

3. **DIFFERENT**: What I will change or do differently to further improve my performance is:

H: SMART Goals Worksheet

Name of Employee		Employee No. & Range	
Title		Group & Location	
Review Period	From : To :	Name of Supervisor	

Use this worksheet to get started in writing SMART Goals.

Goal #	Specific (What will you do? Visualize the action and outcome.)	Measurable (How will you measure the results?)	Attainable (Is it realistic? Are any resources required to make it more attainable?)	Relevant (Which department, business objective or Core Behavioural Competency does it link or contribute to?)	Timed (When will the goal be complete? Does the goal need to be broken down into incremental timeframes?)
1					
2					
3					
4					
5					
6					
7					

I: Personal Development Plan (PDP) *–Over Next One Year*

Name of Employee		Employee No. & Range	
Title		Group & Location	
Review Period	From : To :	Name of Supervisor	

PURPOSE: To enable the supervisor and employee to identify skill development requirements that are relevant to employee's core job content and as a result agree on steps to be taken to address these development gaps.

Area Identified for Development	Objective of Development	Type of Development (short course, on-the-job training, rotation, expansion of job role, etc)	Quarter Targeted
e.g. Computer Literacy	*To develop technical skills for the effective delivery of core functions*	*Short course offered by XYZ*	*Third quarter*

We, (Employee and Supervisor) agree that the above mentioned areas for development and the type of intervention suggested would be engaged in to achieve the required objective for development. We also understand that operational and budget constraints will govern the type of intervention stated and/or within the quarter of the year as stated. There is also an understanding between ourselves that areas for development could be identified throughout the year and that this may change the order of priority and type of intervention as stated in the PDP.

PDP	
Employee Signature:	Date:
Supervisor Signature:	Date:

J: Career Plan (CP)

FORECAST OF POTENTIAL: For Employees Range 5 and above, optional for *HiPos*

Company Confidential

The supervisor should review the employee's career interests and development plans and then draw upon the information to forecast their future short- and long-term potential. Sharing this information with the employee is at the discretion of the supervisor.

Employee number	Employee name	Date
Position title		Date appointed to present position
Division/Department/Location		Salary Range

1. Succession Planning

SHORT-TERM CAREER PLANNING (ONE YEAR)

A - Promotions—Go to A B - Hold in position—Go to B C - Take other action—Go to C	A. PROMOTE NOW			B. HOLD		C. OTHER	
	Most-likely promotion: Details			Pressure to promote next year			
	Most-likely promotion (Enter details in space below, #1)						
	Alternative promotion (Enter details in space below, #2)			1 - Must 2 - Should 3 - No need to	1 - Irreplaceable 2 - Most suitable 3 - Replaceable hold 4 - For development 5 - Too new to tell 6 - Undetermined	1 - Transfer/develop 2 - Demote 3 - Performance improve 4 - Outsource/place 5 - Retire	1 - Now 2 - 1st six months 3 - 2nd six months
	Title	Sal. grade	When (Mo/Yr)				
A B C	# 1			1 2 3	1 2 3 4 5 6	1 2 3 4 5	1 2 3
	# 2						

LONGER-TERM CAREER PLANNING (3–5 YEARS)

D - Promotions—Go to D E - Hold in position—Go to E F - Take other action—Go to F	D. PROMOTE IN FUTURE			E. HOLD		F. OTHER ACTION	
	Within the next five years, what is the highest position or level you see this individual reaching?			No. of salary grades from present			When
	Most-likely promotion (Enter details in space provided below, #1)						Month
	Alternative promotion (Enter details in space provided below, #2)			3+ - Levels 2+ - Levels 1+ - Levels 0+ - Levels	1 - Irreplaceable 2 - Most suitable 3 - Replaceable hold 4 - Too new to tell 5 - Undetermined	1 - Transfer/develop 2 - Demote 3 - Outplace 4 - Retire	Year
	Title	Sal. grade	When (Mo/Yr)				
D E F	# 1			3 2 1 0	1 2 3 4 5	1 2 3 4	
	# 2						

2. Bench Strength

Is the employee nominated for: ☐ **High Potential**

Consider where the greatest value to the organization is over the next 3 years: ☐ **Supervisor/Manager** ☐ **Individual Contributor**

3. Employee Career Interest/Cross Function or Overseas Nominations (Next 12 Months)

Position title	Salary Grade	Function/Department	N(ominated) E(xpressed) B(oth)

Is the employee willing to relocate? **DOMESTIC** ☐ **Yes** ☐ **No** **FOREIGN** ☐ **Yes** ☐ **No**

Comments on Recommended Action

Supervisor's signature Date

Appendix H

Bank A1 Employee re-categorization

GRADE	EMPLOYEES		
	2006	2007	2008
SG –I	3	3	3
OG-8	-	8	8
OG-7	8	20	30
OG-6	39	27	40
OG-5	108	100	104
OG-4	120	143	171
OG-3	302	469	417
OG-2	234	171	206
OG-1	213	195	191
SUPPORT STAFF	208	182	175
CONTRACTUAL STAFF	54	22	59
SPECIALIZED SALARY STRUCTURE	50	-	-
TOTAL	**1339**	**1340**	**1404**

Source: Bank documents.

Appendix I

Bank A1 (Old and new pay ranges)

	New pay ranges				Old pay ranges	
Grades	New pay structure		New parallel pay structure		Previous structure	
	MINIMUM	MAXIMUM	MINIMUM	MAXIMUM	MINIMUM	MAXIMUM
OG – 8	150000	660000	75000	247500	75000	165000
OG – 7	120000	360000	61400	213150	61400	142100
OG – 6	90000	240000	45600	172100	45600	114750
OG – 5	68000	180000	42200	162250	42200	108150
OG – 4	50000	150000	38350	149650	38350	99750
OG – 3	34000	130700	31500	120000	31500	87150
OG – 2	28000	106300	26250	90000	26250	70900

Source: Bank documents

Note: All figures are in Pak Rupees.

Old pay structure for professionals

Level	Minimum	Maximum
Entry	40000	80000
Middle	60000	120000
Higher	80000	134000
Managerial – II	82500	150000
Managerial – I	186500	238000

Source: Bank documents.

Note: All figures are in Pak Rupees.

Bank B1

Employee Grades	Basic Pay Scale			
	Old Structure		New Structure	
	Minimum	Maximum	Minimum	Maximum
SEVP	79400	150500	215700	500000
EVP	56500	110800	134800	350000
SVP	40300	81400	87000	225000
VP*	28700	59300	58000	150000
AVP*	20400	43200	40000	100000
MG*	14500	31600	28600	70000
AMG*	10300	23630	21200	55000
OG – I*	7350	17270	15700	40000
OG – II*	5250	12450	11600	30000
OG – III*	4300	10900	8900	22000

***Source:* Bank documents.**

***Note:* All figures are in Pak Rupees.**

**** or equivalent grades / cadres of Cash, Secretarial, Protocol and Administrative Staff.***

Bank B2

Range	Basic Pay		Gross Pay	
	2006	**2008**	**2006**	**2008**
I	3500	5000	5750	8000
II	5500	7500	9000	12000
III	8000	9334	13000	15001
IV	12000	14000	20750	25000
V	16000	23834	27000	40001
VI	20000	31500	33250	50000
VII	25000	35667	47500	70001
VIII	50000	85667	88500	150001
IX	65000	181334	115500	300001

Source: Bank documents.

Note: All figures are in Pak Rupees.

Bank AB1

Old pay structure: Component wise break – up and pay scales

Grade	Basic Salary	House Rent	Convey	Ad-hoc Relief	COLA	Ad-hoc COLA	Utility
SEVP	**As per pay Scales given below:**	80%	-	-	7%	1,000	5,187
EVP		80%	-	-	7%	1,000	540
SVP		80%	-	-	7%	1,000	405
VP		80%	1,010	-	7%	1,000	270
AVP		80%	715	-	7%	1,000	200
OG-1		80%	450	-	7%	1,000	200
OG-2		80%	450	-	7%	1,000	200
OG-3		80%	450	100	7%	1,000	-

485	**485**	**385**	**370**	**345**	**330**	**265**	**175**
SEVP	**EVP**	**SVP**	**VP**	**AVP**	**OG-1**	**OG-2**	**OG-3**
9,070	**9,070**	**7,780**	**6,695**	**6,260**	**4,980**	**3,455**	**2,260**
9,555	9,555	8,165	7,065	6,605	5,310	3,720	2,435
10,040	10,040	8,550	7,435	6,950	5,640	3,985	2,610
10,525	10,525	8,935	7,805	7,295	5,970	4,250	2,785
11,010	11,010	9,320	8,175	7,640	6,300	4,515	2,960
11,495	11,495	9,705	8,545	7,985	6,630	4,780	3,135
11,980	11,980	10,090	8,915	8,330	6,960	5,045	3,310
12,465	12,465	10,475	9,285	8,675	7,290	5,310	3,485
12,950	12,950	10,860	9,655	9,020	7,620	5,575	3,660
13,435	13,435	11,245	10,025	9,365	7,950	5,840	3,835
13,920	13,920	11,630	10,395	9,710	8,280	6,105	4,010
14,405	14,405	12,015	10,765	10,055	8,610	6,370	4,185

14,890	14,890	12,400	11,135	10,400	8,940	6,635	4,360
15,375	**15,375**	12,785	11,505	10,745	9,270	6,900	4,535
		13,170	11,875	11,090	9,600	7,165	4,710
		13,555	**12,245**	**11,435**	**9,930**	7,430	4,885
						7,695	5,060
						7,960	5,235
							5,410
							5,585
							5,760

Source: Bank documents

Note: All figures are in Pak Rupees.

New pay structure: Component wise break-up

Cadre	Grade	MBP	House Rent	Medical	Utility	Conveyance
Executive (Senior Management)	SEVP	1.75 times of gross	45%	10%	20%	-
	EVP	1.75 times of gross	45%	10%	20%	-
Executive (Middle Management)	SVP & VP	1.75 times of gross	45%	10%	20%	-
	AVP	1.80 times of gross	45%	10%	25%	800
Officers	OG-1 & OG-2	1.80 times of gross	45%	10%	25%	800
	OG-3	1.85 times of gross	45%	10%	30%	800

Source: Bank documents. Note: All figures are in Pak Rupees.

Appendix J

INFORMATION SHEET

TITLE: “*The Impact of Various Payment Systems and Structures on the Psychological Contract in Public and Private Sector Banks in Pakistan.”*

RESEARCHER NAME: Asfia Obaid

SCOPE OF RESEARCH: In recent years strategic pay has gained significance as it proposes to design and implement systems which are not necessarily new or traditional but which fit in and complement with the organizational strategy. In the context of Pakistan specifically, where massive initiatives for privatization were undertaken (especially in the banking / financial sector) in the last two decades organizations have moved away from purely traditional i.e. seniority based pay systems to some form of performance based pay systems. This study aims to explore the factors which drive organizations to modify their pay systems, the multiple objectives management seeks to achieve from the new systems and the reasons for designing multiple pay systems for different employee workgroups. It will also explore the implications arising in context of the employee psychological contract.

RESEARCH OBJECTIVES:

† To explore the reasons which have lead local banks in Pakistan to move away from traditional / seniority based pay systems in recent years

† To investigate the reasons which drive management to design separate payment systems for different employee workgroups

† To study the influence of different payment systems and structures on the psychological contract of employees

OTHER INFORMATION:

Participants in the research will be required to take part in an interview. Confidentiality of the content of the interview will be strictly adhered to and anonymity of the participants will be ensured. Care will be taken that during the course of the research, the participant is not subjected to any discomfort, pain or risk. Further, the participant is not obliged to take part in the research and can withdraw at anytime during the course of the study.

Appendix K

Faculty of Humanities

Consent Form for Participants Taking Part in Student Research Projects

Title of Project: The Impact of Various Payment Systems and Structures on the Psychological Contract in Public and Private Sector Banks in Pakistan.

Name of Researcher: ASFIA OBAID

School: MANCHESTER BUSINESS SCHOOL

<u>Participant (volunteer)</u>

Please read this and if you are happy to proceed, sign below.

The researcher has given me my own copy of the information sheet which I have read and understood. The information sheet explains the nature of the research and what I would be asked to do as a participant. I understand that the research is for a student project and that the confidentiality of the information I provide will be safeguarded unless subject to any legal requirements. She has discussed the contents of the information sheet with me and given me the opportunity to ask questions about it.

I agree to take part as a participant in this research and I understand that I am free to withdraw at any time without giving any reason and without detriment to myself.

Signed:…………………………………………………………………………...

Date:……………………………….

Family Name BLOCK LETTERS:…………………

Other Name(s) BLOCK LETTERS: …………………………...

<u>Researcher</u>

I, the researcher, confirm that I have discussed with the participant the contents of the information sheet.

Signed:…………………………………………………………………………....

Date:……………………………….

Appendix L

Mr. XYZ
President & Chief Executive

Bank B1

Subject: **<u>Request for Conducting PhD Research at Bank B1</u>**

Dear Sir,

I seek this opportunity to introduce myself to your esteemed organization and express my keen interest in working with your bank. I have been serving in the capacity of faculty at the Business School of National University of Sciences & Technology (NUST) for the past eight years and am currently on leave for PhD studies at the Manchester Business School (MBS), University of Manchester U.K. NUST has sponsored my studies under its' Faculty Development Plan and has also approved of my research topic in this regard.

The 03 year PhD programme at MBS includes 01 year of coursework and 02 years of fieldwork / dissertation. I have successfully completed my coursework and am now hoping to start my fieldwork. As per agreement with NUST, I will be serving the university for a period of 05 years upon completion of my studies. I have chosen Pakistan and our indigenous environment for conducting major portion of field research relevant to my topic. I believe it will benefit both the university and the students since, the knowledge which I hope to gain of the Pakistani organizations and the context of Pakistan during this process will be most relevant.

The approved topic of my research is "The impact of various payment systems and structures on the psychological contract in public and private sector banks in Pakistan" and my supervisors – Prof. Damian Grimshaw and Prof. Jill Rubery are eminent and widely published academics in the field. In this context I would like to assure you of full and complete anonymity and confidentiality of the data and documents which I will obtain from your esteemed organization during the course of my research.

Sir, as you may already know, research conducted by universities world over is considered to be a main source of determining industry trends and of highlighting and solving issues confronted by the industry. However we in Pakistan still need to go a long way in developing this mutually beneficial relationship and I hope to make my humble contribution by researching in Pakistan. In view of the above, I request that you may kindly grant me approval to conduct research in your bank and once again I assure you of full confidentiality of data and information relating to your bank. I look forward to developing a healthy relationship with your organization.

Sincerely Yours

Asfia Obaid

Faculty NBS/ PhD Candidate MBS

-- September 2008