ISSN 2616-5902 Vol. 7, Issue 6: 66-69, DOI: 10.25236/AJBM.2025.070610

The Impact of Human Resource Management Practices on Service Quality in Commercial Banks

Yujie Zhu, Grace R. Tobias

College of Business Administration, University of the Cordilleras, Baguio City, Philippines, 2600

Abstract: *This study explores the impact of Human Resource Management (HRM) practices on service quality in commercial banks, highlighting HRM's strategic role in enhancing employee performance, customer satisfaction, and operational efficiency. A qualitative research approach was employed, using semi-structured interviews with 30 bank managers from various commercial banks in China. The findings reveal that effective HRM practices—such as comprehensive training, performance incentives, digital upskilling, and wellness programs—have a significant positive influence on service delivery, customer loyalty, adaptability to digital transformation, and staff retention. The study also finds that HRM contributes to regulatory compliance and ethical standards, though this area receives less emphasis. The discussion emphasizes the strategic value of HRM not only in traditional service enhancement but also in navigating the challenges of digital banking. The innovation of this study lies in its management-level perspective, offering a multidimensional understanding of how HRM directly and indirectly shapes service quality. The results provide practical insights for banking institutions seeking to refine HR strategies to remain competitive in a rapidly evolving financial landscape.*

Keywords: *Human Resource Management Practices, Service Quality, Commercial Banks, Digital Transformation, Employee Retention*

1. Introduction

In today's increasingly competitive and customer-driven financial environment, commercial banks face growing pressure to deliver superior service quality to retain customers and ensure profitability. Human Resource Management (HRM) practices have emerged as a critical factor in achieving service excellence, as employees serve as the frontline interface with clients. Effective HRM strategies—such as recruitment, training, performance incentives, and employee well-being—directly influence service reliability, responsiveness, and empathy (Tam, 2020; Uddin et al., 2023) [1–2]. With the rise of digital banking, HRM must now balance the need for digital proficiency with the human touch in customer service (Shetty et al., 2022) [3].

In developing economies, commercial banks often struggle with high turnover rates, skill mismatches, and limited training infrastructure. For example, in Tanzania, intensive credit risk training has enhanced employee competence and improved service quality (Temba et al., 2024), while in Nepal, inadequate career development programs contribute to inconsistent service delivery (Shah, 2024) [4]. These regional insights highlight the need for HRM approaches tailored to local workforce conditions and regulatory environments.

This study is anchored in the SERVQUAL model, which assesses service quality across five dimensions—tangibles, reliability, responsiveness, assurance, and empathy (Albarq, 2013) [5]—and the Ability-Motivation-Opportunity (AMO) theory, which asserts that performance depends on ability, motivation, and opportunity (Tam, 2020). These frameworks guide the analysis of how HRM practices influence service quality in banking contexts.

While prior studies have established links between HRM and service quality, most focus on developed economies or adopt generalized frameworks. There is limited attention to region-specific issues or the evolving role of HRM post-pandemic, particularly in response to digital transformation and remote work (Mehta, 2016) [6].

This study addresses these gaps by examining the perspectives of 30 bank managers in China, offering practical insights into how HRM practices impact service quality. The innovation lies in applying SERVQUAL and AMO theories to explore the multi-dimensional relationship between HRM and customer service in a dynamic banking environment.

ISSN 2616-5902 Vol. 7, Issue 6: 66-69, DOI: 10.25236/AJBM.2025.070610

2. Methodology

This study employs a qualitative research approach, utilizing semi-structured interviews to explore the impact of Human Resource Management (HRM) practices on service quality in commercial banks. A qualitative design is suitable for gaining in-depth insights into managerial perspectives, strategies, and challenges in implementing HRM policies that influence service delivery.

The study targets 30 bank managers from various commercial banks in China, selected through purposive sampling to ensure that participants have direct experience in HRM decision-making and service quality management. To be eligible, respondents must have held a managerial position for at least three years, be actively involved in HRM-related decisions, and be willing to participate in a structured interview. The selected managers will provide valuable insights into the role of HRM in enhancing customer satisfaction, employee performance, and operational efficiency.

Data was collected through semi-structured interviews, conducted either face-to-face or via video conferencing, depending on participant availability. Each interview lasted approximately 30–45 minutes and will be recorded with the respondents' consent. The interview guide covered key themes, including HRM practices such as recruitment, training, performance evaluation, and compensation; service quality perceptions related to customer satisfaction and operational effectiveness; challenges in HRM implementation; and strategies for improving service quality through HRM initiatives. The semi-structured format allows flexibility for respondents to elaborate on key issues while maintaining consistency across interviews.

For data analysis, the recorded interviews were transcribed and examined using thematic analysis to identify recurring patterns and significant insights. NVivo software was utilized to assist in coding and categorizing qualitative data, ensuring a systematic analysis of the responses. This process helps in drawing meaningful conclusions regarding the influence of HRM practices on service quality in commercial banks.

Ethical considerations were strictly observed throughout the study. Confidentiality and informed consent were prioritized, with all respondents briefed on the study's objectives before participation. Their involvement was voluntary, and they have the right to withdraw at any stage. Identifiable data will be anonymized to protect the privacy of participants. Through adhering to these ethical guidelines, the study ensures the integrity and credibility of the research findings.

3. Result and Discussion

This section presents the findings of the study based on the insights gathered from 30 bank managers in China regarding the impact of Human Resource Management (HRM) practices on service quality in commercial banks.

Table 1 Impacts of Human Resource Management (HRM) practices on service quality in commercial banks

Themes	Freq	Sample response
Enhanced Employee Performance and Productivity	8	"The implementation of comprehensive training programs, performance-based incentives, and structured career development initiatives has significantly enhanced employee performance and productivity in our bank.” (M2)
Improved Customer Satisfaction and Retention	7	"HRM practices that focus on employee engagement, motivation, and service-oriented training have had a direct and measurable impact on customer satisfaction and retention.” *(M3)*
Increased Adaptability to Digital Transformation	7	"As banking services shift towards digital platforms, HRM has played a crucial role in ensuring that employees are equipped with the necessary skills to adapt.” (M6)
Reduced Employee Turnover and Higher Job Satisfaction	5	"The implementation of HRM practices that prioritize work-life balance, competitive compensation, and employee wellness has significantly reduced staff turnover and increased job satisfaction.” (M8)
Compliance with Regulatory and Ethical Standards	3	"HRM practices focused on regulatory compliance and ethical standards have strengthened our bank’s integrity and reduced legal risks. " (M12)

Table 1 summarizes the key findings from semi-structured interviews with bank managers, highlighting the relationship between Human Resource Management (HRM) practices and service

ISSN 2616-5902 Vol. 7, Issue 6: 66-69, DOI: 10.25236/AJBM.2025.070610

quality outcomes in commercial banks. The table categorizes five predominant themes identified through thematic analysis, along with their frequency of occurrence and illustrative participant responses.

Enhanced Employee Performance and Productivity. This theme highlights how HRM practices like training programs, performance-based incentives, and career development directly elevate employee output. Participants emphasized that structured technical training (e.g., credit risk management, digital tools) improved employees' ability to resolve complex customer issues swiftly, reducing service delays. For example, one manager noted that tellers trained in AI-driven customer relationship management systems reduced transaction processing times by 40% (M2). These findings align with the Ability-Motivation-Opportunity (AMO) theory, where skill-building (ability) and performance-linked bonuses (motivation) intersect to drive productivity (Tam, 2020). Enhanced productivity correlates strongly with the SERVQUAL dimension of *reliability*, as consistent service delivery builds customer trust (Albarq, 2013). However, the data revealed contradictions. While most managers lauded performance incentives, some warned that overly rigid metrics (e.g., strict sales targets) led to employee burnout and "shortcut" behaviors, such as prioritizing speed over accuracy. This echoes Olobo et al.'s (2021) [7] findings in South Sudan, where aggressive targets compromised service quality. Regionally, state-owned banks in China reported greater success with holistic incentive systems (e.g., combining monetary rewards with recognition programs), whereas regional banks struggled with budget constraints, limiting their ability to implement similar strategies.

Improved Customer Satisfaction and Retention. HRM practices fostering employee engagement, service-oriented training, and empowerment were linked to measurable gains in customer satisfaction. Managers highlighted that empathy-focused training (e.g., active listening workshops) enabled staff to address customer grievances more effectively, as reflected in a 20% increase in positive feedback scores (M3). This aligns with the SERVQUAL dimension of empathy and Uddin et al.'s (2023) findings that green HRM practices, such as ethical behavior training, enhance customer trust through perceived employee sincerity. A regional disparity emerged: urban banks in Shanghai prioritized AI-driven personalization (e.g., chatbots for tailored financial advice), while rural banks relied on face-to-face interactions to build rapport. The latter approach resonated with older customers, underscoring the need for HRM strategies tailored to local demographics. However, managers in digitally transitioning banks cautioned that over-reliance on automation risked alienating customers who value human interaction, a concern mirrored in Shetty et al.'s (2022) study of Indian public-sector banks.

Increased Adaptability to Digital Transformation. The rapid adoption of digital banking necessitated HRM interventions to bridge skill gaps. Participants emphasized that tech-focused training (e.g., blockchain, cybersecurity) enabled employees to seamlessly integrate automated services with human interactions. For instance, one bank reduced customer complaints by 25% after training frontline staff to troubleshoot mobile banking apps (M6). These findings align with global trends where banks investing in digital literacy programs achieve higher tangibles scores in SERVQUAL metrics (Shetty et al., 2022). However, challenges persisted. Older employees in state-owned banks exhibited resistance to digital workflows, citing comfort with traditional methods. This mirrors challenges in South Sudanese banks, where low digital literacy hindered technology adoption (Olobo et al., 2021). To mitigate this, some managers implemented "digital mentorship" programs, pairing tech-savvy junior staff with senior colleagues—a strategy absent in existing literature.

Reduced Employee Turnover and Higher Job Satisfaction. HRM practices prioritizing work-life balance, wellness programs, and competitive compensation were credited with lowering turnover. A manager in Guangdong reported a 30% reduction in attrition after introducing flexible scheduling (M8), stabilizing service consistency by retaining experienced staff. This aligns with Kaitibi et al.'s (2018) [8] findings in Sierra Leone, where retention strategies minimized service disruptions caused by knowledge gaps. However, economic disparities influenced outcomes. Urban banks in high-cost cities like Beijing struggled to match private-sector salaries, leading to "poaching" of skilled staff. Conversely, rural banks leveraged non-monetary incentives (e.g., community recognition) to enhance loyalty—a strategy underutilized in existing HRM frameworks.

Compliance with Regulatory and Ethical Standards. Though less frequently cited, this theme underscored HRM's role in mitigating risks through ethics training, compliance audits, and transparent reporting. One manager noted that mandatory anti-money laundering (AML) workshops reduced compliance violations by 15% (M12), reinforcing the SERVQUAL dimension of *assurance*. This aligns with Shah's (2024) [4] study in Nepal, where ethical HRM practices curbed fraudulent loan approvals. However, compliance was often viewed as a reactive obligation rather than a strategic priority. Managers in joint-stock banks lamented that aggressive sales targets sometimes conflicted with ethical guidelines, leading to pressure to approve risky loans—a tension also observed in Nigerian banks (Temba et al.,

ISSN 2616-5902 Vol. 7, Issue 6: 66-69, DOI: 10.25236/AJBM.2025.070610

2024) [9].

In summary, the interplay of HRM practices demonstrated that digital adaptability bolstered productivity, while ethical compliance safeguarded trust. Region-specific strategies were vital: state-owned banks prioritized digital and ethical training, regional banks focused on community engagement, and joint-stock banks balanced incentives with ethical safeguards.

4. Conclusion

This study examined the impact of Human Resource Management practices on service quality in commercial banks, revealing five key areas of influence: enhanced employee performance, improved customer satisfaction, increased adaptability to digital transformation, reduced employee turnover, and strengthened compliance with ethical standards. By applying the SERVQUAL model and the AMO theory, the research provided a structured understanding of how HRM aligns with core service quality dimensions such as reliability, responsiveness, and empathy.

The findings also revealed significant institutional and regional variations. Urban banks emphasized digitalization and AI-based services, while rural banks relied more heavily on personalized, face-to-face interactions. Likewise, state-owned banks prioritized regulatory compliance, whereas joint-stock banks faced challenges in balancing performance incentives with ethical practices. These observations highlight that HRM is not a one-size-fits-all solution but a dynamic tool that must be adapted to specific organizational and contextual needs.

Based on these findings, several recommendations are proposed. First, banks should implement blended training programs that integrate technical skills—such as digital literacy and fintech tools—with soft skills like communication and emotional intelligence. This will better prepare employees to manage both operational efficiency and customer-centric service. Second, flexible and ethical incentive structures should be introduced to move beyond rigid performance targets, incorporating tiered reward systems that recognize both quantitative outcomes and qualitative contributions. This can help reduce employee burnout and discourage unethical behavior while maintaining strong performance standards. Third, banks should prioritize employee well-being by offering wellness programs and flexible work arrangements, especially for high-stress roles such as customer service and loan processing. Lastly, ethics and compliance should be embedded into HR performance evaluations, and banks should establish confidential reporting mechanisms to protect whistleblowers and promote a culture of accountability.

References

[1] Tam P T. Human resource management affecting the banking service quality: A entrepreneurship practicum situation at commercial banks [J]. Journal of Entrepreneurship Education, 2020, 23(6): 1–10.
[2] Uddin M S, Rahaman M A, Latif W B, Dona P D, Kundu D. Impact of green HRM practices on bank employee service behaviors [J]. Banks and Bank Systems, 2023, 18(4): 85–93.
[3] Shetty D K, Perule N, Potti S R, et al. A study of service quality in Indian public sector banks using modified SERVQUAL model [J]. Cogent Business & Management, 2022, 9(1): 1–17.
[4] Shah G P. Human resources management practices in Nepalese commercial bank [J]. International Journal of Research Publication and Reviews, 2024, 5(4): 4677–4683.
[5] Albarq A N. Applying a SERVQUAL model to measure the impact of service quality on customer loyalty among local Saudi banks in Riyadh [J]. American Journal of Industrial and Business Management, 2013, 3(8): 700–707.
[6] Mehta E. Literature review on HR practice in banking sector [J]. International Research Journal of Engineering, IT and Scientific Research, 2016, 2(7): 115–124.
[7] Olobo M, Karyeija G, Sande P, Khoch S. Credit risk management practices and performance of commercial banks in South Sudan [J]. Journal of Financial Risk Management, 2021, 10(3): 306–316.
[8] Kaitibi D B, Ganawah E T J, Yokie M A, et al. Impact of efficient credit management on profitability of commercial banks in Sierra Leone [J]. Open Journal of Business and Management, 2018, 6(1): 139–150.
[9] Temba G I, Kasoga P S, Keregero C M. Impact of the quality of credit risk management practices on financial performance of commercial banks in Tanzania [J]. SN Business & Economics, 2024, 4(3):1–15.