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COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF PUBLIC ADMINISTRATION AND DEVELOPMENT
MANAGEMENT

IMPACT OF HUMAN RESOURCE DEVELOPMENT ON PERFORMANCE
OF PUBLIC FINANCIAL INSTITUTIONS: IN THE CASE OF
COMMERCIAL BANK OF ETHIOPIA

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DECLARATION

I, Samuel Eshetu, declare that this study, which is entitled "impact of human resource development on performance of public financial institution in the case of Commercial bank of Ethiopia" is my own work. I have undertaken the research work independently with the guidance and support of the research advisor. This thesis is my original work and has not been presented for a first degree or master's degree in any other university. It is in partial fulfillment for the requirement of the program for the degree of Master of Art in public administration and development management. All source of materials used for this thesis have been duly acknowledged.

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ENDORSEMENT

This thesis has been submitted to Addis Ababa University, school of Graduate Studies for examination with my approval as a university advisor.

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This is to certify that the thesis prepared by Samuel Eshetu, entitled: "impact of human resource development on performance of public financial institution in the case of Commercial Bank of Ethiopia" and submitted in partial fulfillment of the requirements for the Degree of Master of Art in public administration and development management complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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ACRONYMS AND/OR ABBREVIATIONS

ADF	Augmented Dickey Fuller
BLUE	Best Linear Unbiased Estimator
CBE	Commercial Bank of Ethiopia
ECM	Error Correction Method
EEA	Ethiopian Economic Association
FPB	Financial Performance of Banks
HDI	Human Development Index
HR	Human Resource
HRD	Human Resource Development
HRM	Human Resource Management
MOFED	Ministry of Finance and Economic Development
NBE	National Bank of Ethiopia
OC	Organizational Commitment
OLS	Ordinary Least Square
ROA	Return on Asset
T&D	Training and Development
VEC	Vector Error Correction
VIF	Variance Inflating Factor
WB	World Bank
MLRM	Multiple Linear Regression Model

ABSTRACT

The general objective of this study is to examine the impact of human resource development on the performance of public financial institution in the case of Commercial Bank of Ethiopia using profit as a proxy for financial performance and education and training expenditure, health expenditure, number of employees, salary and wage, and asset as a proxy of human resource development over the period of 2005-2018. Wide differences of various empirical studies are found in the model specifications, human resource development approximation and the results obtained. The sources of data being used in this study are secondary data which obtained from various sources. Descriptive statistics and time series econometrics/regression are used in the model to analyze the data. The Ordinary Least Squares (OLS) is the Multiple Linear Regression Model (MLRM) are applied in order to investigate the impact of Human Resource Development on performance of public financial institution. Human resource development occupies a central role in modern thinking about growth of organization. This study investigates whether investment in human resource development represented by investments on education and training, salary and wages, expenditure on health improvement of employees, number of employees and asset affects the performance of commercial bank of Ethiopia. The results obtained in this study shows a positive and statically significance relationship between expenditure on education and training, health and total asset of the bank with performance confirming which the literature and empirical results. Based on the outcome of the estimation, therefore, Commercial Bank of Ethiopia is expected to increase its level of investment in developing its human resource. On the other hand, increase in number of employees and wage and salary expense have negative and statically significant impact on performance of the bank. In order to enhance the contribution of human resource development, Commercial Bank of Ethiopia has to allocate adequate finance which will help to work on quality of education and providing basic health services to employees.

Keywords: Human Resource Development, OLS, MLRM, Public Financial Institution, Commercial Bank of Ethiopia.

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

Human resources are the greatest assets of any organization. The developmental climate in an organization helps the individuals to utilize their potential properly and contribute to the achievement of the goals of the organization. Human resource development is the integration of individual, career and organization development roles in order to achieve maximum productivity, quality, opportunity and fulfillment of organizations members as they work to accomplish the goals of the organization. Human resource development is also a concept and the term human resources always referred to the human inputs in any production process. It is an important if not vital component of production which can be influenced, designed, shaped, and improved through learning, education, coaching, counseling, training and development activities to perform or function in any production or management process along with other factors such as land, labor and capital (Mills et al, 1992).

The global competition and swiftness of changes emphasize the importance of human capital within organizations, as well as the swiftness and ways of knowledge gaining of that capital. In the economy where uncertainty is the only certainty, knowledge is becoming a reliable source of sustained competitive advantage basic capital and the trigger of development (Schuler et al, 2005).

It is important not to ignore the prevailing evidence on the growth of knowledge in the business corporate world in the last decade. This growth has not only been brought about by improvements in technology nor a combination of factors of production but increased efforts towards the development of organizational human resources. It is, therefore, in every organizations responsibility to enhance the performance of the employees and certainly implementation of training and development (Nasir et al, 2012).

Organizations are facing increased competition due to globalization, changes in technology, political and economic environments and therefore prompting these organizations to train their employees as one of the ways to prepare them to adjust to the increased competition and thus

enhance their performance. Due to rapid change, business environment demands the organization's continuous upgrading of employee skill, knowledge and attitude which is through training to enhance employee and organization performance. Hence, it is important to equip employees with new knowledge to achieve the objectives of the organization. Human Resource Development can lead to the creation of good people and culture that makes healthy and successful organizations. The major function of human resource development is to build the core competencies of every individual employee serving the organization. For creating a learning environment in the organizations, the organizations are focusing on the human resource development. This, in turn will build a highly competent and committed workforce for the growth and continuous development of the dynamic organizations. An organization can build the vital, purposeful and devoted workforce through the preeminent human resource development climate creation(Wood,1999).

Human resource development is the most vital element in financial institution effectiveness which not only ensures current performance or productivity, but also long term growth and survival of the company. Financial institutions act as a channel between savers and borrowers of funds. They should continuously ensure the effectiveness, competency, dynamism and motivation of human capital at a very high level. Financial institutions can be either public or private. Public financial institutions include banking, insurance, and microfinance and management development. These financial institutions need trained, skilled, competent and motivated human resource in order to achieve organizational goal and for better performance of the organization. Despite the fact that every other resource likes capital, assets, technology and even additional finance too can be bought; but the only resource that cannot be brought is skilled and motivated human resources. Therefore, financial institutions should continuously ensure the effectiveness, competency, dynamism and motivation of human capital at a very high level (Reddy, 2010).

Human resource development can affect financial assets of financial institution in terms of the direct or indirect costs, which they incur. These costs incurred on human resource development usually translate to investment that the institution could recover with benefits in the long run. Organizations should prefer to maximize wealth through maximizing their human capital.

Currently, the literature encourages the consideration of human resources as strategic factors, not only because they play important role in strategy implementation, also because they are beginning to be considered as sources of sustainable competitive advantage. Organizations need to be aware of more realistically towards keeping their human resources and pay special attention to all the core functions of human resource development (Arther,1994)

Commercial Bank of Ethiopia placed training and development as the bases for its strategic operational excellence and business growth, which are the ultimate results of the Bank. Consequently, it has been allocating huge sums of money in its budgetary allocation towards training and developing its employees as a highly valued asset. It has also built the first huge training center called “center of excellence” for its capacity building and other firms in the industry. The bank believes that its employees are its indispensable assets and they must uphold critical competencies that match world class standards and is convinced that this can be attained only when continuous investment is made to upgrade the skills of existing ones as to boost productivity and the ability of the Bank to effectively realize its objectives (CBE annual Report, 2017/18).

Taking into account what is stated herein above human resource components are the key for success of most organizations. Therefore, this study aims to provide evidence on how human resource development influences the performance of public financial institution.

1.2. Statement of the problem

In today’s changing global context, both individual and collective skills are the most important assets for organizations and determine their productivity competitiveness and ability to adapt and to be proactive when faced with an uncertain environment. The contribution of human resource development to the performance of financial institutions is a dynamic issue which should be assessed frequently due to ever changing in the requirements of the corporate world from their employees as the world is now a global village.

Human resource development involves in a long run investment in human resources that should result in a firm’s growth and productivity (Solow, 1956; Mankiw et al ,1992). Effective investment in human capital is a key component to improve productivity. Hence, their quest for

an important source of efficiency, and competitive advantage associated with improved corporate performance directs them to develop their human resources.

Financial institution in Ethiopia are suffering with high labor turnover and has high flow of employees from one bank to another bank to facilitate their life style by comparing their bank pay scale and benefit package with other banks. Indeed the Commercial Bank of Ethiopia like other organizations engaged and invest considerable amount of resource to train the employees and continued its efforts towards strengthening its human capacity by providing various on-the – job and off-the-job training, recruiting additional new and trained employees as well as retaining existing staff through maneuver different incentives and benefit packages (CBE,2017). Therefore, the financial institution should device a mechanism to ensure effectiveness, competency, and dynamic policy for registering maximum attainable performance.

Studies on human resource development and performance were not a new research area. In fact, various researches have conducted a research internationally on the relationship between human resource development and performance, but the results of findings are still debatable among them. They have utilized different proxies for human resource development, and their methodology and conclusions are also controversial about the relationship between human resource development and performance of financial institution. Like, (Aartchahal ,2013; Adbus ,2011; Ahmina ,2012; Aliyu et al ,2014; Ayanda et al ,2014; Chika ,2013; Christian ,2016; Daniel ,2014 ; Engetou ,2017 ; Henry et al ,2011 ; Hossain ,2014; Muhammed et.al ,2013; Sowunmi et al ,2015) conducted studies on the impact of human resource development on the performance of financial institution . Those studies use training and development as a proxy of human resource development by using cross sectional data and descriptive statistics. All these studies conclude that training and development have positive effect on financial performance. On the other hand, Firer and Williams (2003), Shiv (2006), and Chan (2009) all found that human capital has a negative effect on the ratio between the assets flow and value arguing that training which is one part of human resource development leads to an increase in turnover and it serves as a way of losing talented people to other rival companies (Becker, 1993).

In Ethiopia, various studies such as by Brhane (2016), Mulu (2016), Ramadevi (2017), Selam (2016) and Worku (2016) were conducted to analyze the relationship between human resource development and financial performance. All of those studies use only training and/or

compensation as a proxy of human resource development and cannot show the time effect of human resource development.

Public financial institutions commit huge financial resources to staff training and development, staff health care and other personnel benefits so as to improve the productivity of employee. Thus, they do not only rely on training and/or compensation but salary and wages, health expenditure, number of employees, total asset of the firm are also a factors/variables used to measure the performance/profitability of the financial institution. Therefore, there is a need to investigate the effect of human capital development on financial performance of banks by including the variables, indicated above. This study has examined the impact of human resource development on performance of the public financial institution in the case of Commercial Bank of Ethiopia by including more variables, which have not been covered by researchers in the field, through descriptive and econometrics/regression analysis and by time series data.

1.3. Objective of the study

1.3.1. General objective of the study

The general objective of the study is to examine the impact of human resource development on the performance of the public financial institution.

1.3.2. Specific objectives of the study

More specifically, the study aims at achieving the following objectives.

- To analyze the effect of investment on education and training of human resource on the public financial institution
- To examine the impact trends number of employees on performance of the public financial institution
- To analyze the effect of total asset of the organization on the public financial institution
- To examine the effect of salaries and wages of employees on the public financial institution
- To analyzes the impact of health expenditure on employees of the organization to the performance of the public financial institution.

1.4. Research questions

- What is the effect of investment on education and training of human resource on Commercial Bank of Ethiopia?
- To what extent an increase of number of employee have significant impact on the performance of Commercial Bank of Ethiopia?
- What is the effect of total asset of the organization on the performance of Commercial Bank of Ethiopia?
- How salaries and wages of employee's have significance effect on the performance of Commercial Bank of Ethiopia?
- What is impact health expenditure on the performance of Commercial Bank of Ethiopia?

1.5. Significance of the study

This study will insight the CBE's Management team as well as the owner CBE (government) impact of human resource development on the financial performance of the bank so as to enable them to take prompt and necessary action accordingly that leads the bank towards optimum utilization of its human resource for best financial performance as well as to play its crucial role for the development of proper human resource policy. The findings of the study will also support to identify gaps in the systems of human resource development in the Commercial Bank of Ethiopia and examine their procedures accordingly.

1.6. Scope of the study

Undertaking research on the impact of human resource development on the performance of financial institutions at the international level and in all financial institution is a complex task since it requires huge finance, time, and sufficient knowledge. These constraints force the study to undertake research at the national level (in Ethiopia) and will examine the relationship between human resource development and performance of public financial institution in the case of Commercial Bank of Ethiopia.

1.7. Limitation of the study

There are various human resource development factors such as: education and training, salary and wage, health expenditure, total asset, number of employee, and reward are among others that affects commercial banks profitability. However, this study was limited to only five factors such as education and training, salary and wage, health expenditure, total asset, number of employee to measure the impact of human resource development on the profitability of commercial bank. Reward was not considered since it was given to the employee either in the form of certificate or promotion which is difficult to quantify. This study also limited for the period between 2005-2018 due to inaccessibility of the data older than 2005 for variables like health and training.

1.8. Organization of the study

This thesis was organized into five chapters. Chapter one is an introduction which contains: background of the study, statement of the problem, research objectives, scope and limitation of the study, the significance of the study, and the organization of the paper itself. Chapter two provided a review of theoretical and empirical literature related to human resource development and public financial institutions. The data types and sources, research design and type, a method of data analysis, model specification and estimation technique diagnostic and time series data test was discussed in the three chapters. Chapter four includes discussion and interpretation of the results. Finally, chapter five presents the conclusion and recommendation of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1. Theoretical Literature

Human Resource Development according to Wilson (2004) is a title which represents the latest evolutionary stage in the long tradition of training, educating and developing people for the purpose of contributing towards the achievement of individual, organizational and societal objectives. But like human resource management it has attracted criticisms from some quarters. The first criticism was on its interpretation, by Hansen and Brooks (1994) who claimed that human resource development could be problematic particularly if an international perspective is taken because its interpretation and roles tend to vary from one country to another. Another criticism which is more acceptable is that of Jones and Mann (1992) who commented that there was a strong insistence that Human resource development is not the same as training. Other debates include its role in promoting performance or learning. The debate maintained that it was difficult to make a clear statement about what should be included in human resource development.

Defining human resource development, Armstrong (1999) defined human resource development as a part of human resource management concerned with the provision of learning, development and training opportunities in order to improve the individual, team and organizational performance. Armstrong went further to say that the overall aim of human resource development is to see that the organization has the quality of people it needs to attain the goals for improved performance and growth. Human Resources Development has also been defined as a framework for the expansion of human capital within an organization. It is a combination of training and education that ensures the continual improvement and growth of both the individual and the organization.

The Human Resources Development framework views employees, as an asset to the enterprise whose value will be enhanced by development, “Its primary focus is on growth and employee development it emphasizes developing individual potential and skills.

The scholarship of Human Resource Development (HRD) is generally recognized as a field in its own right. With a growing number of undergraduate and postgraduate programmes dedicated to the study of HRD in some of the most prestigious education and business schools around the world, the value of HRD to the development of individuals and organizations is increasingly being acknowledged. The growth of the field of HRD owes much to the publication of high-quality research in academic journals pointing to the value and effectiveness of HRD interventions. Since the late 1980s, a number of specialist HRD publications began to emerge to mark the distinctive contribution of HRD to individuals and organizations (Lindd'2011).

Let us now consider how HRD is defined. Defining HRD has become a preoccupation within the field for at least the last 20 years. Because HRD has long existed within a binary between serving the interests of employees and organizations (and more recently embracing the community and societal aspects), it has been difficult to arrive at a formulation of words that summaries and articulate well the multiple aims and purposes of the field (Lindd, 2011).

For their part, McLean and McLean (2001) argue that ambiguity (and dealing with ambiguity) is a core element of life and as such, they are not concerned with the lack of a clear consensual definition of HRD. Similarly, Lee (2001) sees value in not defining HRD for fear it may limit the dynamic and evolving nature of the field. Accordingly, the field of HRD has developed amorphous properties and a willingness to claim ideas and theories that help to further individual and organizational effectiveness.

Human Resources Development from a business perspective is not entirely focused on the individual's growth and development, "development occurs to enhance the organization's value, not solely for individual improvement. Individual education and development is a tool and a means to an end, not the end goal itself" Elwood et al (1996).

Organizations need to consider some important issues as they face the future: continuous technological change; the increasing removal of trade barriers; the consequent globalization; the volatility of customer demand within existing markets (Luoma, 2000; Ulrich, 1997). These continuous changes have challenged organizations to learn how to manage their businesses in the context of these continuous unpredictable changes, to learn how to confront these changes

quickly and successfully. In other words, these continuous changes and challenges have created the need for a learning organization. It is argued that, in order for an organization to be a learning organization and to achieve its objectives and strategies, it needs to consider the important role of its people; it needs a highly competent, skilled and trained workforce. The need to compete from the inside out has made organizations aim to increase the power of their people-related processes to build and sustain competitive advantage as the ultimate organizational objective; thus, outperforming competitors (Luoma, 2000).

2.1.1. Human Resource Development

According to Wilson (1991), effective human resource development in an organization is one that responds to challenges and opportunities through the identification and delivery of human resource intervention. It is the one which explains the reasons for investment in human resource development and incorporating it into the operational guidelines. He continued by also identifying that effective human resource development is one which explains the training, education, development and learning opportunities available for employees; a policy statement that explicitly describe the relationship between the objectives of the organization and the human development opportunities for its employees and thereby enabling them to advance their careers and support organizational growth; where individuals, supervisors, and top managers are informed of their roles and participate in human resource development delivery; clearly specify objectives and targets that enable the human resource development function to be evaluated against strategic requirements; a positive public relations awareness for new and potential employees to know that skills deficiencies will be provided for.

Armstrong (1996) posit that effective human resource will enable organization to know how to reward their employees in his words, this can be both financial or non financial rewards which embraces the philosophies, strategies, policies, plans and processes used by such organization to develop and maintained reward systems which he also made know can exist concurrently due to improved productivity as a result of development programmes.

Wilson (1990) also was quick to point out that the present environment and sources of competitive advantage are quickly overcome by competitors and thus the only source of competitive advantage is the ability of an organization to learn more quickly than others.

Human resource development can affect financial assets of financial institution in terms of the direct or indirect costs, which they incur. These costs incurred on human resource development usually translate to investment that the institution could recover with benefits in the long run. Organizations should prefer to maximize wealth through maximizing their human capital. Currently, the literature encourages the consideration of human resources as strategic factors, not only because they play important role in strategy implementation, also because they are beginning to be considered as sources of sustainable competitive advantage. Organizations need to be aware of more realistically towards keeping their human resources and pay special attention to all the core functions of human resource development.

Human resource development factors which affect the performance of the organization are described in the following parts:

2.1.1.1. Training and Development

This involves training and development of workforces and managers (Briscoe ,1995). Training and development are often used to close the gap between current performances and expected future performance. Training and development falls under HRD function which has been argued to be an important function of HRM (Weil & Woodall 2005). Amongst the functions activities of this function is the Identification of the needs for training and development and selecting methods and programmes suitable for these needs, plan how to implement them and finally evaluating their outcome results (Eldridge et al, 2003).

Guest (1987) argues that policies are necessary to ensure that employee performance is evaluated, which in turn ensures that the appropriate training and development take place. With the help of the performance appraisal reports and findings, the organization can be able to identify development needs. However, individuals themselves can help to indicate the areas requiring improvement as a result of the issues raised in the performance appraisal process and their career path needs.

There are two main theoretical approaches towards employee training and development, namely, the human capital approach and the technology-based approach. According to Luo (2000), the human capital approach regards training as an investment in human capital. Thus, training is provided only when the benefit from productivity gains is greater than the cost of training. On the other hand, the technology-based approach regards training as a skill formation process. According to this approach, the expanded training in the contemporary period is driven by the rapidly changing technologies and work reorganization. Thus, training is provided because it satisfies the functional needs of an organization and equally contributes to human capital accumulation or skill formation.

T&D is the most important subsystem or element of HRD. It concerns increasing, improving, enhancing and modifying employees' skills, abilities, capabilities and knowledge, thus, they will be able to conduct their current and future jobs effectively, thereby increasing individuals' and organizations' growth and performance.

According to Neelam et al., (2014) Training and development is defined as the planned learning experiences that teach employees how to perform current and future jobs. These two processes, Training and Development, are often closely connected. Training can be used as a proactive means for developing skills and expertise to prevent problems from arising and can also be an effective tool in addressing any skills or performance gaps among staff. Development can be used to create solutions to workplace issues, before they become a concern or after they become an identifiable problem (Kennedy, 2009). Training and development have become the most important factor in the business world today, because training increases the efficiency and the effectiveness of both employees and the organization (Raja, Furqan and Mohammed, 2011). Training is a systematic restructuring of behavior, attitude and skills through learning- education, instruction and planned experience. The cardinal purpose of training is to assist the organization achieves its short and long term objectives by adding value to its human capital. Training and development are not undertaken for the sake of training, but rather are designed to achieve some needs. Therefore, training and development are need based in the sense that they are undertaken to fill some knowledge gap within an organization (Gunu et al., 2013).

A number of authors recognize the purpose of training and development as being to develop capacities of employees and by extension represents an investment in human resources (Ulrich and Lake, 1990). The quality of employees and their development through training and education are major factors in determining long-term profitability of any business venture.

Human Resource professionals also believe that an organization is only as good as its employees, and this understanding suggests that training should be more specifically responsive to employees' training needs (Noe, 2008). To manage an organization both large and small requires staffing them with competent employees. The formal educational system in Nigeria does not adequately teach specific job skills for a position in a particular organization and few employees have the requisite knowledge, abilities, skills and competencies needed to work. As a result, many employees require extensive training on the job to acquire the necessary knowledge, abilities, skills and competencies needed to make substantive contribution towards the organization's growth.

The effectiveness and success of an organization lies on the people who form and work within the organization. It follows that for the employees in an organization to be able to perform their duties and make meaningful contributions to the success of the organizational goals, they need to acquire the relevant skills and knowledge (Watad et al, 1999).

Nadler (1984) noted that all the human resource development activities are meant to either improve performance on the present job of the individual, train new skills for new job or new position in the future and general growth for both individuals and organization so as to be able to meet organization's current and future objectives. There are broadly two different methods that organizations may choose from for training and developing skills of its employees. These are on-the-job training given to organizational employees while conducting their regular work at the same working venues and off-the-job training involves taking employees away from their usual work environments and therefore all concentration is left out to the training. Examples of the on-the-job training include but are not limited to job rotations and transfers, coaching and/or mentoring. On the other hand, off-the-job training examples include conferences, role playing, and many more as explained below in detail. Armstrong (1995) argues that on-the-job training

may consist of teaching or coaching by more experienced people or trainers at the desk or at the bench. Different organizations are motivated to take on different training methods for a number of reasons for example; (1) depending on the organization's strategy, goals and resources available, (2) depending on the needs identified at the time, and (2) the target group to be trained which may include among others individual workers, groups, teams, department or the entire organization.

These are a number of methods which may be used to develop the skills required within an organization. These course and programmes are usually a set of defined and known programmes where the contents, durations and all the details about the training are clear to both the organization and the personnel to be trained. Unlike informal trainings and programmes, formal training and programmes can be planned earlier and also plan for their evaluation. Employees may undertake these courses and programmes while completely off work for a certain duration of time or alternatively be present for work on a part-time basis. These programmes can be held within the organization (in-house) or off the job. Off the job is argued to be more effective since employees are away from work place and their concentration is fully at training. Depending on the knowledge needed, organization's structure and policies, the trainers too may be coming within the corporation or outside the organization.

In the real world, organizational growth and development is affected by a number of factors. In light with the present research during the development of organizations, employee training plays a vital role in improving performance as well as increasing productivity. This leads to placing organizations in the better positions to face competition and stay at the top. This implies an existence of a significant difference between the organizations that train their employees and organizations that do not. Existing literature presents evidence of an existence of obvious effects of training and development on employee performance. Some studies have proceeded by looking at performance in terms of employee performance in particular (Purcell, Kinnie & Hutchinson 2003; Harrison 2000) while others have extended to a general outlook of organizational performance (Guest 1997; Swart et al. 2005). In one way or another, the two are related in the sense that employee performance is a function of organizational performance since employee performance influences general organizational performance. In relation to the above, Wright & Geroy (2001) note that employee competencies change through effective training programs. It

therefore not only improves the overall performance of the employees to effectively perform their current jobs but also enhances the knowledge, skills and attitude of the workers necessary for the future job, thus contributing to superior organizational performance.

The branch of earlier research on training and employee performance has discovered interesting findings regarding this relationship. Training has been proved to generate performance improvement related benefits for the employee as well as for the organization by positively influencing employee performance through the development of employee knowledge, skills, ability, competencies and behavior (Appiah 2010; Harrison 2000; Guest 1997). Moreover, other studies by Swart et al. (2005) elaborate on training as a means of dealing with skill deficits and performance gaps as a way of improving employee performance. According to Swart et al., (2005), bridging the performance gap refers to implementing a relevant training intervention for the sake of developing particular skills and abilities of the employees and enhancing employee performance. He further elaborates the concept by stating that training facilitates organization to recognize that its workers are not performing well and thus their knowledge, skills and attitudes need to be molded according to the firm needs. It is always so that employees possess a certain amount of knowledge related to different jobs. However, it is important to note that this is not enough and employees need to constantly adapt to new requirements for job performance. In other words, organizations need to have continuous policies of training and retaining of employees and thus not to wait for occurrences of skill and performance gaps.

According to Wright & Geroy (2001), employee competencies change through effective training programs. It not only improves the overall performance of the employees to effectively perform the current job but also enhances the knowledge, skills and attitude of the workers necessary for the future job, thus contributing to superior organizational performance. Through training the employee competencies are developed and enable them to implement the job related work efficiently, and achieve firm objectives in a competitive manner. Further still, dissatisfaction complaints, absentism and turnover can be greatly reduced when employees are so well trained that can experience the direct satisfaction associated with the sense of achievement and knowledge that they are developing their inherent capabilities (Pigors & Myers 1989).

Most of the benefits derived from training are easily attained when training is planned. This means that the organization, trainers and trainees are prepared for the training well in advance.

According to Kenney & Reid (1986) planned training is the deliberate intervention aimed at achieving the learning necessary for improved job performance. Planned training according to Kenney and Reid consists of the following steps:

Identify and define training needs; define the learning required in terms of what skills and knowledge have to be learned and what attitudes need to be changed; define the objectives of the training; plan training programs to meet the needs and objectives by using the right combination for training techniques and locations; and decide who provide, evaluate, amend, and extend the training as necessary.

2.1.1.2. Human resource development and education

HRD has strong roots in education. With strong representation within schools of education, the field of HRD has been mainly concerned with individual development; that is, with helping a person develop skills and abilities. The individual is viewed as a key driver of development. The education perspective assumes that individuals experience considerable ownership of and control over their development. Employers and organizations are assumed to have relatively limited influence. Therefore, this perspective largely ignores the issue of contestation by championing the notion of individual agency (Lindd, 2011).

The education perspective has a strong reliance on psychological principles. According to Swanson (1999), psychology forms an important foundation of HRD in that it provides an understanding of how learning takes place and how individuals behave. The workplace provides a context where individuals choose to learn, choose to perform and choose to develop. An understanding of these choices and the factors affecting such choices is crucial to effectively deploy HRD interventions. Given the socially constructed nature of reality and organizations and the importance of the subjective, psychology offers HRD an important insight into the drivers of behavior, how individuals process information and how relationships are formed and developed.

Education is a process by which man transmits his experiences, new findings, and values accumulated over the years, in his struggle for survival and development, through generations. Education enables individuals and society to make all-rounded participation in the development process by acquiring knowledge, ability, skills and attitudes. And aims at strengthen the

individual's and society's problem-solving capacity, ability and culture starting from basic education and at all levels (Todaro, 2012).

Education policy becomes very important. While each country's needs and conditions are different, a general recommendation arising from this study is that education policy must be closely tied with labor and economic policy. The educational system must not exist in a vacuum; rather, decisions on priorities, curricula, and budget allocation need to be made in line with medium- and long-term development plans. If the country seeks to develop its information technology sector, then the quality of math and science education will need to be improved. Likewise, if a country needs to improve governance and institutions, then civics and history cannot be eliminated from the curriculum. Likewise, development institutions will need to hone education sector strategies and policy (Son, 2010).

In Ethiopia, education dates back to the Sixth Century when the Sabeen alphabet was introduced along with Christianity. Beginning in the early years of the Christian era, the churches of Ethiopia developed school system which over the centuries served not only as focal points for learning but also prepared the nations religious and governmental leaders. The indigenous system of church education had its parallel in the schools of Falashas, and the Quranic schools of the Muslims (Woubet, 2006).

Developments in the field of modern education can be discussed in the three phases. The first phase is during the imperial period. At the beginning of the twentieth century, the education system's failure to meet the needs of people involved in statecraft, diplomacy, commerce, and industry led to the introduction of government-sponsored secular education. Hence the more planned and coordinated expansion of education has been done after 1941, the primary objective of education had been to produce trained manpower that could run the emergent state bureaucracy (Teshome, 2006). After 1941 the series of concrete educational policies were introduced for the promotion of education in the country. From 1942 until 1955, the Ethiopian Government was engaged in the expansion of the education system. The high expenditure on education in relation to total expenditure, as well as the rapid growth of student enrolment showed the commitment of the Ethiopian government to the expansion of education.

The second phase is during the Derg. After the overthrow of imperial rule, the provisional military government dismantled the feudal socioeconomic structure through a series of reforms that also affected educational development. The structure and organization of educational activities were changed alongside the objectives of the socialist government. The Government's goals for education are (1) education for production, (2) education for scientific consciousness, and (3) education for political consciousness (Tewodros, 2014).

The military regime worked toward a more even distribution of schools by concentrating its efforts on small towns and rural areas that had been neglected during the Imperial regime. With technical assistance from the Ministry of Education, individual communities performed all primary school construction. In large part because of such community involvement, the number of primary schools grew from 3,196 in 1974/75 to 7,900 in 1985/86, an average increase of 428 schools annually. The number of primary schools increased significantly in all regions except Eritrea and Tigray, where there was a decline (Tekeste, 1996).

The last phase is during EPRDF. The new strategy presupposes the overall lack of coordination between education, training, research and development efforts in the country. The New Education and Training Policy also addressed the issues of technical Vocational training. Thus, it is stipulated in the document that Parallel to general education, diversified technical and vocational training will be provided for those who leave school from any level of education for the development of middle level manpower. Investment is thought to be simply more schools, and places for more kids in school. These are necessary conditions but insufficient alone to bring about needed development gains. More is needed, including increasing curriculum relevancy, training teachers to use the most effective pedagogy, improving the way schools are organized and managed, and involving parents and the larger community in supporting schools and ensuring quality education. (Woubet, 2006)

During the military regime gross enrolment in the primary school has generally increased continuously from 18.89 percent in 1974/75 to 42.55 percent in 1982/83. During 1984/85-1988/89, secondary school gross enrollment rate increased from 4.88 percent to 15.06 percent. However it has generally decreased during the transitional government periods (1991/92-1994/95). After 1994/95 it has increased continuously for the next sixteen years and reached to

37.6 percent in 2010/11. Gross enrollment rate in the tertiary level is very poor in Ethiopia as compared to the primary and secondary level .It was below one percent until the year 1998/99. Starting from 1999/00, it has showed above one percent rate and reached 7.6 percent in 2010/11. Still the majority of Ethiopia"s economically active population did not attain even the primary level education. Especially the proportion of economically active population who attained Tertiary level has remained below one percent until the year 2000 (Kidanemariam, 2014).

2.1.1.3. The Learning and Performance Paradigms

A central tension found in the HRD literature concerns whether it should be orientated towards performance or towards learning (Kuchinke, 1998; Swanson and Holton, 2009). Various commentators have described this dualism as something of a distraction. However, there is no doubt that it permeates the literature that underpins a number of other tensions that we discuss in this article. The origins of the learning paradigm can be traced to the writings of Watkins (1995: 2) who defined it this way: HRD is the field of study and practice responsible for the fostering of a long term work related capacity at the individual, groups and organizational levels of organizations.

Watkins (1995) essentially considered the primary purpose of HRD as concerned with enhancing the individual to learn, to facilitate team learning and help organizations to develop a learning culture. The learning paradigm articulates a number of theoretical assumptions that address the value of learning, the purposes and outcomes of HRD. A number of these assumptions emphasize that learning is inherently good for people; people should be valued for their intrinsic value rather than just as resources, and that the primary purpose of HRD is concerned with the development of individuals (Ruona, 2000; Bierema, 1997).

The performance paradigm of HRD is in the ascendancy in recent years with the emergence of strategic HRD and HRM literatures it is also the dominant paradigm in organizations. Swanson and Holton (2009) define the emergence of this contrasting paradigm as concerned with using HRD to enhance the capabilities of individual and organizational performance.

Performance emerges as the primary purpose of HRD. Boxall (2007) has argued that in the short term the objectives of organizations are to develop and manage people as effectively as

possible in order to deliver a return on investment. Longer term investments on people development are designed to build competitive advantage (Lindd, 2011).

2.1.1.4. Salary and Benefit

This involves the designing and implementation of individuals and organizations pay and benefits schemes. Employee compensation and benefits practices differ across employment units (e.g., organizations, business units, and facilities) on several dimensions (see e.g. Gerhart, Milkovich & Murray 1992) and organizations. Barry, Harvey & Ray (1994) state that employee compensation and benefit can be considered of crucial importance to both the employers and employees in such a way that it plays a key role of being one of the essential hearts of employment relationships. They continue by explaining that this is so in such a way that while employees typically depend on wages, salaries, and so forth to provide a large share of their income and on benefits to provide income and health security. For employers, compensation decisions influence their cost of doing business and thus, their ability to sell at a competitive price in the product.

2.1.1.5. Reward

In the context of managing people, the reward system underlines a core feature of the employment relationship. According to Bratton and Gold (2007:360), “Reward refers to all the financial, non- financial and psychological payments that an organization gives for its employees in exchange for the work they perform.” Reward practices engendering debate among academics and organizational leaders on the role that it plays in achieving substantive employee behaviors like task performance, flexibility, quality and commitment. It is also argued that the design and management of reward systems holds one of the most difficult HRM tasks for a general manager. Regardless of any other rewards it gives to its employees, an organization must make three main decisions about monetary reward: how much to pay, for whom to pay (individual or group) and how much emphasis should be placed on the monetary reward as part of the total employment relationship.

The overall aim of reward systems is to attract and retain quality human resources. When the pay conditions are perceived by the employee as equitable and in relation to their performance

improvement. Organizations can use non-financial rewards like transport fee, incentive schemes to increase performance (Armstrong 2006). Additionally, organizations should adopt reward systems that are similar to the industry in which they operate or organizations can develop performance based pay systems in order to reward employees according to the set performance standards and profitability goals. Therefore for performance to improve, organizations need to create and maintain a sense of fairness equity and consistence in their pay structures (Davar 2006). Employees expect that the employers will purchase their labor at a certain price.

2.1.1.6. Health improvement and financial performance

In creating a healthy work climate, both management and workers unions should have a united hand and in the well-being of the organizational employees. Unionizations improve the industrial relations in instances where the management allows free participation of employees in trade unions. Management and trade unions will negotiate through collective bargaining processes the conditions of workers employed. Nilsen (2002) argued that industrial peace is a very important aspect for performance and growth of organizations. If the organization is plagued by industrial disputes and strikes, performance is bound to decrease. In other words, for overall productivity to improve health unionization should be considered and industrial disputes prevented through negotiations, conciliation rather than confrontation (Daft 1997).

In the WHO's definition, a health system is "all the activities whose primary purpose is to promote, restore, or maintain health." Health systems include the components of public health departments, hospitals and clinics, and offices of doctors and paramedics. Outside this formal system is an informal network used by many poorer citizens, which includes traditional healers, who may use somewhat effective herbal remedies, or other methods that provide some medical benefits, such as acupuncture, but who also may employ techniques for which there is no evidence of effectiveness beyond the placebo effect. It has long been understood that some developing countries' health systems were far more effective than others in achieving health goals (Todaro, 2012).

In Ethiopia following the change of government in 1991, the new Government of Ethiopia put in place many political and socio-economic transformation measures. Among these, it developed a first national health policy, which was followed by the formulation of four consecutive phases of

comprehensive Health Sector Development Plans (HSDPs), starting from 1996/97. The policy and the first HSDP were based on critical reviews of prevailing national health problems and a broader awareness of newly emerging health problems in the country. At the core of the health policy are democratization and decentralization of the health care system; developing preventive, promotive and curative components of health care; assurance of accessibility of health care for all parts of the population; and encouraging private and NGO participation in the health sector. During the past fifteen years, the Federal Ministry of Health has built an impressive framework for improving the health for all, including maternal and neonatal health. This has included a wide range of strategies such as Making Pregnancy Safer (2000), Reproductive Health Strategy (2006), Adolescent and Youth Reproductive Health Strategy (2006) and the Revised Abortion Law (2005). There are also strategies on free service for key maternal and child health services (Health Care Financing Strategy), the training and deployment of new workforce of female. The Ministry has also established the MDG Performance Package Fund and given priority to maternal health, which is expected to facilitate mobilizing additional funding opportunities (HSDP, 2014).

The main cause of many of Ethiopia's health problems is the relative isolation of large segments of the population from the modern sector. Additionally, widespread illiteracy prevents the dissemination of information on modern health practices. A shortage of trained personnel and insufficient funding also hampers the equitable distribution of health services. Moreover, most health institutions were concentrated in urban centers prior to 1974 and were concerned with curative rather than preventive medicine (HSDP, 2011).

The current Government therefore accords health a prominent place in its order of priorities and is committed to the attainment of these goals utilizing all accessible internal and external resources. In particular the Government fully appreciates the decisive role of popular participation and the development of self-reliance in these endeavors. The Government believes that health policy cannot be considered in isolation from policies addressing population dynamics, food availability, acceptable living conditions and other requisites essential for health improvement and shall therefore develop effective intersectorality for a comprehensive betterment of life. So health development shall be seen not only in humanitarian terms but as an essential component of the package of social and economic development as well as being an

instrument of social justice and equity. Pursuant to the above the health policy of the Transitional Government shall incorporate the following basic components (Tewodros, 2014).

Health services in Ethiopia are primarily financed from four sources: a) the federal and regional governments; b) grants and loans from bilateral and multilateral donors; c) non- governmental organizations; and d) private contributions. Although health financing has improved significantly over the years, it remains a major challenge for the health system of Ethiopia. The objectives of the health care financing component of HSDP are aimed at achieving a sustainable health care financing system. More specifically, the objectives call for mobilization of increased resources to the health sector, promoting efficient allocation, effective expenditure management for allocative equity, and better utilization of available health resources. (HSDP, 2011)

2.1.2 Financial Performance

Financial performance of the organizations depends on investment in HRD. HR practices promote financial outcomes by improving operational performance, such as productivity and flexibility of organizational functioning.

In the literature on HRM and corporate performance, the concept of performance has been addressed in a variety of ways. The most obvious measure is some indicator of financial performance, and measures used include return on investment/profit. Productivity and profitability are commonly used to know the financial performances on the bank. However, it can be argued that financial performance lies at the distant end of the causal chain, and that outcome measures more closely linked to HRM might be more appropriate. Ideally, we need to use a range of proximal and distal measures and examine how the human resource system relates to each. Furthermore, managers are likely to act on the basis of their subjective perceptions of firm performance, often in relation to the performance of competitors, rather than solely in the light of objective performance. In workplace-level studies the scope to use objective indicators, particularly in relation to financial outcomes, is severely limited.

According to Singh & Mohanty (2012) maintain a blurred position regarding investment in training. They generally accept training as an important means to improve employee productivity, which ultimately leads to organizational productivity and effectiveness, a present demand for all organizations. However, in practice, they usually face this challenge with cost control including training practices expenditure. This situation can be explained by the fact that organizations do not understand how investments in training can provide value". The relevance of HRD is evident in the increasing number of organizations exploring HRD for help in developing the capacity to survive the challenges of globalization and technological advancements. In that, respect Durkovic, (2009), observed that, nowadays, enterprises are turned to the intangible and invisible capital, named intellectual capital. She explained that, productive tangible assets like raw materials, basic assets, and even managerial knowledge are not seen any more as resources that create new and prosperous enterprises. Instead, knowledge, innovation and cooperation are becoming the three basic elements of the new infrastructure necessary to create prosperity in the new economy – knowledge economy. The fact that employees may affect the use of their own potential, as well as that of other resources, makes them the most important resource in gaining competitive advantage for the enterprise Durkovic, (2009).

2.2. Empirical Literature

Various researchers have utilized different proxies for human resource development and their methodology and conclusions are controversial about the relationship between human resource development and performance of financial institution. Several researchers argued that investment in human capital development is undertaken primarily for return and enhances profitability.

Aartchahal (2013) analyzed the status of various need analysis based training and development practices in Punjab National Bank and HDFC private bank and explores the proposed link between the training and employees' productivity by adopting development based theory. The result of the present study shown that the training practices in the selected branches of Punjab National Bank and HDFC are average and there is lot of scope for improvement. Researcher found that the training and effectiveness programs have a positive impact on the performance of both male and female employees but the results shows that it has a greater impact on the performance of male employees group .This can be due to the reason that mostly female employees bear additional responsibilities towards their families. The overall opinion about the

training conducted by the Punjab National Bank and HDFC among the employees is very good and effective, it is very much helpful to improve the individual career and the organization growth too and they are satisfied with the training process and method of teaching.

According to Adbus (2011), however in Pakistan, many companies training and development cannot be disconnected from the business activities of the organizations; on the contrary, this is the area that clearly illustrates positive relationships between training activities and the organizational performance.

Ahmina (2012) in Bangladesh was an attempt to investigate and analysis of training needs assessment and its importance in the banking sector, the findings addressed that the training needs assessment is prerequisite for an effective training that helps for organizational growth and development. The study concludes that most of the banks in Bangladesh have their own training institute and management attitude is very positive for training support. However, there is a lack of needs assessment before training. The most important finding is that National Bank Limited is not giving more importance for TNA. Therefore, the researchers proposed urgently adjustment of TNA (training need assessment) the banking sector in Bangladesh.

Aliyu et al (2014) investigate that human resource development in recent times surpasses other factors as a source of competitive advantage especially for corporate organizations challenged by globalization and advancements in technology. This fact has been widely upheld by investigations but little scholarly attention emphasizes the effect of organization's investment in human resource development and the likely impact on its subsequent performance. In view of this gap, this paper aims to answer to the questions what is the relevance of investing in human resource development and how does investing in human resource development affect the performance of banks? Using the cross- country data from the banking institutions of Malaysia and Nigeria analyzed via the regression method. The results confirm that a significant and positive relationship exists between investment in human resources and banks performance for both economies hence increasing their investments in the development of their human resource was recommended.

Ayanda et al (2014) investigated that Human Resource Management (HRM) practices are being increasingly considered as major contributory factors in financial performance of organizations.

This research study highlights the importance of HRM practices with impact on financial performance of banks (FPB) operating in Nigeria. The major objective of the study is to find out the relationship between 'HRM Practices' and the 'Financial Performance of Banks'. As a sample, 24 scheduled banks were contacted, of which 38 responded. The HRM practices selected for the research study were selection, training, performance appraisal system, and compensation system and employee participation. Empirical evidence was calculated through stepwise regression analysis, Pearson correlation and descriptive statistics to support theoretical models that link HRM practices with financial performance of banks. The study concluded that all tested variables have a positive relation and impact on financial performance of banks but the major contributory practices are selection, training, compensation and employee participation.

According to Chika (2013) research explores employee training practices in Nigerian Banks. The study focused on key training techniques by critically examining strengths and weaknesses of current training methods, their prospects, challenges and ways to improve current training approaches. The research highlights that Nigerian banks utilize conventional training techniques, however E-training although utilized has often been adopted at a low level. There are several challenges with training in Nigerian banks including cost, attendance, and failure to align training with employee needs. The research highlights the fact that on the job and off the job training is used by the bank and in regards to the importance and benefits of employee training and development. Training evaluation in the bank is usually done through assignments, feedback sheets, appraisals etc. The ultimate aim of any training program is to add value in the organization and it can't add value it should be reworked or altogether cancelled. Without training, it will be very difficult to acquire skills and without skills organizations will not achieve its objectives through people.

Christian (2016) examined the effect of human capital development on financial performance of banks in Nigeria. The specific objective was to determine the extent to which the banks PDW affect the PAT, TR and the NA. The research design employed was a cross sectional survey design. Time series data which comprise PDW, PAT, TR, and NA of quoted commercial banks in the NSE were the secondary data used. Statistical tools of Multiple Linear Regression and student t-test were used for the analysis. The regression model was estimated through the use of statistical package for social sciences (SPSS). The three null hypotheses used in this study were

tested at 5% level of significance. The result obtained showed a no effect on PAT and no effect on TR, but a negative effect on NA. The p-value for all the independent variables are not significant. The F-test showed a good fit for the model. The study therefore concludes that banks have not invested adequately on human capital development that is why the effect on financial performance is not significant. Therefore commercial banks in Nigeria are advised to give more attention to human capital development by way of training and adequate welfare to enhance their productivity.

The study conducted by Daniel (2014) shown that for any organization to achieve enhanced service delivery and profitability; competent employees are required. In this regard, human resource development (HRD) of an organization could be seen as strategy to improve the capacity of employees, bring about organizational commitment (OC) and promote performance. The paper empirically examines the impact of HRD and OC on financial sector employees in Nigeria. Findings show a strong impact of HRD and OC on performance of employees. In addition, literature reveals the need to tackle the issue of unethical behavior (corruption) amongst banks' staff at all levels as basis to eliminate failure and bring about enhanced performance in the Nigerian banking sector. The paper therefore recommend among others the enforcement of stiffer penalty for bank employees found engaging in unethical practices as a way of overcoming the challenge of unethical behavior of staff for sustainable growth in Nigeria.

Engetou (2017) focused on the impact of employees' training and development on organizational performance. It was inspired by the fact that some organizations do not seem to care about improving the capacity of their worker but instead frown at and punish any weaknesses portray by the workers. To tackle the research problem, the researcher had as major objective to find out: whether National Financial Credit has training and development programs conducted for all employees; possible hurdles in the implementation of such programs and the practical effects training and development has on the performance at work. The researcher also emphasized on the various training methods designed and its implementation around the world during the training and development programs. Using the National Financial Credit, Kumba branch, the researcher got information from 30 respondents, through questionnaires, interviews and personal observation. The research also reveals that training and development is a necessity in every company particularly for the unskilled or the less experience employees. Generally, employees'

work contribution was greatly improved due to the training methods and tools used by the company. Thus, it led to a positive impact on employee' performance and an improvement in their skills and job efficiency.

The study conducted by Gaafar (2012) examines the impact of human resource practices on organizational performance in banking sector in Saudi Arabia, and how different variables help an organization to achieve its objectives in efficient and effective way. The study focuses on seven variables of human resource management practices which: are training & development, performance appraisal, empowerment, compensation, job rotation, participation in decision making, and selecting system. The main object of this research is to evaluate the impact of human resource management practices on organizational performance. More precisely, on banking sector in Saudi Arabia. The data instrument used for data collection was questionnaire, to analyze the effect of these seven variables, using descriptive statistics and correlation analyze in order to analysis the data. The result confirm that all seven variables of human resource management practices are positively correlate with organizational performance in banking sector in Saudi Arabia which indicate that the enhancement in those human recourse practices can lead to improvement of performance in banking sector in Saudi Arabia.

According to Henry et al (2011) study in Botswana the findings of the research showed that training of employees has a positive effect to the individuals and the organization at large. For instance, training of employees improves communication in an organization, transfer of skills and knowledge, improves job performance, encourages team work, boosts the morale of employees and leads to job satisfaction. However it discusses the method of evaluate the training programs and the study demonstrates, various approaches are used to evaluate the training programs but the commonly used is the reduction of accidents in the workplace and decline in material wastage. Generally most of the study has recognized the importance of training and development but it must systematically identify the training need and skill deficit of employees, however monitoring and evaluate are helps to maximize the impact of training in these country.

The study conducted by Hossain (2014) was explore the extent of human resource management (HRM) usually practiced by five prominent commercial Banks of Bangladesh. The survey activities were done by the combination of structured questionnaire, unstructured interview and observation methods in order to examine the issues involved in employee selection and

recruitment, salaries and wages, job analysis methods, performance evaluation, audit promotion scheme, Training & Development programs. In this paper a five point likert scale is used to measure major problems of HRM in commercial Bank and also record the employees' opinion on eight indicators to measure their levels of job satisfactions.

According to Muhammed et.al (2013) the study demonstrate a case of Punjab banks ,to improve the organization efficiency it is necessary first to increase the efficiency of the employees by training and development practice in this bank different types of trainings are provided to the employees before the start of their actual positive work during the job and the bank has its own special training departments where they trained their employees to meet the globalized rapid competitive environment, finally it observed that there is direct relationship between training and employees work performance.

SohelRana et.al, 2015 investigate in the bank sector technologies, systems, processes, and procedures are changing time to time e.g., online banking, automated teller machine, e-cash, debit cards, credit cards, computer-based data entry, and propensity of using customer friendly new technologies consequently the employees need to know and adapt to a new environment or situation through the training and development processes.

Sowunmi et al (2015) examined human resource development as a correlate of performance of the banking industry in Ogun State. Primary and secondary data were used in the study. Primary data were collected from the sampled commercial banks' staff in Abeokuta metropolis while secondary data were sourced from published 2012 and 2013 Financial Statements of commercial banks. Data were analysed using Ordinary Least Squares and chi-square analyses. The study revealed significant positive relationship between expenditure on human development and each of the financial performance indicators. More than 50% of the total variation in each of the financial performance indicators except retained earnings (49%) was explained by human capital expenditure. The study also showed that training programmes have positive effect on the performance of commercial bank staff. The study posited that the new generation banks spent more on human resource development compared to old generation banks. The number of staff trainings and duration of trainings were low and most training were in-house. The need for management of commercial banks to encourage staff training in order to enhance their financial

performance as well as the performance of employee is recommended. Old generation banks are advised to increase their annual budget on staff training.

In Ethiopia, various empirical studies were conducted to analyze the relationship between human resource development and financial performance. Among these:-

The conducted by Brhane (2016) was designed to assess human resource training and development practices of CBE. The methodologies used to undertake the study were both primary and secondary data collection instrument. The sampling techniques employed to collect primary information were random sampling .The sample of population were North and East Addis Ababa district .The district was selected based on their performance on profit/loss and deposit mobilization as report of June 30,2015.Accordingly the data gathered was analyzed using descriptive statistics by comparing with systematic approach to training and development. The finding reveals CBE's strength in allocating sufficient budget for training and development of employees and the opportunities given to employees to participate in training and development in one or other way emphasis given by the bank for the training and development practice program. However the bank has major weakness in most of the tasks in the phase of system approach model especially with respect to training need assessment; trainee selection criteria; performance appraisal training evaluation and coaching role of line managers. According the researcher recommendation that the capacity of training and development should be updated periodically through training and development, trainee policy and procedure should be applied consistently; training impact evaluation technique should be in place of for future improvement. Finally CBE should follow its training and development system in order to make its T & D efforts as fruitful as desired.

Mulu (2016) was assessing the challenges and prospects of employee performance management system implemented in commercial Bank of Ethiopia. The study used descriptive method of study with cross sectional survey and used mixed research approach. This study has used stratified random sampling to select questionnaire respondents and purposive sampling to select interviewees. The research objectives were to assess the prospects and challenges of employee performance management system, to identify benefits gained from and challenges faced in implementing the system, to assess employees' perception towards employee performance management system and to evaluate performance management processes in the bank. Primary

and secondary data were used. The analysis was done by the help of SPSS and presented using descriptive statistics; frequency tables, percentages, bar and pie charts. The scope of the study was limited to branches and head office within Addis Ababa area. The findings of the research indicated that employee performance management system has numerous benefits. Among them; it has created role clarity among employees, enables to differentiate good and poor performers, created a constructive competition among staffs. The system has also helps to motivate employees and encourage development through creating communications between the employees and their supervisor or managers. It improves both individual and the bank's overall performance. However the researcher has found that there were challenges; a tendency giving unbalanced goals for similar positions while they have equal job grades, no fair job rotation among employees, no sufficient resource allocation to execute their job properly, no clear mechanism in the bank to address the issue of underperformance, a tendency of giving 1 and 4 only for non financial targets. Furthermore, the result of evaluation did not attach with reward and recognition schemes. On the basis of the findings, the researcher recommended that the bank has to be making sure that equal jobs are assigned for equal positions, prevailing fair job rotation, attaching performance evaluation results with reward and recognition programs so that the issue of underperformance will be solved. The bank has also work with training of supervisors on assessment to make rating standard/uniform across assessors and branches/process.

Ramadevi (2017) examined that Human Resource Management plays very important role in any organization which facilitates the most effective use of employees to achieve the objectives of any organization. In this study, an attempt has been made to find out the issues relating to Human resource management in the academic libraries, professional engagement and views and comments to improve the library services in Amhara region, Ethiopia. Methodology followed for this study is survey method. For this, both primary and secondary data related to the study has been collected. Samples of 100 librarians and library staffs were selected from the academic libraries by using simple random sampling. The results pointed out that, the satisfaction and dissatisfaction of the respondents with their work, working culture, working condition and their salary and etc. This study assesses human resource function at the university level and then evaluates the specific structures of the academic library within the institution. The purpose of the study is to help both library and its parent organization in understanding each other's views on

HR issues and to evaluate the importance of an internal HR expert to deal the situations in the day to- day administration of the library.

Selam (2016) examined that training and development is to enable employees to acquire the knowledge, skills, abilities and attitudes necessary to enable them to improve their performances. This study examined to assess the training and development practice in the commercial bank of Ethiopia. This study used questionnaire, interviews and document review as instrument of data collection. Stratified sampling method was used to select samples from the target population and uses convenience sampling to distribute questioners. The study employed quantitative survey research design to gather data from a total of 271 employees of the commercial bank of Ethiopia. Semi structured interview was also used to gather the qualitative information from the team leaders of human resource development department to find out the management view on the training practice of the bank. After the required data are collected descriptive (i.e. frequency, percentage) analysis were used to analyse the data using SPSS version 20. The results of this study revealed that each of the training practice of the bank is not conducted properly. Moreover, the overall training practice of the commercial bank of Ethiopia, are not effective as they should be. And this is due to the gaps that are seen in each training practices and these in return decrease the effectiveness of the training program of the bank. Furthermore, it provided practical suggestions to overcome the problems that were seen in the training practice of the commercial bank of Ethiopia. In order to have an effective training practice the commercial bank of Ethiopia should have to conduct each and every training process and practice properly. The existence of training programs in place by itself doesn't assure the effectiveness of the training program unless it is supported by organized training process. Therefore, since each training activities are interrelated they need to be conducted with due care and on- time delivery of the training and updates employees about new products and services should also be given the necessary attention to have an effective training practice.

Worku (2016) investigate that human resource development climate is a manifestation of overall tone of the organization with respect to employee training, education and development. The objective of the study is to show the status of human resource development climate of selected commercial banks in Ethiopia. An analytical survey research approach was employed to assess the HRD climate of the banks. Employees and managers at head quarters of the selected

commercial banks were considered as a sample of the study. Out of 600 employees at head quarters 150 were made to respond to the questionnaire based on the availability sampling techniques. The sampling technique was chosen since the employees are homogenous in terms of awareness regarding the issue of the study. The respondents were requested to fill a questionnaire that was developed by Rao and Abraham (1986). Accordingly, top management commitments, HRD mechanisms and OCTAPAC culture of the Banks were assessed. The findings of the study shows that an average management supports, an average HRD mechanisms effort and an average OCTAPAC culture are prevailing within the case banks. Therefore, it can be concluded that the banks are not in a position of exercising the conducive HRD climate. In other respect the changes in banking industry is turbulent and which ultimately calls for continuous human resource development. Hence, it was suggested that the managing body of the commercial banks need to support the learning & potential development of employees by introducing changes in HRD policies and practices which ultimately creates conducive HRD climate.

2.3. Conceptual Framework

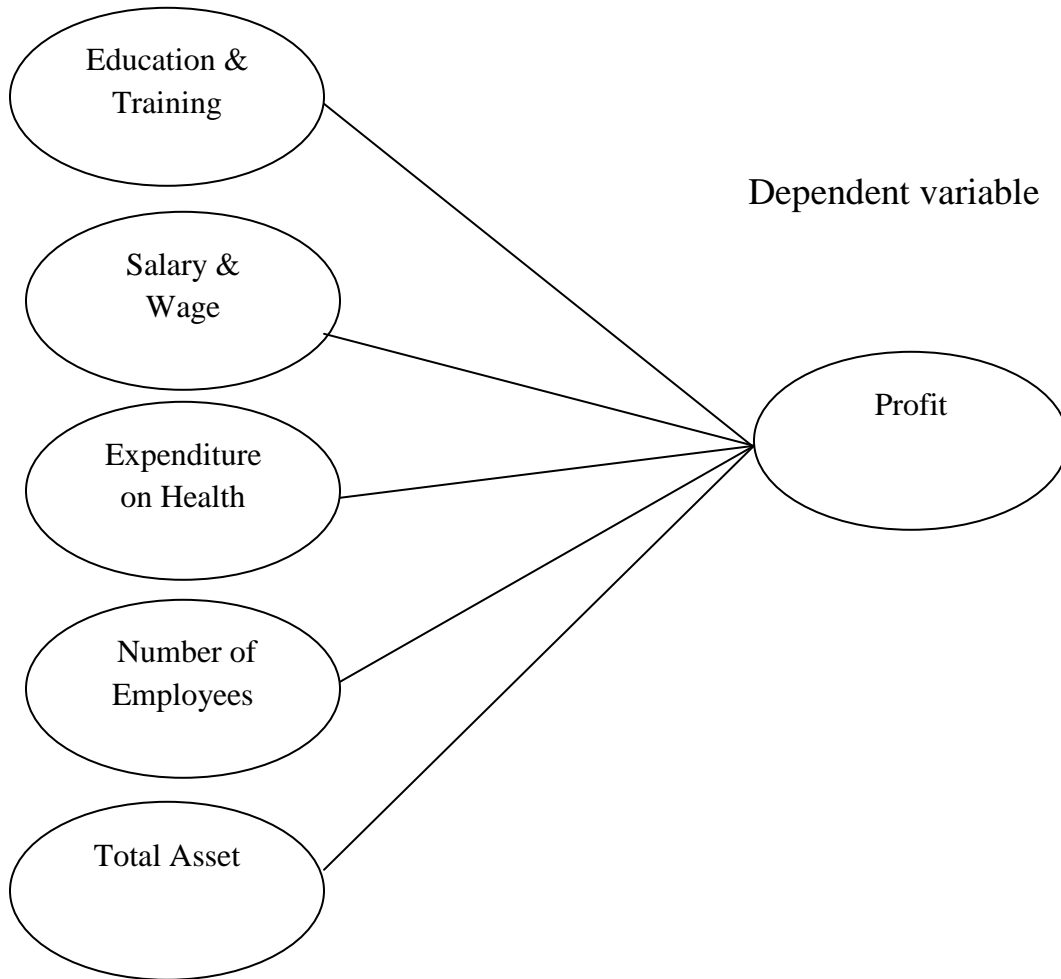
The main objective of this study is to examine the effect of training and development, salary and wages, health expenditure, number of employees, and total assets on financial performance of CBE.

As it is described in the literature review parts of this study, the performance of the bank is measured by using profit to measure the effect of human resource development on the financial performance of the bank.

Thus, the following conceptual model is framed to summarize the main focus and scope of this study in terms of variables included.

Figure 2.3. Conceptual framework of financial performance

Independent variables



Source: researcher compilation from the literature and related studies

CHAPTER THREE

RESEARCH METHODOLOGY

Introduction is an important part of the research activity is to develop an effective research design which shows the logical link between the data collected, the analysis and conclusions to be drawn. This design satisfies the most suitable methods of investigation, the nature of the research instruments and the types of data (De Wet, 1997). The previous chapter indicated the literature on the relationship between human resource development and banks performances. This chapter deals with the research design and the methodology that used in gathering data and method of data analysis for the study. It contains the research design, the source of data and data type, model specification and data analysis techniques, estimation technique and time series data tests.

3.1. Research design

There are different types of research methods that could be used when doing research such as descriptive research, causal/explanatory research, exploratory research, etc. This study was employed quantitative research design through secondary data from secondary sources. Quantitative research is based on the measurement of quantity or amount. It is applicable to phenomena that can be expressed in terms of quantity. Based on its purpose causal and descriptive research design was used to study to examine the impact of human resource development on performance of public financial institutions. The descriptive part of the study analyzed through graph and percentage. The causal part of the study was analyzed through linier regression econometrics model to show the causal relationship between dependant and independent variables.

3.2. Sources and type of data

The main objective of this paper is to examine the impact of human resource development on performance of public financial institution in the case of commercial bank of Ethiopia. The study mainly focused on the causal relationship between human capital development and financial performance of commercial bank of Ethiopia. Because of this study is based on secondary

sources of data. The secondary data for this study was obtained from financial report of commercial bank of Ethiopia, Ministry of Finance (MOF), National Bank of Ethiopia (NBE), bank's procedures, annual reports of CBE, published articles, books, and other relevant documents like journals etc.

3.3. Data Collection Technique

Secondary data sources could be internal and external data sources of information that may cover a wide range of areas: Literature/desk review and industry documents and reports: To achieve the dissertation's objectives, the researcher has conducted excessive document review and reports of the Commercial Bank Of Ethiopia in both online and offline modes.

3.4. Data Analysis Method

The objective of this research is to examine the effect of human resource development on the profitability of commercial banks in Ethiopia. To attain this objective the study used panel data of the bank for fourteen years. Here, in this study both descriptive and panel econometrics method of data analysis has been employed to discover the effects of human resource development on the profitability of commercial banks. Descriptive data analysis used to describe the profitability trend of commercial banks that used under this study and to show summary statistics for variables used under the model. . Descriptive statistics discussion was made by using measures like percentages, tables, and graphs used for comparing year to year data in various explanatory variables. For the panel econometrics part, random effect panel data analysis has been used. Because according to Gujarati (2009) time series of panel data give more informative data, more variability, less collinearity among variables, more degrees of freedom and more efficiency.

Therefore, the collected panel data was analyzed using the descriptive statistics and multiple regressions. In case of the descriptive statistics used to determine the minimum, maximum, mean and standard deviation values used to analyze the trends of the data. Whereas, the multiple regressions analysis was applied to find the causal relationship between human resource development and profitability measure.

Moreover, the diagnostic tests undertaken in order to check the validity of the model and fulfill the assumption of the Classical Linear Regression Model. Specifically, the assumption tests that managed in this study include Heteroskedasticity Test, Autocorrelation Test, Normality Test and Test for Multicollinearity. Thus, the following section discusses the nature and significance of the model tests.

3.4.1. Test for Heteroscedasticity

As discussed in (Brooks, 2014), important assumption for classical linear regression model is that the disturbances appearing in the population regression are homoscedastic that means the variance of the error term is consistent. If errors do not have a constant variance (not homoscedastic), they are said to be Heteroskedastic. Whereas, Haq (2013) explains Heteroskedasticity is not a problem in panel data because panel data itself is a solution for heteroskedasticity. It is really convincing since panel data have a pull-in effect even without log-transformed variables, which rescales the data. What does more, Brooks (2014), notice, it has assumed that the variance of the error term is constant (homoscedastic). To test the presence of heteroscedasticity, the study used the popular test white's (1980), general test method.

3.4.2. Test for Autocorrelation

There is an assumption that the errors are linearly independent of one another. If the errors correlated with one another, it would be state that they are auto correlated. To test the existence of autocorrelation, the Breusch–Godfrey test is a more general test for autocorrelation. Because, it allows examination of the relationship between error and several lagged values at the same . time. If the test statistic exceeds the critical value from the chi-squared statistical tables, reject the null hypothesis of no autocorrelation.

3.4.3. Test for Normality

In order to say the model is good the residual should normally distributed to satisfy the classical assumptions regression model. To test this normality the researcher uses Jarque-Bera statistics. If the residuals are normally distributed, the Jarque- Bera statistic should not be significant and the researcher do not reject the null hypothesis of the error term is normally distributed. Brooks,(2008), as states that, if the residuals are normally distributed, the histogram should be bell-shaped and the Bera-Jarque statistic would not be significant at 5% significant level. The hypothesis of normality test presented as follows:-

H0: the residuals are normally distributed

H1: the residuals are not normally distributed

3.4.4. Test for Multicollinearity

As, (Gujarati, 2004), notice that multicollinearity, assumption that refers to the situation in which the independent variables are highly correlated. When independent variables are multicollinear, there is overlap or sharing of predictive power. This may lead to the paradoxical effect, whereby the regression model fit the data well, but none of the explanatory variables (individually) has a significant impact in predicting the dependent variable. Also as noted by Gujatat, (2014) and Hair (2006) inter-correlation among the independents variables is a threat above from 0.9 but correlation coefficient below 0.9 not cause serious multicollinearity problem. Thus, to detect any multicollinearity problem in regression model the study used a correlation matrix of independent variables.

3.5. Model Specification

Regression analysis was used to measure the degree of association between selected human resource development practices and performance of the public financial institution in the case of commercial bank of Ethiopia.

Regression is more powerful than correlation. According to Gujarati (2009), unlike correlation, in the case of regression if x has significant impact on y, thus change in y is influenced by change in x. The regression model is more comprehensive than those in other studies because it includes variables which have not been covered by research in the field.

In Ethiopia the major public financial institution includes the commercial bank of Ethiopia, development bank of Ethiopia and Ethiopian Insurance Corporation. The researcher will study the impact of human resource development on public financial institution by selecting commercial bank of Ethiopia as a study area. The following multiple regression models was used to see the impact of human resource development on banks performance.

Profit is the Dependent variable and it is proxy for commercial bank performance. Profit is the excess of revenues over expenses and taxes and is best measured by earnings. The financial performance of public financial institution is a function of investment in human resource development which is represented by training and development, salaries and wages of employees, compensation and rewards, and formal education, etc.

Financial performance = f (salaries and wages of employees, number of employees of the organization, expenditure on health, investment in education and training, total asset of the organization)

$$PAX = b_0 + b_1NOE + b_2SW + b_3IET + b_4AST + b_5EH + e$$

Dependent variable of the study: performance (profitability) of commercial bank of Ethiopia.

Independent variables of the study are:

PAX= profit after tax

SW=salaries and wages of employees

NOE= number of employees of the organization

IET=investment in education and training

EH=expenditure on the health of employees

AST=asset of the bank

E = (error term which represents another factor that affect the profitability).

b= constant which shows profit without training and development.

b^s= coefficient

In addition to regression analysis, this researcher also used descriptive analysis. Frequencies, graph and percentages will use to analyze the collected data. The data analysis used current and available STATA and EVIEW software package.

3.6. Time series properties of the data(Unit root/Stationary test)

Checking the time series properties of the variable is important since it affects the estimation. For this objective stationary test shall be conducted. Thus, to make sure that stationary condition has been fulfilled, a unit root test is undertaken.

For OLS regression results to be valid on time series all the variables have to be stationary that means the mean and variance are constant over time and the value of the covariance between the two time periods depends only on the disturbance or group or lag between the two time periods and not the actual time at which the covariance is compute. In the contrary, if the variables follow a random walk (non-stationary), OLS regression may result in spurious results and estimates will be inconsistent since the variables do not have constant mean and variance (Gujarati, 2009). The existence of a unit root test is formally checked by ADF test using OLS approach. If the obsolete values of calculated test statistics are greater than that of critical values (low p- values) indicates accept the null hypothesis of stationary of the variable.

3.7. Ethical Consideration

Ethics is about what is wrong against what is right or put differentially what distinguishes between acceptable and unacceptable behavior. Of key importance in the domain of research includes set standards particularly relating to respondents“ independence, confidentiality, and honesty on the part of the researcher.

The following ethical considerations have given attention by the researcher and enumerators while conducting the research or collecting the data:

- Voluntary participation: - no participants were forced to take part in the research.
- No harm to participants: -the researchers ensured that there is no harm done to the participants as a result of the study.

- Anonymity and confidentiality:-all information gathered during the study has been handled confidentially and permission from the participants was obtained for all information to be shared publicly.
- Not deceiving the subjects: - participants have informed clearly about the aim, purpose, and procedures of the study and was not deceived in any way.

CHAPTER FOUR

DATA ANALYSIS, INTERPRETATION AND DISCUSSION

The general objective of this paper is to examine the impact of human resource development on the performance of the public financial institution in the case of commercial bank of Ethiopia. This chapter contains both the descriptive and econometrics/regression statistics analysis. Under the descriptive statistics the trends and overall performances of the variables of interest are presented. The statistical tools such as tables, percentage and graphs are used to describe the variables used in the analysis. The regression/econometric analysis begin by testing the necessary tests such as stationary tests, diagnostic tests. After passed the necessary tests the models are estimated using OLS regression technique of model. After estimation has been made the interpretation and discussion are continued based on the model results.

4.1. Descriptive Analysis

Descriptive analysis was used to describe the basis feature of the data under study. It provides simple summaries about the measures. Together with simple graphics analysis, it forms the basis of virtually every quantitative analysis of data.

4.1.1. Trends of Profit of Commercial Bank of Ethiopia from 2005 to 2018

Profit is the proxy for commercial bank performance. “Profit is the excess of revenues over expenses and taxes and is best measured by earnings” Kimball (1998) and “profit after tax is generally regarded as a traditional measure of performance”. The profit of commercial bank of Ethiopia has shown various changes in different fiscal year. The trend of number of profit of commercial bank of Ethiopia is given in the following graph:

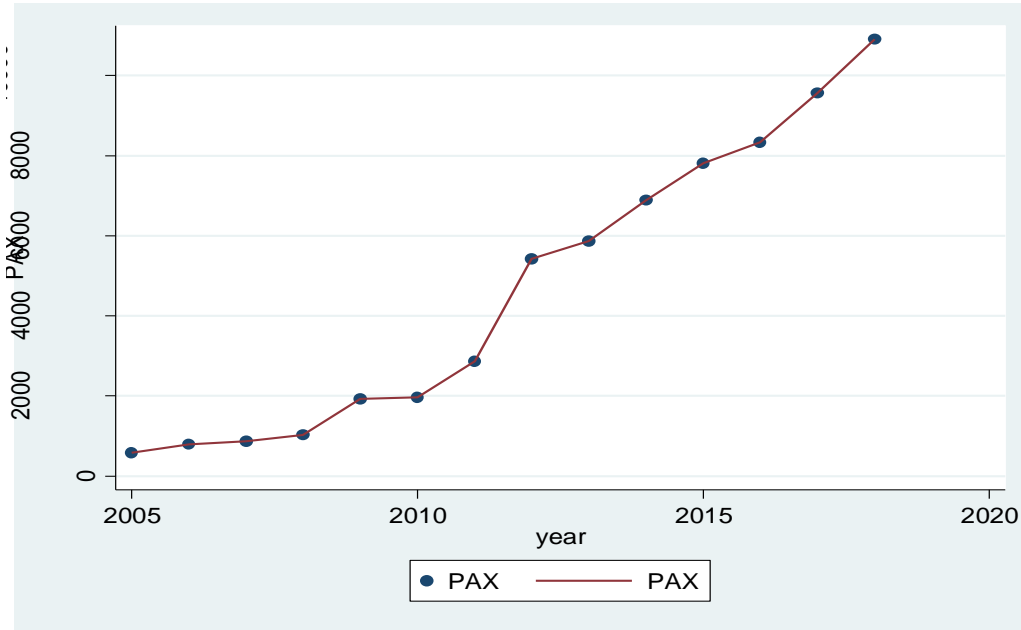
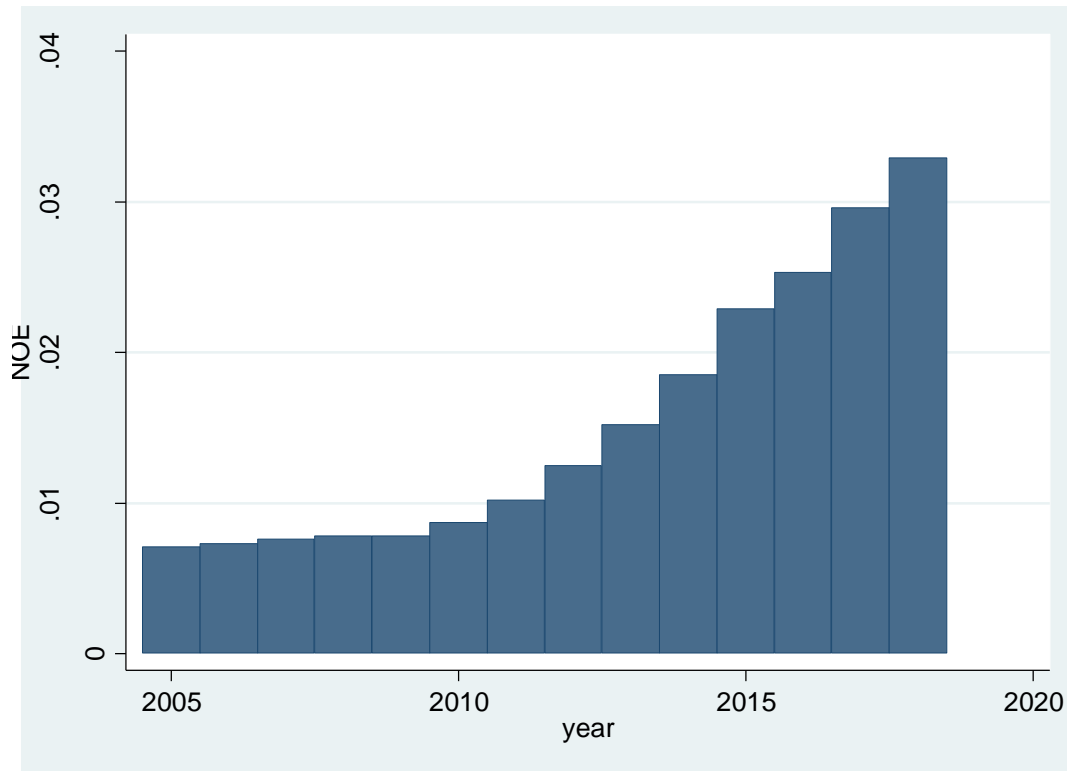


Figure 4.1 Trends of profit (in million) of commercial bank of Ethiopia From 2005-2018

According to CBE report the profit of commercial bank of Ethiopia was 759.20 million birr in 2005 and it reaches 10,900.45 million birr in 2018. Figure 4.1 above shows that there is consistent increment in the profit level of the bank from 2005 up to 2018.

4.1.2. Trends of number of Employees of commercial bank of Ethiopia

The CBE has managed to maintain its leadership position, despite the prevailing staff competition within the banking industry. Its overall magnitude of business has continued to grow. The CBE is also the biggest employer within the industry. As such, it has acquired modern banking practices with competent personnel, as well as wide branch network. This unparalleled strength in its workforce has also enabled it to forge good working relations with internationally renowned correspondent banks. The trend of number of employees is given in the following graph:



Source: Computed based on CBE data

Figure 4.2 Trends of number of employees in commercial bank of Ethiopia From 2005-2018

By continuing to recruit both professional and non-professional employees from different levels of institutions of learning, commercial bank of Ethiopia raise total staff strength to above 32,900 in 2018, from 7,138 during the year 2005. At the end of fiscal year 2006/07, the Bank's human resource reached 7,684. Compared with last year's figure, this represents an increase of 310 staffs (or 4.2%), which is mainly the result of recruitment of 792 new employees.

4.1.3. Investment on Education and training

Education and Training have become the most important factor in the business world today, because training increases the efficiency and the effectiveness of both employees and the organization. The quality of employees and their development through training and education are major factors in determining long-term profitability of any business venture. Human Resource professionals also believe that an organization is only as good as its employees, and this understanding suggests that education and training should be more specifically responsive to

employees (Noe, 2008). The CBE believes that its success rests not only on the ability to identify opportunities and manage risks, but also on the quality of its staffs. The trend of education and training expenditure is given in the following graph:

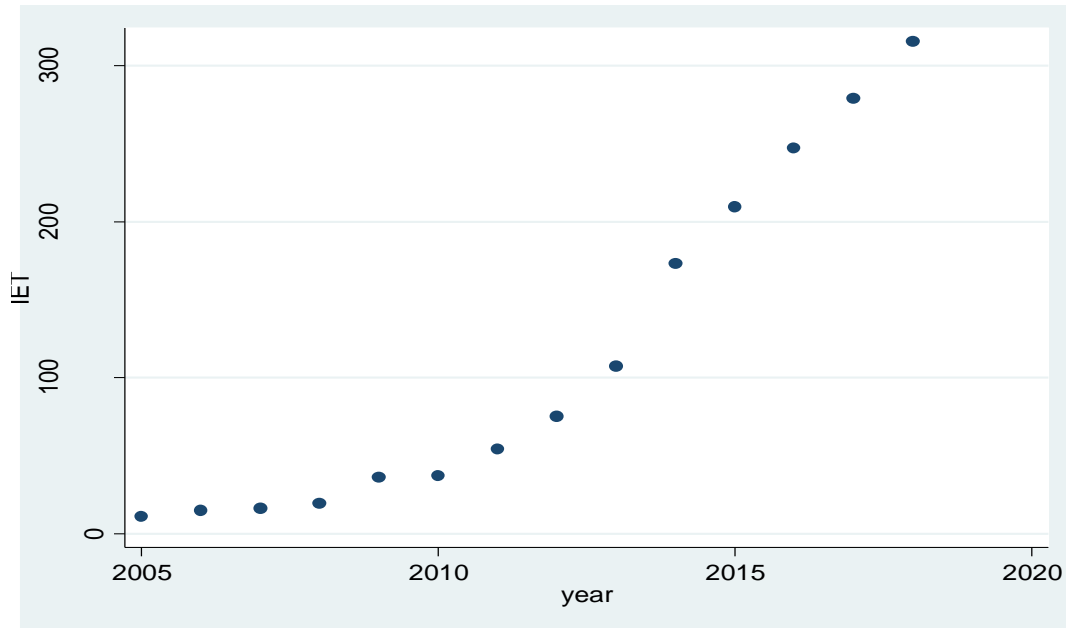


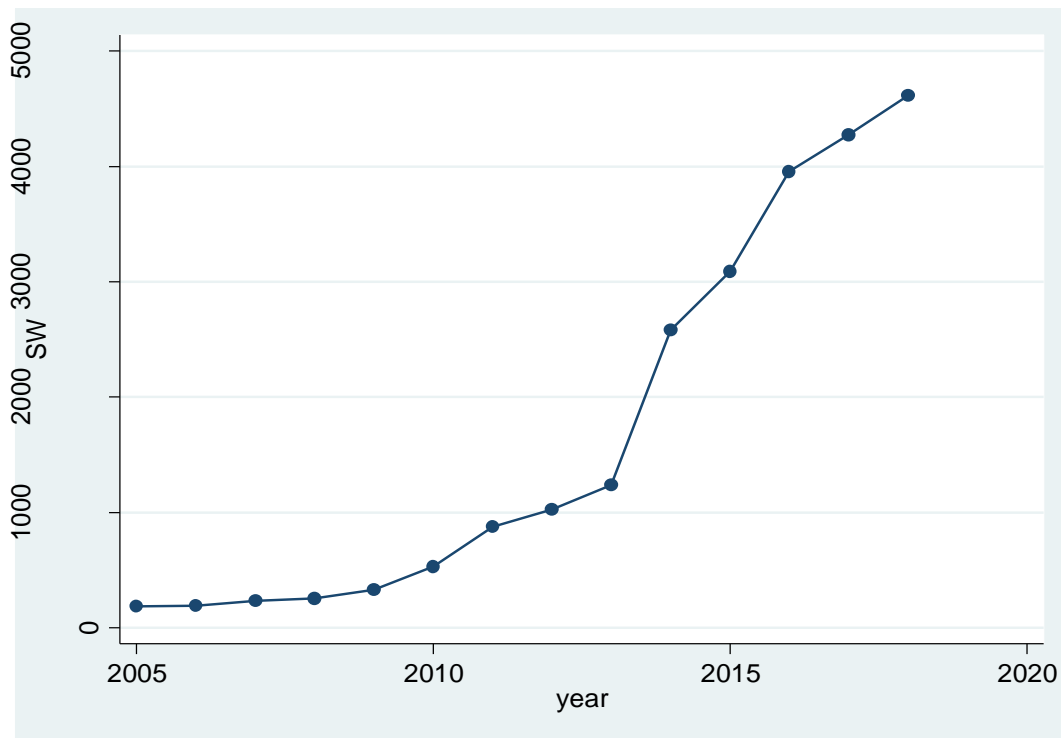
Figure4.3. Trends of investment on education and training (in million) commercial bank of Ethiopia From 2005-2018

The CBE believes that its success depends mainly on the quality and number of its employees. Maximum effort was also made to up- grade the skills of its employees and to thereby enable them to effectively respond to the ever-changing business environment in the banking industry. As a result, the Bank continued to invest a great deal of money in skill-upgrading training and education. Education and training were employed to measure human capital, which is the major driving force of organizational performance (profit). From figure 4.3 above the trend of expenditure in education and training at the starting period was low and continuously rise up to 2018. The total budget allocated to education and training in 2005 was 10.96 million birr and reached above 315.45 million birr in the year of 2018. The Bank yearly organizes education and trainings to employees along with the required domestic and foreign banking operation skills and to building positive business relationships with its esteemed customers. All newly recruited staffs undergo induction programs and get adequate knowledge of the Bank’s operation through “on the job training program”. Accordingly, all staffs of the Bank understand well that the

performance of the Bank is directly linked to customer satisfaction, the leading indicator of which is known to be service quality in order to raise the performance of the bank. Individual education and development is a tool and a means to an end, not the end goal itself” Elwood et al (1996).

4.1.4. Trends of Salary and wage

The basic salary or wage of an employee may be increased by commissions, profit sharing, or cost-of-living adjustments. Many businesses pay managers an annual bonus in addition to a basic salary. The amount of the bonus is often based on some measure of productivity, such as income or profit of the business (Warren, 2005). The trend of salary and wage expense of commercial bank of Ethiopia is given in the following graph:



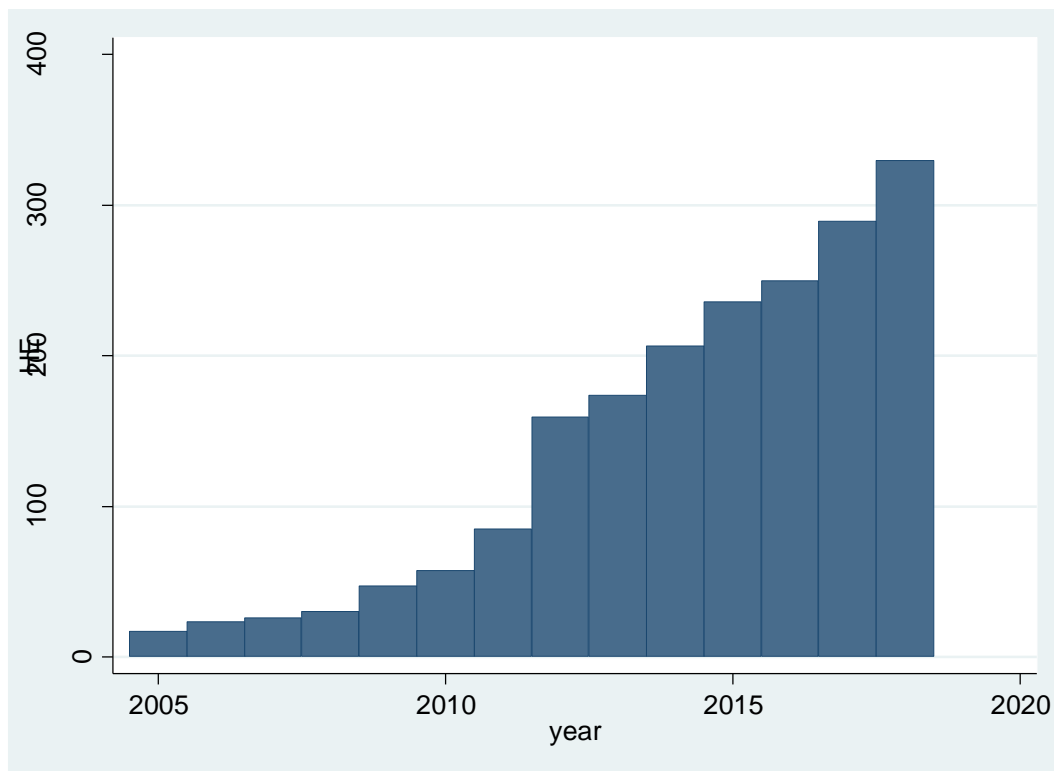
Source: Computed based on CBE data

Figure 4.4 Trends of salary and wage expense (In million birr) of commercial bank of Ethiopia From 2005-2018

According to CBE report the employee’s salary of commercial bank of Ethiopia was 185.72 million birr in 2005 and it reaches 4,614.25 million birr in 2018. The figure 4.1 above shows that there consistent increment in the salary and wage of the bank from the beginning up to 2018.

4.1.5. Health expenditure

Improvement in health of masses increases their productive capacity and leads to quantitative improvement in human capital. Therefore expenditure on health care is important in building and maintaining a prod active labor force as well as in improving the levels of the people and quality of the society which leads high productivity in the organization (Lingaiyah, 2001). The trend of health expenditure is given in the following graph:



Source: Computed based on CBE data

Figure 4.5 Trends of health expenditure (in million) of commercial bank of Ethiopia From 2005-2018

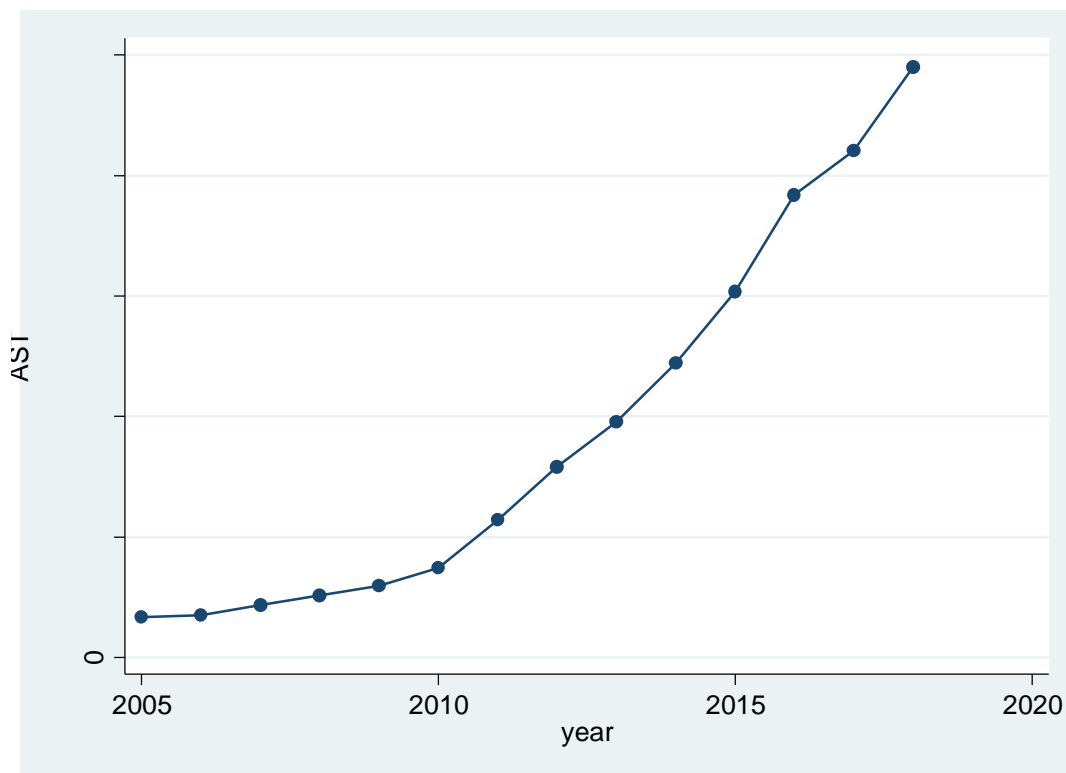
As shown in Figure 1, total expenditure on health in commercial bank of Ethiopia has increased continuously. In the year 2005/2006 expenditure on health was 17.11 million in the year

2018/2019 expenditure on health was above 329.45 million. Health development shall be seen not only in humanitarian terms but as an essential component of the package of social and economic development as well as being an instrument of social justice and equity and organization productivity and performance.

4.1.6. Trends of Asset of commercial bank of Ethiopia

Assets are resources owned by the business entity. These resources can be physical items, such as cash and supplies, or intangibles that have value, such as patent rights. Some other examples of assets include accounts receivable, prepaid expenses (such as insurance), buildings, equipment, and land.(Warren,2005).

The trend of total asset is given in the following graph:



Source: Computed based on CBE data

Figure 4.6. Trends of total asset (in million) of commercial bank of Ethiopia From 2005-2018

The balance sheet for the year 2005/2006 fiscal year indicates that the total asset of commercial bank of Ethiopia was 33,172 million birr. In 2006/2007 fiscal year the total asset was 33,187 million which rose by 15 million from the previous year. The total asset of the bank continuously raised and reached above 490,068.24 million in 2018.

4.2. Econometrics/regression analysis

In this section we discuss about the variables which are included in the model is tested its interrelationship between explanatory variables, serial correlation of residuals and the nature of the variance of the error term.

4.2.1. Multicollinearity

The presence of multicollinearity affects the OLS estimators and makes them inefficient and inconsistency. Therefore, problems of multicollinearity must be tested. I used the variance inflating factor (vif) to test the existence of multicollinearity.

Table 4.1. Table of variance inflation factor (VIF)

Variable	VIF
IET	5.48
NOE	2.86
AST	2.78
SW	2.34
HE	5.11

Mean VIF /2.78

Source: STATA 13 regression result.

Vif shows how the variance of an estimator is influenced by the presence of multicollinearity. Therefore, the results shows in the following table there is no multicollinearity.

4.2.2. Heteroscedasticity test

As we explained in chapter three, the disturbance term of the regression in the model all have the same variance otherwise there is heteroscedasticity problem. To detect this problem we used Breugch pagen /cook- weisberg test for heteroscedasticity.

Breusch- pagan /cook-weisberg test for heteroscedasticity

Ho: constant variance

Hi: not constant variance

Variables: fitted values of PAX (profit after tax) Chi 2 (1) = 0.94 Prob > chi 2 = 0.0119

Since p-value is higher, accept null hypothesis of constant variance. Therefore, there is no large variation in the size of values of explanatory variables.

4.2.3. Autocorrelation test

The disturbance term of any observation is not influenced by the disturbance term of any other observations. But, if there is such dependence have autocorrelation. The detection for autocorrelation is through durbin's alternative test.

Lags (p)	chi2	df	prob >chi2
1	0.005	1	0.5321

Ho: no serial correlation

Hi: serial correlation From the above result there is no autocorrelation problem

4.2.4. Normality test

Brooks (2014) stated that p-value given should be greater than 0.05 to do not reject the null hypothesis normality at the 5% significant level.

Table 4.2 Skewness/Kurtosis (Jarque- Bera) tests for Normality

Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	adj chi2(2)	Prob>chi2
PAX	14	0.5145	0.0943	3.67	0.1594
AST	14	0.1791	0.5308	2.56	0.2780
SW	14	0.1699	0.2827	3.53	0.1712
IET	14	0.1883	0.3310	3.15	0.2072
HE	14	0.4862	0.1002	3.64	0.1616
NOE	14	0.1360	0.6252	2.88	0.2365

Source: STATA 13 regression result

From the above figure, we can conclude that there is no problem of normality. That is, the Bera-Jarque statistic has a P-value of $> 5\%$ implying that the data were consistent with a normal distribution assumption.

4.2.5. Stationary test

The stationary of the variable which is tested by ADF method are the following.

Table 4.3. unit root test: Augmented duckey-fuller lnrgdpgr, trend lags (2) test.

Variable	Test statistics	critical value
PAX	-1.42	-3.600
AST	-2.76	-3.600
IET	-1.35	-3.600
HE	-2.85	-3.600
NOE	-3.32	-3.600
SW	-2.35	-3.600

Source: STATA 13 regression result.

Ho: non- stationary

H1: stationary

If test statistics is greater than critical value or p-value is lower, reject null hypothesis of Ho: non- stationary and accept the alternative hypothesis of H1: stationary. Therefore, all variables are non- stationary.

4.3. Estimation results and discussion

The OLS estimation result of profit after tax presented in the following table.

Table 4.4. Regression result table

Number of obs = 14

F(5, 8) = 7414.20

Prob > F = 0.0000

R-squared = 0.9998

Adj R-squared = 0.9996

K= number of independent variables including constant=6

PAX	Coefficients	Stand.error	T value	p>t	[95% conf.interval)	
Constant	696.7346	187.5786	3.71	0.006*	264.1867	1129.301
AST	0.0038792	0.0019971	1.94	0.088**	-0.0007262	0.0084845
SW	-.485367	0.1720927	-2.82	0.022**	-0.8822136	-0.0885204
IET	12.79594	4.043929	3.16	0.013**	3.470625	22.12126
HE	31.6354	1.221092	25.91	0.000*	28.81956	34.45124
NOE	-118174.4	35231.8	-3.35	0.010*	199419.1	-36929.72

Source: STATA 13 regression result.

From the above OLS estimation result the following liner regression model is obtained.

$$PAX=696.74+12.795IET+31.64HE-0.49SW+0.0039AST-118174.4NOE$$

$$T= (3.71) (3.16) (25.91) (-2.82) (1.94) (-3.35)$$

The estimated model is acceptable with R-square (measure goodness of fit) value showing the independent variable jointly influence 99.98% of performance in commercial bank of Ethiopia. This explains that the independent variable have explained 99.98% of the variation in the dependant variable (profit). The profit of commercial bank of Ethiopia can influence by changes in using a combination of these human resource development elements included in the model.

The results of the effect of human resource development estimate on the financial performance of public financial institution in the case of commercial bank of Ethiopia is presented as Table 4.3 shows that the human resource investment as measured by the variable number of employees, expenditure for education/ training of employees, expenditure for health, wage and salaries of employees and total asset of the bank affect the financial performance of commercial bank of Ethiopia which is indicated by the significance F value of 0.0000 which is smaller than $\alpha = 0.05$. It also shows that the magnitude of the constants of model of the human resources of 696.74. It is interpreted that if there is no intervention in the form investment of human resources through expenditure for education/ training of employees, expenditure for health, wage and salaries of employees and other variable including in the model, the commercial bank of Ethiopia will have a rate of profit of 696.74 birr.

The regression results in table 4.3 also showed that investment in education and training, expenditure on health, asset of the bank was significant in explaining performance of banks with positive coefficients indicating positive relationship with performance. This shows that if the bank increase expenditure on education and training, health expense, total asset by one birr the profit of the bank increase by 12.79, 31.64, 0.0039 birr respectively, other thing being unchanged. The coefficient of expenditure on health, education and training is higher and statically significances effect on performance of the bank. This shows that if commercial bank of Ethiopia investment in expenditure on health, education and training employees increase, and then the performance recorded will increase. The underlying reason is because when staff undergoes training, education their knowledge and skill levels increase and so does their ability to perform. Similarly, if the health of staff improves, there productivity will also increase. This is in line with the view of human capital theorists Schultz (1993), who believes that human capita has been defined as a key element in improving a firm's assets and employees in order to increase of productive as well as sustain competitive advantage. So is the case with a view

Becker's (1993) who considers that the investment of human resources is a crucial factor in increasing the productivity of labor. Armstrong (1999) explained human resource development as a part of human resource management concerned with the provision of learning, development and training opportunities in order to improve the individual, team and organizational performance. Armstrong went further to say that the overall aim of human resource development is to see that the organization has the quality of people it needs to attain the goals for improved performance and growth. Human Resources Development has also been defined as a framework for the expansion of human capital within an organization. It is a combination of training and education that ensures the continual improvement and growth of both the individual and the organization.

Other results in table 4.3 shows that number of employees and wage and salary expense negatively affect the profit of commercial bank of Ethiopia. Both number of employees and salary and wage significantly explain performance of commercial bank of Ethiopia. This showed that any rise in the number of employees, salary & wages of employees may result in decline of performance. When the number of employees and wage and salary expense of the bank increased by one unit the performance of the bank will decrease by 118174.4 and 0.49 respectively. This is in line with the results of Farer and Williams (2003), Shiu (2006), and Chan (2009). Increasing the number of employees who are not optimal actually reduce economy results directly. This is due to increased spending on new workers, either in the form of the cost of recruitment, salary / benefits / wages, as well as placement fee. Increased costs will reduce the profitability of the company since the increase in labor costs are much higher than the income received. Increasing the number of employees who actually showed a decline in financial performance also indicates the low competence of employees received by the commercial bank of Ethiopia.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

The preceding chapter presented the data analysis, interpretation and discussion, while this chapter deals with summary of findings, conclusion and recommendations based on the findings of the study. Accordingly this, chapter is organized into three subsections.

5.1. Summary of findings

Human resource investment as measured by the variables- number of employees , expenditure for education/ training of employees, expenditure for health, wage and salaries of employees and total asset of the bank affect the financial performance of Commercial Bank of Ethiopia either positively or negatively.

The research main objective was to examine the effect of human resource development on financial performance of Commercial Bank of Ethiopia. The study used Fourteen (14) years period of time serious data covering 2005 to 2018. Secondary data were collected from NBE and CBE. The study also used an appropriate econometric methodology for the estimation of variables coefficients under regression model.

The regression results showed that investment in education and training, expenditure on health, asset of the bank was significant in explaining performance of banks with positive coefficients indicating positive relationship with performance.

Whereas, wage and salary expense, and trends in number of employees have negatively affect the profitability of Commercial Bank of Ethiopia. This showed that any rise in the number of employees, salary & wages of employees may result in decline of performance.

5.2. Conclusion

Human resources are the greatest assets of any organization. The developmental climate in an organization helps the individuals to utilize their potential properly and contribute to the achievement of the goals of the organization. Human resource development occupies a central role in modern thinking about growth. Despite a large literature on the matter, there is a lot to be

learned: there is no consensus of its role in growth and development, presumably because this role varies across different institutional settings and national environments.

The main objective of this paper was to examine the impact of human resource development on the performance of the public financial institution in the case of commercial bank of Ethiopia. The study contains both the descriptive and econometrics analysis. Under the descriptive statistics the trends and overall performances of the variables of interest are presented. The statistical tools such as tables and graphs are used to describe the variables used in the analysis. The econometric analysis begins by testing the necessary tests such as stationary tests, diagnostic tests. After passed the necessary tests the models was estimated using OLS regression technique of model.

The importance of training and development in the corporate world has been highlighted in the previous literature. Thus, it is essential to examine any issues related to training and development in any business sector. The reason for investigating the impact of human resource development on organizational performance was motivated by the observation that some organizations do not seem to care about improving the capacity of their workers, and human resource development is the new concept in which the scholars pay attention. This study investigated the impact investment in human resource development represented by investments on education and training, salary and wages, expenditure on health improvement of employees, number of employees and asset affects the performance of commercial bank of Ethiopia. The results obtained in this study showed a positive and statically significance relationship between expenditure on education and training, health and total asset of the bank with performance confirming which the literature and empirical results. This shows that if the bank increase expenditure on education and training, health expense, total asset by one birr the profit of the bank increase by 12.79, 31.64, 0.0039 birr respectively, other thing being unchanged. The coefficient of expenditure on health, education and training is higher and statically significances effect on performance of the bank. This shows that if Commercial Bank of Ethiopia investment in expenditure on health, education and training employees increase, and then the performance recorded will increase. The underlying reason is because when staff undergoes training, education their knowledge and skill levels increase and so does their ability to perform. Similarly, if the health of staff improves, their productivity will also increase. Based on the

outcome of the estimation therefore Commercial Bank of Ethiopia is expected to increase their level of investment in developing their human resource.

On the other hand, increase in number of employees and wage and salary expense have negative and statically significance impact on performance of bank. Increasing the number of employees who are not optimal actually reduce economy results directly. This is due to increased spending on new workers, either in the form of the cost of recruitment, salary / benefits / wages, as well as placement fee. Increased costs will reduce the profitability of the company since the increase in labor costs are much higher than the income received.

5.3. Recommendation

Based on the findings the following implications are drawn:-

- In order to achieve better performance, Commercial Bank of Ethiopia should invest more resources on education and training, and health expenditure. Such measures have a large impact on human productivity which leads to higher profit.
- Commercial Bank of Ethiopia higher management team should pay appropriate attention on financial performance impact of wage & salary and number of employees and should devise a mechanism to enhance employee's productivity to offset their cost/expense. .
- It has been found that the performance of Commercial Bank of Ethiopia is largely affected by human resource policies and so it has to give special attention to all the core functions of human resource development.
- The bank should also strive to create institutional capacity that improves the productivity of employees. Its focus should not be only creating new institutional capacity, but also on strengthening and changing the existing institutional setups of the education and health system of the bank.

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ANNEXES

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Statistics/Data Analysis

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Notes:

1. (/v# option or -set maxvar-) 5000 maximum variables

```
. import excel "C:\Users\Abyssiniaaa\Desktop\SAMI DATA FINAL\DATA.xlsx", sheet("Sheet1") firstrow
```

```
. regress PAX AST SW IET HE NOE
```

Source	SS	df	MS	Number of obs =	14
Model	170601609	5	34120321.7	F(5, 8) =	7414.20
Residual	36816.1727	8	4602.02159	Prob > F	= 0.0000
				R-squared	= 0.9998
				Adj R-squared	= 0.9996
Total	170638425	13	13126032.7	Root MSE	= 67.838

PAX	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
AST	.0038792	.0019971	1.94	0.088	-.0007262	.0084845
SW	-.485367	.1720927	-2.82	0.022	-.8822136	-.0885204
IET	12.79594	4.043929	3.16	0.013	3.470625	22.12126
HE	31.6354	1.221092	25.91	0.000	28.81956	34.45124
NOE	-118174.4	35231.8	-3.35	0.010	-199419.1	-36929.72
_cons	696.7436	187.5786	3.71	0.006	264.1867	1129.301

```
. summarize PAX HE AST NOE IET SW
```

Variable	Obs	Mean	Std. Dev.	Min	Max
PAX	14	4628.251	3622.987	579.2	10900.45
HE	14	137.8536	110.096	17.11	329.45
AST	14	186226.7	157613	33172	490068.2
NOE	14	.0152429	.0090412	.0071	.0329
IET	14	114.0711	108.9373	10.96	315.45
SW	14	1669.416	1671.29	185.72	4614.25