

Mediating Role of Organizational Culture in the Relationship between HR Practices and Employee Performance: Evidence from Commercial Banks in Sindh, Pakistan

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Abstract

This study investigates the interplay among (HR) Human Resources Practices, organizational culture, as well as employees performances within commercialize banks in the province of Sindh-Pakistan, with a focus on the mediating role of organizational culture. Against the backdrop of Pakistan's evolving banking sector—a critical driver of national economic growth—the research addresses a gap in understanding how HR policies translate into improved employee performance in non-Western, hierarchical organizational settings. Using a quantitative methodology, data were collected via structured questionnaires from 280 bank employees (response rate: 91%) through convenience sampling. The survey instrument measured three constructs: HR practices (e.g., recruitment, training, compensation), organizational culture (e.g., trust, communication, collaboration), and employee performance (e.g., task efficiency, goal achievement). Advanced analytical tools, including **Smart-PLS 4.0** for structural equation modeling (SEM) and **MATLAB** for supplementary statistical computations, were employed to test the hypothesized relationships. Key findings reveal that organizational culture serves as a significant mediator, accounting for **42%** of the total effect of HR practices on employee performance (indirect path: $\beta = 0.19$, $*p < 0.05$). While HR practices directly enhance performance ($\beta = 0.28$, $*p < 0.01$), their efficacy is substantially amplified when aligned with a supportive organizational culture. Descriptive statistics highlight moderate employee satisfaction with existing HR policies (mean = 3.8/5) and cultural dynamics (mean = 3.5/5), underscoring room for improvement. Correlation analyses further validate strong interrelationships among the variables (HR-culture: $*r = 0.63$; culture-performance: $*r = 0.58$). The study contribute to HRM literature- by contextualizing the mediating role of culture in a collectivist, hierarchical environment, challenging the universal applicability of Western-centric models. Practically, it recommends that banks in Sindh prioritize cultural interventions—such as fostering trust through transparent communication, redesigning incentive systems to reward collaborative behavior, and integrating cultural audits into HR strategies—to maximize the ROI of HR investments. Limitations, including cross-sectional design and convenience sampling, are acknowledged, with calls for longitudinal and regionally comparative studies.

Keywords: HR Practices, Organizational Culture, Employee Performance, Mediation Analysis, Structural Equation Modeling, Commercial Banks, Sindh, Pakistan

Introduction:

The banking sector in Pakistan serves as a linchpin of economic stability and growth, contributing approximately 6.5% to the national GDP and employing over 1.5 million individuals (State Bank of Pakistan, 2022). Within this framework, Sindh—a province characterized by its economic dynamism and urban centers like Karachi, the financial capital of Pakistan—hosts a significant concentration of commercial banks. These institutions are pivotal in mobilizing savings, facilitating investments, and driving financial inclusion (Ahmed & Qasim, 2020). However, the sector faces mounting challenges, including digital transformation pressures, regulatory complexities, and heightened competition from fintech disruptors. In this context, employee performance emerges as a critical determinant of organizational success, influencing customer satisfaction, operational efficiency, and profitability (Hussain et al., 2021).

Yet, in Pakistan's banking sector—particularly in Sindh—the translation of HR policies into sustained performance outcomes remains inconsistent. For instance, while banks invest heavily in technical training programs, employee turnover rates persist at 15–20% annually, signaling gaps in retention strategies (Pakistan Banking Association, 2021). This discrepancy suggests that HR practices alone may not suffice; contextual factors such as organizational culture may play a mediating role in shaping outcomes.

Organizational culture, defined as the shared values, norms, and practices that influence employee behavior (Schein, 1992), is especially salient in collectivist societies like Pakistan, where interpersonal relationships and hierarchical structures deeply impact workplace dynamics. Research underscores that culture acts as a "social glue," moderating the effectiveness of HR interventions by fostering environments of trust, collaboration, and accountability (Denison & Mishra, 1995). For example, a culture emphasizing open communication may amplify the benefits of performance feedback systems, whereas a rigid, top-down culture could stifle innovation. Despite this, few studies have empirically examined culture's mediating role in South Asian banking contexts, creating a theoretical and practical void.

Problem Statement:

Despite substantial investments in HR frameworks—such as digitized onboarding platforms and leadership development programs—commercial banks in Sindh report persistent challenges in employee performance, including delayed task completion (20% of employees), low innovation uptake, and customer complaints (State Bank of Pakistan, 2023). These issues not only erode profitability but also hinder adaptability to global banking trends, such as AI-driven customer service. Existing literature predominantly attributes performance gaps to HR policy design (Khilji, 2002), overlooking the interplay between policies and cultural dynamics. This study posits that organizational culture, particularly in Sindh's hierarchical and relationship-driven context, may be the missing link explaining why HR practices fail to yield expected outcomes.

Research Objectives

this study aims to:

1. Assess the direct impact of HR practices on employee performance in Sindh's commercial banks.
2. Investigate the mediating role of organizational culture in this relationship.
3. Provide actionable recommendations for aligning HR strategies with cultural attributes to optimize performance.

Theoretical and Practical Significance

Theoretically, this research contributes to the Resource-Based View (RBV) by positioning organizational culture as an intangible resource that enhances HR efficacy (Barney, 1991). It also extends Social Exchange Theory (Blau, 1964), illustrating how cultural reciprocity (e.g., trust between employees and management) amplifies HR outcomes. Practically, the findings offer

banks in Sindh a roadmap to tailor HR initiatives to regional cultural nuances—such as emphasizing communal rewards over individual incentives—to boost retention and productivity. Policymakers may leverage insights to design sector-wide guidelines promoting culturally adaptive HR frameworks.

Methodology Preview

A quantitative approach was employed, utilizing structured surveys administered to 280 employees across 15 commercial banks in Sindh. Data were analyzed using Smart-PLS 4.0 for structural equation modeling (SEM), enabling simultaneous testing of direct and mediated relationships. Control variables, such as employee tenure and hierarchical level, were incorporated to enhance robustness.

Literature Review

HR Practices and Employee Performance

Human resource practices are instrumental in shaping employee performance, a relationship well-documented in strategic human resource management (SHRM) literature. Grounded in the **Resource-Based View (RBV)** (Barney, 1991), HR practices are posited as key organizational resources that enhance competitive advantage by developing firm-specific human capital. Pfeffer (1998) identifies core practices—such as selective recruitment, extensive training, performance-based rewards, and participatory decision-making—as drivers of productivity and retention. Empirical studies in banking sectors globally affirm this linkage; for instance, Huselid (1995) found that high-performance work systems (HPWS) improved employee output by 15–20% in U.S. financial firms. However, the effectiveness of HR practices is context-dependent. In developing economies like Pakistan, challenges such as resource constraints, bureaucratic inertia, and skill shortages often dilute HR efficacy (Khilji, 2002). A study by Abbas and Yaqoob (2009) in Pakistan’s banking sector revealed that while training programs improved technical skills, they failed to address soft skills like problem-solving, limiting overall performance gains. This aligns with the **Ability-Motivation-Opportunity (AMO) framework** (Boxall & Purcell, 2016), which posits that HR systems must concurrently enhance employees’ *ability* (via training), *motivation* (via incentives), and *opportunity* (via empowerment) to achieve optimal results.

Organizational Culture as a Mediator

Organizational culture, defined as the shared assumptions, values, and norms that govern workplace behavior (Schein, 1992), is increasingly recognized as a mediator between HR practices and performance. Denison and Mishra (1995) conceptualize culture through four traits—*involvement*, *consistency*, *adaptability*, and *mission*—arguing that cultures emphasizing adaptability and mission alignment foster innovation and goal attainment.

The Competing Values Framework (Cameron & Quinn, 2011) further classifies cultures into *clan* (collaborative), *adhocracy* (innovative), *market* (competitive), and *hierarchy* suggesting that clan and adhocracy cultures are more conducive to performance in knowledge-intensive sectors like banking.

Empirical evidence highlights culture’s mediating role. For example, Zheng et al. (2010) found that collaborative cultures amplified the impact of HR practices on innovation in Chinese firms, while hierarchical cultures stifled it. In collectivist societies like Pakistan, where interpersonal trust and loyalty are paramount (Hofstede, 1980), culture may act as a “social exchange lubricant” (Shahzad et al., 2008), strengthening the reciprocity between HR investments (e.g., fair compensation) and employee effort. However, studies in South Asian contexts remain sparse. A notable exception is Khilji’s (2002) work in Pakistan, which identified cultural misalignment—such as top-down communication clashing with employees’ desire for autonomy—as a barrier to HR effectiveness.

Contextual Relevance: Sindh's Banking Sector

Sindh's commercial banks operate within a unique socio-cultural and economic milieu. As Pakistan's financial hub, Karachi hosts 70% of the country's banking headquarters (State Bank of Pakistan, 2022), yet the sector grapples with challenges like political instability, cybersecurity threats, and a talent drain to Gulf countries. Hierarchical structures dominate, with decision-making centralized among senior managers, often leading to communication bottlenecks and disempowerment of junior staff (Ahmed & Qasim, 2020). Cultural norms in Sindh, influenced by Sindhi collectivism and Urdu-speaking urban elites, further complicate HR dynamics. For instance, *sifarish* (nepotism) frequently undermines merit-based recruitment, eroding trust in HR policies (Khilji, 2002). Recent surveys indicate that only 35% of employees in Sindh's banks perceive performance appraisals as fair, citing favoritism and opaque criteria (Pakistan Banking Association, 2021). These issues underscore the need to examine how localized cultural traits mediate HR outcomes.

Research Gaps

While prior studies establish the direct HR-performance link (Huselid, 1995) and culture's standalone impact (Denison & Mishra, 1995), three gaps persist:

1. **Mediation Mechanisms:** Few studies explore *how* culture mediates HR effects, particularly in hierarchical, collectivist settings.
2. **Regional Specificity:** Most research focuses on Western or East Asian contexts, neglecting South Asia's unique socio-cultural fabric.
3. **Methodological Limitations:** Cross-sectional designs and self-reported data dominate, limiting causal inferences.

This study addresses these gaps by investigating culture's mediating role in Sindh's banking sector using advanced SEM techniques.

Theoretical Framework

The study integrates **Social Exchange Theory (SET)** (Blau, 1964) and the **RBV** to conceptualize the HR-culture-performance nexus. SET posits that employees reciprocate HR investments (e.g., training) with enhanced performance, contingent on a culture of trust and fairness. Meanwhile, RBV positions culture as an intangible resource that amplifies HR's value.

Hypotheses Development

- **H1:** HR practices (training, rewards, participation) positively affect employee performance.
- **H2:** Organizational culture mediates the relationship between HR practices and performance.

Methodology

Research Design

A cross-sectional, quantitative design was employed. Data were collected via a structured questionnaire using 5-point Likert scales.

Sample and Data Collection

Convenience sampling yielded 307 responses, with 280 retained after filtering (91% response rate). Participants included frontline and managerial staff across 15 banks.

Measures

- **HR Practices:** 12 items (e.g., recruitment, training, compensation).
- **Organizational Culture:** 10 items (e.g., trust, communication).
- **Employee Performance:** 8 items (e.g., efficiency, task completion).

Analytical Tools

- **Smart-PLS 4.0:** For structural equation modeling (SEM) and path analysis.
- **MATLAB:** For supplementary statistical validation.

Hypotheses

- **H1:** HR practices positively affect employee performance.

- **H2:** Organizational culture mediates the HR-performance relationship.

Results

Descriptive Statistics

The sample comprised 280 bank employees (mean age = 32 years, SD = 4.7; 65% male, 35% female). Tenure averaged 5 years (SD = 2.3). Mean scores for variables were:

- **HR Practices:** 3.8/5 (SD = 0.72)
- **Organizational Culture:** 3.5/5 (SD = 0.68)
- **Employee Performance:** 4.1/5 (SD = 0.61)

SPSS Analysis

Reliability and Validity

Cronbach's alpha confirmed internal consistency:

- HR Practices: **0.84**
- Organizational Culture: **0.79**
- Employee Performance: **0.81**

Correlation Analysis

Pearson's correlation revealed significant relationships:

- HR Practices ↔ Organizational Culture: **$r = 0.63, p < 0.01$**
- HR Practices ↔ Employee Performance: **$r = 0.52, p < 0.01$**
- Organizational Culture ↔ Employee Performance: **$r = 0.58, p < 0.01$**

Regression Analysis

A linear regression tested the direct effect of HR practices on performance:

- **$R^2 = 0.27$** (HR practices explain 27% variance in performance)
- **$\beta = 0.28, p < 0.001$** (significant positive effect)

Smart-PLS Analysis

Measurement Model

- **Factor Loadings:** All items loaded > 0.7 on their constructs.
- **Convergent Validity:** Average Variance Extracted (AVE) > 0.5 for all constructs.
- **Composite Reliability (CR):**
 - HR Practices: **0.87**
 - Organizational Culture: **0.83**
 - Employee Performance: **0.85**

Structural Model

- **Direct Effect (H1):** HR practices → Employee Performance (**$\beta = 0.28, t = 3.42, p < 0.01$**).
- **Indirect Effect (H2):** HR practices → Organizational Culture → Employee Performance (**$\beta = 0.19, t = 2.89, p < 0.05$**).
- **Total Effect:** HR practices explained **46%** of the variance in performance ($R^2 = 0.46$).
- **Mediation:** Organizational culture mediated **42%** of the HR-performance relationship (Variance Accounted For, VAF = 0.42).

Bootstrapping Validation

5,000 bootstrap samples confirmed stability:

- Direct effect CI: **[0.14, 0.41]** (no zero inclusion).
- Indirect effect CI: **[0.08, 0.30]** (no zero inclusion).

Summary of Findings

Both SPSS and Smart-PLS results corroborated hypotheses:

1. HR practices significantly improve employee performance (H1 supported).
2. Organizational culture partially mediates this relationship (H2 supported).

Discussion:

The findings validate organizational culture as a pivotal mediator, explaining why HR initiatives

alone may falter. Trust and collaboration emerged as cultural keystones, aligning with Schein's (1992) framework. Banks in Sindh must prioritize cultural development to amplify HR outcomes.

Practical Implementation

Strategies for Enhancing Organizational Culture

Leadership Development Programs:

- Train managers to model cultural values (e.g., trust, collaboration) through workshops on empathetic communication and inclusive decision-making.
- Implement mentorship programs to bridge hierarchical gaps and foster cross-level collaboration.

Align HR Policies with Cultural Goals:

- Revise recruitment criteria to prioritize cultural fit (e.g., values-based interviews).
- Introduce team-based incentives to reinforce collaborative behavior alongside individual performance metrics.

Strengthen Communication Channels:

- Establish transparent feedback mechanisms (e.g., monthly town halls, anonymous digital platforms) to address employee concerns.
- Use internal communication tools (e.g., Slack, intranet portals) to share organizational goals and celebrate cultural milestones.

Employee Engagement Initiatives:

- Conduct regular culture audits to identify gaps and measure progress.
- Organize team-building activities (e.g., cross-departmental projects, cultural festivals) to strengthen interpersonal bonds.

Technology Integration:

- Leverage HR analytics software to track cultural metrics (e.g., engagement surveys, turnover rates) and adjust strategies dynamically.
- Adopt digital learning platforms for continuous training on cultural values and soft skills.

Sector-Specific Recommendations for Banks in Sindh

Address Hierarchical Norms:

Pilot flat organizational structures in select branches to encourage open dialogue.

Train senior leaders to delegate authority and empower mid-level managers.

Localized Cultural Adaptations:

Incorporate regional values (e.g., community-oriented practices) into corporate culture.

Partner with local institutions to design culturally resonant HR programs.

Future Research Directions

Methodological Expansions:

1. **Conduct longitudinal studies** to establish causal relationships and assess cultural evolution over time.
Use mixed-methods approaches (qualitative interviews + quantitative surveys) to explore nuanced cultural dynamics.
2. **Contextual Extensions:**
Compare results with other provinces (e.g., Punjab, Khyber Pakhtunkhwa) to identify regional disparities. Investigate sectors beyond banking (e.g., healthcare, education) to generalize findings.
3. **Variable Exploration:**
Examine moderators like leadership styles (e.g., transformational vs. transactional) or employee well-being.
Study the impact of digital HR practices (e.g., AI-driven recruitment) on culture and performance.

4. **Global and Technological Trends:**

Analyze how global crises (e.g., economic downturns, pandemics) reshape the HR-culture-performance nexus.

Explore the role of diversity, equity, and inclusion (DEI) initiatives in strengthening organizational culture.

5. **Cross-Cultural Comparisons:**

Benchmark Pakistani banks against international counterparts (e.g., UAE, Malaysia) to identify best practices.

Conclusion

The banking sector in Pakistan, particularly in Sindh province, is one of the pillars of the country's stability and economic development. In this context, employee performance is key to maintaining competitive advantage and operational efficiency. The objective of this study is to examine and explore the mediating role of organizational culture in the relationship between human resource (HR) practices and employee job performance. This study adopted a quantitative approach. In this study, 280 employees of commercial banks in Sindh province were surveyed. Advanced analytical tools such as SPSS and Smart-PLS were used.

Key Findings and Theoretical Contributions

The analysis revealed that organizational culture mediates approximately 42% of the impact of HR practices on employee performance, underscoring its pivotal role. While HR practices—such as training, performance appraisal, and compensation—exerted a direct positive effect ($\beta = 0.28, p < 0.01$), the indirect effect through culture ($\beta = 0.19, p < 0.05$) was substantial, highlighting that HR policies alone are insufficient without cultural alignment. This finding aligns with Schein's (1992) theory, which posits that culture acts as a social fabric influencing behavior, and extends the resource-based view by positioning culture as an intangible asset that enhances HR outcomes. By contextualizing these theories within Sindh's banking sector, the study contributes to a deeper understanding of how collectivist and hierarchical norms modulate HR effectiveness, offering a regional perspective often absent in global literature.

Practical Implications for Stakeholders

For bank managers and HR professionals, the results emphasize the necessity of embedding cultural stewardship into strategic planning. Practical recommendations include:

1. **Leadership Development:** Implementing workshops to train leaders in fostering trust, empathy, and collaboration, thereby modeling cultural values.
2. **Policy-Culture Alignment:** Revising recruitment and incentive systems to prioritize cultural fit, such as team-based rewards and values-based interviews.
3. **Enhanced Communication:** Leveraging digital platforms (e.g., Slack, intranet portals) for transparent dialogue and regular feedback loops to bridge hierarchical gaps.
4. **Localized Adaptations:** Incorporating regional values, such as community-oriented practices, into corporate culture to resonate with employees' socio-cultural identities. These strategies are particularly relevant in Sindh, where traditional hierarchies and communication barriers often impede HR initiatives. Banks are encouraged to pilot flat structures in select branches and use HR analytics to dynamically track cultural metrics, such as engagement and turnover rates.

Limitations and Future Research Directions:

Although this study provides valuable information, its cross-sectional design limits causal inferences and sample selection may affect generalizability. Future research should take a longitudinal approach to track cultural developments and expand to other provinces (e.g. Punjab) or sectors (e.g. healthcare) to assess contextual changes. Further insights could be gained by examining moderators such as leadership style (transformational or transactional) or digital HR

tools (e.g. AI-assisted recruiting). A mixed methods approach that combines surveys and qualitative interviews will enhance understanding of cultural nuances, while cross-cultural comparisons with regions such as the UAE or Malaysia may identify best practices that can be applied globally.

Final Reflections

In conclusion, this study highlights that organizational culture is a strategic lever for optimizing HR performance in the Sindh banking sector. By prioritizing cultural cohesion, organizations can achieve sustained performance growth and create an environment where employees can thrive. For policymakers, the findings suggest that cultural indicators should be included in national banking regulations to support the overall human resource framework. From an academic perspective, the study bridges a critical gap by placing Western theories in a South Asian context, thereby paving the way for culturally adaptive management practices. At a time when the banking sector is facing economic uncertainty and digital transformation, fostering a strong organizational culture remains crucial for achieving resilience and excellence.

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