The Impacts of Financial Variables on Employment Planning in Turkish Banking Sector

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ABSTRACT

Understanding investors’ perception begins with questioning their position on risky assets and portfolio selection strategies in volatile market conditions. In banking sector, the performance of banks relies on operational and technical efficiency levels. In the last decade, stakeholders have been facing the dilemma of whether or not to deploy expensive employment programs with high quality personnel as the effects of these programs on banking performance have not been clearly examined in the literature. In this study, it is aimed to assess the role of financial and non-financial factors on employment programs which contribute to the banking efficiency and performance. Within this scope, the analysis conducts with the annual data for the periods between 1988 and 2015 is tested by using logit model for three different groups of Turkish banks based on ownership structure. Empirical findings demonstrate that (1) internal variables are more significant than the external variables in employment programs of these banks, (2) with respect to state-owned banks, it is identified that higher non-interest income affects the employment decision positively, (3) private banks prefer to have fewer employees in case of any decrease in the total loans amount and (4) financial variables are influential for these banking groups to increase or decrease the number of personnel.

KEYWORDS

Banking Performance, Employment Planning, Logit, Turkish Banking Sector

DOI: 10.4018/IJSECSR.2016070101

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1. INTRODUCTION

The latest advances in the financial services industry in emerging economies have been playing great role in economic development and increase of national income in the last two decades. Arguably, these advances are also spreading some risks to financial system inevitably and unbalancing economic stability in turn. Setting up an environment for the effective banking activities in competitive financial services industry has been a challenging issue for policy makers at corporate level. Risks and ambiguities in the financial system apparently demonstrate the possibility of failure or a great loss for the entrepreneurs. Managers and stakeholders are seeking more gains and control in the volatile conditions during recessions. Additionally, investors demand more gains based on their capital investment and returns on equity.

Increasing banking performance has been also a questioning dilemma for the stakeholders during the latest recession: Investing money on bank assets or paying more money for shareholders? Within this challenging issue, the advantages and disadvantages of developing a market based competitive service activities in the banking industry should be examined to clarify on stakeholders’ needs and expectations to prevent the dilemma. Additionally, financial and non-financial factors explicitly affect banking performance and return on investments. Therefore, there is also a need for assessing the effects of external and internal factors on banking performance in the field.

Efficiency in human resource management is one of the important factors affecting banking performance. Efficient human resource management in the banking industry is vulnerable to economic conditions and the instability in the financial services industry. It is possible to mention that it changes over the institutional performance during crisis. Stakeholders have been facing another dilemma of whether or not to employ high quality personnel aftermath recession as the planning for having human resources becomes a very important subject for their companies. The main reason behind this situation is that the quality of the personnel is the main factor for the companies to achieve their objectives (Maloney, 1997). However, the costs of the qualified personnel may be very high for the companies to overcome. Moreover, the cost of employing, training and promoting qualified personnel with extensive amounts will be very much for that company. Therefore, efficiency in human resource management will be increasing the banking performance overall.

With respect to existing literature in the field, this study contributes to banking performance based studies by assessing the effect of financial and non-financial factors on employment planning policy for banks in the sector. A logit analysis for each of three different banking groups that are state-owned, private and foreign banks in Turkey has been adopted. It is believed that the results obtained in this study will very useful for policy makers and researchers in the field of finance and banking. This study highlights also the role of financial variables and their contribution in banking performance based on the assessment of employment.
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