



Full Length Research Paper

How HRM and culture impact the banking sector (Comparison between Canada and the Arab Gulf)

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Human resources management (HRM) practices help make businesses prosper, especially in a competitive business field, such as the banking sector. The main objective of HRM is to maximize the contribution of employees in order to accomplish optimal productivity. The key factor in HRM success is to align the Human Resources (HR) department with the organizational strategies in order for the organization to achieve growth in the employees' commitment and momentum. Thus, it is one of the most crucial requirements for survival in this competitive world. This research compares Canada and the Arab Gulf states, by means of meta-analysis, in order to explore the impact of HRM and culture on the banking sector.

Keywords: Culture; Recruitment; HRM; HR Practices; Bank Services; Banks in Canada; Banks in Saudi Arabia; Wasta; Arab Gulf States

INTRODUCTION

The essence of Human Resources Management (HRM) is to bring out the best in each individual. HRM is commonly defined as the policies, activities and practices that are needed throughout an organization in order to: developing, utilizing, obtaining, evaluating, maintaining and retaining the appropriate number and talents of employees to achieve the organization's objectives. The main objective of HRM is to maximize the contribution of employees in order to accomplish optimal productivity. Thus, it is one of the most crucial requirements for survival in this competitive world. To put it bluntly, given its high-paced nature, the most competitive market is the banking sector. The key factor in HRM success is to align the Human Resources (HR) department with the organizational strategies in order for the organization to achieve growth in the employees' commitment and momentum (Bohlander and Snell, 2004).

Dessler, Cole and Bulmash (2008) cited Jim Frank, vice-president and chief economist at the Conference Board of Canada, stating: "You can see it so clearly. Some organizations in the same industry are more

successful than others, and it is because they have different leadership—leadership that is able to mobilize its people around its goals and objectives." Indeed, different leaderships can play a critical role in the performance of any organization, especially in the banking sector around the world. This can be easily observed by looking at the success of some of the banks across the world. Furthermore, different leadership methods can be attributed to a variety of factors, culture being one of the most important factors. This research seeks to reveal the impact of HRM and culture on the banking systems in Canada and in the Arab Gulf states. The following analyses the recruitment, outsourcing, and other HRM process of the two banking sectors, while also assesses the impact culture has on both of the banking sectors.

RESEARCH METHODOLOGY

This research uses a meta-analysis methodology. Due to number of researchers who have studied HRM practices,

and their effects in the respective banking sectors of Canada and the Arab Gulf states, a meta-analysis methodology is best to analyse the research question at hand. Previous research has also been conducted on cultural impacts on the banking sectors of these respective countries. The meta-analysis methodology allows the findings of the different studies to be analysed in order to compare the impact of these factors in the two different countries.

1 Economic Literature on Productivity in the Banking Industry

The economic literature on productivity in the banking industry is mainly considered with how scale affects the branch efficiency of banks. One study (*Is Managing Your Human Resources Costing You Too Much?*, n.d.) uses data envelopment analysis to compare each branch with all of the other branches, regarding best practice to: acquire new accounts, loan applications, cheques cashed and sold, taking account of the input of number of responsible employees, office space and supplies used for efficiency. This study concludes that the sources of the variation in banks' efficiency remain unknown.

In most economies, the banking industry has historically been heavily regulated, much more than other industries. This is due to the impact the collapse of banks can have on other economies. Thus, the banking industry is more stringent in regards to rules and regulations, especially in developing economies, where banking activities are heavily controlled in order to meet the economic and social objectives of development. "Thus, not only have there been strict controls on interest rates, there have also been stringent regulations relating to branch licensing, directed credit programs, and mergers" (Kumbhakar & Sarkar, 2003, p. 403).

2: HRM in a Nutshell

Prior to the 1980s, the banking systems throughout several developing economies started experiencing under-performance. Starting around the mid-1980s, several economies took massive steps in order to become more efficient and productive (Kumbhakar & Sarkar, 2003, p. 403). As documented by a large body of research, HRM may be the unknown factor behind variation in banks' efficiency. In other words, the HRM department becomes responsible for all internal and external policies once it has been created. It is the department that is primarily responsible for all HRM

programmes and activities, such as: formulating policies, following procedures, offering advice, providing services, monitoring to ensure compliance, and providing consultancy services (p. 404).

Recently, HRM is considered to be critical in order to meet business objectives. In the banking industry, HRM is considered to be a prime asset. There are several responsibilities of a HRM department. However, recruitment and selection are considered the first and most crucial element of the HRM department's responsibilities. Recruitment is the practice of finding and attracting proper candidates. Several studies have cited that employee performance is positively associated with effective selection and recruitment processes. In other words, in order to maintain high performance with low turnover, the organization must hire the best candidate for the job. Thus, the human resource department is largely important throughout the banking industry (Masum, Azad and Hoque, 2015, p. 4).

Furthermore, training and development, as well as compensation, are also vital functions of the HRM department. In order to meet the changing demands of an organization, training and development are key elements for organizational success. Some researchers have cited that adequate training programs are needed for employments to develop a sense of commitment and emotional sensitivity to their work. Other researchers, on the other hand, have suggested that training and development only increases employee turnover. While results are mixed, it is most commonly observed that training and development has positive results on an organization (Masum, Azad and Hoque, 2015, p. 5).

Compensation is also considered a HRM function. Compensation packages have been suggested to develop loyalty among employees and even increased productivity amongst the employees. As a result, turnover is reduced (Masum, Azad and Hoque, 2015, p. 5). Lastly, employee relations are also considered a critical part of a HRM department. Several studies have suggested that employee relations have positive effects for an organization, such as: increased loyalty, organizational commitment, job satisfaction, and increased job performance (Masum, Azad and Hoque, 2015, p. 5). **Figure 1** illustrates the structure of a bank's HR department.

Furthermore, delegation of authorities to the HR department to handle such matters ensures control, as well as consistent legal compliance and unity. **Figure 2** illustrates the HR value proposition.

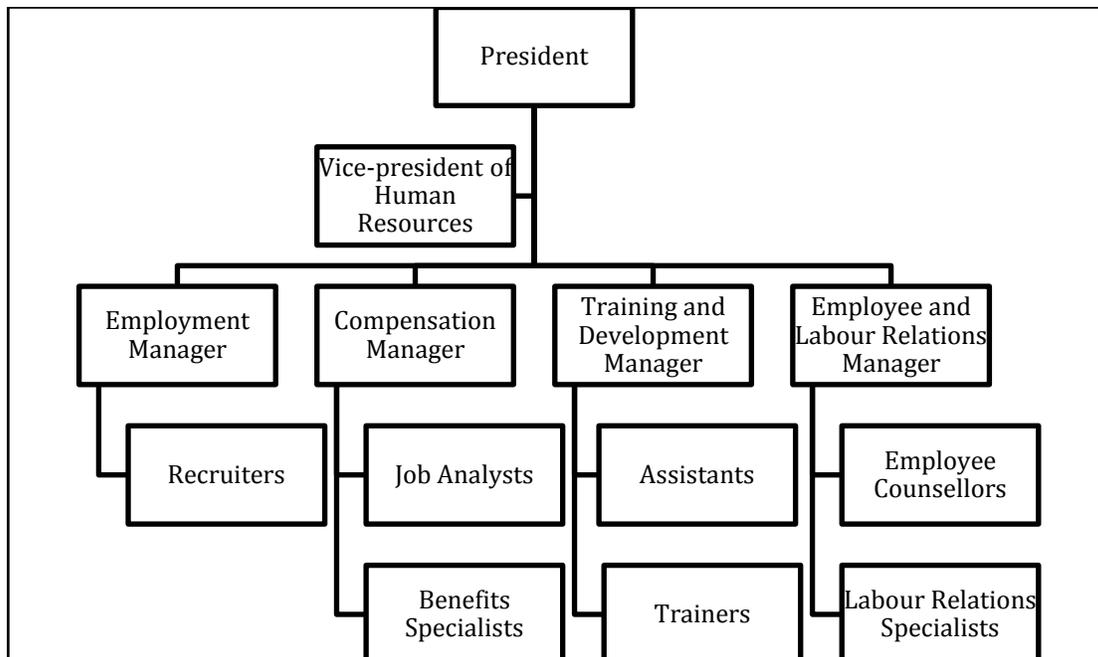


Figure 1: Structure of a bank's HR department

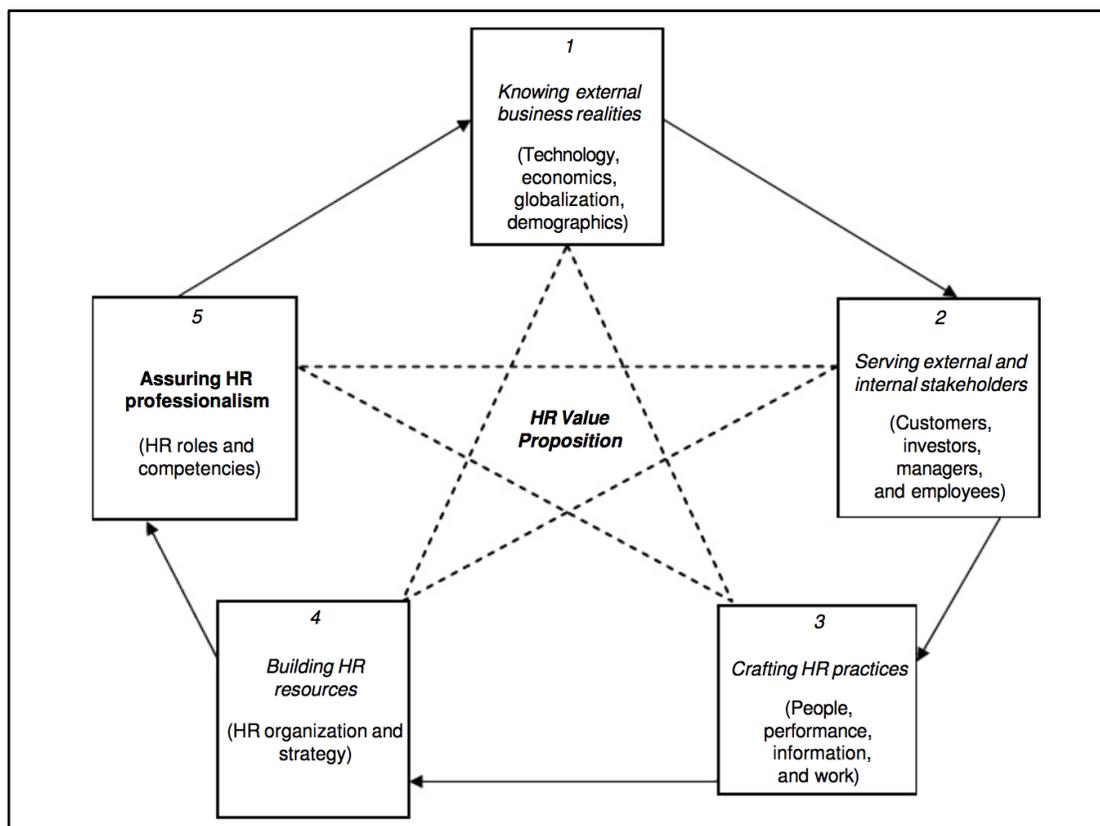


Figure 2: The HR value proposition

3 HRM in the Banking System in Canada

Due to the nature of Canada's competitiveness among other nations, HRM practices in Canada are helping the

banking sector to boom. Canada is considered the fifth most competitive country in the world, right after the United States, Hong Kong, Singapore and Iceland. Figure 3 illustrates Canada's competitiveness.

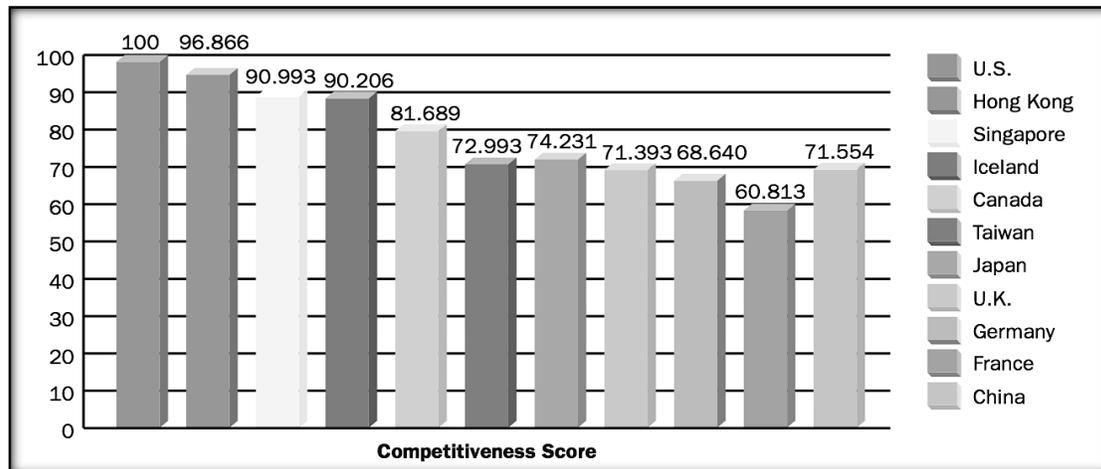


Figure 3: Relative competitiveness of eleven nations

Chart prepared by the authors on the basis of data reported in *The World Competitiveness Yearbook 2005*, Lausanne, Switzerland: IMD International. Retrieved July 18, 2006 from www02.imd.ch/documents/wcc/content/overallgraph.pdf.

Based on this competitive culture, the majority of the banking systems in Canada are implementing HRM practices to improve employee's productivity, while also enhancing performance. While Canadian banks do outperform the majority of other nations, their success is contributed to their disciplined management approach. The majority of the country's success has been based on the lessons they have learned in the past (Kochan, Gittel and Lautsch, 1995, p. 201).

The Canadian banking sector learned several lessons during their 1990s recession. These recession caused Canadian banks to focus on specific key capabilities. The main focus of the HRM department was to improve profitability. In order to do this, the HRM departments focused on business strategy, world-class capabilities, and a segment-specific business approach. "Focusing the business strategy means a disciplined concentration on value creation within regions for specific clients and segments" (Schwarz and Berz, 2003). This approach has been known to generate high performance amongst some of the world's leading corporate banks (Fawzi and Almarshed, 2013).

In order to achieve high growth rates, the Canadian banking sector focuses on incentive programs in order to reward high performers. These programs use key performance indicators in order to reflect the value behind each employee. "The best performers use a balance mix of lagging and leading indicators that are both financial and nonfinancial" (Kochan, Gittel and Lautsch, 1995, p. 202). Also, their employees receive

several comprehensive performance reviews, as well as client surveys, in order to track individual performance growth. Thus, compensation rewards the top performers throughout the sector. It is common for management to only allocate bonuses to the top fifty percent of the work force. It is believed that such rewards ensure high performance throughout their work forces and develops a superior sales culture. Thus, the Canadian banking sector believes the best results can be seen through individual performance (Kochan, Gittel and Lautsch, 1995, p. 202).

HRM is also focused on client relations and sales management. Banks throughout Canada have implemented corporate relationship programs in order to help managers deliver products or services to clients effectively. "This means a sales management program that identifies opportunities in certain client cluster and then ensures the relationship managers mine those opportunities" (Schwarz and Berz, 2003). These programs typically include monitoring activities in order to make sure individuals are achieving goals (Schwarz and Berz, 2003).

3.1 Recruitment

Recruitment in the Canadian banking sector, however, is not controlled fully by banks' HR departments. Instead, recruitment is regulated by the Office of the Superintendent of Financial Institutions (OSFI) (Shecter, 2014). Canadian banks must submit details of their preferred senior management candidates to the OSFI before

hiring them. The regulator can then express potential concerns following the financial crisis of 2008. In this situation, HRM comes in play to comply with the country's jurisdiction and align the bank's strategy with regulations to achieve the best outcome (Shecter, 2014).

Human resource management was not created in Canada due to encouraging employee performance. Instead, HRM was implemented for staff reduction. By the mid-1990s, it was obvious that change was needed when it came to the employees. In order to achieve bank objectives, it became evident that the Bank of Canada, Canada's central bank, would need reduce their staff by twenty to thirty percent. Thus, the main objective of the human resource department was to make the bank still functional with a smaller workforce. As a result, employment throughout the Canadian banking sector is considered a competitive job market (Leighton, 1996).

Given the competitiveness of these jobs, the Canadian banking sector only recruits and selects the best and the brightest. It has been suggested that this hiring practice is the reason behind Canada's competitiveness in the banking sector. By hiring the best qualified candidates, the banking sector is able to limit their workforce and only hire the best of the best. In order to find and select such qualified candidates, the HRM department seeks out the most promising candidates. After these individuals are selected for high-powered jobs throughout the banking sector, these individuals are sent to the Office of the Superintendent of Financial Institutions in order to gain employment through the banking organization. Thus, even though the HRM department does not directly recruit their applicants, the department still has a large importance when it comes to the competitiveness of the banking sector throughout Canada (Leighton, 1996).

3.2 Outsourcing

Outsourcing is used throughout the Canadian banking sector in regards to consultancy. Dessler et al. (2008) study involved 300 large global companies, including 26 Canadian organizations, and reported that (73) seventy-three percent of the Canadian participants indicated that they had outsourced at least one activity or process. Ninety-five percent of participants were somewhat or very satisfied with their outsourcing to date. About half of the respondents stated that the importance of outsourcing had increased over the previous three years. The most commonly outsourced activities, and those most likely to be outsourced in the near future, were identified as: benefits administration, payroll processing, logistics, real estate management and internal auditing. The study also found that while sixty-three percent of respondents reported achieving at least the expected cost savings, organizations were starting to view outsourcing strategically, as a broad management strategy rather than just as a cost-reduction tool. The major reasons for outsourcing were identified as: (1) ensuring a focus on core competencies, (2) enhancing

profitability and shareholder value, and (3) avoiding the investment in technology required to enhance efficiency. The last trend is related to the significant investment by service providers, particularly in the IT infrastructure, which is required to support service delivery. The rapid emergence of e-business, defined as the use of the Internet to manage everyday business processes, from supply chain to delivery, is having a dramatic impact on the outsourcing environment—even in the HR field (Dresser, 2008).

4 Banking HRM in the Arab Gulf States

It is evident that the banking sector in Arab Gulf states is characterized by efficiency and effectiveness, due to the availability of financial and technological resources. Moreover, the availability of HRM practices is essentially what makes banks in the region able to invest these resources efficiently and effectively. In Saudi Arabia, the regulator and supervisor of licensed financial institutions, including banks, finance companies, as well as several others, is the Saudi Arabian Monetary Agency (SAMA). The SAMA operates on the principles of the Quran and Sunnah. Thus, the banking sector throughout the Gulf regions is highly influenced by religion. Furthermore, banks under control of the SAMA are required to deliver a certain level of fair treatment, honesty and financial inclusiveness. This requirement is considered one of the main HRM practices in Saudi Arabia. HRM departments are responsible for implementing those laws and regulations to avoid fines and sanctions. In other words, the strong religious culture throughout the Gulf States deeply impacts the banking sector of these regions, and as a result, altering the overall functions of HRM. All in all, the culture in the Arab Gulf states, which may be affected by religion, is integrated with most practices (Fawzi and Almarshed, 2013).

4.1 Recruitment

Recruitment in the Arab Gulf region generally differs from the rest of the world due to its prevailing culture. Given that Arabs are known for their extensive hospitality, *wasta* (nepotism) plays an important role in the recruitment of many jobseekers. However, the recruitment of staff in the region's banking sector is witnessing remarkable developments. Banks are keen in recruiting the best applicants, and have started to overcome the issue of *wasta* by using sources and methods of recruitment that prevent it from happening (Fawzi and Almarshed, 2013). The nationalisation movement is another relevant development in the Arab Gulf states. It has become apparent that the economies of Saudi Arabia, Oman and the UAE rely heavily on foreign labour. Nationals work primarily in the public sector and have clear preferences as to what kinds of jobs they wish to obtain. Rees (2007) suggests that dependence on a foreign labour force can have serious long-term political, economic and social

consequences. The governments of Saudi Arabia, Oman and the UAE have started programmes to reduce their dependency on foreign workers, which are respectively called Saudisation, Omanisation and Emiratisation, aimed mainly at the private sector. One of their key elements is the application of quotas, which are applied either to individual sectors (e.g. banking) or to certain

positions (e.g. HRM). Beside the quota system, all programmes rely heavily on training and development of nationals. Furthermore, levies and rebates help make employing nationals more attractive to companies (Rees, 2007). Figure 4 illustrates the recruitment process in organizations such as banking.

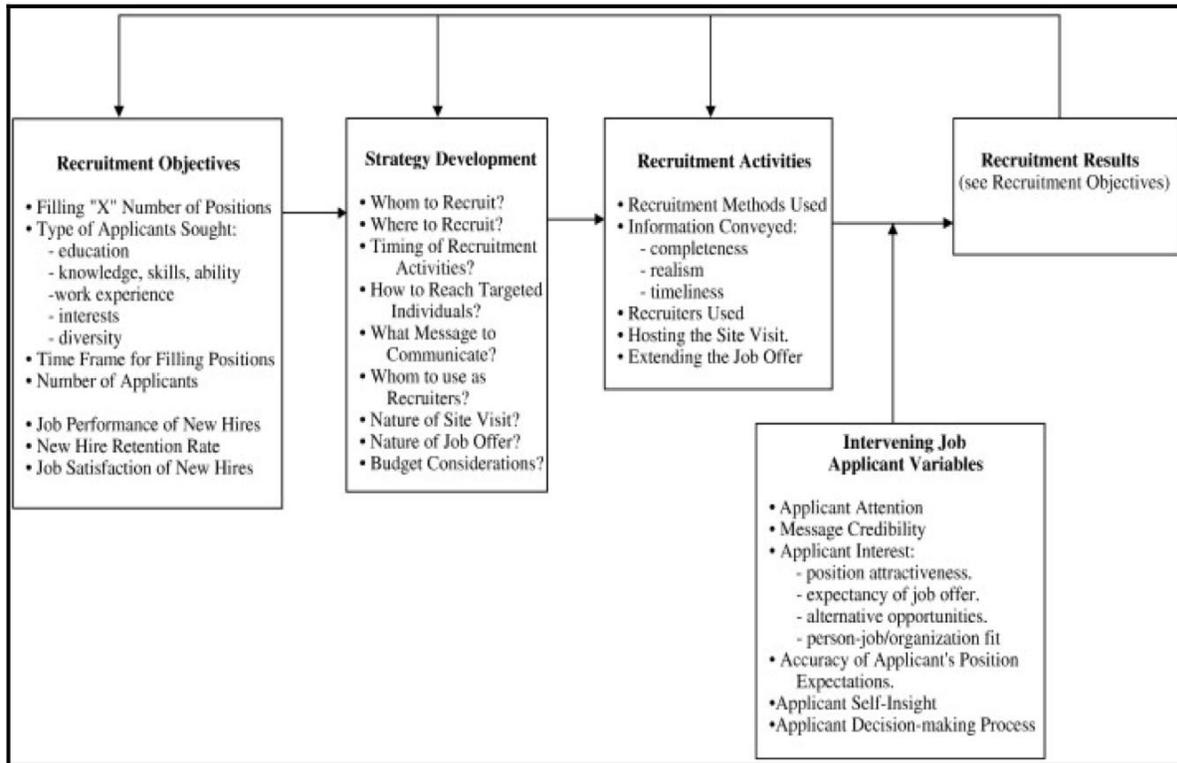


Figure 4: The recruitment process as applied to banks
 Reprinted with permission from Ulrich and Brockbank (2005, p. 10).

However, there has recently been a change in the Western banking industry. The demand for skilling banking employees has dramatically exceeded the supply throughout the Gulf region. According to a recent survey, the shortage of skilled banking employees is the largest challenge Gulf banks are facing today, especially as more global banks are entering the market. According to Middle East banking directors, "research suggests this demand is also becoming more complex, as customer expectations rise and regional competition heats up" (Accenture, 2011). Thus, there is a high demand for skilling banking employees in order to develop and implement more innovative products in order to grow and manage their businesses (Accenture, 2011).

On the other hand, due to the concerns with the global economy, global banks throughout the Middle East are slowing their recruitment efforts in order to reduce the headcount throughout the Middle East. Thus, the HRM

departments throughout the Gulf region currently have several different challenges (O'Neil, 2011).

4.2 Outsourcing

Outsourcing consultancy in the Arab Gulf is restricted by many laws and regulations. However, the banking sector uses outsourcing when it comes to implementing software solutions to manage the HR department. One of the most often implemented software solutions is the SAP HR/HCM module (SAP HR Module, n.d.). The aim of the HR component is to enable companies to process employee-related data according to business requirements in an effective structure. The module uses a system of grouping data together into so-called info types, each of which mirrors a quantity of connected data records. Info types are identifiable through a four-character numerical string [e.g. info type Addresses

(0006)] and a complete listing is included. Consultancy, on the other hand, is usually outsourced to the numerous foreign companies which provide consultancy services, such as Tata or the Boston Consultancy Group (Ulrich and Brockbank, 2005, p. 10).

5 Comparison

After analysing aspects of culture and HRM practices in the banking sectors of Canada and the Arab Gulf states, there are distinctive differences between the two areas. However, they two differing countries also have some similarities. The Canadian banking sector is built on a competitive nature, while the Gulf region seems to be more conscious of the global economy and the impact other economies have for the region. The following assesses the differences between the banking sectors between the two countries in regards to their culture and HRM practices.

5.1 Effects of HRM in Banking in Canada and Arab Gulf States

HRM practices in Canada and the Arab Gulf states are similar to a certain extent. Their objectives and goals are basically the same, for instance, but the implementation strategies differ, when it comes to recruitment methods. In Canada, the OSFI regulates the recruitment of senior personnel in financial institutions, to avoid dishonesty. In Saudi Arabia, SAMA is the regulator, in a culture where an extensive body of research indicates that nepotism is common (Fawzi and Almarshed, 2013). However, this phenomenon is decreasing due to the long procedures and different parties involved in the hiring process. Furthermore, nationalisation is common in the Arab Gulf states and this constrains the hiring process. All in all, the HRM practices applied in Canada and the Arab Gulf states are indeed similar when it comes to their objectives, but their implementation differs according to national policy and to the compliance of HRM practitioners with the extent of rules and regulations (Fawzi and Almarshed, 2013).

There are differences when it comes to the demand for banking sector employees throughout the two differing countries. When it comes to Canada, the competitive nature of the banking sector makes recruitment more important. The Canadian recruitment and selection process is based on picking the best candidates for the job. In regards to the Gulf nations, HRM is impacted by the nationalisation that places restrictions on the hiring process. However, throughout the Gulf region, there is an increased demand for skilled banking sector employees. This is one of the largest differences between the two countries. In Canada, recruitment is selective, causing a decrease in the supply. Throughout the Gulf regions, however, the demand is high and the country is currently seeking qualified, skilled candidates to gain entrance into the banking sector (Fawzi and Almarshed, 2013).

5.2 Effects of Culture on Banking in Canada and the Arab Gulf States

The culture of a nation has an impact on every industry in both the public and private sectors. Thus, the Canadian's banking sector is impacted by their culture. The fact that it is the fifth most competitive country in the world is an indication that Canada has used cutting-edge technologies and methods to stay ahead in the market. As to the Arab Gulf states, their culture has had different effects on the banking sector. The culture there is religiously based, being derived from the Quran and Sunnah, which affects the rules and regulations governing the banking business. However, a culture of nepotism is also widespread, which has had a negative impact on the economy, although this has been much reduced lately. Overall, the banking sector throughout both countries has been impacted by their respective cultures.

The effects of HRM and culture are significant throughout the banking sector. These effects shape the way in which banks do business, whether it's in terms of recruitment, legal compliance, the implementation of technologies or one of their many other activities. We have found that the culture of the Arab Gulf states is integrated with religion, that the relation is inseparable and that this affects how banking organisations function. On the other hand, the competitive culture in Canada encourages banks to prosper. While it is unsure the actual impact religion has on HRM throughout the banking sector in the Gulf region, the impact of Canada's competitive culture has led to excellent results for the country. The country has been able to become one of the best banking sectors throughout the world. Being fifth in the world has made the Canadian banking sector an efficient and competitive workforce.

CONCLUSION

Recently, HRM is considered to be critical in order to meet business objectives. Recruitment and selection are considered the first and most crucial element of the HRM department's responsibilities. Furthermore, training and development, as well as compensation, are also vital functions of the HRM department. Some researchers have cited that adequate training programs are needed for employments to develop a sense of commitment and emotional sensitivity to their work. Thus, the human resource department is largely important throughout the banking industry.

Canada's success is based on their competitiveness. Based on this competitive culture, the majority of the banking systems in Canada are implementing HRM practices to improve employee's productivity, while also enhancing performance. In order to achieve high growth rates, the Canadian banking sector focuses on incentive

programs in order to reward high performers. Also, their employees receive several comprehensive performance reviews, as well as client surveys, in order to track individual performance growth. However, recruitment in the Canadian banking sector, however, is not controlled fully by banks' HR departments. Canadian banks must submit details of their preferred senior management candidates to the OSFI before hiring them.

Recruitment in the Arab Gulf region generally differs from the rest of the world due to its prevailing culture. Banks are keen in recruiting the best applicants, and have started to overcome the issue of *wasta* by using sources and methods of recruitment that prevent it from happening. However, there has recently been a change in the Western banking industry. The demand for skilling banking employees has dramatically exceeded the supply throughout the Gulf region. Thus, there is a high demand for skilling banking employees in order to develop and implement more innovative products in order to grow and manage their businesses.

HRM practices in Canada and the Arab Gulf states are both similar and different to a certain extent. When it comes to culture, both the Canadian and Gulf region banking sector is impacted by their culture. In Canada, their culture is based on their competitiveness throughout the banking sector. Throughout the Gulf regions, the banking sector is largely influenced by their religion and even base their economies off of principles found in the Quran and other religious literature. There is, however, a differences between the demands for employees in these two banking sectors. There is a high need for banking employees throughout the banking sector in the Gulf regions. Canada, on the other hand, offers competitive selection when it comes to job placement within the banking sector. These findings are broad, therefore, future research studies and surveys should be conducted into the effects of HRM practices in specific Arab Gulf countries, in order to draw more specific conclusions.

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