THE HUMAN RESOURCE BASED VIEW OF THE FIRM: THE DEVELOPMENT OF A MODEL AND ITS EMPIRICAL EVALUATION IN THE COMMERCIAL BANKING INDUSTRY OF BAHRAIN

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This work is dedicated to
The Soul of My Father HUSSAIN

DECLARATION

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List of Abbreviations

Al-Ahli	Al-Ahli Commercial Bank
Arab	Arab Bank
BBK	Bank of Bahrain and Kuwait
BBME	British Bank of the Middle East
BMA	Bahrain Monetary Agency
BSB	Bahrain Saudi Bank
CA	Competitive Advantage
CEO	Chief Executive Officer
DPMKSH	Market-Share Deposits
EMPRD	Employee Productivity
Grindlays	Grindlays Bahrain Bank
HR	Human Resources
HRM	Human Resource Management
HRBV	Human Resource Based View
HR Practices	Human Resource Practices
Islamic	Bahrain Islamic Bank
LNMKSH	Market-Share Loans
Melli	Bank Melli Iran
NBB	National Bank of Bahrain
NBOM	Net Bank Operating Margin
NPM	Net Profit Margin
OPEF	Operating Efficiency
RBV	Resource Based-View of the Firm
ROA	Return on Assets
ROE	Return on Equity
SCA	Sustained Competitive Advantage
SHRM	Strategic Human Resource Management
Standard	Standard Chartered Bank

Objectives of the Study

The study was designed to explore the distinctive attributes of firms' resources and their relationship with sustained competitive advantage (SCA). The emphasis is on the Human Resource-Based View (HRBV) of the firm and the strategic and managerial conditions under which human resources are a potential source of SCA. The objectives can be stated more specifically as follow:

- To develop a resource-based view model of the firm that adequately describes the role of human resources, their management and human resource practices in the attainment of sustained competitive advantage.
- To empirically test this model and in so doing estimate the contribution of human resources, their management and human resource practices to sustained competitive advantage.
- To revise the HRBV model in the light of the empirical findings.

Chapters 1 to 4 develop an HRBV model and its context. Chapters 5 to 8 deal with its empirical evaluation. Chapter 9 presents the conclusions of the empirical evaluation and revisions.

The Research Questions of the Study

The study aimed at achieving the stated objectives by exploring and answering the research questions mentioned below. These research questions are designed to study and to find associations between the determinant factors incorporated in human resource attributes, differentiation strategy, employee competence, HR practices, style of management, organisational climate and organisation and the dependent variables incorporated in performance measures and sustained competitive advantage.

1 Are human resources that are valuable and unique and imperfectly mobile, imitable and substitutable associated with superior bank performance?

2. Are human resources that are valuable and unique and imperfectly mobile, imitable and substitutable associated with the sustained competitive advantage of a bank?

3. Is the level of employee competence or the nature of the HR practices, style of management, organisational climate, work organisation or strategy of a bank associated with its performance?

4. Is the level of employee competence or the nature of the HR practices, style of management, organisational climate, work organisation or strategy of a bank associated with its sustained competitive advantage?

5. Are the interactions between the human resource attributes[1], employee competence, HR practices, style of management, organisational climate, work organisation and strategy associated with bank performance?

6. Are the interactions between the human resource attributes, employee competence, HR practices, style of management, organisational climate, work organisation and strategy associated with a bank's sustained competitive advantage?

[1] The collective term "HR attributes" refers throughout this thesis to the value, uniqueness, mobility, inimitability and substitutability of the human resources of the organisation

Chapter 1

Commercial Banking Industry in Bahrain

1.1. Introduction

The Commercial Banking Industry in Bahrain is a major contributor to economic development in the country. The commercial banks have been successful in maintaining steady growth and profitability over the past 25 years. This is due to commercial banks' ability to develop strategies at the corporate and business levels compatible with trends of change in the business environment.

This chapter examines the commercial banking industry structure, competitive forces, performance, and sources of value generation, profitability and competitive advantage (CA) from both economic or financial and cultural perspectives. By doing so, it extends the debate on strategy and competitive forces and suggests that CA and success are not purely driven by economic forces (rate of return) as advocated in strategy literature, but by cultural and religious forces as well. In this context, Porter's (1980) framework on generic strategy is utilised to explain the structure, type of generic strategy, performance and competitive advantage of the commercial banking industry.

1.2. Background of the Commercial Banking Industry

In the wake of the increase in oil prices in the 1970's and the early 1980's, the financial situation of the Arabian Gulf countries improved dramatically. These states, including Bahrain, started investing heavily in non–oil sectors, like construction, trade and manufacturing.

1.2.1. Bahrain Monetary Agency (BMA) Regulations

Bahrain Monetary Agency (BMA-Central Bank) is responsible for issuing currency and supervising the activities of the financial institutions, (i.e., commercial banks, investment banks, offshore banking units, insurance companies). As a regulatory body, BMA has maintained a stable market and liberal business environment (*Bahrain Middle East Bank, 1997*).

The banking industry in Bahrain is characterised by two interrelated features: 1) close supervision and deregulation designed to remove barriers to competition; and 2) developed liberal and free market at the regional and international levels. At the regional level (i.e., Gulf

Cooperation Council), Bahrain has substantially liberalised the deposit and lending rate structure (Bhattacharyay, 1995). At the international level, the US National Heritage Institute 1999 Index of Economic Freedom[2] considered Bahrain as the most economically free country in the Middle East and North Africa region, and ranks Bahrain as the third freest economy in the world. Bahrain's high ranking is mainly the result of the absence of taxation on corporate profits and personal income.

1.2.2. The Importance of the Economic Sectors to Commercial Banks' Growth and Profitability: Market Shift Situation

Changes in the oil sector have reallocated and repositioned the relative competitive advantage of non-oil sectors to the commercial banks in Bahrain. During the 1970s and until mid-1980s, the commercial banks relied on manufacturing, trade, and construction as the most growing economic sectors for their growth and profitability. These banks were competing for maximising their profits by lending to these sectors. Therefore, corporate and commercial market represents core business to commercial banks and a source of CA and sustained competitive advantage (SCA). The change of economic conditions resulting mainly

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[2] The US National and Heritage Institute Index of economic freedom measures the degree of economic freedom each of the 161 countries allows on ten (10) broad economic factors: trade policy; taxation; government intervention in the economy; monetary policy; capital flows and foreign investment; banking; wage and price control; property rights; regulation; and black market.

from the decline of oil prices has decreased the importance of these sectors as a core business and a source of CA and SCA for commercial banks. As a consequence, commercial banks have redefined their strategies at the corporate and business levels. This led to a market shift from the corporate and commercial market segment to the retail banking and consumer services market segment which became a potential source of fund raising and profit generating and, consequently, a source of CA and SCA. Changes in corporate and business strategies impose inevitable changes in the banks in which the relative importance and priorities given to corporate and commercial departments were shifted to retail banking departments.

1.2.3. Profit Margin

Retail banking and consumer services market has increased commercial banks' profitability. The strategic shift has led commercial banks to achieve an impressive performance in a competitive and an overbanked market. BMA annual reports (1985-1995) demonstrate that personal loans outperformed the three economic sectors known as corporate market segment. In 1985 the outstanding commercial banks credit to personal loans was BD147.326 million; superseded by construction sector, BD180.283 million; and trade sector, BD168.055 million.

However, personal loans offset this situation and steadily outperformed the other sectors since 1989. Personal loans reached BD308.136 million in 1996 (32% of the total outstanding commercial bank credit) while trade sector recorded BD199.783 million (21.2%) and construction BD155.751% (16.5%) (Table 1.1). As predicted by Al-Ahli Bank (Al-Ahli) former general manager, Gregory Krikorian in 1985 that "commercial lending is now on the wane" (MEED, 1985:11).

Table (1.1): Outstanding Commercial Bank Credits
(to Residents Only- BD thousands)

Year / Economic Sector	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Manufacturing	96.44	80.62	70.11	75.67	85.63	111.38	113.47	132.40	141.79	140.16	127.00	124.63
Agriculture	57	1.06	1.22	1.20	555	673	1.65	383	1.04	2.174	3.600	3.905
Construction	180.28	175.76	145.58	160.40	131.23	99.54	91.38	85.27	108.25	126.72	147.30	155.75
Trade	168.05	145.51	113.81	118.07	107.07	111.91	118.16	129.89	149.60	166.39	186.60	199.78
Transport	11.25	10.63	17.74	24.01	32.16	63.67	30.64	15.675	18.003	28.13	25.90	23.164
Government	34.39	73.61	169.66	61.27	45.72	12.24	14.97	17.79	30.36	35.72	45.20	25.49
Personal	147.32	153.03	161.94	139.02	166.77	182.30	167.19	210.17	265.79	293.14	286.30	308.13
Mining and Quarrying	0	0	0	0	15.05	25.12	29.35	26.33	22.304	18.36	14.50	10.144
Others	39.16	38.69	33.03	26.87	25.90	28.95	28.38	36.515	52.31	72.164	88.30	92.513
Total	677.49	678.94	713.11	606.55	610.12	635.81	595.22	654.45	789.47	882.98	924.70	943.52

Source: BMA annual reports from 1985-1995, and BMA- Quarterly Statistical Bulletin, 1996, December

The profit extracted from retail banking and consumer services which is associated with very low risk offsets income gained from other economic sectors. BMA 1996 annual report showed that the average interest rates on saving deposits and time deposits in 1993 were 2.4% and 3.15% respectively, while average interest rates in the same year on overdrafts[3] and consumer loans were 8.4% and 11.1% respectively.

[3] Overdrafts loans are zero risk because customers must have time deposit equivalent to the amount of the overdraft. Therefore, the bank is gaining from both:1)generating high return from zero risk loans, and guarantee exploiting the customer funds that are kept in the bank according to the time deposit period. With respect to personal loans, risk is very low because of job security for employees. Banks may face risk only when an employee is terminated from his job, that is highly unlikely, specially to government employees. Public sector absorbs most of labour force in the country that are representing high percentage of lenders of personal loans.

Average interest rates in 1996 on saving and time deposits were 2.5% and 5.2%, while average interest rates on overdrafts and consumer loans were 9.3% and 12.6% respectively. This demonstrates that the interest income (loan interest - deposit interest) reaches at least treble times the interest paid on deposits, while the overdrafts loans are zero risk because they are covered by the individual consumer deposit that has been given this type of loan. Moreover, comparing averages of interest rates in 1993 on overdrafts and consumer loans (8.4% and 11.1% respectively) with average interest rates on term loans (6.4%), and average interest rates in 1996 on overdrafts and consumer loans (9.3% and 12.6% respectively) with average interest rates on term loans (8.5%), demonstrates that income from personal loans outperformed other loans income by a considerable margin. This concludes that the retail banking and consumer services market segment is a profitable core business to commercial banks.

1.3. Competitive Initiatives: Branches Network and Technology

Commercial banks have invested in expanding their facilities to maximise their gains from retail banking and consumer services, which are seen as a vital source of fund raising, high profit extraction, and non-interest income. Branch networks connected by advanced technology have been an efficient instrument for commercial banks' growth of consumers' deposits, lending, and fee income, which altogether played a decisive role in identifying the prominent commercial bank. These facilities are launched in the intuitive hope of increasing market share for commercial banks as well.

1.4. Commercial Banking Industry Analysis

The analysis of the commercial banking industry in Bahrain is based on the premise that the industry and its competitive forces will determine the future of the banks via providing limitation and opportunities. Thus, the analysis is built around understanding the structure of the commercial banking industry and competitive forces active in the industry, which in turn determine the strategic choice and direction (i.e., business strategy) of the banks. To achieve this end, Porter's (1980) methodology of industry analysis is utilised to determine three main components of the commercial banking industry in Bahrain: 1) commercial banks identification, 2) strategic group identification, and 3) generic strategies: cost leadership versus differentiation.

1.4.1. Commercial Banks Identification

Commercial banks are part of the financial system and use their own capital and their depositors' funds to create loans, assets, and profits. Commercial banks direct their resources toward two main business domains: 1) corporate market segment and 2) retail market segment.

1.4.2. Strategic Group Identification

Bahrain commercial banking industry consists of 19 commercial banks. The industry is divided into strategic groups that broadly show the same behaviour characteristics in terms of principles underpinning banking product development and marketing (i.e., operations). The first strategic group consists of 17 conventional commercial banks which operate on equity and debt systems that are driven by a predetermined interest rate. The second strategic group consists of two (2) Islamic commercial banks which base their banking operations on an equity-participation system in which rate of return is not guaranteed (Naser and Moutinho, 1997). The Islamic bank operates in accordance with Islamic *Shariah* principles (i.e., Islamic law).

1.4.3. Generic Strategies: Cost Leadership Versus Differentiation

Porter (1980) suggests two routes to achieve profitability and competitive advantage: 1) cost efficiency (i.e., cost leadership strategy); and 2) differentiation (i.e., differentiation strategy). Both the generic strategies provide a source of value, but through different resources and mechanisms and when implemented effectively. Within the framework of the present study, the imperative question is which generic strategy is most suitable and effective for commercial banks? Or, can these generic strategies be pursued simultaneously by commercial banks to achieve a high level of value generation and profitability?

Hill (1988) and Barney (1997) demonstrate that in some industries the rivals cannot compete on the basis of a cost leadership generic strategy. Given the nature of the commercial banking industry, competing on the basis of a cost leadership strategy is not a viable route to competition, value creation and profitability. With regard to the commercial banking industry in U.K., Carey (1989) argues that no bank followed consistently and permanently a cost cutting strategy across the board. At most, the strategy could be limited to a few products and services. This leaves the bankers with the second alternative route to competition: strategy of differentiation. Carey (1989) adds that the generic strategies must take some form of differentiation. This means that in order to compete rigorously and successfully, a commercial bank should acquire specific prerequisites to implement differentiation strategy such as qualified HR, proactive strategic management and long-term investment, innovation capabilities, and firm distinctive competencies. In this sense, the HRBV framework is a useful theoretical instrument to achieve high performance, CA and SCA.

Researchers on the commercial banking industry in Bahrain and the Gulf Cooperation Council (GCC) advocate appropriate differentiation strategies such as: development of new and diverse products and services, complemented by innovation, strategic planning and market research and HR competency and behaviour (Bhattacharyay, 1995[4]; Habib et al. 1987; Yavas, 1988; Yavas et al. 1990; At-Twaijri, 1991).

1.5. Intra-Group Rivalry: The Case of the Conventional Local Banks

Different business strategies have been adopted by three locally incorporated commercial banks to exploit different market segments

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[4] Bhattacharyay (1995) advocates that findings of empirical research conducted in one GCC country may be applicable to other GCC countries because the characteristics of the markets are quite similar. This view is supported by an empirical study conducted by Al-Mahdi (1993) on the banking habit of the public in Bahrain in using different types of commercial banking services and products. One of the study's findings, which covers the period from 1971-1993, is that the public in the GCC share high similarity of banking habits.

namely retail banking, corporate banking at local, regional and international levels. These strategies have achieved different results. Al-Ahli Bank (Al-Ahli) has developed and adopted a well-defined business strategy relying on retail banking and consumer services to extract profit from both personal and consumer lending and non-interest income. The outcome of this strategy has shown that the bank outperforms the first two largest rivals in the market, National Bank of Bahrain (NBB) and Bank of Bahrain and Kuwait (BBK), in addition to Bahrain Saudi Bank (BSB). Al-Ahli has recorded an impressive profit performance in 1995 to reach 4.1% (1994: 3.99% ; 1993: 3.69% ; 1992: 2.21%) compared with BBK 1.70% (1994: 1.50%, 1993: 1.65% , 1992: 2.07%), NBB 1.75% ; and Bahraini Saudi Bank (BSB) 3.66% (1994: 3.53%, 1993: 3.52%, 1992: 3.49%). Financial reports conclude that Al-Ahli, which holds 7% market share, achieved an 18.7% improvement in net interest to reach BD8.4 million earned mainly from personal and consumer loans. Similarly, non-interest income increased by 6.8% to reach BD1.6% million with a cost/income ratio (cost efficiency) of 42.9%.

BBK, with a 28% market share, achieved a 22% improvement in net income at a cost/income ratio of 60.86%. The record of the bank on non-interest income shows a considerable improvement rising 31.3% to reach BD8.4 million. The performance of BBK was due to its expansion in loan portfolios in regional and international markets. BSB, which holds a 5.53% market share, achieved 8.7% improvement in net income gained from corporate lending, its core business, while non-interest income declined substantially by 54.9% to reach BD0.5 million. This has helped BSB to maintain a level of low operating expenses to achieve the best record in cost efficiency among the commercial banks at a ratio of 33.56%.

Retail banking and consumer services are vital sources for funding lending portfolios of the three banks, and consequently a source of value creation, CA and SCA. Consumers' deposits contributed respectively 80.81%, 75.45%, and 97% to the total deposits of Al-Ahli, BBK, and BSB in 1995. This demonstrates that the banks are heavily dependent on this source for enhancing both liquidity and lending portfolios. Al-Ahli gross loans in 1995 totalled BD134 million with 48.6% exposed mostly to personal and consumer loans, while non-performing loans were BD4.11 million, with total provisions to gross loans at a ratio of 5.41%. Financial reports show that Al-Ahli has increased its loan portfolio from BD59.54 million with net non-performing loans of BD2.6 million and total provisions to gross loans at a ratio of 14.36% in 1992. BBK has also improved its performance in risk management after the non-performing loans problem that forced the shareholders to contribute to a new subscription in 1985. The bank gross loans in 1995 was BD400.8 million with net non-performing loans BD13.6 million while total provision to gross loans was 17.1% compared with BD324.5 million gross loans with BD17.6 million net non-performing loans while the total provision to gross loans was 30.4%. With respect to BSB, gross loans in 1995 were BD61.61 million and total provisions to gross loans 4.56% compared with BD66.9 million and 3.4% in 1992.

The three banks have achieved different levels of success due to the variance in banks' strategies intent and focus. Al-Ahli has achieved an impressive performance by maintaining steady growth since 1992. This performance is directly related to its business strategy that focused on the retail banking market in terms of fund raising, profit extraction, and non-profit income. BBK has shown impressive performance in two business activities related to retail banking; namely, 1) fund raising and 2) non-profit income, but still lagging behind the superior performance of Al-Ahli in growth rate and cost efficiency. This is attributed to expanding lending portfolio to compete at the regional and international levels. The BSB, with a business strategy built on the corporate market segment, (including inter-bank lending) has recorded a marginal growth over the past four years (1992-1995). This concentration causes both substantial loses in fee income on consumer services (non-interest income) and an impressive record in cost efficiency during the same period. In this sense, the retail banking market segment is a core source for 1) steady high value creation and profit extracted from interest income and non-interest income; 2) fund raising at very low risk; and 3) guaranteed return compared with the corporate market segment.

The outstanding performance of Al-Ahli was also associated with the development of an HR strategy that is in line with business strategy. In 1993 a comprehensive review of the bank's human resource strategy was undertaken. The result is the restructuring of the bank's job grading and remuneration policies introduced together with an incentive policy, which ties the performance related pay incentive much more closely to the achievement of agreed objectives at all levels. The aim was to ensure that high performing staff are paid and rewarded in a manner commensurate with their contribution to the growth and profitability of the business of the bank (Capital Intelligence, 1996a, 1996b, 1996c).

1.6. Strategic Group Behaviour Characteristics

The criteria for distinguishing the behavioural characteristics of the two strategic groups; namely, Islamic banking and conventional banking are considered to provide clear and accurate delineation of each group. These criteria are as follow: 1) marketing and delivery; 2) profitability as a measure of performance; and 3) risk measurement. The comparison is based on the performance of Bahrain Islamic Bank as a representative of the Islamic banking strategic group and the locally incorporated banks (i.e., Bahraini banks) as representatives of the conventional banking strategic group[5].

The Bahrain Islamic Bank is in its infancy. Despite the success achieved over the past 20 years, the bank needs to improve its banking investment instruments. The banks planning behaviour focuses mainly on short-term trade finance (*Bahrain Middle East Bank, 1997*). This behaviour limits the size of profitability compared with return (i.e., value creation) yields from long-term investment.

[5] The comparative analysis is restricted to locally incorporated banks because of the availability of information about the banks performance (Turen, 1995; Al-Bastaki, 1997). In general, data on branches of foreign banks' performances and their stock are not available for research purposes (these branches do not register their stock in Bahrain Stock Exchange).

The heavy dependence on short-term trade finance on the part of the Islamic banks instead of medium and long term instruments yields lower profits. This puts these banks under pressure from their customers. Also, this gives the conventional commercial banks an advantage, since deal in all types of investments – short, medium and long term. The question, then, arises: Which strategic group outperforms the other on the grounds of profitability and risk?

The two strategic groups' behavioural characteristics are evaluated on the bases of effectiveness of products and instruments. The products and instruments are assessed by: 1) performance (i.e., profitability); 2) stability (i.e., low risk); and 3) diversification. Turen's (1995) empirical study on Bahrain Islamic Bank and the locally incorporated commercial banks (i.e., Bahraini conventional banks) was based on ratio data analysis over a 10 year period (1979-1989) and stock data analysis over a 5 year period (1986-1990). According to the study, sources of risk and profitability to Bahrain Islamic Bank evolve from: 1) replacing deposit holders by equity holders; 2) interest payments to depositors are converted into profit or loss sharing (i.e., *Mudarabah,* which is profit sharing); and 3) loans to customers are transformed into capital participation (i.e., *Musharaka* which is partnership)[6]. The first two have the tendency to reduce the financial risk to the Bahrain Islamic Bank more than the conventional banks, while the capital participation has the potential to increase the financial risk to Bahrain Islamic banks than more conventional banks.

The findings of the study with regard to profitability and their risk (i.e., return on assets; return on equity; and gross income/risk weighted assets) are as follow. First, the financial ratios of profitability conclude that Bahrain Islamic Bank offers higher profitability and a lower risk than the rest of the Bahraini commercial banks.

Second, with regard to risk-return characteristics of Bahrain Islamic Bank's common stock compared with the other 26 stocks listed in Bahrain Stock Exchange, the results of the stock analysis reveal that Bahrain Islamic Bank's stock offers a higher rate of return and a lower risk than available in the commercial banking sector.

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[6] *Mudarabah:* A unit trust agreement between a lender (the bank) and the entrepreneur (the *Mudarib*) whereby the lender agrees to finance the entrepreneur's project on profit-or-loss sharing basis. The *Mudarib* undertakes to pay back the capital and a share of the profits. He acts as the manager and the bank plays the role of capital provider.*Musharaka:* A partnership for specific business activity in which the bank and the partner (e.g., a contractor) create joint venture projects with the aim of making profit, whereby there is participation in the management.(Habib et al., 1987:24).

Third, in regard to risk-return characteristics, the study concludes that Bahrain Islamic Bank's stock is characterised by two features: 1) it has risk reducing quality; and 2) as an individual stock or as a portfolio partner, it has the potential to achieve above performance at a moderate risk level in the Bahrain commercial banking industry.

1.7. Summary

The commercial banking industry in Bahrain was discussed and analysed according to the generic business strategy perspective. The review showed that strategy of differentiation and product innovation, rather than cost leadership, were the main determinant factor that underpins performance, value creation and profitability. The review also demonstrates that the nature of the competition among the commercial banks is relevant to the examination of the human resource-based view (HRBV) model. The commercial banking industry is characterised by intense competition, one regulatory body, similar systems of operations, and managerial characteristics. Consequently, this is the main reason for selecting the commercial banking industry in Bahrain.

Chapter 2

The Resource Based View

2.1. Introduction

This Chapter seeks to provide a broad overview of a Resource-Based View (RBV) of the firm, its characterisation of competitive advantage and sustained competitive advantage, and its relationship with more generic market focused approaches to strategy formulation, such as those of Porter (1980, 1985, and 1991).

2.2. The Resource Based View of the Firm: An Overview

The resource-based view (RBV) of the firm emerged in the late 1980s as a new theoretical approach to strategic management. In this approach, the role of firm-specific resources has been shifted from the implementation of business strategy to strategy formulation. The firm-specific resources and capabilities became the principal constituents for the determination of business strategy, the targeted business, and the firm's profitability.

RBV focuses on the firm's resources and capabilities for the formulation of competitive strategy and the exploitation of opportunities (Barney, 1991, 1997, 1999; Mahoney and Pandian, 1992).

That is, business strategies are designed and formulated upon the analysis of the firm's internal resources and capabilities (Wernerfelt, 1984). Mahoney suggests that the firm's internal resources and capabilities determine sustained competitive advantage, where "strategy is constrained by, and dependent on, the firm's resource profile" (1995:91). By doing so, the RBV complements the traditional approaches of strategic management which focus on the analysis of the external environment as the foundation of strategy formulation.

Competing on the basis of internal resources and capabilities reduces the firm's vulnerability to external environmental change and simultaneously enhances its competitive position. Strategies based on clearly defined resources and capabilities make the firm more effective in coping with and benefiting from the rapid changes in the external environment. Grant suggests, "In general, the greater rate of change in the company's external environment, the more it must seek to base long-term strategy upon its internal resources and capabilities than upon external market focus" (1996:117). That is, the more volatile the environmental (e.g., change in customer perceptions and preferences; technological advancement; manoeuvrability via innovative products; economic and political change), the greater the uncertainty and complexity of information about the external environment, and the more difficult it becomes to forecast and predict the changes in the market when analysing business opportunities and planning long-term investment strategies.

2.3. What Are the Firm's Resources?

It is important at the outset to clarify what is meant by the firm's resources. Barney (1991) has provided a comprehensive and generic definition which is frequently quoted. The definition views resources to include "all Assets, capabilities, organisational processes, and firm attributes, information, knowledge, etc,". He classifies the firm's resources into three categories. First, physical capital resources, which include the physical technology used in the firm, the firm's plant and equipment, its geographical location and its access to raw materials. Second, human capital resources, which include the training, experience, judgement, intelligence, relationships and insight of individual managers and workers in the firm. Third, organisational capital resources, which include a firm's formal reporting structure, its formal and informal planning, control and co-ordinating systems, as well as the informal relationships among groups within the firm and those in its environment.

What is important about this characterisation of "resources" is that it clearly includes organisational and behavioural processes such as leadership, communication, and decision making, as well as organisational attributes such as culture. This characterisation of resources will be used in this study.

The firm's resources have been perceived differently by theorists of the RBV and generic strategy schools. Theorists of the generic approach, like Porter (1980), view the firm's resources as homogeneous and mobile among rivals; therefore they put little emphasis on the extent to which the attributes of the firm's resources and capabilities could influence competitive advantage. The RBV theorists, like Barney (1991, 1997), argue that if the firm's resources are homogenous and mobile, then the competing firms can simultaneously implement value-creating strategies and gain the same competitive advantage. They contend, to the contrary, that the firm's competitive advantage is achieved under the conditions of resource heterogeneity (i.e., uniqueness) and immobility.

2.4. Resource Based View and Competitive Advantage

RBV theorists view competitive advantage to be the result of the firm's resources and capabilities being both valuable (contributing to or creating value) and unique (rare or scarce). Firms that possess unique and valuable resources and capabilities gain competitive advantage.

2.4.1. Valuable Resources

Value is ultimately created for the firm when buyers pay for the firm's products or services (value being positive if what buyers are prepared to pay is greater than the costs of production). The firm's resources can be considered to be valuable when they contribute, directly or indirectly, to products or services which customers buy. That is, valuable resources influence buyer choice. Porter (1985) points out that a firm is profitable if the value it commands exceeds the costs involved in creating the product. Buyers gain value when they choose the product or service which they perceive to be most profitable, where: Profit = (Rewards - Costs). The concepts of reward and cost need to be interpreted loosely. Rewards include anything of perceived value or utility for the buyer, and costs include, for example, effort as well as price. Competitive strategy is therefore concerned with increasing the perceived rewards associated with buyer choice or reducing the costs.

The literature on strategy has demonstrated the link between value and competitive strategy. Porter (1980, 1985) points out that the goal of any generic strategy is to create value which is greater than the cost of its creation. Value is what buyers are prepared to pay for the firm's products (Porter, 1985, 1991). In this sense, a value creating competitive strategy should provide buyers with products that they perceive valuable and a rate of return on the investment in those products greater than the cost of the products.

The resource-based view demonstrates that resources confer value only when they assist the firm to create successful and valuable individual offerings (Mathur and Kenyon, 1998). The firm's resources and capabilities are not valuable in a vacuum, but rather are valuable only when they enable the firm to exploit the opportunities and neutralise the threats in the market (Barney, 1999). Similarly, Porter (1991) views resources as valuable (in the sense of contributing to or creating value) when they enable the firm to perform activities that create advantages in particular markets.

2.4.2. Unique Resources

Heterogeneity of resources refers to resource scarcity or uniqueness across the competing firms. The RBV demonstrates that "competitive advantage is gained under the condition of heterogeneity of strategic resources of the firm" (Barney, 1991:101).

The uniqueness of the firm's resources shapes the identity of the firm. Unique resources such as people, land, and certain types of material resources differentiate the firm from its rivals in terms of products, performance, and identity. Penrose explains, "It is the heterogeneity, and not the homogeneity, of the productive services available or potentially available from its unique resources that gives each firm its unique character. Not only can the personnel of a firm render a heterogeneous variety of unique services, but also the material resources of the firm can be used in different ways, which means that they can provide different kinds of services" (1959: 75). This suggests that it is not only the unique resources that differentiate the firm from its rivals and constitute a potential source of its competitive advantage, but also the way that capabilities are uniquely deployed and integrated that constitute a potential source of the firm's competitive advantage.

Limited resources in an industry mean unique resources (i.e., limited supply of a particular resource across competing firms). In economic theory, shortage of resources relative to the potential demand for these resources creates value. Uniqueness of resources and capabilities can be maintained by continuous learning and development (Peteraf, 1993).

That is, continuous renewal and change in the characteristics of the resources and capabilities maintain the uniqueness of the resources and capabilities across the competing firms. The literature of strategy suggests that unique resources produce innovative and differentiated services and products (Penrose, 1959; Porter, 1980).

Uniqueness and relevancy of resources have been viewed as a potential source of competitive advantage (Grant, 1998). Uniqueness is imperative for competitive advantage, but once rivals possess the unique resource it then becomes a prerequisite to competing only. Widely distributed resources and capabilities mean diminishing the uniqueness of the resources and capabilities and, as a consequence, a loss in the abnormal rent that may be gained from its uniqueness (i.e., Ricardian rent[7]). Relevancy of the resources and the capabilities to a particular strategy is necessary for a unique resource to be a potential source of competitive advantage. The resource must simultaneously

[7] The RBV research has examined the conditions for achieving sustained competitive advantage. Research on rent issue indicates that the uniqueness of the firm internal resources influences rent generation. Economists specify three types of rents: 1) Ricardian rent: refers to extracting high rent/value from scarce resource; 2) Pareto rent (quasi-rent/opportunity cost): refers to the difference between the payment to resources in its best and second best use; and 3) monopoly: refers to rent stemming from collusion and government protection (Amit and Shoemaker,1993: 34; Peteraf,1993:180-182). Penrose adds Schumpeterian rent (entrepreneurial rent) that is gained from risk taking and entrepreneurial insight in uncertain and complex environments (1959:75)(Penrose uses the term heterogeneity to refer to resource uniqueness). The implicit view of economists and strategists regarding sources of rent/value is that these types of resources are offering products at different levels of quality and prices but the customer's perception and preference determine the products utilities to his needs and consequently provides the value for the products apart from the firm's perspective on the offerings value.

incorporate uniqueness and relevancy in order to be a potential source of competitive advantage.

2.5. Resource Based View and Sustained Competitive Advantage

Competitive advantage may not be sustained if the resources and capabilities which are valuable and unique are also mobile, imitable or substitutable.

Barney (1991) has identified four attributes for a firm's resource to be a source of sustained competitive advantage. These four attributes of sustained competitive advantage are: 1) rare - the resource must be unique (or scarce) among current and potential competitors; 2) valuable - the resource must add positive value to the firm; 3) imperfectly imitable - current and potential competitors must be unable to duplicate the resource; and 4) non-substitutable - the resource must not be substituted by other resources (Barney, 1991:105-106). The prevalence of the four attributes is a prerequisite for achieving sustained competitive advantage. The RBV position argues that these attributes complement each other in the sense that they are in mutual interaction and influence (i.e., the attributes are not mutually exclusive).

2.5.1. Imperfectly Mobile Resources

The imperfect mobility of resources and capabilities is essential for sustained competitive advantage. Imperfect mobility enables the firm to not only keep the resources but keep the value created by the resources. The nature of the resource can influence its mobility. For example, the firm's reputation cannot be traded. Even if tradable, resources and capabilities may be imperfectly mobile because they are of less value to other firms than to the incumbent employers (Peteraf, 1993; Mathur and Kenyon, 1998).

Resources which are firm-specific also tend to be imperfectly mobile (Peteraf, 1993). Although firm-specific resources may be tradable, they are likely to be more valuable within the firm that currently employs them than they are to other firms. Examples of resources that are more valuable to the current employer are resources which are firm-specific, co-specialised resources with other firm-specific resources, and those transferable only with very high transaction and switching costs (Peteraf, 1993; Mathur and Kenyon, 1998).

Firm-specific investment creates imperfectly mobile resources. It develops firm-specific resources and capabilities. Such investment increases the value of the resources and the capabilities of the firm but not in the external market (Montgomery and Wernerfelt, 1988).

High transaction costs associated with transferable resources create imperfect mobility (Rumelt, 1987). Peteraf (1993) points out that non-tradable resources, or those less valuable to other users, are potential sources of sustainable competitive advantage because these types of resources cannot be bid away readily from their current firm (i.e., user) and/or the opportunity cost of their use by other firms is significantly more than their value to the current user.

2.5.2. Imperfectly Imitable Resources

Imperfectly imitable resources and capabilities sustain the competitive advantage gained from implementing value-creating strategies. Possible influences on imperfect imitability are social complexity, causal ambiguity, and unique historical conditions (Barney, 1986b, 1991, 1997; Peteraf, 1993; Rumelt, 1984; Mathur and Kenyon, 1998).

Barney (1986a, 1991, 1999) and Peteraf (1993) demonstrate that competitive advantage is weakened when competitors conceive and apply the value creating strategy of the focal firm. Competitors are keen to imitate value creating strategies, but because they have inadequate grasp of the causal link between resources, capabilities and competitive advantage, or among the processes and conditions for creating competitive advantage, they fail to succeed. In order to copy a value creating strategy, competitors need to know exactly what to imitate and how to go about it (i.e., to imitate the sources and the conditions under which these sources achieve competitive advantage) (Wright et al., 1994).

Imperfect imitability is likely when competitive advantage is contingent on social complexity. Barney (1986b, 1991, 1997, 1999), Peteraf (1993), and Rumelt (1982) point out that competitive advantage is sustained when the resources and capabilities that underpin it depend on skills and knowledge which have a strong tacit dimension, such as may be found in company-specific teams. Such resources and capabilities are evolved from organisational skills and firm learning, and their development is path dependent in the sense that it is contingent upon preceding stages of learning, development, and investment (Peteraf, 1993).

Barney (1986b, 1991) and Porter (1980) point out that the unique history of the firm can constitute a critical determinant of imperfect imitability. The acquisition and development of a firm's key resources depend on its place in time and space (Barney, 1991). That is, firms with space-and-time dependent resources and capabilities that have been created, developed and shaped over long period of time (i.e., long history of accumulative experiences) are able to possess imperfectly imitable resources and capabilities (Barney, 1991, 1997, 1999; Barney and Wright, 1998). Such resources and capabilities are firm-specific, unique across the competing firms and, as a consequence, a potential source of sustained competitive advantage.

2.5.3. Imperfectly Substitutable Resources

When competing firms create or find a substitute for the unique and valulable resource, the value generated from the resource may be undermined. In other words, imperfect substitutability protects the value generated by unique resources (Peteraf, 1993; Barney, 1991, 1998, 1999; Wright et al., 1994; Wright and McMahan, 1992; Mathur and Kenyon, 1998).

It is interesting that few authors have discussed the determinants of substitutability (i.e., what makes a product or service, or the resources which contribute to them, substitutable or not). It would appear that virtually nothing is immune from being substituted. Perhaps the physiological bases of life such as proteins, oxygen and vitamins can be argued to be non-substitutable but for most other things - including various psychological needs such as the need for affection, social contact, and sex - it would appear that substitution is ultimately limited only by man's ingenuity. Offerings and resources characterised by creative innovation, complexity, and causal ambiguity may make it more difficult for competitors to identify substitutes, and the firm's creative and intelligent resources may make it more likely that the firm is able to identify substitutes for the offerings and resources of competitors. However, it is likely that all commercial offerings and the resources which create them will at some time be substituted, at least in part. It would appear then that it is not a case of resources being "non-substitutable". It would appear more appropriate to consider the "difficulty of substitution".

2.6. The Definitions of Value, Sustained Competitive Advantage, Profit and Performance

Coff (1999) states that there is no consistent agreement among researchers regarding the relationship between competitive advantage and rent. Some authors argue that for a competitive advantage to exist requires above normal profit that accrues to owners while others emphasis economic rent generation.

Porter states that "in competitive terms, value is the amount buyers are willing to pay for what a firm provides them. Value is measured by total revenue, a reflection of the price a firm's products command and the units it can sell" (1985:38). A firm is profitable if the value it commands exceeds the costs involved in creating the products. Since the goal of any competitive strategy is creating value that exceeds the costs, then value must be used in analyzing competitive strategy.

Central to the issue of strategic management is competitive advantage and its relationship to rent (i.e., value) generation and rent appropriate (i.e., profit). Coff (1999) explains that the resource-based view provides clarification to this query in the sense that rent appropriate is viewed as an exogenous factor and that competitive advantage merely requires rent generation from a firm's strategic capabilities. That is, a firm may have an advantage over competitors in the same market even if rent does not accrue to the investors (i.e., shareholders). The implication is, then, that competitive advantage exists when the firm generates rent higher than its competitors apart from the level of profitability the firm accrues.

Porter (1985) states "the fundamental basis of above-average performance in the long run is sustainable competitive advantage". At the industry level, competitive advantage is measured by determining the industry average performance as a benchmark and comparing the performance of the competing firms against this benchmark to determine which firms have competitive advantage in that particular industry. Sustained competitive advantage is, then, maintaining the firm's performance above industry level (i.e., the benchmark) over a long period of time. However, a firm may have a competitive advantage over its competitor(s) once its performance is higher than these and apart from whether the firm's performance is above the industry average or not.

Coff (1999) argues that competitive advantage should be evidenced over time using a variety of measures simultaneously (e.g. market share, consistency in performance overtime) and suggests that while no measure is perfect, a combination of measures may tease out advantages that are not obvious otherwise.

In the context of the current study, value generation is the central issue to the examination of performance and sustained competitive advantage. Following both Porter's (1985) and Coff's (1999) views regarding the consistency in performance overtime to tease the existence of sustained competitive advantage, the study relied on the firm's generated value to deduct several actionable measures to empirically examine the determinants of the bank's performance and sustained competitive advantage that reflect the firm's various capabilities in different performance areas (e.g., efficiency ratio, profitability ratio, productivity ratio, and market share).

2.7. The Firm's Resources and Capabilities: Tangible and Intangible

The emphasis of RBV on the firm-specific resources and capabilities as the foundation of competitive strategy and competitive advantage has extended the knowledge domain of strategic management. Under the

RBV approach, bundles of intangible resources and capabilities have been considered as a critical source of sustained competitive advantage and not just the tangible resources and capabilities (Barney, 1991; Grant, 1998a). Moreover, the influential role of the firm resources and capabilities on the achievement of sustained competitive advantage is magnified when integrated with the tangible and intangible resources and capabilities of the firm. In this sense, the RBV provides a useful complement to Porter's (1980) well-known structural perspective of strategy.

Prahalad and Hamel define core competence as "the collective learning in the organisation which creates the ability to consolidate corporate wide technologies and production skills into competencies that empower individual businesses to adapt quickly to changing opportunities" (1990, 81-82). This means that it is not only the firm's resources that generate competitive advantage, but also the intangible capabilities that create many firm-specific core competencies that emerge from the firm's financial, managerial, organisational skills, organisational learning and culture.

2.8. The RBV: Contribution and Criticism

The RBV approach has been criticised for failing to consider external market factors and market position. Collis (1991) points out that the resource based approach provides no clear analysis of its own with respect to the external product market. For example, the RBV does not show how and when these resources can be utilised to achieve competitive advantage. Porter (1991) considers that resources of the firm are intermediate between activities and advantages, while the underlying ability to create linkages between activities constitutes the organisational capabilities. This means that value creation from resources is likely to be a result of managerial decisions and choices to assemble resources in unique and different combinations that are consistent with the requirements of a value creating strategy, and not from the attributes of the firm's resources per se.

The contribution of the RBV to strategic management needs to be further investigated and developed. Miller (1995) and Grant (1998a) have suggested that although the RBV approach has facilitated the knowledge base of strategic management, empirical studies to test the conceptual claims of the RBV theorists are rare, perhaps because of the difficulty of integrating and pinning down their predictions and operationalising the notion of resources.

However, there are a number of ways in which the RBV approach can be further developed. First, it is possible to add precision to the RBV theory and test its robustness and range of application by specifying in advance the advantages of particular types of unique and hard to copy resources. Second, the RBV needs to identify the external environments in which different kinds of resources would be most productive in order to complement its internal focus. Third, the scarcity of empirical studies creates an urgent need for systematic empirical studies to examine the conceptual claims of the RBV theorists (Miller, 1995; Grant, 1998a and b; Porter, 1991). The purpose of this study is to make progress on these three fronts by proposing a contingency approach to Human Resource-Based View and sustained competitive advantage.

2.9 Summary

The RBV of the firm which emerged in the late 1980s has introduced a new approach to explain the role of resources and capabilities in gaining sustained competitive advantage. Theorists of the RBV assert that resources and capabilities with the attributes of value, unique, imperfectly mobile, imperfectly imitable, and imperfectly substitutable can be a potential source of value and sustained competitive advantage. The theory of RBV has shifted the sources of sustained competitive advantage from the external environment factors as being advocated by externally oriented approaches of strategic management to internal resources and capabilities.

The RBV of the firm has been criticised for failing to consider the external market factors and market position. Three main concerns are being raised. First, the theory could specify which resources and capabilities could be a source of sustained competitive advantage and under what conditions. Second, it needs to test the robustness by specifying the resources and capabilities that are a source of sustained competitive advantage. Third, it needs to test the conceptual claims of the theory.

Chapter 3

Human Resource Based View

3.1. Introduction

The purpose of this chapter is to introduce a model of Human Resource-Based View (HRBV). The model has benefited from the two streams of thought of strategic management; namely, the Resource-Based View (RBV) and generic approaches, although it is more inclined to the conceptual claims of the RBV. The HRBV adopts a contingency approach to the human resource and sustained competitive advantage relationship that integrates the internal and external environments of the firm in order to identify the strategic and managerial conditions under which human resources are most likely to be a potential source of sustained competitive advantage.

A key point in the HRBV approach is that the model considers the resource attributes of value, uniqueness (or scarcity), imperfect mobility, imperfect imitability, and imperfect substitutability to underpin sustained competitive advantage, particularly when the organisation is pursuing a differentiated (rather than a cost-leadership) strategy. This is a useful complement to Porter's (1980) well-known structural perspective of strategy. In this sense, the HRBV is a contingency approach and is, in its own right, a contribution to, and extension of, the knowledge domain of strategic management.

The HRBV model is based on research findings from: 1) strategic management - the RBV of the firm and externally focused strategic management models [i.e., generic strategies advocated in the typologies of Porter (1980) and Miles and Snow (1978)]; 2) human resource management (HRM); and 3) organisational behaviour and applied psychology.

The exposition of the HRBV model is based on the following sequence. First, in this Chapter, the conditions under which human resources are likely to be valuable, unique, imperfectly immobile, imperfectly imitable and difficult to substitute are explored. Second, in Chapter 4, some of the contextual factors that can be reasoned to impact upon the value, uniqueness, mobility, imitability and substitutability of human resources are discussed.

3.2. Human Resources - A Definition

Human resource is a multi-dimensional concept. The definitions of human resources provided in the literature from HRM, strategic management and psychology view human resources either in terms of competency, an economic assets, aptitude (like cognitive ability), or in terms of social networks (Amit and Shoemaker, 1993). These definitions provide a somewhat limited understanding of human resources.

The pioneering research on human resources has focused on human resources in terms of human resource competency and human resource processes (i.e., the behavioural relationships between leader and subordinates) as a driving force to achieve superior performance. In the *Human Organisation*, Likert (1967) argues that leader-subordinate relationship and decision making typified by principles of support, involvement and decentralisation (i.e., System 4) lead to superior performance in terms of high productivity, low cost, and high return. Implicitly, Likert's argument asserts that superior performance is a function of both human resource competence and human resource processes (Likert, 1967).

Research in strategic management and strategic human resource management (SHRM) has emphasised the importance of the human side of the organisation in its broader sense to include human processes as critical facets of the concept of human resources. Human resources are seen as a combination of both human capital and human processes. Barney defines human resources as "training, experience, judgement, intelligence, relationships, and the insight of individual managers and workers in a firm" (1991: 101). Barney and Wright provide a slightly broader view of the concept and define it as "the knowledge, experience, skill, and commitment of a firm's employees and their relationships with each other and with those outside the firm" (1998: 32). The two definitions are to some extent similar to Likert's definition in the sense that they include the social context and work relationships among people (i.e., leader-subordinate relationships) as part of the human resources concept.

Research on strategic management makes a distinction between resource stock and resource capability (Amit and Shoemaker, 1993). This distinction is similar to the thrust of Likert's 'System 4' (i.e., that the causal variables of supportive relationships and group decision making create intervening variables of employees' commitment, loyalty, confidence and trust, positive attitudes towards organisational goals and management which lead, in turn, to superior performance). Boxall (1999) argues that (competitive) advantage can be traced to better people employed in organisations with better people processes (i.e., the management of the human organisation). Boxall (1999) points out that 'human capital advantage' and 'human process advantage' are inter-linked by rational employment relationships. Organisations have the possibility of creating human capital advantage via recruiting and retaining qualified human resources, capturing a stock of highly talented human resources, and latent productive possibilities. Human process advantage is to be understood as a function of causal ambiguity, social complexity, and historical conditions evolved from human processes such as learning, co-operation, and innovation (Boxall, 1999). In this sense, central to the issue of competitive advantage are both human resource competence and processes. That is, competitive advantage is a function of both human capital advantage and human process advantage.

The prevalence of specific technical knowledge, skills, and abilities required to perform specific tasks is not sufficient to explain the concept of human resource and its relationships to competitive advantage. There is also a need to consider what is needed from employees who work with others in a social environment in terms of behavioural relationships (Schuler and Jackson, 1999).

Accordingly, human resources in organisations are viewed, in this study, as a combination of human resource process and human resource competency. In this sense, human resources consist of human processes and human capital in which the influence of human processes on human capital will create both human process advantage and human capital advantage and, as a consequence, generate for the organisation overall competitive advantage.

3.3. Human Resources as a Source of Value and Less Valuable

3.3.1. Human Resources as a Source of Value

Ultimately, value accrues to the firm because customers are prepared to pay for the firm's products or services. The value of human resources results from their contribution to products and services that are bought.

Job performance is a significant potential source or destroyer of value. Schmidt et al. (1979) argue that the difference in dollar terms between the below average and above average worker is approximately two standard deviations of salary. Job performance is in part the product of competence and motivation. Competent employees and motivated employees are therefore potentially valuable employees, but only potential sources of value as the products or services to which they contribute still need to be bought. As many individuals in declining UK industries such as coal, shipbuilding and steel have found, doing a good job does not guarantee continued employment.

Human resources innovation can generate value through creating new products and markets as well as through improving the firm's efficiency. Dean et al. (1993) point out that product innovation creates new offerings to shape current markets or create new markets and thus increase market share, while process innovation is about increasing methods and production efficiency to produce offerings at lower cost which create new profit opportunities and, as a consequence, competitive advantage.

Penrose (1959) argues that the increase in knowledge can always increase the amount or the range of services or the utility of available resources. Since firms do not exhaust the full potential of their resources, the possibility of maximising value out of these resources is dependent on the ability of knowledgeable personnel to initiate new ideas about ways of utilising these resources in different combinations. That is, there is a close connection between the type of knowledge possessed by personnel and the services and products obtainable from the firm's internal resources.

Recent research has associated human resources innovation with product differentiation and cost reduction in imperfect competitive markets. Hill (1988) and Barney (1997) explain that cost efficiency can be achieved when a firm uses human resources innovation as a means to achieve product differentiation by which the fixed costs of production are spread over a high volume of products. Moreover, product innovation has not only been viewed as the foundation of a growth strategy, but also as a proactive approach to reduce the cost that is associated with environmental adaptation resulting from reactive strategic approaches. Miller provides evidence that "both innovation and differentiation correlate with, and are seen to do best in, uncertain environments. Innovation can provide more competitive products in changing markets, and market differentiation can create customer loyalty, thereby allowing less frequent (or less costly) adaptation to unpredictable, dynamic settings" (1988:302).

The ability to erect entry and mobility barriers decreases the number of competitors in the market and, as a consequence, increases the firm's profitability. Human resources can erect barriers and create value for the firm by producing innovative products and services. Porter (1980) and Miller (1988) point out that barriers can be created through rapid and costly product innovation as a result of which the number of rivals is reduced and the customers are left without acceptable alternatives.

Motivated and empowered human resources contribute to the firm's value through the industry disruption mechanism. This results when human resources initiate a series of innovative actions to generate temporary advantages (D'Aveni, 1994) through which the firm can be the first mover in the market (Lieberman and Montgomery, 1988). The series of innovative actions reflects the choice to assemble resources in unique and consistent ways to pursue or to create new markets (Porter, 1991).

Strategic decision making which reflects the capability of top management is a potential source of value and competitive advantage. Proper alignment between the firm's resources and market factors (e.g., market share, customer preference, technology, competitors, government regulations) contributes to competitive advantage. Empirical research provides evidence of this assertion and finds that "alignments that result not from luck, but from administrative skills stand alongside the industry and strategic positioning as key sources of competitive advantage" (Powell, 1992:128). Furthermore, Herbiniak and Joyce (1985) point out that the normal selection condition in the market suggests that the firms which do not adapt are selected out.

The ability of top management teams to develop both the resources and capabilities of the firm and exploit business opportunities is another potential source of competitive advantage. This is because the firm's performance and success are influenced by market factors as well as organisation factors [(although the latter is found to contribute substantially more to profit variance than industry and market factors (Hambrick, 1983)]. In their empirical study on the effects of both market and organisation factors on firm performance, Hansen and Wernerfelt conclude, "There is little overlap between the two effects: top management teams that demonstrate excellence in both competitive positioning in the market place and building organisational context will do better than those that strive for a more uni-dimenissional concept of excellence" (1989:409). In a similar study on Japanese enterprises, Deshpande et al. found, "The performers would have a market culture and be innovative. Merely having market culture or being innovative does not alone produce best performance" (1993:32).

> **H.1.1.1: "There will be a positive association between the value of a bank's human resources and its performance*".**
>
> **H.1.2.1: "Banks whose human resources are more valuable are more likely to display sustained competitive advantage**".**
>
> **H.9.1.1: "The relationship between the value of a bank's human resources and its performance* will be moderated by the extent of strategic differentiation".**
>
> **H.9.2.1: "The relationship between the value of a bank's human resources and its sustained competitive advantage** will be moderated by the extent of strategic differentiation".**
>
> **H.2.1: "There will be a positive association between the extent of strategic differentiation displayed by a bank and its performance*".**
>
> **H.2.2: "Banks reporting a greater level of strategic differentiation are more likely to display sustained competitive advantage**".**
>
> **H.8.1: "The relationship between the extent of strategic differentiation of a bank and its performance* will be moderated by its HRBV attributes".**
>
> **H.8.2: "The relationship between the extent of strategic differentiation of a bank and its sustained competitive advantage** will be moderated by its HRBV attributes".**

3.3.2. Human Resources as Less Valuable

Employee contribution to the firm's value might be reduced under the condition in which tasks are routine or repetitive, with low autonomy and low discretion. Abdel-Halim's (1983) empirical study indicated that employees are more satisfied and more productive when they participate in decision making and work on tasks with low repetitiveness. The results of the study also indicated that employees with high needs for independence or autonomy displayed high levels of job performance when involved in decision making only when tasks were low on repetitiveness. This suggests that employees' contributions to value may be reduced when their jobs fail to provide them with challenging and non-routine tasks and when they are given little discretion to innovate or mobilise their competencies.

Innovative human resources are expected to have a high growth need and thus prefer non-repetitive tasks. Employee dissatisfaction and productivity are expected to be moderated by the extent of congruency between employees characteristics (i.e., innovative or intuitive problem solving style versus systematic problem solving style) and the nature of tasks (i.e., repetitive versus ambiguous). Griffin's (1980) empirical study found that under high individual-task congruency there is little the leader can do to enhance employees' satisfaction; while under individual-task incongruence, the leader may have positive influence on employees' satisfaction. This could mean that the higher levels of individual-task congruency the higher level of employees' satisfaction; the more employee independence, the less need for leader intervention, and vice versa. In other words, under the condition of individual-task incongruence employees become less satisfied, less concerned about job performance, and, as a consequence, less valuable to the firm.

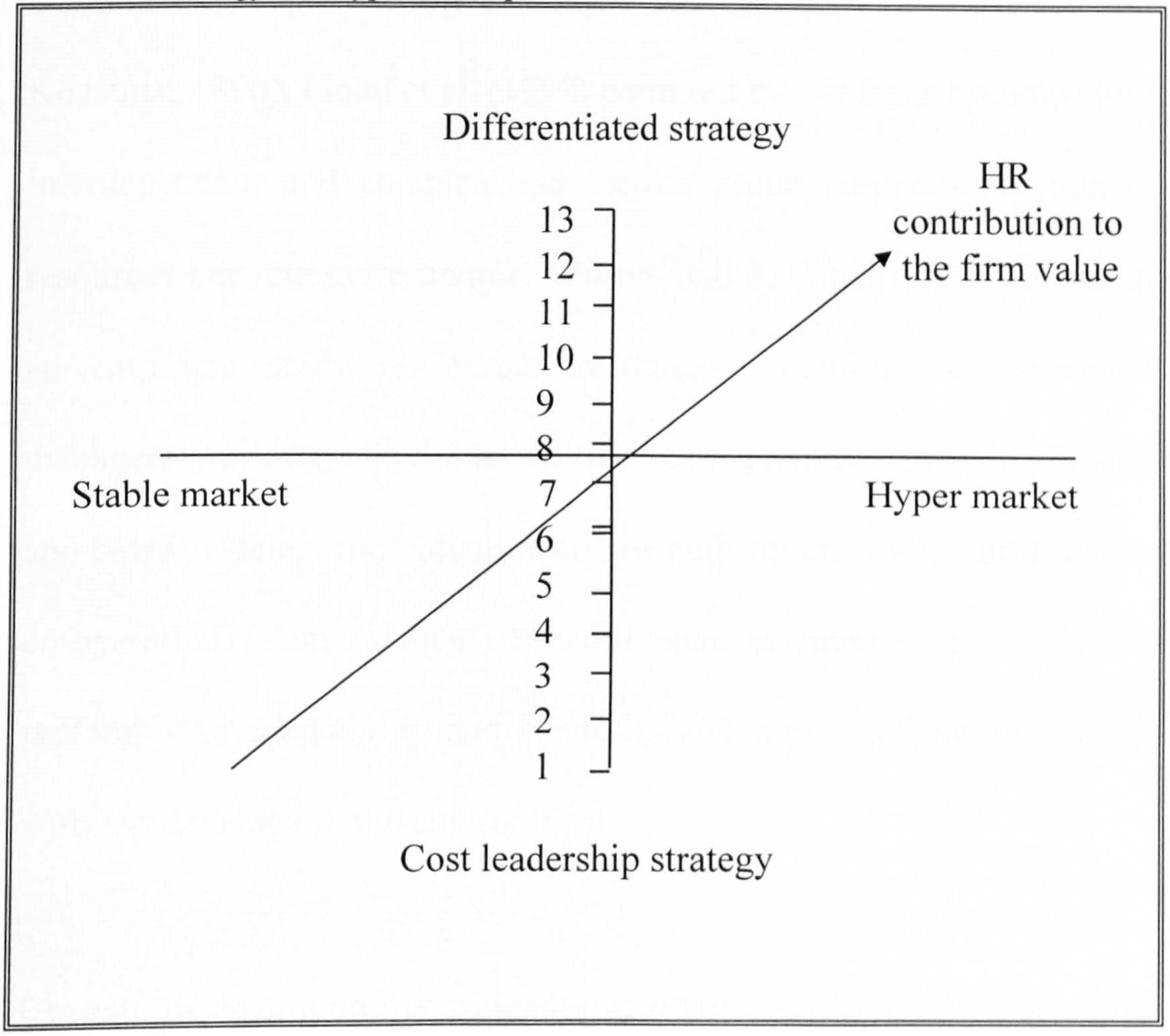
3.4. Human Resources as Unique or Scarce and Less Unique

3.4.1. Human Resources as Unique or Scarce

Human resources are scarce due to the normal distribution of cognitive abilities. Research provides substantial evidence that cognitive ability, which is a relatively stable attribute, has been consistently demonstrated to have a strong positive relationship with employee job performance (Wright et al., 1994; Wright and McMahan, 1992). As a consequence, because the total talent pool is limited, firms which possess human resources with high cognitive ability are gaining a potential source of sustained competitive advantage at the expense of competing firms.

The attributes of adaptability and flexibility distinguish human resources from other resources. Peteraf (1993) extends the application of the Ricardian model of rent to quasi-fixed resources. That is, unique resources of the firm that can be renewed and expanded (not all scarce resources of the firm can be renewed or expanded) incrementally within the firm, as in the case of human resources, who are able to create extra value to the firm. Through continuous learning, experience accumulation, involvement in collective learning and in knowledge-based activities, human resources develop their competencies and become a more firm-specific resource, unique and more relevant to the business over time (Grant, 1998a).

Figure 3.1: Human Resources Contribution to Firm's Value according to the Type of Business Strategy and Type of Competitive Market.



Experienced and competent human resources can implement new methods and processes to maximise utilisation of firm's resources and generate value when work conditions allow them to be innovative. Innovative products are obtained when "a firm's work permits the same resources to be used in different ways and for different purposes if the people who work with them get different ideas about how they can be used" (Penrose, 1959:76).

The constant need for innovation to compete in an intense environment has made group working a unique source of value (Worren and Koestner, 1996). Flood et al. (1997) point out that as tasks become more interdependent and complex and require group co-operation, human resources become more unique. Worren and Koestner (1996) found in an empirical study on human resources selection that personnel managers working in product development-oriented firms in Canada and Norway select individuals who are high on creativity and high on co-operation (team oriented) because team orientation is considered preferable to adaptability and creativity and a prerequisite for coping with rapid change in the environment.

Change impacts upon the criticality of human resources. Williams and Dobson point out, "increasing rates of change make the future less predictable and jobs and roles less able to be prescribed. A competitive environment characterised by continual product innovation, shorter product life cycles and re-positioning of products in the market requires changing skills and employee commitment and support" (1997:234). Human resources that are able to tolerate and cope with uncertainty and ambiguity, take risks and initiate novel ideas for innovations, and can work effectively independently as well as in groups. This type of resource possesses the ability to cope with changed requirements. For example, flexibility and adaptability enable employees to learn new competencies (i.e., emerging competencies) either from work experience or from formal learning programmes (Herriot and Anderson, 1997). The presence of a flexible, creative and committed workforce is likely to promote the firms' ability to obtain and sustain competitive advantage in a turbulent environment.

H.1.1.2: "There will be a positive association between the uniqueness of a bank's human resources and its performance*".

H.1.2.2: "Banks whose human resources are more unique are more likely to display sustained competitive advantage".**

H.9.1.2: "The relationship between the uniqueness of a bank's human resources and its performance will be moderated by the extent of strategic differentiation*".

H.9.2.2: "The relationship between the uniqueness of a bank's human resources and its sustained competitive advantage will be moderated by the extent of strategic differentiation".**

H.3.1: "There will be a positive association between the level of employees' competence within a bank and its performance*".

H.3.2: "Banks whose employees are more competent are more likely to display sustained competitive advantage".**

H.11.1.1: "The relationship between the level of competence of a bank's employees and its performance* will be moderated the effectiveness of the bank's recruitment and selection practices".

H.11.2.1: "The relationship between the level of competence of a bank's employees and its sustained competitive advantage will be moderated by the effectiveness of the bank's recruitment and selection practices".**

3.4.2. Human Resources as Less Unique

A mechanistic structure inhibits individual growth and contribution to competitive advantage. The restriction embodied in job descriptions inhibits individual maturity and growth by enforcing employees' adherence and obedience to pre-determined objectives and work standards rather than encouraging worker's initiatives and creativity. Drucker points out, "All available evidence indicates that work rules and job restrictions are the main cause of productivity gap of American (and European) manufacturing industry" (1994: 114). Worker maturity which is the ability and willingness of people to take responsibility for directing their own behaviour (Hersey and Blanchard, 1982) is retarded in mechanistic/bureaucratic organisations. In such conditions, unique human resources competencies are marginalized and consequently inhibited from contributing to competitive advantage. A work environment that supports a worker's growth and maturity needs assists human resources to become a unique and valuable source of competitive advantage.

Job design according to the scientific management school has led to the alienation of the individual worker. The scientific management school developed job techniques such as time and motion, work simplification, tools standardisation and narrow specialisation to rationalise production and achieve cost efficiency. Frederick Taylor's principle of the 'one best way' to complete a production task is one example. The school contends that work standardisation ensures production efficiency which in turn satisfies both individual needs and organisational goals. Taylor's principles of job design have treated human resources as parts of a machine in which cognitive abilities and individual differences were not considered, proper fit between human resources' competencies and work requirements was ignored; and all human resources were perceived as homogeneous in terms of competencies, interests, expectations, and values.

The contributions of employees and managers to innovation are contingent on the prevalence of a flexible organisation structure and management support. The empirical study of Aiken et al. (1980) found that personnel may propose innovation only when they perceive that their initiation receives thorough consideration by management and that the more they communicate with external sources (i.e., customers and clients) the more innovations they propose. The more the department heads communicate with subordinates, superiors and fellow department heads (i.e., internal sources) the more the innovation is initiated. In contrast, bureaucratic and mechanistic structures inhibit both free internal and external communication. Rather, they impose strict adherence to rigid rules and regulations, which enforces the organisation status quo and, as a consequence, encourages both managers and employees to be less innovative and less unique.

The HRBV model asserts that the presence of innovative products or services is a valid indicator of human resource innovation and uniqueness. Research on innovation suggests that the influence of human resources on innovation is moderated by social interactions. That is, leadership style, work group relations, problem solving style, and job characteristics affect innovation (Scott and Bruce, 1994). The innovative ability of employees per se may not be sufficient for human resources to be a unique source of value.

The human resource contribution to value in innovative organisations is influenced by the degree of professionalism. Pierce and Delbecq (1977) point out that organisational innovation is enhanced when the role incumbents are characterised by professionalism. That is, professionalism provides the organisation with people with rich experience, self-confidence, knowledge, and commitment who can change the status quo. Since these characteristics are conducive to the innovative process, non-professional employees are, then, less likely to be significant contributors to the innovation in the organisation and, as consequence, to its value. In other words, under the condition of non-professionalism employees become less unique and less likely to contribute to value.

Aiken et al. (1980) point out that unique expertise developed in coping with the special demands from uncertain tasks often constitutes a source of ideas for more extensive organisational change and innovation. That is, the greater the extent of uncertainty or ambiguity incorporated in tasks, the higher the levels of role specialisation, the greater the innovative outcomes and the more unique the human resources.

People's values and perceptions toward innovation and organisational change are influenced by job satisfaction. That is, human resources choose to initiate new ideas and implement change only when they are satisfied with their job and possess a high degree of motivation toward change and innovation. Pierce and Delbecq (1977) point out those employees who are satisfied with their jobs show commitment toward work and organisational development and they express their values by flexibly searching for new ways to improve performance and, thus, become innovative. In contrast, dissatisfied employees would be less committed, less interested in change and innovation. In sum, the extent to which employees' favour change and innovation is influenced by their level of satisfaction and commitment.

3.5. Human Resources as Imperfectly Mobile and Mobile

3.5.1. Human Resources as Imperfectly Mobile

Human resources are far from being perfectly mobile or even highly immobile (Wright et al., 1994; Wright and McMahan, 1992).

The value generated by human resources through teamwork is difficult to be linked to an individual employee. The productivity of human resources is complex because it stems from causal ambiguity, social complexity, and unique historical conditions. That is, team production that is based on tasks interdependency and interactions among employees as well as with customers create a complex social network that underpins causal ambiguity (i.e., lack of knowhow about the linkages of production).

This means that rivals need to copy exactly the constituents of the valuable products and the conditions under which the products are developed in order to gain the same value generated from teamwork of the focal firm (i.e., the complexity associated with integrating human resources with co-specialised resources). The complexity of team production is a tacit resource and, as a consequence, becomes difficult to conceive and replicate.

Firm-specific compensation is an important retention strategy option for human resources' imperfect mobility. Compensation specificity is imperative for imperfectly mobile human resources because a firm's control and influence over human resources' perceptions of alternative jobs are relatively limited if they perceive the inducements of their firm do not satisfy their level of contribution to the added value for the firm. That is, unique human resources may seek other jobs with higher return when they feel unfairly compensated. Coff points out, "Because firm specificity limits worker mobility, firms can influence these perceptions by offering firm-specific compensation that competitors cannot duplicate" (1997:384). Firm-specific compensation may include high wages, incentive pay, rent sharing, job security, promotion from within, and firm-specific investment.

Human resource involvement in managing work increases employees' loyalty, commitment, and imperfect mobility. Huang's study on patterns of participative management in Taiwanese enterprises indicates that profit sharing and quality control circle improve organisational performance; suggestion scheme reduces human resources mobility while grievance handling and employee stock-ownership increase human resources mobility (employees resign to sell their stock and gain some profit and grievance handling causes losing face and relationship) (1997). The study suggests that patterns of participative management improve organisation performance and employee satisfaction and commitment and immobility when these patterns are selected to fit a firm's culture and context. Under such a condition, cooperation and interactions between management and subordinates create causal ambiguity and social complexity that are associated with imperfect imitation and imperfect mobility of team production.

Human resources competency (HRC) becomes firm-specific, unique, imperfectly mobile and a potential source of value when it is dependent on, and/or stems from, corporate culture. Klein et al. define corporate skill as "a systematic property, a property of the organisation as a whole which invariably involves both human skills and organisational factors: 'hard factors' such as equipment and facilities, and 'soft factors' such as organisational culture and design" (1991:2). Kamoche adds, "HRCs are a source of value to the extent they are integrated with the firm's core competencies" (1996:219). That is, as long as human resources competency becomes an integral constituent of the firm core competence and stems from organisational culture, this competency is imperfectly mobile across the competing firms.

Organisational culture that supports career development of human resources will create imperfectly mobile human resources. Human resources are motivated to acquire and transfer competencies to work when they feel that the learned competencies will be utilised which, in turn, enhances human resources commitment to the firm. Noe (1986) points out that employees are likely to be motivated to transfer new skills and knowledge to work only when they are confident of using them.

Organisational support and assurance for implementing newly acquired skills enhance human resources imperfect mobility. Pfeffer indicates "training will produce positive returns only if the trained workers are then permitted to employ their skills. One mistake many organisations make is to upgrade the skills of both managers and workers, but do not change the structure for work in ways that permit people to do anything different" (1996:606-7). That is, the firm's commitment to introduce structural change means that human resources' growth and maturity are integrated with firm development and growth. Such linkage passes the message that human resources are firm-specific and imperfectly mobile.

> **H.1.1.3: "There will be a positive association between the immobility of a bank's human resources and its performance*".**
>
> **H.1.2.3: "Banks whose human resources are more immobile are more likely to display sustained competitive advantage**".**
>
> **H.9.1.3: "The relationship between the immobility of a bank's human resources and its performance* will be moderated by the extent of strategic differentiation".**
>
> **H.9.2.3: "The relationship between the immobility of a bank's human resources and its sustained competitive advantage** will be moderated by the extent of strategic differentiation".**

3.5.2. Human Resources as Mobile

Human resources become mobile when the firm uses management approaches to emphasise individualism. Pioneering research found that the adoption of a commission basis to pay salesmen created an atmosphere characterised by high competition among salesmen, very limited information exchange on sales opportunities, lack of support and continuous tension (Likert, 1967). Coff (1997) comments that human resources mobility is likely when cohesion between group work is weakened and employees' satisfaction and growth are hindered.

Johns' (1978) empirical study found that there is a relationship between employees' motivation and turnover (i.e., mobility). The results of the study suggest that human resources are likely to be mobile when leaders fail to intervene to motivate employees with jobs that lack intrinsic motivational aspects resulting from the inconsistency between nature of the jobs and the employee's high growth needs.

The consistency between organisational culture and types of motivation affects human resources' imperfect mobility. Huang (1997) has found that some types of motivation (i.e., stock-ownership and grievance handling) have increased human resource mobility in Taiwanese enterprises because employees feel that grievance handling turns their interpersonal relationship into a routine, while stock-ownership encourages them to resign to sell their stock and gain money. This suggests that the application of principles of HRM could lead to human resource mobility if they miss-match organisational culture.

3.6. Human Resources as Imperfectly Imitable and Imitable

3.6.1. Human Resources as Imperfectly Imitable

Human resources are far from being perfectly or highly imitable. This is because competencies of human resources are intangible, based on culture, and people dependent.

Human resources competencies are intangible resources[8] as long as these competencies stem from employees' social interaction (i.e., people dependent). Hall points out that, "when a company is taken over, the acquirer can be confident that he has acquired the acquiree's intangible resources such as patents, but he cannot be certain that he will retain the intangible resources of know-how, culture, or networks which are people dependent and which can potentially 'walk away'"(1993: 609).

That is, the imperfect imitability of human resource competencies is gained when these competencies are associated with human interactions and social complexity (i.e., communication and information sharing, and participation and involvement in decision making) (Coff, 1997; Barney and Wright, 1998) and emerged from cultural capabilities[9] of the organisation (e.g., ability to manage change, ability to respond to challenge, ability to learn, and teamworking ability) (Hall, 1993, 1992; Barney, 1991, 1997).

Employees' know-how as an intangible resource is an imperfectly imitable resource. Continuous training and learning by doing within a supportive culture enhances the durability of the quality and quantity of employees' stock of know-how. This developmental process transforms human resource stock of know-how to become firm-specific. Such a situation is likely when this stock of know-how is integrated with the firm's core competence (Prahalad and Hamel, 1990).

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[8] Intangible resources include 1) Assets such as intellectual property right of patent and trade-marks as well as trade secrets and data bases; and 2) competencies such as knowledge of employees and collective attributes which add up to organisational culture (Hall, 1993).

[9] Hall (1993) points out that cultural capability applies to the organisation as a whole. Cultural capabilities are based on intangible competencies of people. These competencies, which are influenced by people's habits, attitudes, beliefs and values, contribute to SCA. That is, cultural capabilities are people dependent, and thereby they are similar to functional capabilities, which are built on know-how and skills of people.

Human resource involvement erects barriers to imitability of employees' performance. Involvement creates causal ambiguity and social complexity which transform employees' performance based on tacit know-how. Wright et al. (1998) found in their study that the relationship between employees' involvement and their effectiveness is stronger when refineries are pursuing product innovation strategies and when managers perceive skilled employees as the core competence of these refineries.

Informal participation in decision making also leads to imperfect imitability of employees' performance. Cotton, et al. point out that, "although informal participation leads to improved job attitudes and productivity, it is equally possible that the reverse is true" (1988:14). That is, employees with more positive attitudes and higher performance may be more likely to be given greater participation in decision making". This suggests that the collaboration between the leader and the subordinates improves teamwork. Since teamwork is people–dependent and socially complex, competitors will find it difficult to imitate the team's contribution and/or its operating processes.

Nonaka (1988, 1991) points out that information sharing among employees increases innovation and imperfect imitability. This takes place in a knowledge-creating company in which the spiral knowledge process depends on human resources associated with the tacit knowledge which is internalised in the company to become firm-specific knowledge.

The spiral knowledge process starts with committed individuals with new idea gained from their socialisation with a firm's employees and/or customers. The tacit knowledge is communicated and articulated to team members who develop a new product from this tacit knowledge (convert knowledge into product). Most important is the internalisation of knowledge that takes place through experimentation and the product utility which enriches the team's experience and enforces firm-specific knowledge (Nonaka, 1991).

The spiral knowledge process suggests that human resources are a potential source of sustained competitive advantage. That is, human resource processes incorporated in socialisation and social interactions, information sharing, teamwork, cooperativeness, involvement, and corporate culture are likely to erect barriers to imitability of employees' performance.

Innovative companies use collaboration among top management, middle management, and front-line workers to initiate imperfectly imitable products. Front-line workers commit themselves to utilise their abilities to invent new ideas from their contact with customers. This creates tacit knowledge that underpins the innovation process in the firm. The role of middle management is to synthesise the tacit knowledge and the firm's vision and purpose (Nonaka, 1988, 1991). Nonaka argues that, "middle managers are at the intersection of the vertical and horizontal flows of information in the company. They serve as the bridge between the visionary ideals of the top and often the chaotic market reality of those on the front-line of the business. By creating middle-level business and product concepts, middle managers mediate between 'what is' and 'what should be" (1991: 99).

Galbraith (1982) adds that a firm's innovative product is achieved through the collaboration of the front-line worker as inventor of new ideas, middle manager who supports the invented idea, and top manager who appreciates the new idea as being in line with the firm's vision.

This demonstrates that imperfectly imitable innovative products and services are likely when the innovation emerges from collective efforts of human resources.

> **H.1.1.4: "There will be a positive association between the inimitability of a bank's human resources and its performance*".**
>
> **H.1.2.4: "Banks whose human resources are more inimitable are more likely to display sustained competitive advantage**".**
>
> **H.9.1.4: "The relationship between the inimitability of a bank's human resources and its performance* will be moderated by the extent of strategic differentiation".**
>
> **H.9.2.4: "The relationship between the inimitability of a bank's human resources and its sustained competitive advantage** will be moderated by the extent of strategic differentiation".**

3.6.2. Human Resources as Imitable

The application of bureaucracy in organisations reduces causal ambiguity and social complexity. In these organisations, production is achieved through individual contribution and work standardisation. Pierce and Delbecq (1977) point out that innovation and teamwork are reduced in organisations typified by centralisation, formalisation, and codified jobs (e.g., use of manuals). In other words, centralisation and formalisation make work more routine or repetitive, employees' performances become highly predictable and expected, and modes of employee behaviour become codified and rigid which, in turn, creates highly dependent employees (i.e., less autonomous), with low initiation and less creativity and, as a consequence, a highly imitable resource.

Managers adopting autocratic leadership style enhance imitability of human resource performance. Ali et al. (1992) point out those managers should possess specific knowledge and skills in addition to the ability to build trust among employees in order to implement participative management. They add that lack of these requirements tends to encourage managers to adopt centralised decision making (i.e., autocratic leadership style). Therefore, social complexity and causal ambiguity associated with or emerging from human resources interaction are minimised which, in turn enhance imitability of human resource production.

3.7. Human Resources as Imperfectly Substitutable and Substitutable

3.7.1. Human Resources as Imperfectly Substitutable

Human resources as an imperfectly substitutable resource is contingent on the extent to which other resources are able to substitute the advantages associated with human resources. Wright et al. (1994) and Wright and McMahan (1992) point out that human resources have the potential to not become obsolete and be transferable across a variety of technologies, products or jobs, and markets, and thereby become imperfectly substitutable by other resources. For example, the attributes of incremental renewal and expansion of knowledge and skills make human resources non-obsolete (i.e., durable competency) and a unique resource (Kamoche, 1996). One way of maintaining non-obsolescence of human resource competencies and their contribution to competitive advantage is through constant firm-specific training, learning and development.

The prevalence of creative ability of employees is seen as a vital source of competitive advantage. Research on creativity relates innovation to individual employees, or the context of the employee, or the interactions between the employee and the environment. That is, the existence of employees with specific characteristics such as interest and self-confidence will produce creative performance.

Innovation is achieved when employees get excited about what they are doing. Complex jobs are considered an important contributor to employee's intrinsic motivation than relatively simple routine jobs (Hackman and Oldham, 1976). The characteristics of the Job Characteristic Model (JCM) have shown that complexity of jobs has a substantial effect on employees' motivation, job satisfaction, and overall performance (Fried and Ferris, 1987). Other studies have provided some support for the link between complexity of the job and employees' creativity (Oldham and Cummings, 1996).

Supervisory style has substantial impact on employees' creative achievement. Oldham and Cummings (1996) suggest that supportive supervision that considers human resource involvement and development, and also encourages employees to initiate the development of work, enhances human resource creative performance; while autocratic supervision that emphasises external control over all aspects of work limits human resources' contribution to creative performance.

Oldham and Cummings (1996) examined the impact of job complexity and supportive supervision on employees' creativity. The study indicated that employees achieve high performance and have lower intentions to leave the job when they are given complex jobs and when their supervisors adopt a supportive rather than controlling leadership style. Similarly, employees achieve the most creative work when they possess creativity characteristics, are given complex and challenging jobs, and are supervised in a supportive rather than autocratic fashion.

The findings suggest the human resource innovation is better understood through the interactions perspective of creativity. That is, human resource creative performance is a function of the interactions of human resource cognitive ability (which incorporates creativity), complex and challenging jobs, and supportive participative management (human resource involvement). In this sense, the attainment of human resources' creative performance is dependent on both the intrinsic motivation factors manipulated in job design and extrinsic motivation factors incorporated in participative management. In the context of these findings, human resource contribution to innovation makes employees an imperfectly substitutable resource and a potential source of value and competitive advantage.

The Job Characteristic Model (JCM) suggests that people who have high needs for growth and development will respond positively to a job high in motivating potential (Hackman and Oldham, 1976). This may indicate that the jobs with complex and challenging tasks (i.e., the characteristics of JCM that includes high levels of autonomy, skill variety, identity, significance, and feedback) provide intrinsic motivations and working conditions that encourage people to be more creative and more productive.

Job rotation assists human resources to perform multiple jobs which make them imperfectly substitutable. That is, job rotation develops human resources multi-skilling which is necessary to make human resources generalist workers who are readily transferable across many jobs. The imperfect substitutability of human resources is enhanced when job improvement is attained as a result of human resource transfer across jobs. New occupants have the potential to view the job from different angles because they carry with them a variety of experiences that may improve the job (Pfeffer, 1996).

Empirical research has found that a generalist worker has direct impact on a firm's staffing and retention strategy and imperfectly substitutability of human resource. Clegg (1995) found that many Japanese companies which apply employee empowerment end up with long-term employment and a low rate of labour mobility. Other research found that job rotation in Japanese companies helps human resource to transfer to new jobs without fearing they will lose their jobs (i.e., human resources re-deployment) when these companies go through change. Such a situation enhances human resources commitment to their company and retards substitutability of human resources (Puck and Hatvany, 1991).

Pfeffer (1996) suggests that multi-skilling is associated with employment security; and job rotation brings about human resource flexibility and adaptability which makes them an imperfectly substitutable resource. Clegg proposes that "management rotation results in flexibility and learning by doing work similar to that experienced on the shop floor. This blurs distinction between departments, between line and staff managers, and between management and workers" (1995:171).

The continuous development of human resources' competencies according to organisational changes ensures imperfect substitutability of human resources. Introduction of new technology in the organisation may impose changes on the relationship between product labour market and human resources by creating deskilling and displacement of human resources and/or pressing for human resources with new skills. That is, technological transfer in an organisation is associated with human resources competency development in the sense that full utilisation of the newly introduced, as well as the current technology in production depends on upgrading human resources' competencies on a constant basis (Williams, 1996).

The mutual influence between the competencies of technology resource and human resource transforms both resources to be more firm-specific. That is "technological change does increase technological specificity which in turn increases skill specificity" (Pfeffer and Cohen, 1984:554). That is, the greater degree of fit between human resources and technology, the more firm-specific they become, and the more likely human resources will be imperfectly substitutable.

Learning process at work can contribute to both imperfect imitability and imperfect substitutability of human resources' performance. Lado and Wilson (1994) explain that single-loop learning is a result of integrating learning by repetition and social interaction at work, where double-loop learning is based on a non-traditional learning approach. Under the latter approach, employees are "permitted to question and reassess the relevancy of existing performance standards, work norms, and underlying assumptions and beliefs, which encourage employees to initiate new ideas and new perspectives that reflect their creativity" (1994:706). This shows that employees utilise the intangible know-how embedded in them to learn and develop their skills (Hall, 1992) according to their learning pace. Such a situation transforms the skills and knowledge of human resources to be one of imperfectly imitable and imperfectly substitutable.

H.1.1.5: "There will be a positive association between the non-substitutability of a bank's human resources and its performance*".

H.1.2.5: "Banks whose human resources are more non-substitutable are more likely to display sustained competitive advantage".**

H.9.1.5: "The relationship between the non-substitutability of a bank's human resources and its performance* will be moderated by the extent of strategic differentiation".

H.9.2.5: "The relationship between the non-substitutability of a bank's human resources and its sustained competitive advantage will be moderated by the extent of strategic differentiation".**

H.11.1.2: "The relationship between the level of competence of a bank's employees and its performance* will be moderated by the effectiveness of the bank's training and development practices".

H.11.1.3: "The relationship between the level of competence of a bank's employees and its performance* will be moderated by the importance of the bank's internal placement practices".

H.11.2.2: "The relationship between the level of competence of a bank's employees and its sustained competitive advantage will be moderated by the effectiveness of the bank's training and development practices".**

H.11.2.3: "The relationship between the level of competence of a bank's employees and its sustained competitive advantage will be moderated by the importance of the bank's internal placement practices".**

3.7.2. Human Resources as Substitutable

Human resources with simple skills and performing routine tasks are likely to be substitutable. Scientific management, which pursues work standardisation to achieve efficiency, subordinates human resources to a machine, where employees are selected to fill or refill pre-well defined jobs. Work standardisation is developed to ensure that employees are following specific steps to perform tasks. Accordingly, employees are required to learn predetermined specific skills based on the tasks indicated in their jobs. Such situation makes employees' skills simple and suitable to perform repetitive tasks which make them replaceable (i.e., substitutable) (Wright et al., 1998).

Human resources as substitutable versus imperfectly substitutable is influenced by the type of skills emphasised by the firm. The human capital theory (Becker, 1962, 1983) suggests that firm-specific skills transform human resources to be an imperfectly substitutable one to the firm's value. That is, specific skills are highly related to the firm's production and less likely to be transferable to other competitors, while general skills turned human resources to be a substitutable resource because these skills are highly dispersed among and applicable to common jobs across its competitors. General skills are usually an outcome of general training.

Human resources are likely to be substitutable when their firm pursues cost leadership strategy, and production and competition that are based on a technological-intensive, mass production, and mechanistic approach. In cost leadership firms, efficiency is achieved when employees are generally selected and trained to capture very simple and general skills to perform repetitive and simple tasks while the main responsibility of production operations are carried out by technology. That is, technological-intensive production and industries reduce the opportunity for human resources to be the source of high added value and thus enhances human resources' replacement.

3.8. Summary

This chapter introduced that HRBV model as a contingent approach to the human resource-sustained competitive advantage. The model was developed under the assertions advocated by the RBV theorists and the generic strategies considered in the typologies of Porter (1980) and Miles and Snow (1978).

A new broad definition of human resources was discussed. The definition emphasises two conceptual aspects; namely, human resource competency and human resource processes.

Human resource attributes of value, unique, imperfectly mobile, imperfectly imitable, and imperfectly substitutable were discussed in the light of their relationship to the attainment of sustained competitive advantage. The literature review showed that human resources can be a potential source of sustained competitive advantage under the strategic, management, and organisational conditions. Empirical results were drawn from studies to substantiate the criticality of human resources to value creation and sustainability of that value over a long period of time.

Chapter 4

The Contextual Factors and Their Impact Upon the Attainment of the Attributes of Sustained Competitive Advantage

4.1. Introduction

The prevalence of specific human resource attributes such as value, unique, mobility, imitability, and substitutability is largely dependent on specific organisational contextual factors. This chapter will flesh out in detail some of the contextual factors that can be reasoned to impact upon each of these specific human resource attributes. Additionally, the research will also make the point that within the contingency perspective, contextual factors are key prerequisites in the attainment of these specific human resource attributes.

With the above points in mind, the discussion in this chapter will also focus on a number of specific and connected issues. For instance, the chapter will examine the interrelatedness between the attribute of value and job design and organisation structure. Additionally, there will be a discussion around and a fleshing out of the factors concerning human resource attributes of unique and selection and the characteristics that make up imperfect mobility and reward system. Further to this, the attribute of imperfect imitability and participative management and imperfectly substitutable and firm-specific training and development will also be examined in detail (See Table 4.1 and Figure 4.1).

4.2. Job Design and Organisation Structure

According to Wright, et al. (1994) human resources are more valuable and significant when they possess unique competencies and a commitment to enable the firm to produce valuable products and services. Specifically and most importantly, the contribution of human resources to value creation is partially contingent on job design and organisational structure (Wright, et al., 1994; Hackman and Oldham, 1976). Given this, we can assume also that human resource value is and can be judged when jobs are developed to permit the firm/organisation's human resources to utilise to their maximum ability key competencies which in turn maximise and contribute to the firm's or organisation's core value.

4.2.1. Job Design

4.2.1.1. Human Relations Movement

Wright, et al. (1998) in their research on work motivation, argue that the human relations movement in general has considered individual differences and, in doing so, has embedded work motivation in job content to design jobs that encourage the human resources of an organisation to fully utilise their competencies. Following on from this, one of the key features of the Human Resources Movement is that it has also designed jobs within an organisation that seek to satisfy the upper needs of self-esteem and self-actualisation which, in turn encourage the individual and the group to achieve organisational strategic goals (Milkovish and Boudreau, 1991; Campion and Thayer, 1987; Hollway, 1993; Mullins, 1996). In addition, within the job-design techniques developed by the human relations movement, and which underpin much of the thinking around human resource value, there are a number of core theories and models. Specifically these theories and models fall into the following areas the two factors theory, job enrichment, Job Characteristic Model (JCM), job enlargement, and empowerment. Each of these theories and models will now be addressed by the research, as they are core to the attribute of human resource value.

4.2.1.2. Two Factors Theory

Herzberg's two factors theory provides a number of understandings that have made a significant contribution to human resource value (Hollway, 1993). Specifically Herzberg's premise is that there is a need to manipulate motivational factors in jobs' content to tap workers' potentials and ensure an individual's commitment towards achieving specific organisational goals (Hollway, 1993). Further to this, the Two Factors theory makes the claim that jobs that offer opportunities based on achievement, along with recognition for accomplishment, challenging work, increased responsibility, and growth and development, will motivate and indeed increase individual performance (Hersey and Blanchard, 1982). Hence those organisations that have imbedded in their human resources culture a commitment to providing individuals with the opportunities to achieve the above-mentioned factors, along with a work environment which is challenging and has equally motivating tasks, will work to stimulate employees' abilities to achieve the type of high performance the company desires. Indeed creating a culture within an organisation that actively fosters a Two Factors Theory enables each component of the human resources department to be more productive and indeed valuable to their firms.

4.2.1.3. Job Characteristic Model (JCM)

Hackman and Oldham argue in their Job Characteristic Model (JCM) "differences among people do demonstrate how they react to the complexity and challenge of their work" (1976: 255). They go on to suggest that the JCM incorporates five core job dimensions. Specifically these five core dimensions are skill variety, task identity, task significance, autonomy, and feedback (Hackman and Oldham, 1976). Additionally these core dimensions also stimulate three psychological states; namely, concerning the experience of meaningfulness of work, the experience of responsibility for outcome of work, and the knowledge of the actual results of the work. As Hackman and Oldham (1976) suggest these psychological states are key in JCM in that they are instrumental factors in one being able to achieve personal and indirectly organisational goals.

Empirical research (Fried and Ferris, 1987) supports many of the core assertions of JCM. Specifically, empirical research findings by Fried and Ferris support the proposition that the effect of core job dimensions (for example, skill variety, task identity, and task significance) on the outcome is mediated by the aforementioned three psychological states (Fried and Ferris, 1987).

In addition to this, Pierce, et al. found in their study of congruency within the social system, job design and 'growth-needs-strength' (GNS) that “the independent variable, job design, had a main effect as well as interaction effects with GNS and the social system structure” (1979: 239). This assumption from Pierce et al. is that human resources’ contribution to value creating is contingent, at least partially, on the nature of the job in terms of variety of tasks and skills as well as employees’ interaction at work.

4.2.2. Organisation Structure

4.2.2.1. Organic Structure

Rapid environmental changes create uncertainty about business opportunities and their identification (Grant, 1998). In these circumstances, individual managers may be unable to confront the diversities and complexity of the changing environment, hence possibly affecting the organisation’s business prospects.

In times of uncertainty and a turbulent business environment, there is a requirement that organisations rely on teamwork to manage their business strategy formulation and implementation. In such a situation, the organisation becomes more dependent on teams and in particular self-managed teams to cope with, and adapt to, the demands of turbulent environment. According to Flood et al. (1997) and Worren and Koestner (1996), if this can be achieved, employees and managers alike become more valuable to the organisation (Worren and Koestner, 1996). Given this, the organic approach of work structure is an alternative solution for such adaptation by which human resources can be the major contributor to the organisation's value creation.

Burns and Stalker (1966) designed an organic structure on the principles of participative management. These principles are further elaborated in French and Bell's work which includes the continuous reassessment of tasks through interaction through teamwork, a network of authority and control, communication stemming from members' competencies, and commitment to the tasks. Additionally the principles of participative management also include information being shared extensively among teams at various levels, including lateral and diagonal, which work to enhance the consultative nature of the relationship.

Within the principles of participative management, high value is also placed on individual expertise. Furthermore, a team leadership style with an emphasis on consultation, interpersonal and group processes, particularly with regard to decision making, is also key to the whole notion of participative management (French and Bell, 1978).

One of the benefits of an organic structure is that it creates a work environment through which human resources can be a source of an organisation's value. To ensure the sustainability of that value, there are a number of specific core factors that must be present. First, the structure must be designed to accommodate the various social complexities (i.e., team production) (Coff, 1997). Second, Barney (1991) and Wright et al. (1994) advocate that the social complexity through teamwork and collaboration is required because it enhances causal ambiguity where human resources become imperfectly imitable and an imperfectly mobile source of sustained competitive advantage (Coff, 1997). Third, teamwork is required to enhance employees' ownership and commitment, thus making the human resources firm-specific and imperfectly mobile.

H.7.1: "There will be a positive association between the use of human resource enhancing work systems and bank performance*".

4.3. Human Resource Selection

Selecting and retaining an organisation's human resources and, in particular, their unique competencies is considered by many critics such as Barney (1991) and Wright et al. (1994) to enhance the competitive position and competitive advantage. It seems that the prevalence of human resources with relevant competencies and behaviours guaranteeing a competitive strategy is more likely when the selection is carried out on the basis of four key factors. These four factors include the person-work role fit, the person-team fit, the person-organisation fit, and the person-strategy fit. Indeed the successful selection of human resources on the basis of the 'fit' principles, while maintaining the internal consistency between selection and other HR practices, can work to determine the efficiency of employees and organisational performance. This chapter will now discuss each of these key roles and in doing so, will analyse the way in which they contribute to an organisation's competitive advantage.

4.3.1. Person-Work Role Fit

One of the key factors in this debate is that of the person-work role fit. Specifically, the person-work role fit premise is to assist employees to be more valuable to their firm. As Herriot and Anderson point out, the person-work role fit is "a cluster of activities and tasks performed by employees who are likely to be much fluid and transient in the future" (1997:22). This approach is in line with the thinking that if flexibility and adaptability are embedded in the work role, then employees can be provided with the necessary discrepancy to be more productive, particularly when the firm is pursuing a differentiation strategy.

Person-Job fit is about the compatibility of individuals with specific jobs (Kristof, 1996). Edward provides a sound definition for the person-job fit concept. He states it is "the fit between the abilities of a person and the demands of a job (i.e., demand-abilities) or the desires of a person and the attributes of a job (i.e., needs-supplies) (cited in Kristof, 1996: 5). Kristof viewed person-job fit as "the tasks a person is expected to accomplish in exchange of employment, as well as the characteristics of those tasks" (1996: 5). According to Kristof (1996), person-job fit should be evaluated by the tasks performed and not the organisation in which the jobs exist providing a different perspective from other researchers who consider person-job fit as part of person-environment fit.

The person-job fit reflects the complementary fit that emphasises the concept of needs-supplies and demand-abilities. That is, people will mobilise their abilities and commitment to meet and satisfy the requirements of their jobs once they feel that these jobs provide them with opportunities to grow and have a sense of achievement.

4.3.2. Person-Team Fit

The selection of human resources on the basis of person-team fit enables organisations and the employees themselves to form efficient teams. According to Herriot and Anderson (1997), teams based on a mixture of homogeneity of behaviour and diverse or heterogeneity of competencies can build an effective and competent organisation (Schneider, 1987). Herriot and Anderson make the assertion that "to meet the needs for innovation, the organisation may require a variety of perspectives. To understand and deal with its customers better, it may need a comparable demographic mix of employees" (1997:9). Given Herriot and Anderson's claim, it is indeed critical for organisations to take into account the person-team fit and get the right mix within an organisation. If an organisation is committed to ensuring that the right skill, fit and capability is provided, then the resource is fully utilised thus gaining maximum output from that resource.

Others such as Jackson et al. (1991) argue that homogeneous human resource behaviour may serve as a guardian to maintain the coherence of group work through coordinating the group members' activities and efforts. Specifically, this coordination process develops consensus or semi-consensus on issues regarding strategy formation and implementation at work. Herriot and Anderson (1997) suggest that a high commitment on the part of employees is likely under this condition. That is, when within the framework of a heterogeneous human resource competency, there is an aim to provide the organisation with diverse competencies to deal with uncertainty and ambiguity of environmental changes.

Additionally, Murray (1989) suggests that these (unique or firm-specific) competencies maintain the group integration to implement value-creating strategies which are designed to confront change in a dynamic market. Indeed it would seem that Murray's point is valid in terms of the person-organisation fit in that a firm with homogeneous competencies is highly vulnerable to environmental change; and, therefore, the advice by Herriot and Anderson about incorporating a variety of perspectives and a demographic mix of employees is timely, particularly if an organisation wants to ensure not only innovation but also to understand better the customer or client with whom they are dealing.

Schneider (1987) concurs with much of what Murray argues. Schneider goes on to suggest that in order to maintain successful change in organisations, and therefore meet market requirements, newly selected employees must possess similar inclinations to those of long-tenured employees but must have different work-related competencies. According to Schneider, if organisations are able to get this fit right, then there is a residual benefit to be gained. Explicitly, if this the newcomers and old employees develop mutual acceptance and the teamwork spirit and cooperation is enhanced, there may be a greater ability within the organisation to be able to implement a competitive strategy (Schneider 1987).

Further to this, the literature clearly concurs that congruence between the organisational culture and employees on values, perceptions, and interests is vital for creating competitive firms (Jackson et al., 1991; Schneider et al., 1995). Specifically, employees' contributions are likely to affect adversely value creation when the employees - both new and long-tenured - hold different values and interests (Jackson et al., 1991; Schneider et al., 1995). Schneider takes this point further suggesting that "it is the homogeneity of personalities, values, and interests which compose the labour force and create uniqueness of the organisation (1987:442)". Therefore, it would seem that this uniqueness, in turn, affects value creation and therefore enables an organisation to be able to create a competitive advantage (Penrose, 1959).

4.3.3. Person-Organisation Fit

The person-organisation (P-O) fit is concerned with the compatibility between the people and the organisation in which they work. The attainment of a high level of P-O fit through hiring and retaining employees with the necessary flexibility, competencies, and commitment will affect the achievement of a competitive advantage.

The literature on P-O fit incorporates many conceptualizations (Kristof, 1996) which create confusion about its definition, operationalisation and measurement. That is, the components of the P-O fit are not clearly distinct from other types of fit such as the person-environment fit (e.g., vocation, group, or job).

Kristof broadly views the P-O fit as "the compatibility between the individuals and organisations" (1996:2). The term compatibility is being conceptualised in different ways, but mainly distinguished in two concepts which are supplementary and complementary fit.

Kristof (1996) suggests that supplementary fit occurs when an individual supplements or possesses characteristics similar to other individuals in an environment. For example, the relationship between the main characteristics of an organisation and a person which can be incorporated in organisation features like culture, climate, values, goals and norms and a person's features like values, goals, personality and attitudes. When such similarities between the organisation and person on these features exist, this means that the supplementary fit is profound.

Complementary fit occurs when a person's characteristics make whole the environment (Kristof, 1996). This type of fit can be clarified through the needs-supply and demands-abilities perspective. Kristof (1996) explains that organisations supply financial, physical, psychological resources, task-related, interpersonal, and growth opportunities that are demanded by employees; and that when these organisational supplies meet the employees' demands, then needs-supply fit exist. Likewise, organisations demand contributions from their employees in the form of effort, dedication, loyalty and commitment, knowledge, skills, abilities; when these employees' supplies meet the demand of the organisations, then demand-abilities fit exist.

Based on the previous explanation, both supplementary and complementary fit exist when there is compatibility between employees and organisations in the sense that they both share fundamental characteristics and at least one party fulfils the needs of the other.

Following Schneider (1987), Kristof (1996) suggests that organisations can benefit form P-O fit if the employees have a high level of supplementary fit on goals and values and a high complementary fit on specific KSAs which are related to the work requirements. This suggests that the composition of the teams in the organisations should be a balanced mixture of supplementary and complementary fit in order for the teams to contribute to the value creation of the organisations particularly when the organisations are competing in a rapidly changing business environment.

One of the interesting aspects within this perspective and related to the whole notion of P-O fit, is that of the attraction-selection-attrition (ASA) model. Specifically, and in broad terms, the ASA provides an explanation of the uniqueness of the firm. Clearly, the uniqueness of the firm evolves when different kinds of organisations attract, select, and retain different kinds of people. Schneider demonstrates that "people who are not only similar in kind but who will be similar in behaviour, experiences, orientation, feelings and reactions" (1987:442-3) enhance the unique nature of the firm. Very specifically Schneider's comments implicitly suggest that potential value is likely to increase due to the selection and retention of highly cohesive and competent human resources (Schneider, 1987). Given this, it seems that the ASA model needs to be given some priority by organisations who wish to use their human resources to build and maintain an edge within the markets in which they operate.

However, the two types of P-O fit, as recognised in supplementary and complementary fit, should not be viewed as contradictory. It is, to the contrary, that they are somehow integrated and complementary to each other. For example, the supplementary fit will exist when the employees exert dedicated effort toward the achievement of the expected job performance (i.e., complementary fit) which in turn reflects the values and norms of the individuals. In other words, the interests, attitudes and competencies of the employees cannot be separated once job performance is considered. That is, supplementary fit (i.e., values and goals) is achieved between the organisation and employees when the needs of each the organisation and employees are fulfilled by the other (i.e., complementary fit). Further to this, Kristof (1996) suggests that through socialisation processes new-entry employees will not only learn from long-tenured colleagues' new values, interests and share similar goals and possess similar inclinations, but will absorb new knowledge, skills and abilities needed to effectively perform their duties at work. Schneider et al., cited in Kristof (1996), suggest that homogeneity of values, interests and goals is recommended at the lower levels in the organisation that are expected to deal mainly with clear tasks and job responsibilities; and heterogeneity of perspectives and competencies should be pursued for top managers who are expected to deal with changing and uncertain business environments.

This research has considered the effects of multiple conceptualisations of fit on the banks' performances and sustained competitive advantage. This study has operationalised fit in a number of ways: 1) person-job, which is the extent to which the individual employee's competency (i.e., KSAs) meets the job requirements; 2) value and goal commitment fit (supplementary fit); 3) the degree to which the bank reinforcement systems meet the employees' needs (complementary fit: needs-supplies); 4) the degree to which the banks' business strategy is compatible to the individual attribute of sustained competitive advantage (complementary fit); and 5) the extent to which individuals hold similar views as that of the group (supplementary fit).

4.3.4. Person-Strategy Fit

The literature clearly suggests and concurs that different business strategies require different sets of human resource competencies and behaviour at different times (Szilagyi and Schweiger, 1984; Olian and Rynes, 1984; Tichy et al., 1982). Proper fit simply means increasing the contribution of the human resource competencies to the added value. Bourki and Lafley define strategic staffing as "careful selection and the placement of the appropriate, highly qualified individuals possessing the experience, skills, and potentials to fulfil the longer-term needs and objectives of the organisation" (1984: 69-70). This suggests the following indications. First, staffing should be linked to the organisation's business strategy and long-term goals instead of current job requirements. Second, human resources are seen as a reservoir of unique competencies that are compatible with one another and capable of meeting current and future needs of the firm. Finally, the definition necessitates the appropriateness of human resource competencies, and suggests a contingency approach to moderate these competencies with their business objectives.

It seems that human resource selection for business strategy implementation is critical to value creation. As Snow and Snell (1993) point out, selection should be integrated with organisational goals and environmental changes instead of tied to responsibilities defined in the job description. This advice is critical in that it is a whole organisation approach and vision that needs to be realised and understood when selecting individuals for the organisation.

In their discussion on the selection for managerial jobs Olian and Rynes, (1984), Szilagyi and Schweiger (1984), Herbert and Deresky (1987) and Gerstein and Reisman (1983) make several comments about this process being an example of person-strategy fit. They go on to suggest a number of critical points related to the person-strategy fit. Specifically, they suggest that managers who fit a stable and small market segment and focused product strategy, like a defender, may fail to satisfy the requirements of a turbulent large market with diversified product strategy. In other words, managers who succeed in a mature market, which adopts cost leadership and a mechanistic structure with clear job descriptions, may not be the right managers to handle entrepreneurial products. This point is particularly pertinent to the discussion as it suggests that strategic selection based on the fit between the individual and the business strategy of the firm is likely to have the desired effect of increasing the unique contribution of the human resources to the firm's value. If this is so, then it is vital that an organisation takes note of the need to get the strategic selection based on the fit of the individual and the overall business strategy right; for failure to do so may result in possible diminishing value and bottom line.

In addition to ensuring the selection is right, another element in the getting the equation right is that of value creation. Specifically, value creation is potentially available when human resources are selected to play a proactive role in strategy formulation. This point is particularly relevant to the discussion as it suggests that one criteria of success is enabling staff to be involved in the strategy formulation and ensuring that new staff are selected and provided the opportunity to be proactive in such.

Snow and Snell (1993) point out that staffing as a strategy formation premise (for example, model 3) means that a staffing strategy proceeds business strategy formation rather than evolves from strategy implementation. They add that as a "competitive environment becomes more transitory, perhaps the most sustainable sources of competitive market in the future will be people" (1993: 461).

Given the above suggestions, it seems that in a turbulent market characterised by uncertainty and rapid change in technology and a shortened product life cycle, successful competition becomes increasingly more dependent on human resource abilities to analyse threats and opportunities in the environment to formulate competitive strategies. Indeed the literature clearly suggests that it is critical that such organisations select individuals with entrepreneurial insight, who are not risk adverse and have the ability to sense difficulties and problems. Additionally from this perspective, the resource needs to have the ability to initiate original and innovative alternative solutions to ensure an effective strategy formulation is in place and then select accordingly.

> **H.4.1: "There will be a positive association between the effectiveness of recruitment and selection practices within a bank and its performance*".**

4.4. Reward System

One of the key features of the reward system is that it works to recognize employees for their contribution to the organisation, thus ensuring loyalty and commitment. Specifically, reward strategies have a focus on the retention of human resources and their value. Furthermore, one of the ultimate goals of reward strategies is to strengthen the relationship between the firm and the employees through satisfying the employees' needs and enhancing their commitment to the firm (Tichy et al., 1982; Devanna et al., 1981). It would seem that in an organisation that has vision and is about retaining the human resources which they have carefully selected, the reward system is another vital component of ensuring success and value of the company. However, there are a number of factors such as motivation and loyalty which make up the matrix of ensuring the employee is working to his/her maximum potential and contributing to the value of the organisation. If an organisation can recognize some of these factors, then the reward system will not only be beneficial to the employee but to the bottom line of the organisation.

One of the factors that is critical for an organisation's success is that of a motivated workforce. Motivation is defined, in this context, as that which "energizes, directs, and sustains behaviour" (Steers and Porter, 1987:575). Motivation variables affecting retention of human resources are classified by Steers and Potter at a number of levels and contain the following components. First, they argue that there need to be variables that are unique to the employee such as specific attitudes, needs and interests to the employee. Second, there need to be variables that arise from the nature of the job, for example, the degree of autonomy and control over one's job responsibilities. Third, there need to be variables that are directly related to the larger work situation or organisational environment. These variables can include the reward system, supervisory practices, peer group relations, and the organisational climate (Steers and Porter, 1987). If these factors or variables are present within an organisation, then the assumption is that a more motivated work environment will prevail. With a highly motivated workforce, which is focused, and working towards the common goals and vision of the organisation, reward systems can be implemented which recognize employees' contribution, which in turn may bring enhanced employee loyalty and commitment to the organisation.

4.4.1. High Wages

The literature suggests that highly qualified employees receive heavy demand from competitors (Pfeffer, 1996). The high demand for this level of employees makes their price abnormal in the external labour market. Specifically, Pfeffer suggests that high wages is one alternative strategic retention option to reserve imperfectly mobile human resources (Pfeffer 1995, 1996). Organisations need to work to retain very competent employees as they are of high value for the firm and therefore the provision of attractive and higher than average wages creates pay differentials between the firm and their rivals in the market (Pfeffer, 1995, 1996). It seems that high wages not only secure employees' commitment to the firm, but may also work to encourage other highly qualified individuals to be attracted to and seek work within the organisation as they know that their value will be reflected in the salary package. If it is known from within and outside that the organisation rewards performance with suitable packages, this works not only to retain the high-end employees within the company, but also to attract those outside the organisation to seek employment with the organisation, thus creating a pool of loyal, competent employees within and potentials outside.

4.4.2. Job Security

Another key factor in the matrix of human resources is that of job security. Specifically job security is another retention strategy option for human resources' imperfect mobility, and it can work to enhance employees' commitment. As Pfeffer (1995, 1996) points out, a firm that commits itself to employee's job security sends the message that employees are an indispensable source for the firm's sustained competitive advantage. On the other hand, firms that fail to provide some sense of job security are not likely to gain employees' commitment and willingness to dedicate their unique competencies to increase the firm's value. Therefore, job security is one of the crucial factors in the matrix, as it enhances employees' sense of ownership and emphasizes the importance of their competencies for the firm's growth and value creation and thus strengthens the ties between the firm and its employees.

4.4.3. Promotion from Within

There is consensus within the literature that promotion from within organisations can work to strengthen the employee-firm relationship. Pfeffer argues that one of the reasons that this occurs is because "the availability of promotion opportunities within the firm binds workers to employers and vice versa" (Pfeffer, 1996:610).

Pfeffer's assertion on the role of promotion within the organisation provides a number of implications. One of the key implications is that when there is promotion within the organisation, employees will develop a strong sense that the firm appreciates their past performance and, as a consequence, this creates a sense of fairness and justice and loyalty to the organisation. Secondly, when promotion comes within the organisation, this works to build confidence in the relevancy and utility of the employees' competencies to the firm's value creation.

4.4.4. Rent Sharing

An additional element in the matrix is the concept of imperfect mobility. One of the key elements of imperfect mobility within human resources is that it is influenced by incentive pay and rent sharing. Specifically an option within the retention strategy is that rent sharing influences competent employees' perceptions that their current jobs are rewarding at all levels which, in turn, works to ensure their retention. However, Pfeffer (1996) suggests for these employees who feel their contribution to the added value is only forwarded to shareholders, a sense of dissatisfaction and unfairness may occur and may limit their commitment to the firm. If this occurs, this may lead to employees' mobility, and hence have an impact on the company's value.

Further to this, bonuses can be one method of developing valued relationships within the organisation. Specifically, Coff suggests that bonuses can be paid on the basis of a fair rating criteria such as work quality, quantity, innovative ideas support and what he refers to as the "valued relationship with specific workers" (Coff, 1997:384). That is, rent sharing can lead to human resources imperfect mobility by raising wages above the market level and thus enhancing employees' perception and confidence in the firm's sincere commitment toward their workforce.

H.4.2: "There will be a positive association between the impact of remuneration practices within a bank and its performance*".

H.4.3: "There will be a positive association between the importance of internal placement practices within a bank and its performance*".

H.11.1.4: "The relationship between the level of competence of a bank's employees and its performance* will be moderated by the impact of the bank's remuneration practices".

H.11.2.4: "The relationship between the level of competence of a bank's employees and its sustained competitive advantage will be moderated by the impact of the bank's remuneration practices".**

4.5. Style of Management: Human Resource Involvement

There are a number of styles of management within Human Resources. According to Barney (1991, 1997) the RBV of the organisation emphasises imperfect imitability of resources to be a source of sustained competitive advantage. Specifically, theorists of the RBV such as Barney (1991) and Reed and DeFillipi (1990) specify that there are three elements to attain imperfect imitability of resources. These include unique history, social complexity, and causal ambiguity.

Another style of management used within Human Resources is the use of participative management forms[10]. According to Cotton et al. (1988), these participant management forms can provide useful explanation to an organisation, particularly in regards to issues such as social complexity, causal ambiguity, and the corporate culture. Participative

[10] Cotton et al. (1988) construct a classification reflecting conceptual distinctions in the participation in decision making literature in terms of three categories: 1) formal and informal; 2) direct and indirect; and 3) as a location along continuum of how much 'access' or 'influence' employees have in decision making. Formal participation has a system of rules granted to the organisation (e.g., formally established quality control circles). Informal participation, in contrast, is a 'non-statutory consensus emerging among interacting members' (e.g., casual superior-subordinate exchange). Direct participation involves 'immediate personal involvements of organisation members' while 'indirect participation involves some employee representation'. Access is the amount of influence employees can exert when making a given decision. The different levels of access or influence constitute a continuum: 1) no advance information is given to employees about a decision; 2) employees are informed in advance; 3) employees can give their opinion about the decision to be made; 4) employees' opinions are taken into account; 5) employees can negatively or positively veto a decision; and 6) the decision is completely in the hands of the employees. Based on this, six forms of participative management can be drawn: 1) participation in work decision; 2) consultative participation; 3) short-term participation; 4) informal participation; 5) employee ownership; and 6) representative participation (Cotton et al., 1988).

management suggests that the contribution of human resources is imperfectly imitable since that contribution stems from social complexity and casual ambiguity, which underpin human resource involvement. Additionally, for participant management forms to be effective, to a large extent, depends on the development of a corporate culture, human resource interactions and HR practices.

4.5.1. Participative management

Huang defines participative management as "a kind of management style in which the subordinates share a significant degree of decision-making power with their superiors" (1997:677). Additionally, this type of participative management is dependent on the firm's unique identity; for instance, values and norms, HR practices, human resources competencies and behaviour, business strategy and organisation structure. The literature clearly suggests (Huang, 1997) that there are a number of advantages in terms of participative management. Specifically, when a firm applies participative management or employees' involvement, the corporate culture fosters democratic attributes in which ownership is vested in subordinates and business is managed by human resources.

4.5.2. Participative Management, Employee Satisfaction and Productivity

Cotton et al. (1988) suggest that participative management patterns influence employees' satisfaction and contributions to the firm. They conclude, from their literature review on employee participation in decision making power, that "the effectiveness of participation in decision making may depend on situation factors such as the nature of the decision or the characteristics of subordinates ... Informal participation and employee ownership are effective in terms of both productivity and subordinates' satisfaction, whereas short-term participation is ineffective on both criteria" (Cotton et al., 1988:16). One of the key elements to be taken from this is that the use of appropriate forms of participative management to the firm-specific needs is likely to lead to efficient employees' performance and satisfaction.

4.5.3. Manager's Role and Social Complexity

Another key element in human resources is the manager's perception of management styles which influences leader-subordinate interaction; for example, social complexity and causal ambiguity. For instance, the manager's values and perceptions may favour an authoritarian management style and centralisation of decision making power, even if he/she is sympathetic to employees' involvement in decision making. These types of managers may choose centralisation, particularly when they perceive their employees' competencies as incompatible with the requirements of implementing various forms of participative management. In such situations, the formal and informal participation become highly restricted causing limited social complexity, which turns the productivity to be based on individualism rather than collaboration. Such a situation exposes both managers and employees contributions to imitability.

4.5.4. Group Work and Team Innovation

According to Wright et al. (1994), effective implementation of group processes in teamwork will put barriers to imitability of human resource invention and innovation. Specifically, four factors were found to be potential predictors for a team's effectiveness and innovation. The first factor involves the clarity of team objectives, which refers to objective specificity, direction and focuses on enhancing team success. The second involves the level of participation in information sharing, interactions, and influencing decision making. The third entails the issue of task orientation, which refers to utilising divergent thinking of team members to improve decision making quality via constructive controversy, which is necessary to increase members' commitment to change and implementation. Finally, the fourth factor includes the practical support for innovation, which includes expectation, approval, and the practical support of attempts to introduce new and improved ways of doing things at work (West and Slater, 1995; West and Anderson, 1996). These four factors suggest that as a team's production is characterised by causal ambiguity and social complexity, it becomes difficult to conceive and identify in order to be duplicated by rivals.

H.5.1: "There will be a positive association between the extent of participative management in a bank and its performance*".

H.6.1: "Banks displaying a more positive organisational climate are more likely to display higher levels of performance*".

H.6.2: "Banks displaying a positive organisational climate are more likely to display sustained competitive advantage".**

H.10.1: "The relationship between the level of competence of a bank's employees and its performance* will be moderated by the extent of participative management".

H.10.2: "The relationship between the level of competence of a bank's employees and its sustained competitive advantage will be moderated by the extent of participative management".**

4.6. Human Resource Training and Development

According to Wright et al. (1994), imperfectly substitutable human resources are achieved when their competencies are non-obsolete and are transferable across a variety of jobs. This implies that employees are imperfectly substitutable in situations when the competencies of the human resources are firm-specific, relevant, and compatible with changes at the levels of strategy, work structure, organisational culture, and technology. Therefore, when the competency development is based on selection strategy (for example, competency acquisition), job design strategy (for example, competency utilisation), and team collaboration and organisational culture (for example, competency enforcement), the human resources become an imperfectly substitutable resource.

4.6.1. Human Resource Competency-Strategy Fit

Human resource competency development should stem from a competitive strategy for employees to be an imperfectly substitutable resource. The change in competitive strategy determines the employees' competency life cycle and affects their relevancy to production operations and strategy implementation (Sparrow and Bognanno, 1993). In other words, Sparrow and Bognanno's premise is that a change in business strategy may suggest that employees' competencies are to be replaced, retained, or modified. For example, a change in strategy may require new technology (e.g., hardware and software, advanced machines and/or changes in organisational structure (e.g., mechanistic and organic) which may cause irrelevancy of the current competencies of the employees to competitive strategy implementation.

Hall (1995) argues that firms that adopt a proactive strategic management approach for competition need continuous development of human resources competencies. For example, the continuous development of managers' skill provides them with contemporary knowledge and skills that are necessary to make their competency compatible with, and relevant to, the changes in business requirements. Hall points out that "it is fruitless to try to predict exactly what leadership competencies will be required in a given organisation in the future (1995:19). Hall goes on to state that it is "more practical to help young managers to acquire these meta-skills so that they are empowered to learn for themselves those future skills, as need becomes apparent" (1995:19). Hall's analysis is particularly interesting to this thesis in that it seems that management development is based on strategy-based competencies, which transforms employees to be an imperfectly substitutable resource.

4.6.2. Firm-Specific Formal Training

One of the key concepts of firm-specific training is that it assists human resources to be imperfectly substitutable. Specifically, firms design tailored formal training courses to create firm-specific human resource competencies (Barney and Wright, 1998).

4.6.2.1. On-The-Job Training and Path-Dependency

Among the conceivable human resource development approaches in organisational learning are 'on-the-job training' and 'path-dependency'. Learning from daily activities and routines assists human resources to utilise the application of their expertise to build an accumulated stock of knowledge and skills. This accumulation results from employees' constant contact with their environment as well as the organisation's employees and customers. Path-dependency also strengthens the learning process by enhancing information exchange and diffusion between employees and their superiors regarding work processes. Experiences that are transferred from knowledgeable workers to less experienced employees turn human resource competency to be firm-specific and unique (e.g., emerge from tacit know-how). In situations such as this, the continuous accumulation of knowledge and expertise protect human resources competencies from erosion and simultaneously erect barriers to substitutability.

4.6.3. Firm-Specific Competency

Barney and Wright (1998) argue that a key aim of firm-specific training, which involves both worker's acquisition of work-related competencies and imperfectly transferable competencies outside the firm, is creating firm-specific competencies. This suggests that such training enhances the uniqueness, imperfect substitutability, and imperfect mobility of the human resources.

Pfeffer and Cohen make the point that "the neo-classical explanation, together with transaction cost reasoning, makes clear that specific training raises the value of the worker to the employer but not to the wage that the workers could command in the external labour market" (1984:553). This argument is interesting as it suggests that firms can increase the value generated from the development of human resource skills by pursuing firm-specific skills via tailored training.

It would seem from the literature that firm-specific investment in the development of human resource competency has many advantages to the firm. Specifically, the accumulation of relevant human resource competencies related to production in a focal firm turns human resources to be imperfectly substitutable, imperfectly mobile and/or transferable outside the firm. Additionally, competencies relevant to the specific work environment may be of little utility to different business firms. This type of investment may also lead to other benefits; such as when the competencies of the internal labour market (ILM) become more firm-specific, there is less need for external recruitment and selection particularly for higher positions. In this sense, the firm-specific competencies of ILM create imperfect substitutability of human resources at the firm's level.

Firm-specific competency has several implications on human resource attributes and their contribution to the firm's value creation. Indeed as Mahoney (1995) and Kamoche (1996) point out, gained knowledge and skills are tacit, firm-specific, and imperfectly imitable or transferable outside the firm. The reason for this is that this specific knowledge and skills can be applied only to the firm that invests in such types of knowledge and skill development (Steffy and Maurer, 1988; Barney and Wright, 1998).

Additionally, firm-specific skills acquired particularly through on-the-job training have been found to be associated with high economic rent (Kamoche, 1996). The reason this is so is that specific or tailored training more readily leads to value creation. The way in which this is achieved is by increasing the individual use values and not human capital values, which in turn inhibits trained human resource mobility (Lado and Wilson, 1994; Steffy and Maurer, 1988). Furthermore, human resource competencies can therefore be classified as a focal constituent of the firm's distinctive capabilities.

4.6.4. Influence of Corporate Culture on Imperfectly Substitutable Competencies

One of the key factors in all of these issues is that of the corporate culture. According to Ford et al. (1992) the corporate culture can enforce firm-specific competency and erect barriers to perfect substitutability of human resources. They found in an empirical study that the corporate culture of an organisation directly influences the opportunity to perform the trained skills possessed by employees. Specifically this opportunity is defined as "the extent to which a trainee is provided with or actively obtains work experiences relevant to the tasks for which he or she was trained" (Ford et al., 1992).

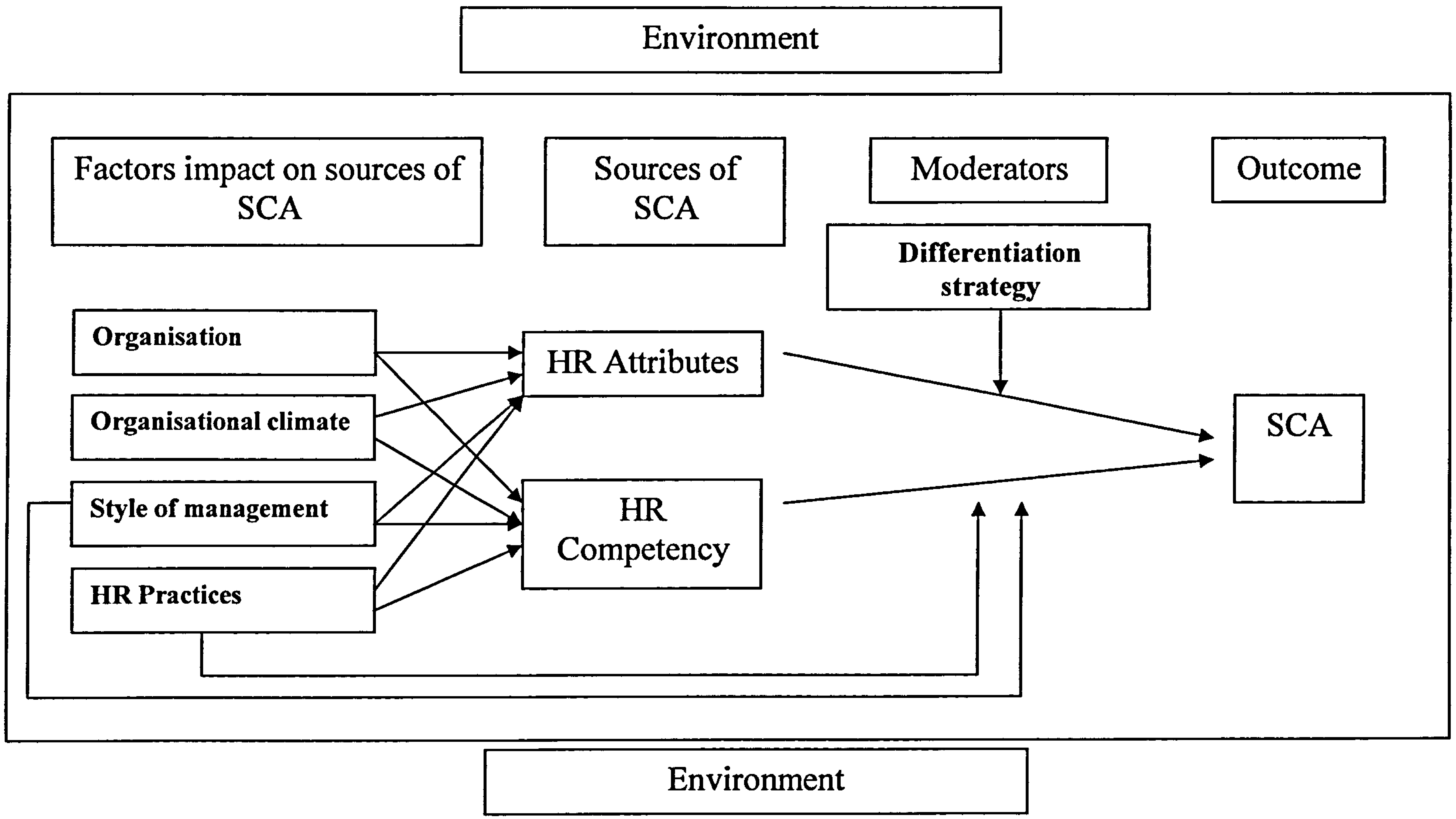
Additionally, the Ford et al. (1992) study also indicates that the supervisor's perceptions of the trainees' capabilities, skills and likeability directly influence the opportunity for the employee to perform trained tasks. For instance, their study found that those who have been perceived by the supervisor to be competent and likeable gain greater breadth of experience and perform more complex and different tasks due to training. It seems, therefore, that a supportive corporate culture is absolutely an imperative to transfer newly acquired skills. When the human resources become better aligned with the work and more committed, it can as consequence, become an imperfectly substitutable resource.

H.4.4: "There will be a positive association between the effectiveness of training and development practices within a bank and its performance*".

Table 4.1: The Contextual Factors and their Impact upon the Attainment of the Human Resource Attributes of Sustained Competitive Advantage

SCA Attributes	**Contextual Factors**	
HR as Valuable	Job Design and Organisational Structure	Human Relations Movement
		Two Factors Theory
		Job Characteristics Model
		Organic Structure
HR As Unique	HR Selection	Person-Work Role Fit
		Person-Team Fit
		Person-Organisation Fit
		Person-Strategy Fit
HR as Imperfectly Mobile	Reward System	High Wages
		Job Security
		Promotion from Within
		Rent Sharing
HR as Imperfectly Imitable	Participative Management	Participative ,Management, Employee Satisfaction and Productivity
		Manager's Role and Social Complexity
		Group Work and Team Innovation
HR as Imperfectly Substitutable	Firm-specific Training and Development	Human Resource Competency-Strategy Fit
		Firm-Specific Formal Training
		On-the-Job-Training and Path-Dependency
		Firm-Specific Competency
		Influence of Corporate Culture on Imperfectly Substitutable competencies

Figure 4.1: The Human Resource-Based View (HRBV) Model



4.7. Empirical Evidence on the Influence of Human Resource Management Systems on Performance

Research on human resource management (HRM) has advocated that HR practices have a direct impact on the competitive advantage of an organisation. Specifically HRM theorists argue that HR practices are likely to affect a firm's performance when these practices are viewed as an integrated system that is internally consistent.

Empirical research on HRM has examined the impact of HR practices and business strategy on a firm's performance measures of cost reduction, productivity, and profitability (e.g., Arthur, 1992; Huselid, 1995; MacDuffie, 1995). Research findings suggest that HR practices become a powerful predictor of organisation performance when they are internally consistent and are developed to fit with a business strategy (Schular and Jackson, 1999; Wright et al., 1998; MacDuffie, 1995). That is, as long as value creating business strategy fits the internally consistent HR practices, the influence of both strategy and HR practices together on a firm's performance is greater than their influence separately (Schular and Jackson, 1999; Miles et al., 1978; Miles and Snow, 1994; Arthur, 1992).

However, it is to be noted that empirical research findings on the influence of HR practices and business strategy are not consistent. For example, internal consistency, among HR practices did not always produce a consistent impact and result on an organisation's performance. Given this lack of consistency, there seems to be a necessary justification for further empirical exploratory research which would be aimed at providing more robust and substantive evidence of the role and impact of HR practices in an organisation.

4.7.1. Empirical Results

Researchers such as Youndt et al. (1995) investigated the impact of both human resource system and strategy on organisational performance. The results of their study concluded that an HR system does have an effect on employees' productivity. Their results also showed that the interactions between quality strategy and a human capital-enhancing HR system[11] are a

[11] Human capital-enhancing HR system consists of staffing, training, performance appraisal, and compensation (Youndt et al., 1995).

significant predictor of customer alignment, employees' productivity and equipment efficiency. The results provided evidence that the human resource-performance relationship is critically influenced by the interactions between the business strategy and human capital-enhancing HR system.

Others, such as Huselid's (1995) empirical study, examined the relationship between human resource practices and a firm's performance measures of turnover, employee productivity, and financial results. The results of the study showed that high-performance work practices as a set of HR practices have an impact on the firms' performance of turnover, productivity, and financial performance. The conclusion to be drawn from this is that investment in high-performance work practices may be associated with lower employees' turnover and greater productivity and corporate financial performance.

However, the results of most studies also indicated modest evidence of the effects of internal fit (among HR practices) and very little evidence of the effect of external fit (between HR practices and business strategy of differentiation and focus) on the above performance measures. This means that despite the compelling theoretical debate in the field of HRM, models of fit (i.e., internal and external fits) will positively affect the firm's performance; a lack of consistent evidence on these claims may suggest an alternative model of 'better fit' rather than models of 'perfect fit'. Indeed a lack of consistent evidence on the impact of HR practices and their interaction with business strategy on performance, also emphasises the need for further research to find empirical evidence.

Expect for the above, the empirical research on the relationship between innovation and HR practices and firm performance is scarce. MacDuffie's (1995) empirical study on the impact of HR practices on the firm's productivity indicated that a bundle of internally consistent HR practices was positively associated with high productivity and quality in 62 automotive assembly plants.

MacDuffie's (1995) results provided evidence that the effects of innovative HR practices[12] on assembly plant productivity and quality have stemmed

[12] Innovative HR practices index entails work teams, problem solving groups (employees' involvement), employees' suggestions, job rotation, and decentralisation (MacDuffie, 1995).

from being a bundle of interrelated practices with high internal consistency. The study also found that these bundles contribute most to both productivity and quality when they are merged with a business strategy that underlies the organisational setting of flexible production systems. Moreover, the study indicated that the flexible production system that is based on teamwork and high-commitment HR practices consistently outperformed plants with a mass production system. Factors influencing this could also mean that the synergy between a certain business strategy, HR system, organisational setting and system, and human resources will increase organisational performance.

Others, such as Arthur's (1994) empirical study on the effect of human resource systems on manufacturing performance and turnover, provided evidence that certain combinations of human resource systems are associated with higher performance. Arthur's study results indicated that a firm with commitment to human resource systems that emphasises, human resource development and commitment is significantly related to lower turnover and scrap rates and higher productivity than a firm with control human resource systems that emphasise employees' efficiency and reduction of the labour force. The results also indicate that the adoption of human capital-enhancing HR systems[13] will increase the performance of an organisation, particularly when compared with the adoption of a more traditional human resource system based on control.

4.7.2. Empirical Evidence on Human Resource as a Source of Value

The link between employees' satisfaction and a firm's productivity and profit is a controversial issue, particularly when satisfied workers perform badly and dissatisfied workers may perform well. However, empirical research carried out in the U.K. by West and Patterson (1998) found that work satisfaction is a good predictor of a firm's productivity and profit.

For instance, based on a longitudinal study, West and Patterson (1998) found that the collective satisfaction of the firm's workforce, including management and non-management staff, accounted for a significant 11% of the change in the firm's performance. They also found that no other factors examined in the study such as competitive strategy, technology, total quality

[13] Human capital-HR enhancing system entails decentralisation, participation, general training, skills, supervisors, social, wages and benefits (Arthur, 1994).

management, and R&D strategy could effectively predict the firm's performance.

The study also concluded that employees' attitudes do have a direct effect on productivity and an indirect effect on profitability. Such impacts very specifically come from employees' satisfaction to productivity and improvement and productivity leads, which lead to generating profitability. In conclusion, it seems that the employees' job satisfaction in an organisation appears to account for the largest part in the variation in an organisation's productivity and therefore profitability.

In this chapter, there has been a discussion about the view that "better fit" rather than "perfect fit" among HR practices may have a more consistent impact on organisational performance. Empirical research provides inconsistent evidence as to the impact of HRM on the productivity and profitability of an organisation. However, research on HRM advocates that internally consistent HR practices will and do have impact on organisational performance.

Empirical studies on internal and external fit of HR practices have shown that HR practices can influence the relationship between human resources and organisational performance. The literature review has clearly demonstrated that human resources have a direct effect on productivity and an indirect effect on profitability.

4.8. Summary

The attainment of the human resource attributes of value, unique, imperfectly mobile, imperfectly imitable, and imperfectly substitutable is highly influenced by some contextual factors. Additionally, job design and organisational structure, selection, reward, style of management and firm-specific training were found to be associated to the attainment of these attributes.

Further to this, the discussion throughout this chapter indicated that the relationship between the human resource attributes and sustained competitive advantage is partially contingent on the prevalence of contextual factors. Specifically, both contextual factors and human resource attributes of sustained competitive advantage are interrelated.

Chapter 5

Research Methodology

5.1. Introduction

This chapter discusses research methodology in terms of design, development, and implementation. It explains the nature of the study, the sources and methods of data collection, and the implementation (i.e., action plan), empirical testing of the hypotheses or propositions; and the bivariate and multivariate statistical techniques of analysis used to draw conclusions. The logic employed to present the explanation of the topics addressed in this chapter is based on 'what' is meant by the topic; and 'why' it is considered in the study (i.e., the contribution to the study).

5.2. Research Reviews

Research reviews provides synthesis of existing knowledge. Robust synthesis depends on the researcher's ability to assess the relevancy of the existing empirical research findings and theories in multi-disciplines to the research enquiry and objective (Hakim, 1997; Van Dalen, 1962). In the context of this study, the assessment is based on the contributions of these findings and theories to the definition and explanation of the multi-dimensions of the HRBV of the firm's model. That is, existing knowledge is considered relevant when it is able to highlight and delineate the characteristics of the HRBV model and sustained competitive advantage.

Multi-disciplinary reviews become, then, an imperative quest to develop well synthesised multi-dimensions of the HRBV model. In this research vein, research reviews cover the following disciplines: strategy and strategic management (in particular RBV of the firm); SHRM; organisation theory; sociology; psychology; economics; and finance and banking. The reviews consult textbooks, periodicals, public reports and bank's reports, and specialised and professional reports.

5.3. Secondary Analysis

Secondary analysis is about re-analysing data collected by another researcher or from many different sources (Hakim, 1997; Van Dalen, 1962; Singleton et al., 1993). The study has carried out secondary analysis based on replicating researchers' contributions to the RBV of the firm and extending these contributions by addition of data pooled from other sources. That is, the study has extended the works and contribution of Barney (1991) and Wright et al. (1994) on RBV of the firm and used the advocated attributes of sustained competitive advantage to build an innovative/new HRBV model. Data from multi-disciplines are pooled to develop the multi-dimensions of the model that is presented in Chapters 2 through 4. This theoretical model is tested in the Bahrain commercial banking industry to investigate the extent to which human resources are potential source of sustained competitive advantage.

5.4. Administrative Records Research

Administrative records are documents containing mainly factual information about individuals and organisational change and performance that are collected via different means (Van Dalen, 1962; Hakim, 1997; Singleton et al., 1993). Records-based data complement, and in some occasions conflict with, other types of research such as secondary analysis. This study used administrative records research in Chapter 1. Data are collected from the following sources: bank's annual reports (local banks only); Bahrain Monetary Agency (BMA- Central Bank) annual reports on Balance Sheet and Profit and Loss for all commercial banks' operations in the country only (these are reliable and confidential financial reports for both local and branches of foreign banks operating in the country); BMA publications on monetary issues and financial institutions including commercial banks; financial reports published by concerned investment banks in Bahrain; and special reports on evaluation of banks' performances carried out by professional financial bodies outside Bahrain. Administrative records research provided the data necessary to build the historical research case for the study.

In the context of the study, the researcher has re-treated the data collected from administrative records research to suit the purpose of the study as well as to avoid the problem of data validity encountered with the use of ready records-based data. That is, the data collected through this type of research should be verified and purified before considering them in the analysis. The researcher has found different figures for the same financial ratio published simultaneously in several administrative records. In this sense, the researcher has re-treated the data collected from BMA annual reports of Balance Sheet and Profit and Loss for the period 1994-1997 and, then, used them to develop the financial ratios to measure commercial banks' performances and SCA (i.e., the financial ratios). The reason to develop these ratios on data collected from BMA records is the undoubted creditability of these confidential reports. These financial ratios constitute, in their own right, the dependent variables in this study.

5.5. Survey Research on Organisations

Multiple interviews have been utilised to study organisations. According to this type of survey research, the analysis is necessarily concerned with the organisation as the main unit of analysis, with sub-units, roles, groups and individuals within it being additional units of analysis when multi-level analysis is carried out (Hakim, 1997; Pugh, 1994; Singleton et al., 1993). In this sense, the multi-level analysis which is carried out in the study, considered the characteristics of the performance of the whole bank and its environment, the characteristics of human resources and their roles as individuals and as groups, HR practices and human resource management, and business strategy; and the characteristics of the interactions and relationships between the two levels of characteristics: the bank's performance and HR attributes, HR practices, and strategy. The multi-level analysis, which is carried out in Chapters 6 through 8, offers great flexibility in carrying out comparative analysis between the competing banks in Bahrain commercial banking industry in their pursuit of SCA.

Comparative study requires developing and implementing a number of measures at different organisational levels. These measurements are concerned with identifying common measurable variables across organisations and levels of organisations that can demonstrate variance between the investigated entities and their levels in order to provide meaningful comparison. That is, "comparative study meant, for those of us with experience in differential psychology, standard questions and classifiable answers" (Pugh, 1994:125). Developing common measurable variables at all levels of the investigation within and between organisations is a prerequisite for obtaining meaningful comparison. Furthermore, a processual analysis for the measurable variables is needed to explain the variance between organisations as autonomous entities and the relationship between their levels as sub-interrelated entities within the identified framework of comparison.

Within the commercial banks, three sub-groups of analysis at three levels of analysis are considered to carry out the investigation on the determinant factors of performance and SCA. These sub-groups are as follow: CEOs, Line and HR Managers, and Employees. These three levels are selected for the study on the basis of their role-holder and their direct relationships with: market, business strategy, HR/employees, and HR practices. In this sense, CEOs are selected as part of the sample because they are the most reliable source of information about business strategy and market competition. The total population of this sub-group is seven (7) CEOs. Line and HR Managers are selected as part of the sample because they are also part of the most reliable source of information about business strategy, market competition, and employees' performances. The total population of this sub-group is 39 managers (7 HR Managers and 32 Line managers). Employees are selected as part of the sample because they are the most reliable source of information about the effectiveness of HR practices and managerial culture. The total population of this sub-group is 148 (Table: 5.1).

Table 5.1: The Total Number Respondents of the Sample Population According to Banks and Jobs

Particulars	Total no .of	Total no. of employees at the bank headquarter					Total no. of distributed questionnaires					Total no. of respondents					Respondents
Bank Name	employees	GM/CEO	Manager	HRM mag.	Employee	Total	GM/CEO	Manager	HRM mag	Employee	total	GM/CEO	Manager	HRM mag	Employee	Total	%
Al-Ahli	240	1	15	1	141	158	1	7	1	46	55	1	4	1	29	35	63 63
Islamic	130	1	9	1	52	63	1	6	1	33	41	1	6	1	31	39	95.12
Grindlays	100	1	14	1	58	74	1	7	1	22	31	1	5	1	19	26	83 87
Standard	190	1	20	1	95	117	1	15	1	55	72	1	14	1	26	42	58
BBME	183	1	20	1	138	160	1	4	1	45	51	1	4	1	40	46	90.19
Arab	55	1	3	1	19	24	1	3	1	19	24	1	1	1	17	20	83.33
Melli	28	1	5	1	18	25	1	5	1	18	25	1	2	1	10	14	56
TOTAL	926	7	86	7	521	621	7	47	7	238	299	7	36	7	172	222	

* The total number of labour force in the commercial banking industry is 2257 employees in 1997 (1967 are Bahraini employess and 281 are non-Bahraini employees) based on the BMA reposrts 1998.

5.6. Multi-disciplinary Research Design: Rationale

Multi-disciplinary research is commonly utilised in both social science and applied science. It has contributed to the understanding of the individual's behaviour and organisations as social communities in terms that both individuals and organisations are influenced by their context. Thus, multi-disciplinary research has significant impact on the development of robust theoretical research and policy research.

However, multi-disciplinary research is encountered by the problem of disagreement on the unit of analysis. This disagreement emerges from the thought that the relevant social unit of analysis is determined by the substantive issues discussed in the study, while it is more likely that the choice of the unit of analysis is determined by the researcher's disciplinary framework. When utilising multi-disciplinary research on studying organisations, for example, psychologists tend to focus on individuals attitudes, behaviour, and values as a unit of analysis; social scientists focus on social structure and groups as a unit of analysis; while economists take a totally different trend and concentrate on micro-economic and consider performance at the organisation level as the unit of analysis (Hakim, 1997). One way to resolve this disagreement on unit of analysis is to employ multi-disciplinary research reviews to synthesise and consolidate knowledge on particular policy research issues.

The policy research of this study extended the domain of investigation on HRM to include business strategy and RBV of the firm. The aim of this extension is to broaden the conventional domain of investigation which was focusing mainly on HR practices and occasionally including strategy. In this context, the investigation includes, in addition to the aforementioned factors, the patterns of association between specific HR attributes as a potential source of value and SCA. The study considers, then, multi-disciplinary research reviews to synthesise and consolidate knowledge on HRBV of the firm. The rationale and objective of this policy research are to utilise the findings drawn from psychology, strategy and strategic management, and economic science to examine the influential role of HR in determining bank's SCA and profitability by investigating various units of analysis at different levels of analysis. For example, Chapters 1 and 7 are mainly based on economic and finance disciplines and discuss HR as potential source of value and bank's financial performance, while Chapters

3 though 8 are deeply rooted in HRM, strategy, and psychology disciplines to discuss HR attributes and the conditions under which human resources are a potential source of SCA.

5.7. Sampling

The research investigation on sustained competitive advantage is carried out in a single economic industry to control for variance across economic sectors. The commercial banking industry is considered the sampling frame for several reasons related to the objective of the study. First, commercial banking is a well established economic industry in Bahrain. Second, its market is intensely competitive because it is overbanked. This condition is a prerequisite to investigate sustained competitive advantage. Third, this industry comprises a mixture of local and foreign commercial bank branches. Such a mixture is expected to reveal different management styles and HR practices which are necessary to examine the influence of human resource attributes on sustained competitive advantage. Fourth, all commercial banks share a common organisational structure that entails similar departments. Fifth, all commercial banks operate under unified regulations issued by one regulatory body, the Bahrain Monetary Agency (BMA), that requires all the banks to comply with rules and regulations and to provide uniform financial data about their operations on a regular basis. Finally, the commercial banks operate under free market conditions (Bahrain has been categorised as the third freest economy in the world).

5.7.1. Representative Sample: the Purposive Sampling

Effective representative sampling ensures that the selected samples will, as far as possible, accurately reflect the population. There are certain conditions or variables that need to be met in order to draw an effective representative sample. These conditions or variables are: 1) identifying accurately the population; 2) identifying the characteristics of the population accurately; 3) selecting the representative sample; and 4) ensuring that the representative sample encompasses all the major characteristics of the population and is sufficiently large for the purposes of the analysis (Van Dalen, 1962).

5.7.2. Selecting Purposive Sampling

The delineation of the commercial banking characteristics facilitates the way to draw an effective purposive sample. A big sample size does not necessarily reflect the characteristics of the population and consequently limits results' generalisability.

Research on survey designs suggest that purposive sampling produces an accurate representative sample and gives better estimates of the population than a simple random sample (Van Dalen, 1962; Singleton el al., 1993). Singleton et al. (1993) states that purposive sampling general strategy is to identify important sources of variation in the population and then to select a sample that reflects this variation. One might select a single unit or sub-population that is thought to be typical of the population in important respects or select a few units that correspond to key population differences. In this form of sampling, the researcher depends on his understanding and judgement to select units and sub-units that are representatives of the population.

Purposive sampling fits the study when the aim is to identify the key elements of the population. The population (i.e., commercial banks) was divided into units (e.g., Group 1: above the industry average performance and Group 2: below the industry average performance) and then simple random samples were drawn from each unit (or sub-units such as levels of management: CEOs, Line and HR Managers, and Employees). The sample of this study was developed on the bases of: 1) operating system (commercial versus conventional); 2) source of origin and ownership (local, foreign, and joint venture); 3) bank's performance (above and below the industry average); 4) bank's size of manpower (large, medium, and small); and 5) branches of network (large, medium, and small).

Within the commercial banks, three sub-groups at three levels of analysis were considered to carry out the investigation of the determinant factors of performance and sustained competitive advantage. These sub-groups are as follow: CEOs, Line and HR Managers, and Employees.

5.8. Questionnaire

Three questionnaires were developed to address the multiple dimensions of the HRBV model under investigation. These questionnaires were directed to three managerial levels: CEOs, Line and HR Managers, and Employees [Refer to Appendix – (A)].

5.8.1. The Objectives of the Questionnaires

5.8.1.1. CEOs' Questionnaire

The literature of business strategy and commercial banking in Western countries (Porter, 1980,1985,1991; Miles and Snow, 1978; Miles et al., 1978; D'Aveni, 1994; Macmillan et al., 1985; Carey, 1989) as well as in

Bahrain and Gulf Cooperation Council (GCC) countries (Bhattacharyay, 1995; Yavas, 1988; Yavas et al., 1990; Habib et al., 1987) suggests that the competitive environment of the commercial banks requires a differentiation strategy as a route to competition in which human resources are found to be the focal core of a bank's success.

Therefore, the objective of the questionnaire addressed to CEOs is to identify the bank's position with regard to a differentiation strategy and to develop a profile about the characteristics of the competitive environment of the commercial banking industry in Bahrain. The objective reveals the extent of fit between business strategy and the environment. The questionnaire entails 23 items: 9 items on strategy and 14 items on the nature of competitive environment. These items are drawn from Segev (1989), Delery and Doty (1996), and Snell (1992). The items have been developed further on the basis of the works of Porter (1980) and Miles and Snow (1978).

5.8.1.2. Line and HR Managers' Questionnaire

The evolution of the RBV of the firm as a new theory in strategic management literature has intensified the debate over the source (s) of value creating strategy and sustained competitive advantage (Barney, 1991, 1997; Wright et al., 1994; Porter, 1980, 1985, 1991; D'Aveni, 1994; Grant, 1998 a, b; Pfeffer, 1996). Due to the difficulty of operationalising[14] the multi-dimensions of the RBV of the firm (Miller, 1995), the HRBV model introduces a potential measurement to test the extent to which the new theoretical concepts of the RBV of the firm are related to sustained competitive advantage.

The objectives of the questionnaire addressed to Line and HR Managers are to examine the determinant role of human resources in achieving sustained competitive advantage when banks pursue a differentiation strategy. The questionnaire encompasses 35 items. 23 items are identical to the ones addressed in CEO's questionnaire. 12 items on human resource attributes are specially developed for this study. These items are based on the literature drawn from the RBV of the firm, SHRM, and psychology.

[14] The generic attribute of inimitability presented by Reed and DeFillipi (1990), Barney (1991), and Wright et al. (1994) are difficult to opertionalise and test empirically. These generic attributes need to be presented in more specific concepts in order to develop operationalisable and testable hypotheses. Coff (1997) raises several methodological questions about the measurement of SCA attributes of the RBV. Within the context of RBV, HR competencies in different firms represent unique combinations of specificity, social complexity, and causal ambiguity. These inimitability attributes of SCA are elusive and require tacit constructs to measure their influence on obtaining imperfect imitation. For example, firm-specific skill may be measured by the reflection of informal training (refer to the chapter on training). Social complexity is measured by internal and external social network: measures such as team size and interdependencies can serve as proxy measures that are acceptable in empirical research. Causal ambiguity may be examined through identifying an organisational setting in which it is more likely to happen. Inverse measures can test causal ambiguity (e.g., tasks programmability) or asymmetric information (i.e., measure the ease with which management can monitor employee output) (Coff, 1997).

5.8.1.3. Employees' Questionnaire

The role and influence of HRM and HR practices on competitive advantage and sustained competitive advantage are controversial issues in the literature (Mueller, 1996; Wright et al., 1994; Wright and McMahan, 1992; Delery and Doty, 1994; Coff, 1997; Lengnick-Hall and Lengnick-Hall, 1988; Lado and Willson, 1994; Snell and Dean, 1992; Powell, 1992; Kochan and Dyer, 1993; Dyer, 1984; Schuler and Jackson, 1987; Miles and Rosenberg, 1982; Miles and Snow, 1978, 1984). This study proposes that HRM and HR practices are able to play a significant role in achieving sustained competitive advantage by aligning human resources behaviour and competencies to the bank's goals, rather than being, in their own right, a potential source of sustained competitive advantage.

The objective of the questionnaire addressed to employees is to examine the extent to which HRM and HR practices adopted by the banks have influenced employees' performance. To achieve this objective, 47 items have been mobilised from multiple disciplines to formulate the questionnaire. Twenty-six (26) items are drawn from the work of Rensis

Likert (1967) on Human Organisation: Systems 1-4. Seven (7) items among the remaining items are developed to measure human resource attributes and these are similar to the ones addressed in the Line and HR Managers' questionnaire. All of these items are on a 5-point Likert scale.

5.9. Content Validity and Construct Validity

5.9.1. Content Validity

Singleton et al. (1993) demonstrate that content validity is concerned with the extent to which the operational measures adequately represent all facets of the concepts. That is, the inclusion of all theoretical aspects that underpin a concept into a measure enhances content validity. Content validity is used to develop operationalisable variables on human resource attributes, HRM and HR practices. Operational variables on human resource attributes, the RBV of the firm, and SHRM are based on the works of Barney (1991, 1996); Wright et al. (1994, 1998); Wright and McMahan (1992); and Coff (1997). Operational variables on HRM and HR practices (1-5 point Likert type scale) are based on the work of Mueller (1996), Delery and Doty (1994), Lado and Willson (1994), Snell and Dean (1992), Powell (1992), Schuler and Jackson (1987), and Miles and Rosenberg (1982).

5.9.2. Construct Validity

Construct validity refers to empirical features of theoretical concepts implied in a measure. As construct validity is based on an accumulation of research evidence, it ensures that the operational variables used to observe covariation can be interpreted in the light of theoretical concepts (Calder et al., 1982, 1983; Singleton et al., 1993). In sum, empirical examinations provide evidence that construct validity is measuring the intended concepts.

Construct validity is utilised in this study to enhance measurement robustness and generalisability (external validity) (Calder et al., 1982). Operational variables on differentiation strategy and competitive environment are drawn from the empirical examinations/research of Segev (1989), Delery and Doty (1994), Snell (1992), and Wright et al. (1998). Differentiation variables are based on the work of Porter (1980) and Miles and Snow (1978). Operational variables on HR practices - job design are drawn from the work of Oldham and Hackman (1976). Operational variables on HRM are drawn from the work of Rensis Likert (1967) on management systems 1-4. It is worth mentioning that these operational variables which originated in multiple disciplines are combined in this study to investigate the influence of human resources on sustained competitive advantage. The questionnaire design incorporates close-ended statements with a Likert 5-point scale ranging from 'strongly agree (SA), agree (A), uncertain (U), disagree (D), to strongly disagree (SD)'. This is a pre-requisite for comparative empirical studies.

5.10: Operationalisation and Measurement of Variables

In any empirical study researchers are forced to take concepts which are abstract and to give those operationalised definitions in order to be able to measure phenomena. This study has several major variables constructs [This operationalisation process is summarised in Appendix - (B)]. These are differentiation strategy, competitive environment, style of management, organisational climate, organisation, human resource attributes, HR practices, employees' competence, sustained competitive advantage, and dependent variables (performance measures).

5.11. Questionnaire Design

The three questionnaires share common and similar features in the sense that they contain closed-ended statements. The closed-ended statements have many advantages for comparative analysis on which this study is designed. The closed-ended statement approach ensures that the results of several groups can readily be compared and that all respondents are given the same content while eliciting their replies (Oppenheim, 1996). With respect to open-ended statements, the problem of comparison arises due to the difficulty to ensure that the respondents are able to give all the required information or important information related to each particular statement. Also, the respondents give unique responses. All of these inhibit the possibility to develop comparison between groups in the sample population.

5.11.1. Questionnaire Administration

The questionnaires were distributed to the concerned staff in the head office of the seven sampled banks: CEO, Line and HR Managers, and Employees in cross-sections. The researcher and HR managers in each bank agreed that HR managers would distribute and collect the questionnaires from the addressed staff and return the completed ones to the researcher. It was also agreed that the distribution be carried out on the basis of random probability to avoid bias in responses and to obtain a representative sample population that reflects the true image of the banks on the issues addressed in the questionnaires.

The total number of returned questionnaires according to staff categories is as follows. All CEOs completed their questionnaires (two questionnaires were completed by Deputy CEOs: Standard Chartered Bank and Arab Bank); all seven HR managers completed their questionnaires; while 36 Line Managers' questionnaires were completed. Four (4) questionnaires were excluded because they were filled by non-managers. Of 238 distributed questionnaires to employees, 172 were completed. Twenty-four (24) questionnaires were excluded because they were not fully completed or were carelessly filled in (Refer to Table 5.1).

5.11.2. Questionnaire Design Preparation

5.11.2.1. Questionnaire Translation

The first drafts of the questionnaires were reviewed by an expert[15] and reorganised before carrying out the pilot study. First, the substance of some items in the Employees' questionnaire contained abstract concepts. The first recommended change was to relate the items' substance to the bank's context since the questionnaire is about HR practices and the managerial

[15] Dr. S. Eggert Peterson was an Assistant Professor in the Department of Business and Management, College of Business Administration, University of Bahrain. The English version of the three questionnaires were delivered on 16.2.1998 and received with suggested changes on 19.2.1998. The researcher and Dr. Peterson met on 19.2.1998 and discussed the comments raised.

culture of the investigated banks. Second, explanatory terms should be added beside the terms used in some items to provide clarity since the original terms are not popular or are not frequently used nowadays. Third, the items should be reorganised into new groups. Fourth, the design of the items' presentation should be changed by arranging each item in a separate box (particularly in the case of Likert system 1-4) to avoid data mixing.

The majority of the respondents in the sample population were non-native English speakers. This required constructing the three types of questionnaires in Arabic and in English whenever requested. Therefore, the questionnaires were translated by the researcher to ensure non-literal translation and to preserve the essence and meaning of the original version of the questionnaires' items. To validate the precision and appropriateness of the translation of the three questionnaires, an expert in translation[16] reviewed and assessed the translations. The suggested changes were as follow. First, some of the items should be re-translated. Second, some of the concepts and terms used in the translation should be combined to avoid misleading the respondents. Based on all of these comments, the

[16] Dr. Omar Haroon Alkahleefa is Assistant Professor - Psychology Department at the College of Education-University of Bahrain. The translation was submitted to Dr. Omar on 21.2.1998 and received on 26.2.1998.

amendments and modifications were carried out. The translation stage was carried out before the pilot study.

5.11.2.2. Pilot Study

A pilot study was carried out to investigate the appropriateness of the three questionnaires. Appropriateness was assessed through identifying the problems arising out of the questionnaire design such as: clarity and precision of the statement; statement wording; proper statement sequence (proper funnelling); ambiguity of the statement; the extent to which the statement and its group were related to the variables which was being operationalised; and coding and statistical analysis requirements arising out of the above problems. The pilot questionnaires provided valuable guidance in avoiding these shortcomings (Oppenheim, 1996:26-28).

One CEO provided his comments on the appropriateness in terms of relatedness of the items to the issues of examination. These comments have been considered and utilised in modifying the questionnaire for the CEO's and Line and HR Managers in terms of differentiation strategy, market environment items and the design of the questionnaire. Seven branches belonging to four banks included in the original sample population were selected to pilot the questionnaires.

The managers of the five branches completed and returned their pilot questionnaires and those of their employees with a few comments on both types of questionnaires. The collected comments focused mainly on the wording of items. Twenty-nine employees completed their questionnaires with the general comment that they were clear and understandable.

The comments collected from the pilot study were utilised to modify the wording of some items and the design of the questionnaires in terms of group sequence (i.e., rearranging the order of the groups of items in the questionnaires of the CEO's, Line and HR Managers, and Employees) to make the filling of the questionnaires easier and to reduce the time required as well.

5.12. Semi-Structured Interviews[17]

Semi-structured interviews were conducted with Line and HR Managers after carrying out the questionnaires. The purpose of the interview was to obtain the respondents' opinions on human resource attributes, HRM and HR practices, and the bank's unique qualities (i.e., bank-specific attributes) and their relatedness to the competitive advantage and sustained competitive advantage. It is expected, due to the nature of the questionnaire, that some statements may need more elaboration. Six HR Managers in six banks were interviewed for almost one hour each except Bahrain Islamic Bank. Six line managers from the seven banks were interviewed for almost one hour each, except Bank Melli Iran. The interview questions are uniform to all Line and HR Managers in the seven banks.

[17] Interview survey method has many advantages in collecting data compared with other data collecting instruments, particularly in comparative empirical studies. It is complementary to the questionnaire method. In comparative studies, questionnaires are designed with close-ended statements in order to facilitate comparison between opinions with high precision. These close-ended statements, which lead to classifiable answers, do not provide a wider margin to respondents to express, and elaborate on their views on the questionnaire statements. To overcome this shortcoming in comparative studies involving questionnaires, interview method is employed to enhance data collection by providing open-ended questions which allow respondents to express their opinions with high flexibility and spontaneity (Singleton et al., 1994; Oppenheim, 1996)

5.13. Statistical Techniques

The design of the study requires multiple statistical techniques to test the different types of research hypotheses. The explanation of each of the utilised statistical techniques (Table 5.2) is as follow.

5.13.1. Data Analysis Procedures

5.13.1.1. Types of Respondents and Data Bias

The first data analysis is performed on the data sets of three types of respondents: CEOs; Line and HR Managers; and Employees. Responses from CEOs are used in conjunction with Line and HR Managers' responses to examine the effect of differentiation strategy on performance measures.

Responses from Line managers are used in conjunction with HR Managers to examine the effect of human resource attributes on performance measures. Responses from Employees in different occupations and departments are used to examine the effect of HRM and HR practices on performance measures. That is, the analysis in this study uses data from different types of respondents. This procedure reduces the likelihood of response bias as well as results in a rather conservative estimation of the relationship between the independent variables: differentiation strategy; human resource attributes (as perceived by Line and HR Managers and

Employees); and HRM and HR practices, and the dependent variables: performance measures (Schuler and Jackson, 1987).

5.13.2. Factor Analysis and Bivariate Correlation

Principal Component Factor Analysis (PCA) with varimax rotation was used to understand the structure of the correlations between the large number of variables to define a set of common underlying dimensions or factors (Hair et al., 1998). In this study, PCA is used as a purification step aimed at 1) enhancing internal consistency; 2) minimising the chance that a theoretically meaningless group of variables emerges from random summing (Dess and Beard, 1984); and 3) ensuring that variables are independent of one another (overcoming the problem of multicollinearity).

Accordingly, the analysis in this study gives first priority to the theoretical construct rather than statistical correlation that underpins the principal component factor analysis. The variables are not combined if they do not share a common theoretical concept, even if they were highly correlated. In this sense, the bivariate correlations between all pairs of variables are used to ensure that the variables emerging in each conceptual group are significantly correlated.

5.13.3. One-way ANOVA

The study used one-way ANOVA to examine the differences among the independent and dependent variables across the seven (7) banks. This analysis was carried out after the classification of the variables according to their groups of theoretical concepts. With respect to competitive environment variables, ANOVA was carried out to develop a profile about the characteristics of the business environment in Bahrain based on the perceptions of CEOs and Line and HR Managers. This facilitated the assessment of 'Fit' between differentiation strategy and business environment.

Table 5.2: The Statistical Techniques Used to Test the Hypotheses of the Study

Type of hypothesis	The purpose	Statistical technique & units of analysis
1. Hypotheses of variance (i.e., no difference between the means)	a. To make inference about whether the seven banks come from a population with equal means on each of the variables addressed. b. To make inference about whether the CEOs and Line and HR Managers hold similar views on strategy of differentiation.	a. Analysis of variance (ANOVA): units of analysis = the seven banks b. t-test : units of analysis = all CEOs, Line and HR Managers.
2. Hypotheses of correlation	To seek highest interrelationships between two variates (i.e., composite of variables): dependent variables (i.e., banks' performance over four years) and one independent variable.	Canonical correlation: units of analysis = the seven banks
3. Hypotheses of interaction effects	To investigate the moderating effect on the dependent variables.	Hierarchical regression = units of analysis = the seven banks
4. Hypotheses of discrimination	To understand differences of and to discriminate between banks with sustained competitive advantage and banks without sustained competitive advantage.	Two-group discriminant: units of analysis = the seven banks

5.13.4. Canonical Correlation

The canonical correlation was carried out to find significant correlations between the independent variables of differentiation strategy, human resource attributes, style of management, HR practices, organisational climate, organisation and the dependent variables of seven (7) banks' performances over four years. The canonical correlation equations were designed to incorporate a set of banks' performances measures over four years (1994-1997) on one side at one time, and one independent variable on the other side of the equation. The independent variables that showed significant correlations, according to the decision rule, were used in carrying out the hierarchical regression.

5.13.5. Hierarchical Regression: Exploring Fit

A series of hierarchical regression models were designed and carried out to test these two types of 'Fit'. First, with regard to the influence of strategic 'Fit', each human resource attribute (e.g., HR as valuable) and all variables of differentiation strategy, and each strategy variable which was the hypothesised moderator at one time were tested in hierarchical regression as independent variables with respect to each of the eight performance measures over a four-year period. Second, with regard to the influence of managerial 'Fit', each HR attribute and HR competence (e.g., HR as unique or HR skills) and all HR practices; style of management; and organisational climate variables were tested in a series of hierarchical regression as independent variables with respect to each of the eight performance measures over a four-year period. The results of the hierarchical regression are considered as predictors of sustained performance and used in the Two-Group Discriminant Analysis.

In the hierarchical regression, the mean of the independent variables was calculated and used to represent the 7 units of analysis, which are the 7 banks. This approach was adopted, in this part of the statistical analysis, to reduce the number of multiplications between the independent variables and the moderators in each function in the hierarchical regression, particularly because the use of the mean of the values of the independent variable and the moderators will not affect the results if they were based on the values of the independent variables.

5.13.6. Two-group Discriminant Analysis

The seven (7) banks were divided into two groups: banks with SCA (G1) and banks without SCA (G2). Accordingly, four-year (1994-1997) averages of the eight financial measures: return on Assets (ROA); return on equity (ROE); net bank operating margin (NBOM); net profit margin (NPM); operation efficiency (OPEF); employee productivity (EMPRD); market share – loans (LNMKSH); and market share – deposits (DPMKSH) were calculated for each bank on the bases of BMA financial reports on commercial banks operations in Bahrain only. Also, four-year (1994-1997) averages of the same eight financial measures were calculated for the commercial banking industry on the bases of the same financial reports [Refer to Table (8.1.a)].

The averages of the commercial banking industry served as a benchmark against which banks are classified as with SCA and without SCA. Table (8.1.a) shows that Al-Ahli Bank achieves SCA on all financial measures since its performance is above the industry average for all the eight measures. BBME achieves SCA on ROA, ROE, LNMKSH, and DPMKSH since its performance is above the industry average on those financial measures. Standard Chartered achieves SCA on ROE, LNMKSH, and DPMKSH since its performance is above the industry average on those financial measures. Islamic Bank achieves SCA on LNMKSH and DPMKSH since its performance is above the industry average on those two financial measures. The other three banks; namely, Arab Bank, Bank Melli Iran, and Grindlays Bank are without SCA on all financial measures since their performances are below the industry average on all financial measures.

Two-Group Discriminant Analysis was carried out on the bases of the results of the canonical correlations and hierarchical regression analysis: strategic fit (human resource attributes-strategy interaction) and managerial fit (human resource attributes and competence-HRM variables interaction). The objective of Two-Group Discriminant functions (Z score-models) is to test the ability of the determinants (predictors) of the seven (7) bank's performances over at least two out of four years to discriminate between banks with SCA (G1) and banks without SCA (G2).

Three types of discriminant functions were developed to operationalise the results of the canonical correlation and hierarchical regression models. Z_1 score-model was designed to carry out the hierarchical regression results of strategic fit or interaction; Z_2 score-model was designed to carry out the hierarchical regression results of managerial fit or interaction; Z_3 score-model was deigned to carry out the canonical correlation results of HR attributes (managers' perceptions); differentiation strategy variables; HR practices; human resource attributes (employees' perceptions), human resource competence, style of management, organisational climate, and organisation. The values of the independent variables incorporated from the respondents (CEOs, Line and HR Managers, and Employees) were used in the two-group discriminant analysis. The minimum acceptable level of statistical significance for two-group discriminant functions (all types of Z score-models) is $P < 0.05$. The Enter method was used in all three types of discriminant models.

5.14. The Dependent Variables: Measures of Performance and Sustained Competitive Advantage

Research on competitive advantage focuses on the impact of business strategy on organisational performance such as accounting measures of performance (Barney, 1997; Eccles, 1998; Kaplan and Norton, 1998 a). The following measures were used to identify the determinants of sustained competitive advantage.

5.14.1. Measures of Profitability

Performance outcome or profitability of the bank was measured by two key profitability ratios in banking. These two ratios are Return on Assets (ROA) and Return on Equity (ROE). ROA, which is a profitability measure, can also serve as a proxy measure of managerial efficiency. It indicates how capably the management of the bank has been converting the bank's Assets into net profit. ROE is a measure of the rate of return accruing to the bank's shareholders. It approximates the net profit from investing the capital of shareholders.

5.14.2. Measures of Efficiency and Human Resource Productivity

Operating efficiency and employee productivity ratios are among the most revealing measures of efficiency and productivity. The two ratios show the extent to which profit is maximised. Operating efficiency of the bank means reducing operating expenses and increasing employee productivity through HR training and development and better use of technology (Rose, 1993). Employee productivity is an outcome measure of aggregate impact from enhancing HR competency and commitment, innovation, improving work processes, and satisfying customer needs. That is, competent HR is expected to be associated with a high rate of productivity and a low rate of operating expenses. Kaplan and Norton (1996) demonstrate that human resource (as driver of work) productivity and efficiency is a useful proxy measure or driver of outcome or bank profitability as long as the internal structure of the business does not change radically (i.e., radical substitution of technology or outsourcing for internal labour). The employee productivity ratio is calculated by relating net operating income to the number of full-time-equivalent employees.

5.14.3. Measures of Profit Margin

The net (bank) operating margin and net profit margin are two efficiency and profitability measures. The net (bank) operating margin is an earning efficiency as well as profitability measure indicating how well management and employees of the bank have been able to keep the growth of revenues ahead of rising costs. The net profit margin is an indicator of the bank's operations that reflects effectiveness of expense management and service pricing policies (Rose, 1993). Both measures evolve around HR competencies.

5.14.4. Measures of Market-Share: Loans and Deposits

Market share, both loans and deposits, affects a bank's profitability. The objective of these measures is to provide evidence that the improvements in customer satisfaction (intangible contribution to value) were being translated into tangible outcome or profit (Kaplan and Norton, 1998 a & b). Market share measures reflect the extent to which HR at all levels in the bank are able to satisfy the needs of their customers.

5.14.5. Sustained Competitive Advantage: Conceptualisation and Operationalisation

The concept of SCA is a multi-faceted one. Competitive advantage might be related to firm production processes and/or outcome. For example, a firm might achieve competitive advantage in cost efficiency and/or return on Assets. The competitive advantage is sustained when competitive strategy secures its durability over a long period of time.

Porter (1985) provides appropriate measure to operationalise sustained competitive advantage. He points out that "the fundamental basis of above-average performance in the long run is sustainable competitive advantage

(1985:11). That is, the measure is based on two elements: 1) the firm's performance should be above the industry average; and 2) the firm should maintain the above-average performance over a long period of time.

The study used this measure to assess the commercial banks' SCA on a number of profitability and cost efficiency ratios to draw conclusions about the factors that underpin the achievement of SCA. These ratios represent dependent variables related to the internal and external environment of the banks. This comprehensive coverage is prerequisite to obtain robust results[18] in empirical studies.

Scholars of banking and finance associate a bank's net income with the bank's traditional core operations: loans and deposits activities. The assessment of a bank's performance may be distorted if the net income figures include more than the results of the bank's core operations. For

[18] In his critique to Peters and Waterman's book on 'In Search of Excellence', Guest has pointed out that the book lacks both conceptual clarity and well-designed methodology which led the authors to develop a misleading eight attributes of excellent companies in the United States. Guest demonstrated that Peters and Waterman have considered financial criteria as a basis to evaluate the successful companies which were found to share the common eight attributes. However, there are companies which failed to meet the financial criteria but appeared to possess the eight attributes of excellence. More critique is also directed to the concept used in the book. The authors have excluded the context of the investigated companies and its related independent variables (such as government interventions) that causes variance in the dependent variable (financial criteria) which in turn affects the excellent performance. Guest argues that "this disregard for variations in context is reflected in advocacy of the universalistic application of the eight attributes of excellence in all organisations" (1995:10).

example, a bank that anticipates poor performance may sell parts of its Assets such as shares or stake in other company to boost its net income.

Rose (1993) suggests that financial analysts often exclude unusual or non-recurring items such as gains from sale of bank's property and equipment or profit and loss from selling securities from bank profitability measures. Other scholars support this view and argue that it would be unwise to assess and judge on past performance of the bank by one-time occurrences which, in turn, make it worthwhile to isolate the income generated by ongoing core operations from one-time occurrences (Gardner and Mills, 1991).

Bank of Bahrain and Kuwait (BBK) has sold its 49 per cent stake in Bank of Oman, Bahrain and Kuwait[19] to two Omani investors: Oman National Holding Company and Al-Ahlia Portfolio Securities for US$80 million in 1997. The deal has increased BBK's net income to US$82.8 million (BD31.2 million) in 1997, a threefold increase on 1996 that was BD9.6 million. The figure includes the extraordinary income of BD20.9 million

[19] Bank of Oman, Bahrain and Kuwait is based in Oman. Oman is one of the Arabian Gulf countries.

(US$55.4 million) from selling the 49 per cent stake [Middle East Economic Digest (MEED), 1997, 1998].

The inclusion of the income generated from selling BBK's stake in BBK's annual report and BMA's annual report on balance sheet and profit and loss of the commercial banks in the country in 1997 has substantially inflated all types of performance measures [Refer to Table (8.1.a)]. Table 8.1.a shows that the averages of performance measures at the commercial banking industry level have been substantially inflated such as ROA, ROE NBOM, NPM, OPEF, and EMPRD in 1997 compared with 1996. Accordingly, the aggregate averages of performance measures at the industry level for the period 1994-1997 have been inflated as well. Assessment of the performance of the commercial banking industry on these bases distorts the results achieved by the banks from their core operations and consequently provides misleading judgments.

Hence, sustained competitive advantage was operationalised by measuring the average of each performance measure on the basis of a four-year period (1994-1997) to identify the banks with above-industry average performance and banks with below-industry average performance on these measures.

Then it was inevitable to amend the industry averages for the measures in 1997 either by isolating BBK's performance in 1997 or by excluding BBK's performance in 1997. The second option was chosen because the available data did not allow applying the first option. That is, the averages of measures at the industry level were based on the performance of all the commercial banks in the industry without the performance of BBK.

5.15. Summary

The chapter focuses on the methods considered relevant to collect and analyse data. The design, development, and implementation of the considered methods were devoted to study the relationship between the drivers of performance and sustained competitive advantage.

Various statistical techniques were used to carry out different data analysis at different levels. The statistical technique and the methods of analysis were chosen due to their relevancy to the research question and hypotheses. Descriptive and inferential statistical techniques were introduced in the discussion in a sequence to show the interrelatedness between statistical techniques in accordance with the research hypotheses.

Chapter 6

Description of the Variables of the Study: Analysis of Data

6.1. Introduction

The construction of the classification of independent variables (i.e., factors) is based on three principles; namely, factor analysis, conceptual definition, and correlations among the independent variables within each category of variables.

The outcome of the application of theoretical (i.e., conceptual) construct rule was a classification of the independent variables into eight (8) category variables. Correlation matrices were developed for each category to ensure the internal consistency, as well as the theoretical meaning, among variables. Each correlation matrix shows that the variables within each category are significantly correlated. The categories are 1) human resource attributes (Line and HR managers' perceptions) (Table 6.1.a) ; 2) human resource attributes (employees' perception) (Table 6.1.b); 3) differentiation strategy (Table 6.2); 4) employee competence (Table 6.3); 5) HR practices (Table 6.4); 6) style of management (Table 6.5); 7) organisational climate (Table 6.6); 8) organisation (Table 6.7); 9) and the dependent variables –

performance measures (Table 6.8) [Refer to Appendix – (C)]. The variables used to measure differentiation strategy in this study have been based on the models of previous empirical research (e.g., Segev, 1989; Delery and Doty, 1996; Wright et al, 1998; Snell, 1992).

6.2. One-way ANOVA

One-way ANOVA is used in the study to identify the similarities and differences in the perceptions of the personnel of banks in regard to the independent variables incorporated in: human resource attributes (as perceived by Line and HR Managers) (Table 6.9.a); human resource attributes (as perceived by employees) (Table 6.9.b); differentiation strategy (Table 6.10); employee competence (Table 6.11); HR practices (Table 6.12); style of management (Table 6.13); organisational climate (Table 6.14), organisation (Table 6.15); nature of Bahrain commercial banking industry environment (Table 6.16); and banks' performances measures (Table 6.17) [(Refer to Appendix - (D)]. One-way ANOVA is also used to determine if the dependent variables incorporated in performance measures vary across the banks.

6.2.1. The Null Hypothesis

One-way ANOVA is carried out to test the Null Hypothesis:

$$H_O: \mu_1 = \mu_2 = \mu_3 = \ldots\ldots\ldots\ldots \mu_n$$

$$H_1: \text{not all } \mu_j \text{ are equal } (_j = 1, \ldots\ldots, N)$$

where: $\mu_1, \ldots\mu_n =$ means of the $\underline{N}$ variables in Table

The test of the Null hypothesis is carried out to achieve two objectives: 1) the identification of requirements of the competitive environment of commercial banking in Bahrain; and 2) description of the competing seven (7) banks with regard to the dependent and independent variables.

6.2.2.1. Human Resource Attributes: Line and HR Managers' Perceptions

6.2.2.1.1. The Attribute of Value

Table (6.9.a) shows significant differences between Line and HR Managers on the human resource attributes of value and unique. Of the seven banks, managers in Arab Bank were uncertain about whether the success of many profitable customer products and services was largely due to the results of people skill and commitment. Managers in the other six banks gave a strong positive response and thought that employees' skills and commitment were critical and valuable to the bank's success.

The influence of human resources on the banks' success is strongly supported by the findings of empirical research on the commercial banking industry in GCC countries. The findings indicate that customers, both consumers and business firms, consider employees skills, employee friendly attitudes, employee experience and ability to understand community culture as determinant factors for selecting a bank (Bhattacharyay, 1995; Yavas, 1988; Yavas et al., 1990; At-Taijri, 1991; Habib et al., 1987; Edris and Almahmeed, 1997).

6.2.2.1.2. The Attribute of Unique

The managers in the seven banks (Table 6.9.a) held different perceptions regarding the extent to which employees' skills are unique. Managers of Arab Bank viewed their employees' skills as general (i.e., highly likely to be found in the external labour market or obtained from general training and education programmes). In contrast, managers in Al-Ahli Bank and Standard Chartered Bank viewed their human resource skills as unique. The managers in the remaining banks expressed uncertainty. These results are consistent with the finding that the banks with high performance and profitability such as Al-Ahli and Standard Chartered, are the ones who view their employees as unique and valuable, while those with low performance and profitability such as Arab Bank view employees as a homogeneous resource. The Line and HR Managers of the seven banks did not differ in regard to the remaining four attributes.

6.2.2.2. Human Resource Attributes: Employees' Perceptions

6.2.2.2.1. The Attribute of Value

Employees in all banks (Table 6.9.b) believed that the success of many profitable customer services and products was largely a result of employees' skill and commitment. The overwhelmingly positive and congruent responses of employees suggest that the employees were **'critical'** to banks' success and profitability. When interpreted in light of the managers' perceptions of the attribute of value, this finding suggests that this is an unbiased one due to the consistency of the perceptions of two independent sample respondents; namely, Line and HR Managers and employees (Schular and Jackson, 1987).

6.2.3. Differentiation Strategy[20]

Table (6.10) shows significant differences between CEOs and Line and HR Managers in the seven (7) banks with regard to 5 variables (i.e., variables

[20] Differentiation strategy consists of two interrelated parts; namely, Product Breadth and Product Innovation. The former includes variables 1, 4, 5, 6, 7; while the latter includes variables 2, 3, 8, 9 as listed in Table (6.10).

no. 1, 3, 5, 6, 7). This indicated that banks were not adopting a similar degree of differentiation of products and services.

CEOs, Line and HR Managers in Arab Bank, Al-Ahli, and Standard Chartered Bank viewed their banks' offerings as very diversified indicating the adoption of high level of differentiation.

CEOs and Line and HR Managers in Bank Melli Iran felt that the bank offers a very narrow range of products, while the responses of their counterparts in the other banks indicated moderate differentiation.

Of the seven banks, CEOs, Line and HR Managers in Grindlays reported that their bank is not at the forefront of innovation and development. CEOs, Line and HR Managers in other banks held the views that their banks were the leaders in innovation and development. The overwhelming positive response toward innovation and development suggests high emphasis on differentiation via innovation as a vital route for competition.

All CEOs, Line and HR Managers in the seven banks shared a common view that their banks had a variety of customers. This may suggest that these banks were able to create relatively acceptable and relevant products that could capture the interests of a variety of customers.

CEOs, Line and HR Managers in BBME and Islamic Bank (Table 6.10) thought that the needs of their banks' customers varied, while their counterparts in Al-Ahli and Melli, thought the needs of their banks' customers were similar. The CEOs, Line and HR Managers of the other banks also, in varying degrees, perceived the needs of their banks' customers as homogeneous. In order to carve out their secure and fair share of a market of homogeneous needs, these banks were directing their services and products toward different customers. This, in turn, indicated that these banks introduced different products and services.

All CEOs, Line and HR Managers in the seven banks agreed in varying degrees that their banks offered many different services to customers. This tendency reflects the banks' inclination toward differentiation as a route for competition. When variables 1, 3, 5, 6, and 7 are interpreted together, they show that the banks were pursuing a well-articulated strategy of differentiation. The analysis provides support to the assertion that differentiation strategy is relevant to the competition in the commercial banking industry in Bahrain, as well as in GCC countries (Bhattacharyay, 1995) and in Western countries (Carey, 1989; MacMillan et al., 1985).

6.2.3.1, CEOs' and Line and HR Managers': Perceptions on Differentiation Strategy: t test for two independent samples

A T test for two independent samples is carried out to compare the perceptions' of CEOs (sample 1), and Line and HR Managers (sample 2) on differentiation strategy. The objective behind carrying out this test is to investigate the extent to which CEOs, and Line and HR Managers hold similar views with regard to differentiation strategy (Table 6.18).

The T test is carried out to test the Null Hypothesis:

$$H_O : \mu_1 = \mu_2$$
$$H_1 : \text{not all } \mu_j \text{ are equal } (j = 1 \ \& \ 2)$$

where: μ_1 = mean of the first sample: CEOs

μ_2 = mean of the second sample: Line and HR Managers

The results of the t-test show (Table 6.18) non-significant differences between the means of the perceptions of the CEOs and Line and HR Managers on the nine variables of differentiation strategy. The results yield three implications. First, the similarity of the perceptions among the CEOs and Line and HR Managers suggested that they had strong communication, information sharing, and Line and HR Managers' involvement in strategy formulation and implementation across the sampled banks. This is of particular importance for HRM practitioners and scholars who emphasise the strategic role of HRM managers in business strategy formulation in addition to their normal role in strategy implementation. Second, both CEOs and Line and HR Managers shared a common view that their banks adopted a differentiation strategy. This is indicated by the trivial and non-significant difference between the means of perceptions of CEOs and Line and HR Managers (CEOs viewed that their banks were more differentiated than Line and HR Managers did on seven out of nine strategy variables). Therefore, these results suggest an accurate estimation about the extent to which the seven banks adopt a differentiation strategy.

Table (6.18): Comparison Between CEOs and Line and HR Managers Perceptions on Differentiation Strategy

Strategy Variables	CEO[1] mean	Managers[2] mean	T-Test For Equality of Means		
			T (Equal variances)	df	Sig* (2 Tailed)
1. Our bank offers narrow range of products.	2.57	2.51	0.11	44	0.92
2. Our bank establishes and maintains stable product-market posture.	4	3.85	0.32	44	0.75
3. Our bank is at the forefront of innovation and development.	4	3.85	0.33	44	0.74
4. The characteristics of our products differ a great deal from one another.	3.43	3.62	-0.42	44	0.67
5. Our bank has a variety of customers.	4.57	4.15	1.48	44	0.15
6. The needs of our customers are very similar to one another.	3	3.03	-0.06	44	0.96
7. Our bank offers many different services to customers.	4.57	4.23	1.03	44	0.31
8. Our business procedures have changed several times in the past (8) years.	4.71	4.03	1.71	44	0.09
9. The characteristics of our products are modified frequently.	4.28	3.95	0.92	44	0.36

1 N = 7 CEOs (Group *1*).
2 N = 39 Line and HR Managers (Group *2*).
* Estimates are significant at the significance level 95%.

6.2.4. Employee Competence

6.2.4.1. Employees Effectiveness

Table (6.11) shows significant differences between employees' perceptions of employees' effectiveness. Employees in Al-Ahli Bank expressed their uncertainty about the effectiveness of their workmates, while their counterparts in the other banks perceived their workmates as effective employees (i.e., "Employees are good in what they do")[21].

6.2.5. HR Practices

6.2.5.1. Training and Development

Table (6.12) shows significant differences between employees' perceptions of training and development. The means of the bank employees show significant differences in regard to the importance of training and development. The mean of the employees of the Islamic Bank is highest, whereas that of the employees of Grindlays is the lowest.

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[21] It worth mentioning that people in Bahrain are usually not accustomed to the practice of appraisal and self-appraisal. Therefore, the interpretation of employee competence category would be more practical if viewed within its cultural context. As evidence of this issue, specifically in this category, one can observe the overall trend of employees' perception on the other three variables is clustering around 'uncertainty'.

6.2.5.2. Recruitment and Selection

In regard to recruitment and selection also, Table (6.12) shows significant differences between employees' perceptions. Employees in Grindlays Bank expressed their uncertainty about the effectiveness of the recruitment and selection process in providing the bank with high quality staff, while their counterparts in the other banks held a strong belief that this process was highly effective in their banks. This may suggest, for Grindlays Bank, that this practice is not efficient to provide the bank with highly qualified staff particularly when the performance of the bank is emphasised.

6.2.6. Style of Management

6.2.6.1. Employees Involvement

Table (6.13) does not show significant differences between employees' perceptions of employees' involvement in managing their work, except in regard to employee involvement. Employees in Arab Bank perceived the characteristics of employees' involvement in their bank as the one belonging to system 2, benevolent management style. They believed that subordinates did not feel very free to discuss important things about their jobs with immediate superiors. This bank was more inclined toward the top-down leadership approach.

Employees in Bank Melli Iran, Bahrain Islamic Bank, Standard Chartered, Grindlays, Al-Ahli, and BBME perceived their banks' management style as one belonging to system 3, consultative management style. They believed that subordinates feel rather free to discuss important things about their jobs with their superiors.

The finding is consistent with previous results on centralisation of decision making. That is, managers in the commercial banks are inclined to discuss issues related to work with their subordinates rather than sharing decision making power with the employees. Another implication of this finding is that the perceptions of the employees in System 1-4 showed that the banks were adopting mostly System 3, consultative management style, and sometimes System 2, benevolent management style.

6.2.7. Organisational Climate

Table (6.14) reveals non-significant differences between the means for all variables classified under the category of organisational climate. An overall view of the means shows that employees in the banks do not differ in regard to the various aspects of organisational climate.

6.2.8. Organisation[22]

6.2.8.1. Information Initiation

Table (6.15) shows significant differences between employees' perceptions on information initiation and lateral communication. The employees of the seven banks differed significantly in regard to information sharing and lateral communication. The employees of the Islamic Bank registered a higher mean than the others. Employees' perceptions reflected the characteristics of System 3, consultative management style.

6.2.8.2. Job Identity and Job Feedback

With regard to job identity and job feedback, the differences between employees' perceptions are statistically significant. Employees in Ahli, Arab, Standard, and BBME expressed their uncertainty about whether their jobs provided them with the chance to perform complete jobs, while their counterparts in other banks perceived their jobs as ones that provided them with such opportunity.

[22] The non-significant differences between the perceptions of employees on the other 12 variables requires close investigation. That is, all the variables measured on Likert System 1-4 (variable nos. 3, 4, 5, 6, 7, 8, 16) indicate that banks in Bahrain are adopting consultative management style unless variable of centralisation of decision making System 2, benevolent management style is adopted. For the variables measures on Likert Scale 1-5 (nos. 1, 2, 11, 13, 14), employees express their uncertainty in which their responses cluster around 3. It is clear that employees did not adopt an extreme view on any of the variables (i.e., the means are clustering on System 2 and 3; and on uncertain to strongly agree). However, the investigation of this issue is beyond the objective and scope of this study.

Employees in Al-Ahli, Arab, and Melli expressed their uncertainty about whether their jobs provided them with feedback on their performance, while their counterparts in other banks perceived their jobs as ones that provided them with feedback on how they were performing their jobs.

6.2.9. Competitive Environment

Table (6.16) shows high congruency of opinions among CEOs and Line and HR Managers on all the strategic variables required for competition in the commercial banking industry in Bahrain except in regard to two (2) items (i.e., 4 and 10). This consensus could mean that commercial banks should consider this factor to formulate their value-creating strategy to achieve successful competition and competitive advantage.

The perceptions of the CEOs and Line and HR Managers varied from uncertainty to agree with regard to the extent to which banks needed to invest in production of equipment and facilities (item 10). CEOs and Line and HR Managers in Arab Bank, Bahrain Islamic Bank, and BBME agreed that the competition requires heavy investment, while their counterparts in other banks expressed their uncertainty.

6.2.10. One-way ANOVA for Banks' performances Measures: Dependent Variables

Table (6.17) shows significant differences between the banks with regard to all the eight performance measures (i.e., financial ratios).

6.2.10.1 Return on Assets (ROA)

The significant differences between the banks on ROA may reflect differences in managers' competencies across the commercial banks. This suggests that it is highly likely that managers' ability of converting bank's Assets into net income with minimum cost varied across the banks; because if this ability were homogenous, then all banks would probably generate the same rate of ROA.

6.2.10.2. Return on Equity (ROE)

The differences between the rates of ROE are statistically significant. The achievement of high rate of ROE to satisfy shareholders' interests represents another challenging task for banks' managers. Managers who seek a high rate of ROE should be skillful in risk management because maximising ROE means exposing their banks to high risk. Rose (1993) points out that the relationship between ROA and ROE demonstrates the trade-off bank managers confront between risk and return.

In the context of the commercial banking industry in Bahrain, an empirical study found a significant inverse relationship between ROE and liquidity ratio (Al-Mutawa, 1993). The criticality of managers' ability is judged here by the extent to which bank's can maintain a high reliance on debt leverage and high market-share deposits to finance bank's lending and investment portfolios without being exposed to losses.

6.2.10.3. Net Bank Operating Margin (NBOM)

The differences between NBOM are statistically significant. This may suggest the prevalence of variation in employees' competency at all levels across the banks. An outstanding performance on this ratio is achieved by the extent to which the management and employees were able to sustain growth of income (gained from loans, investment, and non-interest income) ahead of rising expenses (mainly from paid interests on deposits and borrowing).

6.2.10.4. Net Profit Margin (NPM)

The differences between the banks on NPM are statistically significant. A high rate of NPM is achieved when operating income is increased and operating expenses are decreased. These two functions require managers who are competent in both allocating bank's Assets in profitable loans and investment and in minimising operating expenses (Rose, 1993; Ramadan and Joudah, 1996). Accordingly, banks which achieve a high rate of NPM are expected to possess highly competent managers in performing these two functions, compared with banks with lower rate of NPM. As mentioned earlier, negative correlation was found between operating cost and profitability (i.e., ROA and ROE) in commercial banks operating in Bahrain.

6.2.10.5. Operating Efficiency (OPEF)

The significant difference between the banks on operating efficiency may suggest differences in the competencies of managers and employees across the banks. At the managerial level, banks with a low rate of cost structure may show effective competency in cost control and in lending and investment strategies compared with banks with a high rate of cost structure. At the subordinates' level, banks with a low rate of cost structure may demonstrate effective strategy implementation due to the availability of skillful, highly motivated and committed employees compared with banks with a high rate of cost structure.

6.2.10.6. Employees Productivity (EMPRD)

Banks' performances on employee productivity showed significant differences between the banks. An outstanding performance on this ratio reveals the influence of employees' competency and human resource management on net profit: skillful in cost efficiency via effective utilisation of employees' competency to reduce operating costs.

6.2.10.7. Market-Share Loans (LNMKSH)

The significant differences between the banks on market-share loans revealed two indications. First, banks with high market share- loans were expected to have high liquidity and profitability. Second, the high ratio of this measure reflected also customers' trust in the bank's services. In this sense, banks with a high ratio were expected to provide competitive services which may suggest that these banks must have well-qualified management and employees.

6.2.10.8. Market-Share Deposits (DSMKSH)

The differences between the banks on market-share deposits are statistically significant. Research on commercial banks' profitability conclude that market-share deposits have a positive impact on profitability. For example, Short points out that greater market power (i.e., market share- deposits) leads to higher bank profit rate (1979). Other research found that market-share deposits are positively associated with lower loan costs (Bourke, 1989; Molyneux and Thornton, 1992). Within this context, significant differences may suggest differences between competencies of managers and employees across the banks on selection of banks' strategic choices and business strategy implementation.