

# The Impact of Human Resource management Practices on Organizational Performance in Saudi Banking Sector

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## Abstract

This study 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,

**Key words:** Human resource management (HRM), performance, banking sector.

## 1. Introduction

A message frequently found in corporation mission statement and annual reports is that people are firms most valuable resource. Having the right personnel at the right place and at the right time is utmost important to survival and success of any organization. (Oladipo 2011). Firms proclaim that people are the source of their competitive advantage whether they be technological experts, accommodating customer services expert, or visionary managers ... at a time of unparallel technology development, it is the human resource that spell success or failure for all firms, and especially entrepreneurial ones (Katz et al.2000).

Quite honestly, organizations and managers are aware that at every point, they face rapid and complex changes in the market environment. One of the most remarkable result is the change of attitude in some firms toward organizations people or human resource. Top managers in such perceived, that people are among the organizations most valuable strategic resources (Pfeffer 1994). Organizations with long term objective are therefore, re-examine the way in which they manage their human resource. This reappraisal is leading to a widening of the role of personnel management, as indicated by increasing popularity of term "Human resource management (HRM).

The impact of human resource management (HRM) popularly known as HR practices on organizational performance and employee attitude has been a leading area of research in the developed countries for years. But, surprisingly, very limited number of studies have been conducted on HR practices in the context of developing countries in general (Sarbariy 2011) therefore, conducting HRM in studies in the other parts of the world, for example, Asia or Africa will help to meet the shortage of empirical work in field of those parts of the world and also serve as a vehicle for comparative studies. Although, many studies on the impact of human resource management on organizational performance have been conducted dealing with many different industries at the same time (Davision et al.1996, Wyatt's,2002) others studies stated that there is an advantage in investigating HRM within a single industry by suggesting that measurement of organizational performance, HRM practices, and control variables were more precise when study focused on a particular industry (Inchniowski et al.,1995). Therefore, the field which is investigated in this study is banking sector in Saudi Arabia.

## 2. literature review

### 2.1 Human resource management

The new millennium will necessitate many changes in organizations and therefore the field of human resource management has certainly come to an evolutionary crossroad. HRM highlighted on the positive side of the workers that they are irreplaceable assets belonging to organizations that contribute to its successes. HRM has evolved from

two distinct conception of link between employee motivation and behavior and firm level performance outcome. The concept of HRM developed from workers in the USA, in 1960s and 1970s (Brewster 1994). In Europe and Australia the notion of HRM as an ideological framework to effectively and efficiency manage labor, took root as academic theory, a practitioner's tool kit and managerial profession in the late 1972s, since then it has been adopted increasingly around the world(Suzan 2006). Human resource management is defined as a very critical and imperative function that operates within an organization This function classified into recruitment, compensation, development related to the organization, safety, motivation of employee, benefit wellness, communication and training, and performance management and all the activities that are associated with the employees and the ways direction is provided to them in order to achieve the goals of the organization(Ayesh et. al 2012). Also, Neo(2007) defines HRM as composed of policies, practices, and system that influence employee's behavior, attitude, and performance.

#### 2.1.1 Training & development

To meet the challenge inherent in 21<sup>st</sup> century work careers and organizations employees are required to continuously update their knowledge, skills, and work habits and organization to invest highly in the development of their human capital(Gilad&Richard 2007). Researches indicate investment in training employees result in beneficial firm level out comes (Barak et.al, 1999). The concept of training& development refers to any effort to improve current and future skills, knowledge and abilities of employee (Aswathappa,2008).

#### 2.1.2 performance appraisal

Organization can observe the development of desired employee attitudes and behavior through the use of appraisal mechanism. A performance appraisal is a systematic and periodic process that assesses an individual employee's job performance and productivity in relation to certain pre- established and organizational objectives ( Mansa, 2009). The application of performance appraisal are promotion, termination, test validation, and performance improvement. Therefore, improving performance appraisal for everyone should be among the highest priorities of contemporary organization (Muczky 1987). However, performance appraisal system has potential advantages for organizations such as facilitation of communication, enhancement of employee focus through promoting trust, performance improvement, and determination of training needs.

#### 2.1.3 Employee empowerment

The concept of empowerment is desirable management and organization style .It's the process of enabling or authorizing and individual to think, behave, take action, and control work and decision making in autonomous way so it's an effective way to maximize all- around work efficiency. Blanchard et.al,(1996) illustrated three keys that managers must use to empower their employee. These keys are: share information with everyone, create autonomy through boundaries and replace the old hierarchy with self managed team.

#### 2.1.4 compensation

Compensation refers to all types of pay or reward going to employees and arising from their employment (Dessler,2007).companion very much important for employee because it is one of the main reason for people to work .moreover, media for organization to affect motivation in several ways in order to achieve the specific goals and objectives of the organization. A substantial body of work has provided evidence that based compensation has an important on firm performance ( Oladipo,2011) .

#### 2.1.5 Job rotation

Job rotation is one of management practices and the more widely used career development strategies in HRM literature which is a work system employees rotated among different job. Job rotation provides employees a meaningful change job content. Main objectives of job rotation are to gain an overall a appreciation of organizational goals to create abrader knowledge base of different functional areas, to develop a network of organization contacts and to enhance skills for employees. Furthermore, there are two reasons why work system employees rotate among different job is a useful way to motivate employees give them a sense of belonging and reduce boredom.( Sarbapriya,2011).

#### 2.1.6 Employee participation

Participation in decision making is the extent to which employer allow or encourage employees (which are the most important Assests) to share or participate in organizational decision making (probst,2005).The degree of participation could range from zero to 100% in different participation of management stages (cotton et.al,1988).Organizations benefit from the perceptions process, they improve understanding and perceptions among colleagues and superiors, and enhance personnel value in the organization. Researchers have found that involve employees to participate in decision making may positively impact the following (steinheider,et al.2006).Job

satisfaction, organization commitment, perceived organizational support, organizational citizenship behavior, job performance, and organizational performance and employee absenteeism.

#### 2.1.7 Selection system

Organizations today are faced with the challenge of finding and keeping higher- performing employees. Having an effective selection system one way to improve organizational outcomes. Selection systems are the tools and assessment used by an organization to yield the best hiring decision. Moreover, it helps in identifying a right candidate with potential to perform, generates a sense of elitism, create high expectations of performance, and signals a message of importance of people to organization (Pfeffer,1994).

### 3-previous studies

Human resource management came into popular parlance in the late 1970s. As a managerial approach aimed at re-ordering the employment relationship to ensure employee efforts were strategically focused on achieving organizational performance and competitiveness in increasingly volatile markets. However, it was only in the 1990s that the concept of bundling of HRM practices become popular and attract numerous studies. Based on mailed surveys K.M et al.,(2004) analyze the relationship between outsourcing of human resource activities, namely training and payroll and the firm performance. A sample of 94 manufacturing firms represent 16two- digit sic code industries in Southern western states the USA. using descriptive statistical and correlations. Results indicate that both training and payroll outsourcing have implication for firms performance.

Singh (2004) investigated the relationship between six HRM practices and firms level performance in India.359 firms were drawn from firms listed in the Center for Monitoring India Economy (CMIE). 82 responded positively to the survey. Using regression and correlation analysis, the study found a significant relationship between the two HR practices namely training and compensation and perceived organizational and market performance .

Based on a questionnaire Seonghee et al(2006) investigated the relationship between the use of 12 human resource management (HRM) practices and organizational performance, the population of the study was lodging and restaurant companies in the USA. the sample was drawn from compact Disclosure database consist of 219 hotel and restaurant .The result of regression analyses indicated that companies implementing HRM practices are more likely to experience lower turnover rates for non-managerial employee .

Also, based on Cranet Network questionnaire responses by highest-ranking officer from corporate HR team, Eleni T.et al(2007) utilizes an innovative research methodology(Kohonen's self- organizing maps ) to examine the relationship between human resource management and organization performance among organizations in the private and wider public sector of EU.the samples in each country have been selected from lists provided by national federations. The 1546 respondents were members of corporate HR teams. the study indicated that training& development practices strongly related to performance.

Based on data of 19,000 organizations and using meta -analysis. Yongmei, et al.,(2007). identified 13 HRM practices that researchers have studied as possible antecedents to firm performance ,that finding of the research is that, HRM practices add a significant value for organization. In addition to that, the study illustrated HRM practices and processes they impact most. Selection, training, and compensation level enhancing knowledge, skills and abilities. Participation, flexitime, participation programs, grievance procedures and employment security are enhancing empowerment practices. Incentive compensation and internal promotion are enhancing motivation enhancing practices.

Okpara and Pamela (2008) examined the extent to which organization in Nigeria use various practices and perceived challenges and prospect of these practices. Data were collected from 253 managers in 12 selected companies in 10 cities. Their findings reveal that HRM practices, such as training, recruitment, compensations, performance appraisal and reward system are still in place and that issue of tribalism, ADIS, training and development and corruption are some of the challenges facing HRM in Nigeria.

Using questionnaire for collecting data Ya-Fen et al(2009).Investigated and explored human resource practices and their influence on organization performance,129 companies in Taiwanese electronic industry and 112 branches in China are used to demonstrate compare the impact of HRM practices on organization performance comparing with difference of appropriate decision support in each culture for Taiwanese electronic industry and the subsidiary company in China using Analytical Hierarchical process/Data Envelopment Analysis (AHP/DEA) model. The study found that different cultures have different relationship with organization performance. The main finding suggest: asking the employee to participate company activities.

### 4- the objectives of the study

The main purpose of this study is to evaluate the impact of human resource management practices on organizational performance in banking sector. In order to meet this objective, the following objectives taken up under our consideration.

1. To find out the impact of human resource management practices on organizational performance.
2. To identify the human resource practices that contribute most to the organizational performance.
3. To increase awareness in organizations regarding effective human resource activities.
4. To propose useful direction for future researches.

#### 4.1- Research hypotheses

In order to achieve the objectives designed for this study, the following research hypotheses are stated based on the revelation in the review of literature concerning HRM practices and organizational performance.

##### Hypotheses one

There is significant positive correlation between training & development and organizational performance in banking sector in Saudi Arabia.

##### Hypotheses two

There is significant positive correlation between performance appraisal and organizational performance in banking sector in Saudi Arabia.

##### Hypotheses three

There is significant positive correlation between empowerment and organizational performance in banking sector in Saudi Arabia.

##### Hypotheses four

There is significant positive correlation between compensation and organizational performance in banking sector in Saudi Arabia.

##### Hypotheses five

There is significant positive correlation between job rotation and organizational performance in banking sector in Saudi Arabia.

##### Hypotheses six

There is significant positive correlation employee participation in decision making and organizational performance in banking sector in Saudi Arabia.

##### Hypotheses seven

There is significant positive correlation selection system and organizational performance in banking sector in Saudi Arabia.

### **5-Research methodology**

#### 5.1 Data collection

For the purpose of this study, data were collected from both primary and secondary sources. The secondary data source include extensive desk research through library, different published material and world-wide web. While primary data was collected through questionnaire. Questionnaire was constructed to measure HRM practices and organizational performance. The questionnaire was designed based on seven independence variables of HRM practices, which were training& development, performance appraisal, empowerment, compensation, job rotation, employee participation, and selection system. Those items were derived from comprehensive review of literature on HRM practices that are considered to relate to organizational performance. For the dependent variable, Dyer and Reeve, (1995) proposed four types of measuring for organizational performance affected by HRM those types are HR outcomes(turn over, absenteeism, and job satisfaction), organizational outcomes(productivities, quality and services.), financial outcomes( ROA, ROE, and profitability) , and capital market out comes(stock, price growth and return).The variables are closely related conceptually to some hypothesized precursors of performance. But for the purpose of this study (turnover, profitability, productivity, and job satisfaction) are used as a measure for organizational performance. Total of (125 ) questionnaire were distributed, (105 ) were returned, with a response rate of ( 84% ) percent. Some of the returned questionnaire are excluded due to incomplete information. As a result, a total of (101 ) questionnaire were determined as usable and entered into statistical analysis. Overall (41 ) questions were developed and a five- points Likert scales(1= strongly disagree to 5 = strongly agree) were adopted as it is believed to be an easier approach to collected data (Yu and Egri,2005). The questionnaires were

distributed and collected with ( June 2012 – October 2, 2012 ) tailed report explaining the intend of the questionnaire was attached.

It is important to mention that the questionnaire had to be translated into Arabic to respect those respondents who do not know English.

#### **5.1.1 sampling**

The target population of this study is made up of all banks operating in Saudi Arabia. (125) respondent were selected randomly, using simple random technique.

#### **5.1.2. Test of reliability**

Before a applying statistical tools, testing of reliability is very much important, Therefore in the present study, Cronbach Alpha reliability test is conducted for all measures. It is commonly used as a measure of the internal consistency or reliability of psychometric test score for a sample of examinees. Reliabilities are checked and they all fall between (0.76 ) and (0.86 ), which is satisfactory value because the satisfactory value is required to be more than 0.6 for the scale to be reliable. (Malhotra, 2002). The overall Cronbach alpha of the all scales used in this study is ( 0.81) .this indicate the reliability of scales is reasonably high.

### **6.Data analysis and result discussions**

#### **6.1 Demographic characteristics of the respondent**

As shown in table 1, 100% of the respondent were male.( in Saudi Arabia it is difficult to have connected with women). Majority of the respondent (87.1%) possess B.SC degree, (9.9%) possess M.sc degree , and (3%) secondary school certificate .this is an indicator that the respondents are composed of highly educated people who should know more about human resource management and it is impact on their banks and (44.5%) of the respondent have 5-9 years experience this is an indication that the respondent actually spent enough time in the service to know the impact of human resource on their banks performance. majority of the respondent (71.3%) were married .

#### **6.2 The most important statistical methods used in this study**

6.2.1.The mean: it is the most commonly used measure of central tendency, researcher has used to measure the average answer of the respondents.

6.2.2.Standard deviation: It is the most standards accuracy and importance in measuring dispersion for the arithmetic mean is the square root of squares of deviations values for the mean, or in other words, is used to measure (variation) dispersion and concentration for Answers respondents on average each of the phrases sections study and is extracted from the sample, note that the value of the deviation less (1.00) refers to the concentration of the answers and lack of dispersion, while the value of the standard deviation of (1) above refers to lack focus and answers dispersion.

6.2.3. T test: it is uses to determine significant differences on certain points (center hypothesis of the study) or the difference between two means.

The researcher used a statistical analysis program (SPSS) in the data entry so as to get more accurate results; the data were entered into SPSS according to the Likert scale and according to the following grades:-(table.2)

#### **6.3 Hypothesis testing**

As shown in (table.3) the correlation was calculated for testing the hypothesis of this research and the test of these hypotheses leads to accomplish the objectives of this study. As according to Welkowitz, Cohen and Ewen(2006), correlation coefficient is a very useful way to summarize the relationship between two variable with a single number that falls between -1 and +1.-1.0 indicates a perfect negative correlation,0.0 indicates no correlation, and+1 indicates a perfect positive correlation.

**First hypothesis was** There is significant positive correlation between training & development and organizational performance in banking sector in Saudi Arabia.

The result show that There is significant positive correlation between training & development and organizational performance in banking sector in Saudi Arabia this due to the value of the correlation which is 0.724 and it is statistically significant at the level of  $\alpha = 0.05$ , also note that the value of the deviation less than 1.00 refers to the concentration of the answers and lack of dispersion.

Hypotheses two: There is significant positive correlation between performance appraisal and organizational performance in banking sector in Saudi Arabia.

It can be observed that from the result of analysis in (table 3) .There is significant positive correlation between performance appraisal and organizational performance in banking sector in Saudi Arabia this due to the value of the

correlation which is 0.792 and it is statistically significant at the level of  $\alpha = 0.05$ , also it is observed that the value of the deviation less than 1.00 refers to the concentration of the answers and lack of dispersion.

Hypotheses three: There is significant positive correlation between empowerment and organizational performance in banking sector in Saudi Arabia.

The result. Also, indicates that There is significant positive correlation between empowerment and organizational performance in banking sector in Saudi Arabia this due to the value of the correlation which is 0.782 and it is statistically significant at the level of  $\alpha = 0.05$ , also note that the value of the deviation less than 1.00 refers to the concentration of the answers and lack of dispersion.

Hypotheses four :There is significant positive correlation between compensation and organizational performance in banking sector in Saudi Arabia.

It is also evident(see table 3) that There is significant positive correlation between compensation and organizational performance in banking sector in Saudi Arabia. this due to the value of the correlation which is 0.800 and it is statistically significant at the level of  $\alpha = 0.05$ , also note that the value of the deviation less than 1.00 refers to the concentration of the answers and lack of dispersion..

Hypotheses five :There is significant positive correlation between job rotation and organizational performance in banking sector in Saudi Arabia

The result show that There is significant positive correlation between job rotation and organizational performance in banking sector in Saudi Arabia this due to the value of the correlation which is 0.751 and it is statistically significant at the level of  $\alpha = 0.05$ , also note that the value of the deviation less than 1.00 refers to the concentration of the answers and lack of dispersion..

Hypotheses six: There is significant positive correlation between employee participation in decision making and organizational performance in banking sector in Saudi Arabia.

The result show that There is significant positive correlation between employee participation in decision making and organizational performance in banking sector in Saudi Arabia due to the value of the correlation which is 0.841 and it is statistically significant at the level of  $\alpha = 0.05$ , also note that the value of the deviation less than 1.00 refers to the concentration of the answers and lack of dispersion..

Hypotheses seven: There is significant positive correlation between selection system and organizational performance in banking sector in Saudi Arabia.

The result show that There is significant positive correlation between selection system and organizational performance in banking sector in Saudi Arabia. due to the value of the correlation which is 0.839 and it is statistically significant at the level of  $\alpha = 0.05$ , also note that the value of the deviation less than 1.00 refers to the concentration of the answers and lack of dispersion..

#### **6.4 Discussion of finding**

The hypotheses test confirms that there is a significant and positive correlation between training & development, performance appraisal, empowerment, employee participation in decision making, selection system, job rotation and job performance in banking sector in Saudi Arabia this positive relationship indicates that attempt of human resource practices can significantly lead to improve of performance. According to T. test, training & development show the highest positive correlation with organization performance. It has maximum contribution toward organization performance Job rotation shows the least positive correlation with organization performance in banking sector in Saudi Arabia.

#### **7. limitation and future research**

Main objectives of this research are investigated the impact of human resource management practices on organizational performance in Saudi banking sector. Despite of these encouraged result, this research still have an avoidable limitation, the most obvious limitation of the present study is limited by cost and time and that reflect on response rate. Many recommendation could be made for future research relating to impact of HRM practices on organizational performance . A comparative study (in Gulf countries) can be carried out to measure the impact of HRM practices on organizational performance. Also same research can be applied include samples from different countries and organization size to reach greater generalizability, and the completeness of this research.

#### **8. Conclusion**

The primary purpose of this research was to examine the impact of human resource practices on organizational performance in banking sector in Saudi Arabia. The results of the study showed that all the seven human resource practices are positively correlate with banking sector performance. This mean that all the seven variables are very

much necessary for performance. Comparing all variables one can see that the major factors that contribute maximum toward banks performance. It is fair to conclude that human resource in general is very important concept. HRM practices do lead to organization effectiveness.

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Table 1. Demographic Characteristics of the Respondent ( N=101)

<i>Characteristics</i>	<i>frequency</i>	<i>Percentage</i>
<b>Sex</b>		
Male	101	100%
Female	00	00%
<b>Level of education</b>		
Secondary	3	03%
B.sc	88	87.1%
M.sc	10	9.9%
P.hd	00	00%
<b>Years of experience</b>		
Less than 5 years	25	24.7%
5-9 years	45	44.6%
10-14 years	20	19.8%
15 and more	11	10.8%
<b>Marital status</b>		
Single	21	20.8%
Married	72	71.35
Widow	02	2.0%
Divorced	06	5.9%

Source: field Survey,2012



Table (2): Views of the sample examined, according to the Likert scale and corresponding degrees

Opinion	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
Degrees	5	4	3	2	1

Table.3.correlation between performance and (HRM) variables

Hypotheses	Correlation	Sig.	Std. Deviation
First Part & eighth Part	0.724	0.000	0.740
Second part & eighth Part	0.792	0.000	0.671
Third-part & eighth Part	0.782	0.000	0.687
Fourth Part & eighth Part	0.800	0.000	0.670
Fifth Part & eighth Part	0.751	0.000	0.864
Sixth Part & eighth Part	0.841	0.000	0.595
Seventh Part & eighth Part	0.839	0.000	0.593

Source: survey data.2012

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