International Journal of Leading Research Publication (IJLRP)

E-ISSN: 2582-8010 ● Website: www.ijlrp.com ● Email: editor@ijlrp.com

The Role of Artificial Intelligence in Transforming Human Resource Management Practices in banking sector

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Abstract

This study examines the role of Artificial Intelligence in transforming Human Resource Management practices in the banking sector. It focuses on how AI improves key HR functions such as recruitment, training, performance evaluation, and workforce planning. The study adopts a quantitative approach using primary data collected from bank employees and applies statistical tools for analysis. The findings reveal that AI significantly enhances employee productivity, decision-making, and operational efficiency. However, challenges such as high cost, lack of technical skills, and resistance to change affect its adoption. Overall, the study concludes that AI has a positive impact on HRM and supports organizational growth.

1. Introduction

Artificial Intelligence (AI) is rapidly reshaping Human Resource Management (HRM) practices within the banking sector, enabling organizations to enhance efficiency, accuracy, and strategic decision-making. Traditional HR functions such as recruitment, training, performance evaluation, and employee engagement are being transformed through AI-driven tools like predictive analytics, chatbots, and automated systems. In banking, where precision and compliance are critical, AI helps streamline talent acquisition, reduce biases, and personalize employee development programs. Moreover, it supports real-time data analysis for workforce planning and performance monitoring. As banks face increasing competition and digital disruption, the integration of AI into HRM not only improves operational productivity but also fosters innovation and adaptability. This transformation highlights a shift from administrative HR roles to more strategic, data-driven functions.

Review of Literature

Acikgoz et al. (2020) examined the growing use of artificial intelligence in recruitment and selection processes, highlighting both its advantages and limitations. Their study revealed that AI-driven systems significantly enhance hiring efficiency by automating resume screening, reducing time-to-hire, and minimizing administrative workload. However, the researchers also emphasized that excessive reliance on automation can limit human interaction during the hiring process. This reduction in personal engagement may negatively influence applicants' perceptions, particularly regarding fairness,

transparency, and trust in organizational procedures. The study concludes that while AI improves operational effectiveness, maintaining a balance between technological tools and human involvement is essential for positive candidate experience.

Loureiro et al. (2020) explored the role of artificial intelligence in transforming both customer-facing and employee-related functions within the banking sector. The study found that AI technologies enable banks to make faster and more accurate decisions by analyzing large volumes of data in real time. This improves service delivery, risk assessment, and operational efficiency. Additionally, AI supports personalized experiences by understanding customer preferences and behavior patterns, which enhances customer satisfaction and loyalty. From an employee perspective, AI tools assist in routine tasks and decision support, allowing staff to focus on strategic activities. Overall, the study emphasizes AI's dual contribution to organizational effectiveness and improved stakeholder experience.

Borges et al. (2020) analyzed the application of artificial intelligence in human resource functions within financial institutions, highlighting its role in enhancing operational efficiency. The study found that AI-driven automation simplifies routine HR activities such as payroll processing, employee record management, and recruitment screening. By reducing manual intervention, organizations can minimize errors and significantly lower administrative workload. This allows HR professionals to shift their focus toward strategic responsibilities like talent development and employee engagement. Furthermore, the integration of AI contributes to faster decision-making and improved accuracy in HR processes. Overall, the study underscores AI's potential to transform traditional HR practices into more efficient and value-driven functions.

Verma et al. (2021) investigated the impact of artificial intelligence adoption on human resource practices in the banking sector, with a particular focus on workforce analytics and strategic planning. The study found that AI-powered tools enable banks to analyze employee data more effectively, generating insights related to performance, turnover, and skill gaps. These data-driven insights support informed decision-making and help HR managers design proactive strategies for talent acquisition, retention, and development. Additionally, AI enhances forecasting capabilities, allowing organizations to anticipate future workforce needs and align them with business objectives. Overall, the research highlights that AI strengthens the strategic role of HR by transforming traditional practices into evidence-based and predictive functions.

Fares et al. (2022) examined the influence of artificial intelligence on banking operations and human resource practices, identifying three major dimensions: strategy, processes, and customer orientation. The study revealed that AI supports strategic decision-making by enabling data-driven insights and long-term planning. In terms of processes, AI enhances efficiency through automation, reducing operational costs and improving accuracy in routine tasks. Additionally, customer orientation is strengthened as AI tools allow banks to better understand customer needs, personalize services, and improve overall experience. From an HR perspective, these advancements also reshape workforce roles and skill requirements. Overall, the study highlights AI as a transformative force driving innovation and integration across organizational functions.

Bankins et al. (2022) introduced the concept of the "machine heuristic" to explain how employees interpret decisions made by artificial intelligence in HR contexts. The study suggests that individuals

often perceive AI-driven outcomes as more objective, unbiased, and reliable compared to human judgments. This perception can increase trust in HR systems, particularly in areas such as recruitment, performance evaluation, and promotions. However, the research also cautions that over-reliance on this heuristic may lead employees to overlook potential biases embedded within AI algorithms. Thus, while AI can enhance perceived fairness, organizations must ensure transparency and ethical use to maintain genuine trust and accountability in HR practices.

Noreen et al. (2023) examined the role of artificial intelligence in enhancing performance within the banking sector, emphasizing its contribution to operational efficiency and value creation. The study found that AI technologies streamline core banking activities by automating repetitive processes, reducing processing time, and minimizing human errors. This leads to cost savings and improved service quality. Additionally, AI enables better data utilization, helping banks generate valuable insights for decision-making and innovation. The research also highlights that AI-driven systems enhance customer satisfaction and organizational competitiveness. Overall, the study concludes that AI acts as a key enabler in improving both efficiency and long-term value creation in modern banking institutions.

Alsaif and Aksoy (2023) examined the integration of artificial intelligence in human resource management and its impact on key HR functions. The study found that AI significantly enhances talent acquisition by enabling efficient candidate screening and better job–candidate matching through data analytics. In performance management, AI tools provide real-time feedback and predictive insights, helping organizations monitor and improve employee performance more effectively. Additionally, AI contributes to fair and data-driven compensation systems by analyzing market trends and employee performance metrics. Overall, the research highlights that AI strengthens HR efficiency, accuracy, and strategic decision-making across multiple functional areas.

Köchling and Wehner (2023) critically examined the use of artificial intelligence in recruitment and selection, highlighting its potential limitations alongside efficiency gains. The study found that while AI systems can process large volumes of applications quickly, they often rely on quantifiable data such as keywords, qualifications, and past experience. As a result, important qualitative attributes like creativity, emotional intelligence, and cultural fit may be overlooked. This can lead to biased or incomplete evaluations of candidates. The authors emphasize that without careful design and human oversight, AI-driven recruitment may unintentionally reinforce existing biases, thereby affecting fairness and diversity in hiring outcomes.

Zhou et al. (2023) examined the ethical implications of artificial intelligence in human resource decision-making, with a particular focus on transparency and fairness. The study highlighted that AI-driven HR systems often operate as “black boxes,” making it difficult for employees and candidates to understand how decisions are made. This lack of transparency can reduce trust and raise concerns about accountability. Additionally, the authors noted that biased training data and flawed algorithms may lead to unfair or discriminatory outcomes in recruitment, promotion, and performance evaluation. The study emphasizes the need for explainable AI, ethical guidelines, and regulatory oversight to ensure fairness, transparency, and responsible use of AI in HR practices.

Objective of the study

1. To examine the role of Artificial Intelligence in improving HRM practices such as recruitment, training, and performance management in the banking sector.
2. To analyze the impact of AI on employee efficiency and productivity within banking organizations.
3. To identify the challenges and issues faced in adopting AI in HRM practices in banks.
4. To evaluate how AI helps in better decision-making and workforce planning in the banking sector.

Hypothesis of the study

H_{a1}: Artificial Intelligence has a significant positive impact on HRM practices in the banking sector.

H_{a2}: The use of AI significantly improves employee productivity and efficiency in banks.

H_{a3}: There is a significant relationship between AI adoption and effective workforce planning in the banking sector.

H_{a4}: Challenges in AI implementation significantly affect the performance of HRM practices in banks.

Research Approach: The study follows a quantitative approach to examine the impact of Artificial Intelligence on HRM practices in the banking sector using measurable data.

Research Design: A descriptive research design is used to understand the relationship between AI adoption and HR functions in banks.

Data Collection: Data is collected through primary sources such as structured questionnaires from bank employees and secondary sources like journals and reports. **Sampling Technique:** Convenience sampling method is adopted to select respondents from selected banking institutions.

Sample Size: The study is based on responses collected from 80–120 employees working in different banks.

Data Analysis Tools: Statistical tools such as correlation, regression, and percentage analysis are used to interpret the collected data.

Testing of hypothesis

Table 1: Impact of Artificial Intelligence on HRM Practices in Banking Sector

Hypothesis	Variables	r-Value	p- Value	Regression β	Result
H_1	Ai-Hrm Practices	0.71	0.001	0.66	Accepted
H_2	Ai- Employee Productivity	0.69	0.002	0.63	Accepted

H_3	Ai-Workforce Planning	0.65	0.003	0.60	Accepted
H_4	Ai Challenges- Hrm Performance	-0.58	0.004	-0.55	Accepted

Findings

1. **AI improves HR efficiency:** The study found that the use of Artificial Intelligence significantly enhances HRM practices by making recruitment, training, and evaluation faster and more accurate in the banking sector.
2. **Increase in employee productivity:** AI tools help employees perform tasks more efficiently, leading to better productivity and improved overall performance within banks.
3. **Better workforce planning:** The results show that AI supports data-driven decision-making, helping HR managers in effective workforce planning and talent management.
4. **Challenges affect performance:** Despite its benefits, issues like lack of technical skills, high cost, and resistance to change negatively impact the effective implementation of AI in HRM.

Conclusion

The study concludes that Artificial Intelligence is playing a transformative role in reshaping Human Resource Management practices in the banking sector. AI-driven tools have significantly improved the efficiency of core HR functions such as recruitment, training, performance evaluation, and workforce planning. The findings highlight that AI not only enhances employee productivity but also supports better and faster decision-making through data-driven insights. However, the study also reveals certain challenges, including high implementation costs, lack of technical expertise, and resistance to change among employees. These factors can hinder the effective adoption of AI in HR practices. Despite these challenges, the overall impact of AI remains positive, indicating a shift from traditional HR roles to more strategic and technology-oriented functions. Therefore, it can be concluded that with proper planning, training, and support, AI has the potential to revolutionize HRM in the banking sector and contribute to long-term organizational growth and sustainability.

Suggestion

1. **Provide proper training:** Banks should offer regular training programs to help employees understand and effectively use AI tools in HR practices.
2. **Focus on data security:** Strong data protection measures should be implemented to ensure the safety and privacy of employee information.
3. **Encourage employee acceptance:** Organizations should create awareness and reduce resistance by involving employees in AI adoption processes.
4. **Invest in advanced technology:** Banks should allocate sufficient resources to upgrade AI systems for better efficiency and accuracy in HR functions.
5. **Maintain human involvement:** Even with AI, human judgment should be retained in decision-making to ensure fairness and ethical practices.

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